



Powering change together

SSE PLC ANNUAL REPORT 2022

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What we do. SSE provides energy needed today while building a better world of energy for tomorrow.

We develop, build, operate and invest in low-carbon electricity infrastructure in support of the transition to net zero. This includes onshore and offshore wind, hydro power, flexible thermal generation, electricity transmission and distribution networks, and localised energy systems. We also provide energy products and services for businesses and other customers.

Using our complete reporting suite

Throughout this report you can find links to our complementary suite of reporting by following these icons:

- online at sse.com/annualreport2022
- in other SSE publications
- within another section of this report



Electronic tagging (ESEF)

In accordance with European Single Electronic Format (ESEF) requirement that UK-listed companies provide their primary financial statements in standardised machine-readable format, SSE's 2022 Annual Report and Accounts are published as an XHTML tagged document which can be found on sse.com/egef

Our front cover

Jennifer Ross, one of SSE Renewables' maintenance engineers on the Sloy/Awe hydro scheme, pictured at Loch Sloy.

Alternative Performance Measures

SSE assesses the performance of the Group using a variety of performance measures. These measures are not all defined under IFRS and are therefore termed 'non-GAAP' measures. A reconciliation from these non-GAAP measures to the nearest prepared measure in accordance with IFRS is presented and described on [pages 204 to 212](#). The Alternative Performance Measures SSE uses might not be directly comparable with similarly titled measures used by other companies.

Measurement restatements

The Annual Report reflects a number of structural changes within SSE plc in this reporting year. These include the disposal of its Contracting and Rail business; the formation NEOS Networks, a standalone joint venture Telecoms business; and the sale of SSE's stake in SGN. In addition, the report measures progress against 2030 Goals as were prior to their revision in early 2022.

Overview of the year

Financial highlights

In the face of exceptional macro-economic conditions, SSE saw strong financial performance in 2021/22 thanks to its resilient business model, solid operational delivery and good progress on its strategy.

More on page 82 

Operating profit

£1,536.8m

Adjusted

£3,755.4m

Reported

Profit before tax

£1,164.0m

Adjusted

£3,482.2m

Reported

Adjusted investment and capex

£2,073.7m

(after refunds, including acquisitions)

Earnings per share

95.4p

Adjusted

241.6p

Reported

Dividend

85.7p

Non-financial highlights

Safety (TRIR) per 100,000 hours worked

0.17

Economic contribution UK/ROI

£5.8bn/ €438m



The Net Zero Acceleration Programme p4

SSE is leading the way on decarbonisation of the energy system through its fully-funded £12.5bn investment plans to 2026 and ambitious business targets aligned to a 1.5°C global warming pathway.



Our strategy in action p22

Through record levels of investment, timely delivery of project milestones, expanding the development pipeline overseas, building networks fit for net zero and pioneering transitional lower-carbon technologies in thermal generation, SSE is making strides in delivery of its strategy.

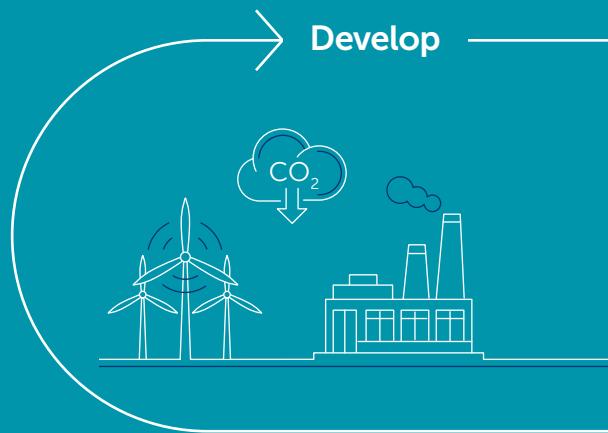
Our strategy

OUR PURPOSE

To provide energy needed today while building a better world of energy for tomorrow.

OUR STRATEGY

To create value for shareholders and society in a sustainable way by developing, building, operating and investing in the electricity infrastructure and businesses needed in the transition to net zero.



OUR GOALS

With an eye to net zero, in 2022 SSE revised its interim goals aligned to the UN's SDGs for 2030.

More on pages 18 and 19

SUSTAINABLE
DEVELOPMENT
GOALS



Cut carbon intensity by 80%



OUR VALUES

All of this is underpinned by a set of core values designed to guide decisions and actions in SSE.



Safety

If it's not safe, we don't do it.

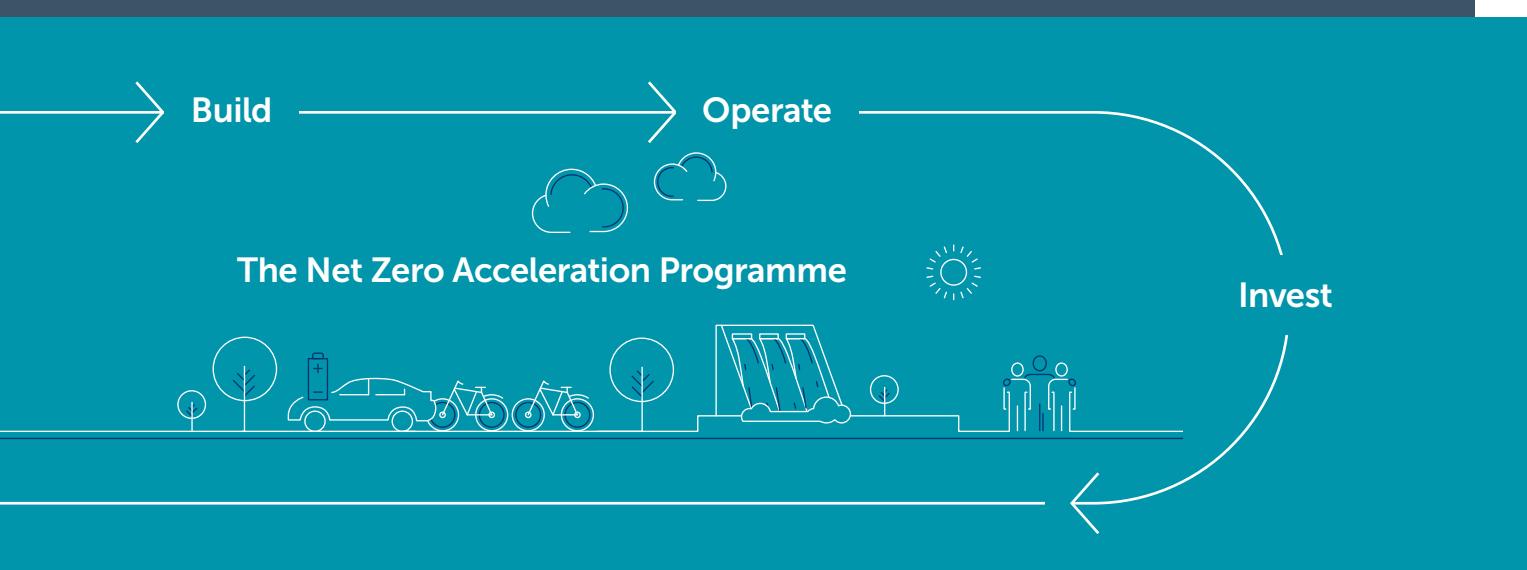


Service

We are a company that customers can rely on.

OUR VISION

To be a leading energy company in a net zero world.



Increase renewable energy output fivefold



Enable low-carbon generation and demand



Champion a fair and just energy transition



Efficiency

We focus on what matters.



Sustainability

We do things responsibly to add long-term value.



Excellence

We continually improve the way we do things.



Teamwork

We work together, respect each other and make a difference.

Our strategy continued

SSE's Net Zero Acceleration Programme

A combination of confidence derived from strong delivery in 2021/22, rising inflation, higher commodity price expectations and the value-creation potential of flexible generation assets has led to an upgrading of SSE's adjusted EPS CAGR forecast to 2026.

A fully-funded plan to 2026

In November 2021, SSE announced its Net Zero Acceleration Programme to add impetus to decarbonisation of the energy system and consolidate its standing as a national clean energy champion in both the UK and Ireland.

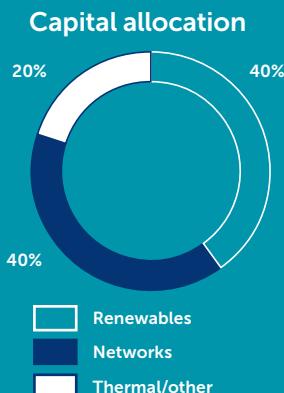
Central to the Net Zero Acceleration Programme are a fully-funded £12.5bn capital expenditure plan to 2026 focused on low-carbon electricity assets and infrastructure, and ambitious 2031 targets aligned to a 1.5°C global warming pathway.

Events in the months since November 2021 have underscored SSE's belief that its net zero focused strategy, delivered by a balanced mix of market-based and economically-regulated businesses, offers the optimal route to sustainable growth for the Group and value creation for all stakeholders.

Planned investment
£12.5bn

7-10%

Adjusted EPS CAGR growth projected by March 2026 from 2020/21 baseline of 87.5p



+5%

Rebased dividend at 60p from 2023/24 to grow at least 5% p.a. to March 2026

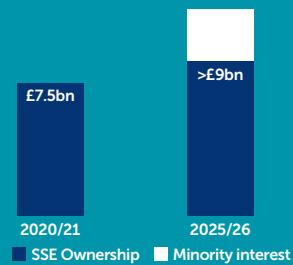


A growth-focused dividend policy

SSE's Net Zero Acceleration Programme called for a dividend plan aligned to an ambitious new growth profile. Accordingly, after meeting its existing commitment to target RPI increases to 2022/23, it will rebase the dividend to 60p in 2023/24 before targeting at least 5% increases in 2024/25 and 2025/26.

>10%

Networks RAV growth of +10% gross CAGR



+100%

renewables capacity growth, delivering 4GW addition to 8GW net





Ambitions to 2031 and beyond

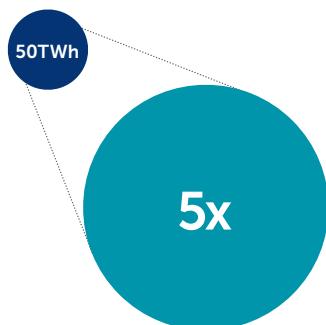
In support of SSE's acceleration to net zero, ambitious business growth targets have been set for renewables and networks (see right) and medium- and long-term climate goals have been revised (see below) to align to the power sector's global warming criteria of...

1.5°C

More on pages 18 to 19

5x

increase in renewables output to 50Twh p.a. plus maintaining a 15GW pipeline with 1GW net additions annually



>£14bn

Total networks RAV by 2031

£8.2bn (2021/22)

>£14bn (to 2031)

Total networks RAV

A net zero roadmap to 2050

Short-term investment cycle

- Fully-funded £12.5bn capex to 2026 at the heart of SSE's Net Zero Acceleration Programme.
- Growth-focused plan will account for around 20% of the UK's revised 50GW offshore wind target and 20% of UK electricity networks investment.

5-YEAR

Medium-term targets

- New, interim science-based climate goals to 2030:
- Cut carbon intensity by 80%;
 - Increase renewable energy output fivefold;
 - Enable low-carbon generation and demand;
 - Champion a fair and just energy transition.

10-YEAR

Long-term transition plan

Commitment to achieving net zero greenhouse gas (GHG) emissions across all SSE operations by 2050 at the latest, covering scope 1, 2 and 3 GHG emissions.

30-YEAR

Chair's introduction

Fulfilling SSE's potential



2021/22 was marked by extreme weather events, the ongoing impacts of the pandemic, and most recently the invasion of Ukraine. These combined to create extraordinary energy market volatility, security of supply concerns, affordability challenges, operational complexities and financial distress in the value chain.

Through it all SSE delivered on its purpose and demonstrated resilience and growth potential – continuing to establish the Group as a clean energy champion in the UK and Ireland.

Within this report, we aim for high standards of disclosure to help our stakeholders understand how we create value and fulfil our social contract. As part of that, we set out how my fellow Directors and I have exercised our duties under Section 172 of the Companies Act to promote the long-term success of the Company with consideration to the views of all stakeholders.

For SSE, that means being a purpose-led company that seeks profitable solutions to the problems faced by people and our planet – and we were tested on both fronts during 2021/22.

Resilience through turbulence

It was a year which highlighted the distinct but interrelated challenges facing the energy sector. First, the climate crisis was strongly in focus as the UK hosted COP26 where SSE was a proud Principal Partner. Soon afterwards, concerns over affordability and the cost of living intensified with Ofgem announcing a significant increase to the

level of the energy price cap in Great Britain, and prices also increasing in Ireland, reflecting soaring wholesale gas prices. And, latterly, energy security has been in sharp focus as the world responds to Russia's deeply concerning aggression in Ukraine.

Operationally there have also been challenges, with an ever-changing outlook on the coronavirus pandemic, market volatility and extreme weather events. Throughout all this the Company has shown resilience, responsiveness, and continued strong performance that is described in the following pages.

On behalf of the Board, I would like to thank all of SSE's c.11,000 employees, whether working in the field, in offices or, indeed, at home, for their efforts over this challenging year in ensuring SSE fulfilled its purpose of providing energy needed today while building a better world of energy for tomorrow.

£7m

The approximate amount being invested daily by SSE as part of the Net Zero Acceleration Programme

Strategic evolution

The transition to net zero will require accelerating investments in the kind of low-carbon assets and infrastructure which already form the core of our business. The operating context is moving quickly as the requirements of net zero come into focus, and competitors and governments move fast to position themselves for success. A desire to strengthen energy security in many countries of the world in light of recent events accelerates this further and creates even greater potential for investment and growth in electrification and renewable energy. Against such a challenging and fast-moving backdrop, having a clear

"In the context of the climate emergency, it is vital that we align our activities with a pathway consistent with limiting global warming to 1.5°C, and to recognise global frameworks. For that reason, we are proud to have enhanced our 2030 goals this year, which are aligned with the UN's Sustainable Development Goals."

purpose is vital in guiding decision-making and this was central for the Board as we carried out the strategic review that culminated in SSE's Net Zero Acceleration Programme, published in November.

Over a period of several months, we undertook a comprehensive process to identify the strategic response to this changing environment that would enable SSE to fulfil its potential and optimise value for shareholders and society. Recent events in Ukraine have served to strengthen and reinforce the conclusions.

We have continued to reshape the Group, divesting our investments in gas production and gas distribution, while focusing and accelerating investments into renewables, including international opportunities. We see substantial investments required to build networks for net zero, flexible generation and storage technologies including pumped hydro storage, solar and batteries. And we see increased opportunities for lower-carbon thermal generation as part of the energy mix. SSE has options in every part of the net zero electricity infrastructure value chain.

These are all growth businesses and the potential in new geographies is significant as we have seen through our recent expansion into the Japanese offshore and Southern European onshore wind markets. There is more to come as we continue to evolve, but our Net Zero Acceleration Programme means we have a clear, fully-funded plan that will create real value over the next five years and set us up for further growth later in the decade.

The landscape will continue to change at pace and we therefore view the Net Zero Acceleration Programme as the beginning, not the end, of our strategic evolution.

Holding ourselves accountable

In the context of the climate emergency, it is vital that we align our activities with a pathway consistent with limiting global warming to 1.5°C, and to recognise global frameworks. For that reason, we are proud to have enhanced our 2030 Goals this year, which are aligned with the UN's Sustainable Development Goals.

But it is also paramount that our shareholders' views are heard on our progress towards net zero. We published our Net Zero Transition Plan in March and now we have to progress it. We recognise that there is a long way to go and we don't yet have all the answers; but the plan gives our best current view and, critically, is open about the challenges to enable constructive debate. We look forward to receiving shareholder feedback ahead of the AGM in July.

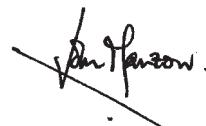
A big part of holding ourselves accountable is taking a leadership position on disclosure. We adopted TCFD reporting ahead of time on a voluntary basis back in 2018 and will continue to be proactive in our reporting. This Strategic Report builds on the work done in recent years to maximise the transparency of our stakeholder interactions and delivery of our social contract.

A critical stakeholder group is SSE's employees, and the Board continued to engage regularly with them through the year. I've been struck by the strength of SSE's culture, and it is clearly an important factor in the Company's resilience to the challenges that have been posed in the recent past. We remain determined to become an even more diverse and inclusive company and more details on our efforts in that respect are set out later in this report.

Looking ahead

It is clear that global ambition for a clean energy transition that can deliver net zero while bolstering energy security and maintaining affordable prices will only intensify. SSE sits at the heart of that set of challenges, and our portfolio is fully aligned with the opportunities which will emerge. We will remain agile and focused on value creation within that context, and we will meet our purpose of providing energy needed today while building a better world of energy for tomorrow.

To close, I can confirm that this Strategic Report and the associated Section 172 Statement on [page 110](#) have been approved by the Board in line with the Companies Act 2006.



Sir John Manzoni
Chair, SSE plc
24 May 2022

SSE's culture, and the people who underpin it such these apprentices at Peterhead power station, are the key to the Group's ongoing success.



Chief Executive's review



Leading the way to net zero

Having led the refocusing of SSE's strategy and from his leadership position in its execution, SSE's Chief Executive, Alistair Phillips-Davies, looks back on an exceptional year of delivery and ahead to a decade of growth to come.

The pages of this report tell a story of operational delivery and financial performance that reflects the strides we are making in execution of our strategy and the value we are creating for shareholders and society. We are putting the investment plans within our Net Zero Acceleration Programme to work, pursuing growth options and spending nearly £7m a day on the clean electricity infrastructure that is so important to tackling climate change.

Progress made in 2021/22 gives us confidence in our strategic direction and optimism about meeting the ambitious new 2030 Goals set out on [pages 18 and 19](#). But the year had challenges too: it presented us with uncertainty and day-to-day restrictions brought by the coronavirus outbreak, a post-pandemic energy crisis exacerbated by war in Europe and exceptional weather events that tested the resilience of our electricity distribution networks.

The right people

Through it all SSE's direct employees and contractors have stuck to the task of providing energy needed today while

building a better world of energy for tomorrow. With the rest of the executive team, I'm immensely proud of the way our colleagues have responded and very grateful for what they have achieved.

Keeping those people out of harm's way remains our number one priority and we go into 2022/23 with a renewed focus on safety and wellbeing after a year of increased operational activity unfortunately saw 14 more injuries than in 2020/21.

Our skilled and increasingly diverse c.11,000-strong workforce is central to our success and as we grow we need even more people. We will be creating 1,000 new jobs a year on average over the course of our five-year capex plan. These are critical, high-quality jobs in regional areas, in many cases transitioning skilled people from high-carbon to low-carbon roles.

We have the right management too, with business leaders who are the best in their fields, including new, highly-experienced managing directors bringing renewed delivery impetus to SSE Renewables and SSE Thermal.

The right business mix

Once again a resilient mix of market-based and economically-regulated businesses shielded the Group against the worst of the shocks reverberating through the economy.

SSE's business model is based around the assets and capabilities required for the global transition to an electrified, net zero system. This is the result of the highly successful disposals programme and targeted investments which have created a group with the capabilities and projects to create value right across the clean electricity value chain. SSE is an ESG-aligned growth investment opportunity; with an attractive blend of regulated and market-based income streams across a very deliberately chosen, integrated mix of businesses

Through these businesses, we continued to work on long-term solutions to problems faced by the sector that have been brought into stark relief by geopolitical events. As policymakers are seeking to break the link between global energy markets and the cost of living, our investment in indigenous, lower-carbon power sources and greater flexibility is decarbonising the energy system, reducing dependence on imported gas and supporting a just transition to net zero.

In a year of strategic delivery high points, it was perhaps fitting that it closed with the completion of our SGN stake sale, marking

the end of a disposals programme that helped us refocus the Group to better deliver on our purpose.

It was against this backdrop that we were able to engage actively from our leadership position as a national clean energy champion at the COP26 summit in Glasgow. We came away from the event with the firm conviction that our strategy is the right one for meeting the challenges of holding global warming to a 1.5°C pathway and creating opportunities for sustainable growth.

Realising Renewables' ambition

Some of those opportunities are in markets abroad and, as described on [page 25](#), SSE Renewables' ambitions are taking shape in Japan, the US, and most recently in Southern Europe where we are securing a foothold with the acquisition of Siemens Gamesa Renewable Energy's development platform which includes 3.9GW of onshore wind and 1GW of solar and batteries.

Closer to home, our joint ScotWind seabed auction bid with partners Marubeni and CIPI succeeded in winning our preferred site and took SSE's secured pipeline to 11GW. And in projects under construction, progress is being made on Dogger Bank, Seagreen and Viking wind farms.

This progress supports our plans for a doubling of net renewables installed capacity to 8GW up to 2026. And this is the platform for targets including a fivefold increase in renewables output to 50TWh, and maintaining a sustained renewables pipeline in excess of 15GW by 2031.

Networks fit for net zero

Connecting ScotWind will sharpen an already steep growth trajectory for SSEN Transmission. Based on the System Operator's forecasts, which are likely to

be revised upwards, connected generation in SSEN Transmission's licence area could increase from 8GW today to 25GW by 2030, and we forecast gross RAV to reach around £12bn over a similar timeframe. Unlocking the renewables upon which government net zero targets in the UK depend is at the heart of a RIIO-T2 business plan that SSEN Transmission is already delivering on.

In our electricity distribution business, strategic planning around network resilience was drawn on heavily in the year in the response to six exceptional weather events in 12 weeks. The scale of the storm damage inspired heroic efforts from SSEN Distribution's employees. In response to the storms around 2,500 people across operational and welfare teams worked tirelessly to safely reconnect 435,000 affected households and businesses and provide support to affected communities.

Our economically-regulated electricity networks have evolved into powerful vehicles for growth. The RIIO-T2 and RIIO-ED2 business plans have huge capex requirements and our plans for bringing in financial partners will enable us to maximise growth not only in the distribution and transmission businesses, but across the wider Group.

Flexibility for the future

The transition to a decarbonised energy system, with renewables at its core, connected to consumers via technologically advanced networks, will also require flexible plant, lower-carbon thermal generation and energy storage.

"Our net investment into vital UK and Ireland infrastructure could exceed £25bn over the next 10 years, creating jobs and addressing the energy crisis."

SSE's development pipeline includes critical flexibility offered by Coire Glas, the UK's largest pumped hydro storage project. Keadby 2 CCGT will displace less efficient plant and has potential for hydrogen blending. Further growth will come for SSE Thermal with planned CCS plants at Keadby and Peterhead which, together, could capture up to 3m tonnes of CO₂ a year – 10% of the UK Government's 2030 target – and play an important balancing role. Plans are also progressing for a Keadby hydrogen plant and a potential large-scale hydrogen storage facility at Aldbrough.

SSE's Net Zero Acceleration Programme is the framework behind the strategic progress described above and it forms the foundations of a decade of unprecedented growth. Assuming a continued supportive policy environment, our net investment into vital UK and Ireland infrastructure could exceed £25bn over the next 10 years, creating jobs and addressing the energy crisis. Our immediate task is to fully optimise the opportunities that arise from net zero, using our world-class capabilities, assets and businesses to fulfil the responsibility we have for creating shareholder and societal value over the long term.



Alistair Phillips-Davies
Chief Executive
24 May 2022

15GW

SSE's target for a sustained renewables development pipeline by 2031



Alistair meets the project team at Keadby 2, Europe's most efficient CCGT, which will displace older, more carbon intensive power plant off the UK energy system.

About our business

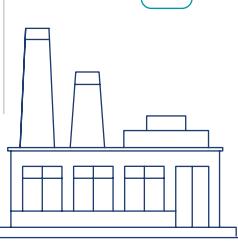
Contributing across the energy value chain

SSE has a resilient and highly complementary business model built on a mix of market-based and economically-regulated businesses, supported by effective Group Services.

A strategically coherent business mix focused on net zero

Decarbonising generation

- SSE Renewables (wind and hydro)
- 

- SSE Thermal
 - Gas Storage
 - Energy Portfolio Management
- 

Enabling electrification

- SSEN Transmission
- 

Market based

Strategic capabilities and opportunities

Generation mix provides resilience to the Group plus flexibility and balance to the electricity system

Sector-leading expertise in development and build of renewables infrastructure

Developer premium provides funding optionality through timely sell-downs

Thermal transitioning into lower-carbon flexible generation for the future and supporting security of supply with gas storage

Economically regulated

Strategic capabilities and opportunities

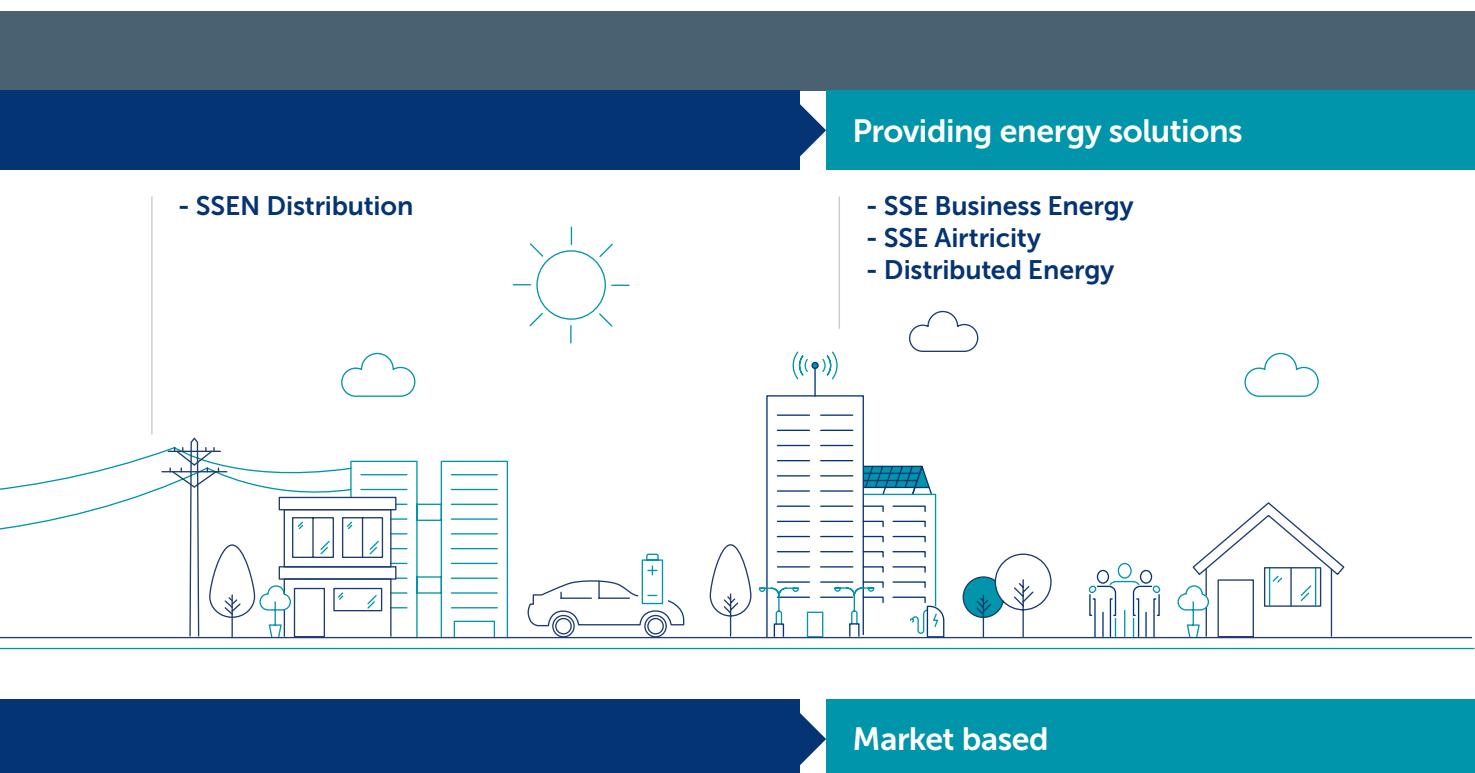
Solid, index-linked returns with revenues and RAV linked to CPIH/RPI

Market-leading growth in transmission through connecting renewables and network reinforcements

Proven expertise in large-scale capital project management

Ability to deploy innovation and technology at scale in support of net zero ambitions

Together, as a Group, these businesses are perfectly positioned to capture the substantial growth opportunities generated by driving and accelerating the net zero agenda through electricity infrastructure.



Extensive experience in regulatory and wider societal engagement

Increased consumer demand and electrification requiring distribution investment response

Provides financial strength and stability to the Group

Offers funding opportunities through equity partnering

Strategic capabilities and opportunities

Market-based revenue streams

The Group's shopfront for green energy solutions

Route to market for green PPAs

Provides natural hedge for generation output

Net zero aligned distributed energy solutions and battery and solar technologies

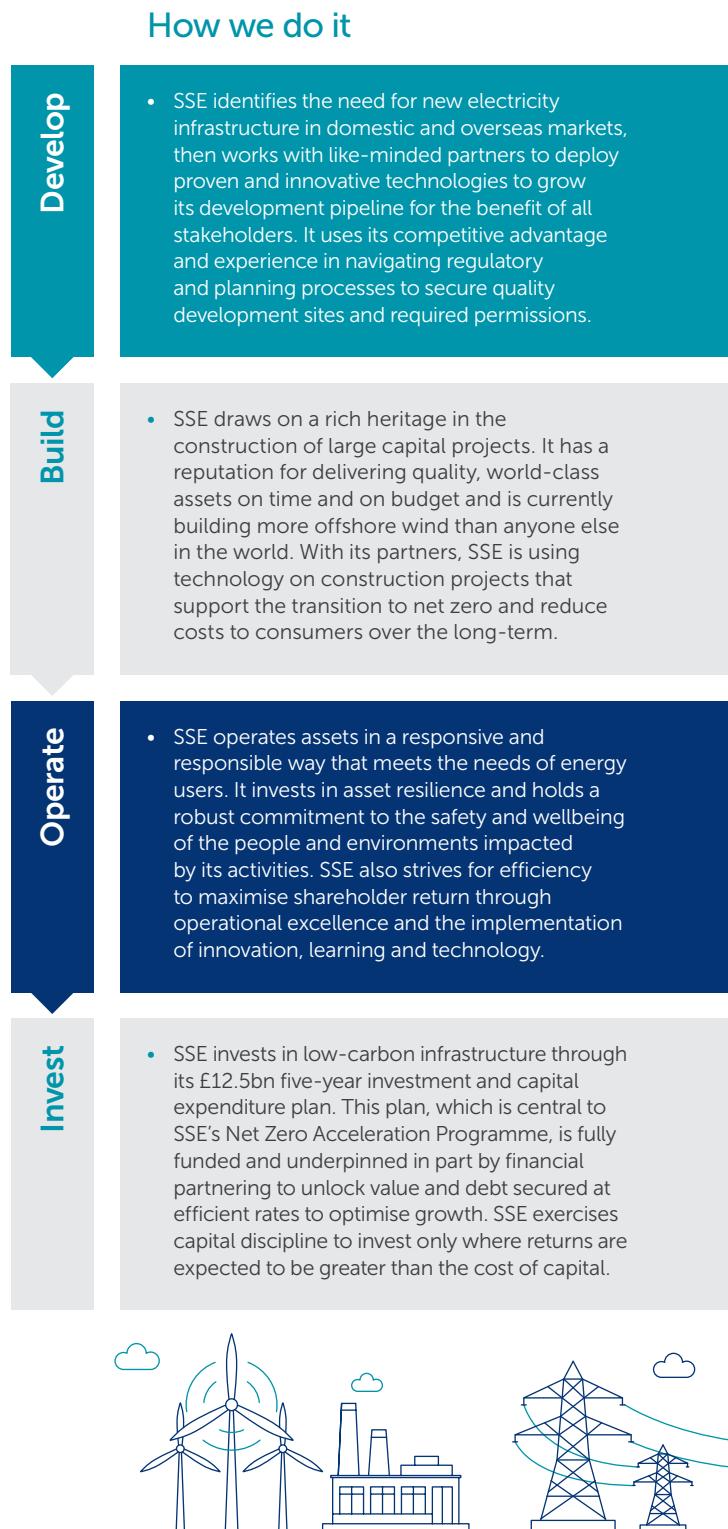
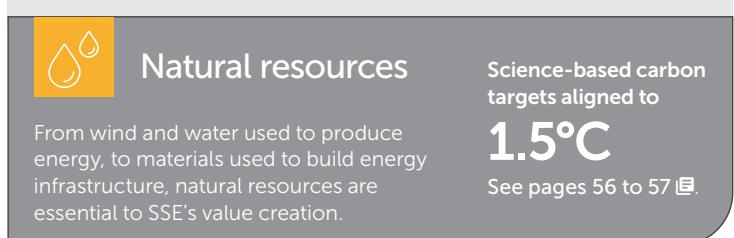
Our business model

Creating long-term value for stakeholders and wider society

Who and what we rely on

Our six key stakeholder groups	
Employees SSE's strategy and success are dependent on the shared talent, diversity, innovation and values of the people it employs.	Number of direct employees c.11k
Shareholders and debt providers SSE must be well-financed, with the ability to remunerate shareholders for their investment, secure debt at competitive rates and grow the business.	Market cap £18.6bn at 31 March 2022
Energy customers Consumers create demand for the energy and services SSE provides and set the tone for our purpose.	Networks and supply customers £4.98m
Government and regulators SSE relies on policy frameworks and public services that support investment in critical national infrastructure, are fair on customers and maintain the momentum behind net zero.	Investment in infrastructure (capex) £2.1bn
NGOs, communities, society SSE needs the support of the communities it works in and the backing of civil society in pursuit of a just transition to net zero.	Investment in communities £11.2m
Suppliers, contractors, partners SSE relies on a healthy supply chain and works with partners whose capabilities offer synergies for innovative project development and efficient ownership structures.	Suppliers on strategic relationship management programme 34

More on page 32 



Why we do it

- SSE holds a leadership position in efforts to decarbonise the energy system. As a critical service provider it has a responsibility to develop sustainable infrastructure and energy solutions. SSE also has a proven track record in optimising the developer premium that comes with a world class reputation for delivery, taking opportunities to realise

- SSE takes seriously its responsibility as a national clean energy champion and understands its role in providing the renewables capacity, the electricity networks and the flexible, balancing thermal generation that will be required if the energy system is to be successfully decarbonised. SSE also seeks to fulfil its social contract with the communities it

- The ongoing operation of SSE's assets is critical to supporting security of supply in the UK and Ireland. And while SSE's focus has largely shifted to the provision of large infrastructure, it has not lost sight of the cost pressures felt by energy users. It remains committed to the supply of affordable and accessible energy in its customer businesses and

- SSE invests to fulfil its core purpose of providing energy needed today while building a better world of energy for tomorrow. Investing for growth supports the Board's endeavours to promote the long-term success of the Company and enables SSE to remunerate shareholders. SSE also recognises the wider societal benefit that comes from careful

value at key stages of projects for the benefit of shareholders. By crystallising value in this way, SSE does not always wholly own projects on completion but it does retain a solid asset base to support future earnings.

works in. It supports local supply chains and is taking a leadership position to address the impact of change in the industry, publishing the world's first business strategy for a just transition to net zero.

responsive to the needs of those who count on the safe and reliable running of resilient electricity networks. With this in mind, SSE promotes a culture of continuous improvement and active stakeholder engagement to provide quality customer service.

investment. It enables SSE to fulfil its responsibility as a provider of critical national infrastructure, it creates quality jobs and makes a significant contribution to GDP growth through the payment of the right amount of tax in the right place at the right time.

The value we create

Employees

Number of roles advertised

3,195

Internal and external roles. SSE expects to create 1,000 new jobs a year up to 2026.

Shareholders and debt providers

Dividend

85.7p

SSE has a clear dividend policy and growth opportunities to support long-term shareholder value.

Energy customers

SSE Airtricity Net Promoter Score

36%

Widely-used market research metric applied to domestic customers across the island of Ireland.

Government and regulators

Taxes paid UK/Ireland

£335m/€46m

NGOs, communities, society

Community projects supported

1,078

Covering renewables and networks projects.

Suppliers, contractors, partners

Economic contribution UK/Ireland

£5.8bn/€438m

PwC analysis of SSE's contribution to GDP.

Natural resources

Scope 1 and 2 emissions cuts

18%

SSE is targeting a 72.5% reduction in scope 1 and 2 GHG emissions between 2017 and 2030.



Our business explained

Optimal business mix for growth and value creation

RENEWABLES

SSE Renewables

Develops, builds, operates and invests in assets that generate electricity from renewable sources.



Who it does it for

For electricity customers across the GB and Ireland markets, who are increasingly seeking lower-carbon sources of energy.

How it supports net zero

Develops and generates zero-carbon electricity at large scale from onshore and offshore wind farms and provides clean flexible power from hydro schemes.

How it is remunerated

Through the wholesale energy market, ancillary services market, Capacity Market, Balancing Mechanism revenue from hydro output, power purchase agreements, and government support schemes for renewable energy.

2.5x

more capital allocated to growing SSE Renewables compared to the previous capex plans

50TWh

is the targeted fivefold increase in renewables output to 2031

More on page 100

NETWORKS

SSEN Transmission
Owns, operates and
maintains the electricity
transmission network
in the North of Scotland.



Who it does it for

Electricity generators, large electricity demand customers and ultimately all electricity customers across GB.

How it supports net zero

Connecting sources of renewable electricity generation to the national grid and transporting that clean electricity to areas of demand.

How it is remunerated

Through economically regulated returns that are recovered from electricity generators and customers and potentially enhanced through efficient delivery.

More on page 96

SSEN Distribution
Owns, operates and
maintains the electricity
distribution networks
in the North of Scotland
and central southern
England.



Who it does it for

For the homes, businesses, generators and service providers that are connected to, or are seeking a connection to, its distribution networks and electricity customers in its operating areas.

How it supports net zero

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

How it is remunerated

Through economically regulated returns, recovered from customers and connecting parties. Additional earnings through efficient delivery of investment and targeted, performance-related incentives.

More on page 98

Our business explained continued

FLEXIBLE GENERATION / ENERGY SOLUTIONS

SSE Thermal

What it does

Generates electricity from thermal sources in a reliable way, supporting balancing of the electricity systems in GB and Ireland. SSE Thermal's assets play a key transitional role in the SSE Group and across the wider energy system. While providing much-needed system flexibility to ensure security and stability of supply in the short term, the business is also actively pursuing options to decarbonise its generation fleet progressively over the long term. In addition, SSE Thermal's **Gas Storage** business holds around 40% of the UK's conventional underground storage capacity, which provides time-critical response to unpredictable weather conditions and energy market fluctuations.



Who it does it for

For electricity suppliers, traders and other generators through the energy market; for the national grid; and ultimately all electricity customers across GB. SSE Thermal's assets provide valued flexibility to the energy system.

How it supports net zero

Produces progressively lower-carbon electricity and electricity system support to enable net zero transition. Facilitates increasing levels of renewable electricity by offering flexibility to balance renewables' natural variability. SSE's Thermal's **Gas Storage** assets have potential to be repurposed to hold lower carbon gases in future, including hydrogen. And the strategic value of gas storage has been brought into stark relief by recent geo-political events and the increasing focus on home-grown alternatives to dependence on imported fossil fuels.

How it is remunerated

Through the wholesale energy market, Capacity Market and ancillary services market. Also through responding to forward market volatility and receiving balancing market revenue from the timely flexibility provided by generation and storage.

[More on page 103](#)

Distributed Energy

What it does

Following the sale of its Contracting arm, SSE Enterprise is now referred to as **Distributed Energy**, reflecting the focus of the business on investing in, building and connecting localised flexible energy infrastructure. The former SSE Enterprise entity also develops solar and battery projects, operates heat networks, and offers integration, aggregation and trading capability.



Who it does it for

The public sector and commercial and industrial markets in the UK and Ireland. It provides digital services for buildings, cities and businesses.

How it supports net zero

Through offering services that bring low-carbon, on-site generation, storage and delivery flexibility close to the point of use. Diverse capabilities (battery, solar, EV infrastructure, district heating and networks infrastructure deployment) offer a local 'whole system' approach.

How it is remunerated

Through the open B2B market, Capacity Market revenue, CPPAs and public and private sector tenders.

[More on page 108](#)

SSE Business Energy and SSE Airtricity

What it does

SSE Business Energy and SSE Airtricity provide energy and related services to households, businesses and public sector organisations across Great Britain and the island of Ireland.



Who it does it for

For domestic and business customers in the Republic of Ireland and Northern Ireland, and business customers in Great Britain.

How it supports net zero

Increases the accessibility of green energy solutions through the provision of customer-driven propositions and acts as a partner to customers and stakeholders as they seek ways to respond to the climate crisis.

How it is remunerated

Competing for customers and direct billing to them and third party intermediaries (GB), and through state-supported schemes (ROI).

More on pages 106 and 107

Energy Portfolio Management

What it does

Combines trading skills and deep market insights to drive value by providing energy trading, risk management and settlement services, and wider analytical support and insights, including Business Unit advice on long-term market decisions.



Who it does it for

For SSE's Business Units and the SSE Group.

How it supports net zero

Provides efficient route-to-market for low-carbon electricity, supports system balancing and provides energy solutions for business energy customers.

How it is remunerated

Receives fees for providing energy trading services to other parts of the Group.

More on page 109

Corporate

What it does

Provides cost-effective shared HR, legal, finance, IT, procurement, investor relations, corporate affairs and other services. Ensures compliance with SSE's regulatory requirements as a listed company. Develops a strategic framework that maintains the Group's focus on net zero through targeted acquisitions and non-core disposals. Provides finance and capital allocation to fund growth. Offers the regulatory and policy insight required to navigate each stage of the energy value chain.



Who it does it for

For the SSE Group's Business Units and their stakeholders.

How it supports net zero

Through the advancement and promotion of SSE's sustainability and ESG credentials, and delivery of a net zero-focused strategy.

How it is remunerated

The Group services function is funded by Business Units through a recharge model and corporate unallocated costs as set out in SSE's Financial Statements.

O U R O P E R A T I N G M O D E L

A well-established operating model supports SSE's primary focus on the transition to net zero. The Business Units described on these pages are equipped with the resources needed to meet operational and strategic objectives, and the autonomy required for effective decision making. They are supported by Group Services functions that provide shared services and targeted business partnering. The segmental breakdown that SSE reports against is intended to drive efficiency and provide shareholder visibility of assets and earnings.

Our business goals for 2030

Measuring our progress

SSE's four core business goals for 2030 provide important interim milestones on the journey to net zero and place sustainability firmly at the heart of its business strategy. In February 2022, SSE refreshed the 2030 Goals to reflect its increased ambitions. 2020/21 is the last year progress will be measured against the original goals shown opposite.

Accelerating business ambition

The 2030 Goals address climate change and are aligned to the UN's Sustainable Development Goals. Since SSE set its first 2030 Goals in early 2019, the pace and scale of climate action has increased considerably. The imperative to accelerate pathways to net zero has provided SSE with significant opportunities for investment and growth. SSE has also set new 1.5°C-aligned carbon targets and published its £12.5bn Net Zero Acceleration Programme out to 2026. This increasing ambition means that SSE's 2030 Goals set in 2019 were no longer as ambitious and stretching as they once were.

In February 2022, SSE announced updated 2030 Goals reflecting an accelerated decarbonisation pathway and ensuring its targets remain stretching to the end of the decade (see [page 5](#)).

Progress against the 2030 Goals

To demonstrate its commitment to the 2030 Goals, performance against them is linked to executive remuneration. As the 2030 Goals were refreshed in February 2022, 2021/22 performance was measured against the previous goals. A summary of this progress is outlined opposite, with more detail available in the Remuneration Committee's Report from [page 168](#). Performance against the new 2030 Goals will be measured from 2022/23 onwards.

SUSTAINABLE DEVELOPMENT GOALS

More on page 45

Looking back at 2021/22



Cut carbon intensity by 60%

Carbon intensity of electricity generated increased slightly in 2021/22. However, good progress was made in both renewables growth and paving a way forward for lower-carbon thermal generation. Plans progressed in the development of two new power stations equipped with carbon capture technology with both projects moving forward to differing degrees in the UK Government's process to encourage and support the most competitive carbon capture plants in the pursuit of net zero ambitions.



Treble renewable energy output

Excellent progress was made on key offshore projects, including reaching financial close on Dogger Bank C and construction progressing at Seagreen and Dogger Bank A and B. SSE Renewables, along with partners, also won rights to develop what will become one of the world's largest floating offshore wind farms in the January ScotWind leasing round. With the acquisition of renewables development platforms in Japan and Southern Europe, SSE is also building pipeline options in carefully chosen international markets.



Help accommodate 10m electric vehicles

SSEN Distribution progressed a number of key innovation projects with partners to support flexible markets and future infrastructure provision for the mass adoption of electric vehicles (EVs), including becoming one of the founding partners of a new international global smart grid partnership.



Champion Fair Tax and a real Living Wage

SSE maintained its Fair Tax Mark accreditation for the eighth consecutive year and published its Talking Tax 2021 report. It achieved ongoing accreditation of the real Living Wage, completed its first year of Living Hours accreditation, and is beginning work to roll the new accreditation out in its supply chain.

New goals for
2022/23 onwards

Our progress

Reduction in GHG
emissions from
electricity generation

19%



GHG emissions from
electricity generation

5.7MtCO₂e



Cut carbon
intensity by 80%

Our progress

Renewable generation
output 2021/22*

9.5TWh



Renewable energy
capacity in construction
at 31 March 2022**

2.4GW



Increase renewable
energy output fivefold

Our progress

SSEN Distribution has

12

strategic partnerships
and initiatives exploring
smart grid solutions to
support low-carbon
technologies



Electric vehicles registered in
SSEN Distribution licence areas

c.56,000



Enable low-carbon
generation and demand

Our progress

8

Consecutive years of Fair
Tax Mark accreditation



1st year

of being Living Hours accredited

9

Consecutive years of being
Living Wage accredited



Champion a fair and
just energy transition

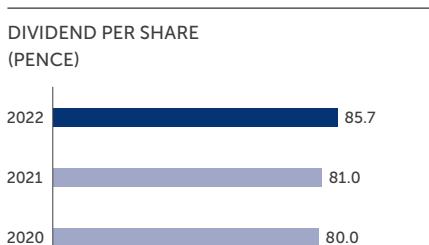
* Includes pumped storage, biomass and constrained off wind in GB.
** Based on equity share.

Key performance indicators

Resilience and growth

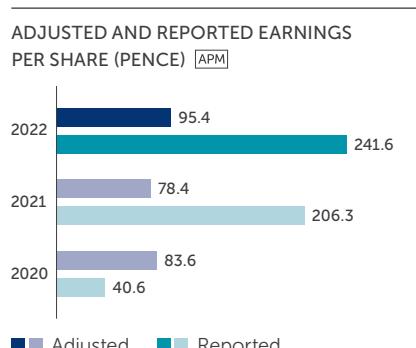
SSE uses a number of financial and non-financial measures to track progress against its strategy to create value by developing, building, operating and investing in electricity infrastructure and businesses needed for net zero.

Financial KPIs



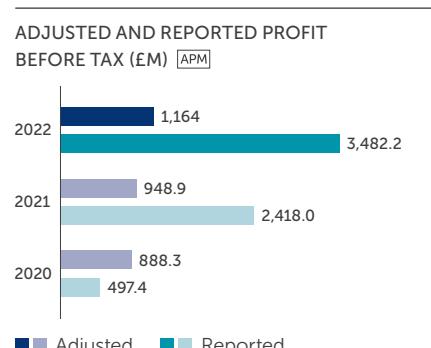
Strategic relevance: SSE remunerates shareholders' investment through the payment of dividends.

Performance: The recommended full-year dividend for 2021/22 is in line with SSE's five-year dividend plan to 2023.



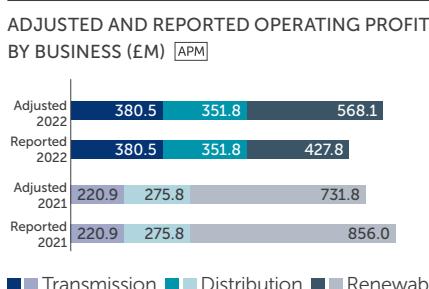
Strategic relevance: Adjusted EPS gives a meaningful measure of financial performance over the medium term.

Performance: Results in 2021/22 are attributable to strong performance across a number of SSE's Business Units in volatile market conditions.



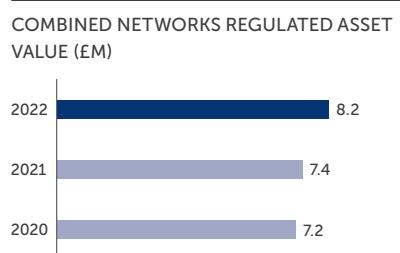
Strategic relevance: SSE's objective is to earn a sustainable level of profit over the medium term.

Performance: Profits made in 2021/22 reflect the resilience of SSE's balanced mix of businesses while the significant rise in reported figures relates to net reversal gains on unsettled forward contracts and reversal of historic impairment charges in Thermal and Gas Storage.



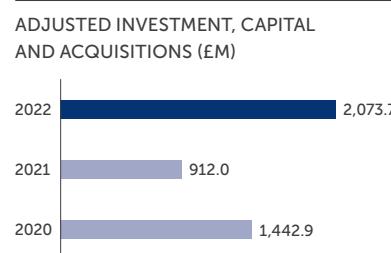
Strategic relevance: SSE's purpose is built on the strategic logic of a renewables and regulated networks core that shares common skills and capabilities in pursuit of net zero.

Performance: Combined, SSE's renewables and electricity networks businesses accounted for nearly 85% of Group adjusted Operating Profit.



Strategic relevance: SSE's ownership of three economically-regulated electricity networks gives the Group steady, index-linked revenue.

Performance: Inflation hitting 30-year highs in the course of 2021/22, combined with acceleration of network build-out and reinforcement, contributed to higher RAV values in the year. 2020 and 2021 data restated to exclude SGN.



Strategic relevance: SSE applies strict financial discipline that supports investment in assets that are expected to provide returns that are greater than the cost of capital.

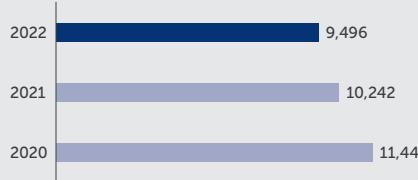
Performance: The good progress made in execution of the Net Zero Acceleration Programme resulted a record investment year for the Group.

Non-financial KPIs

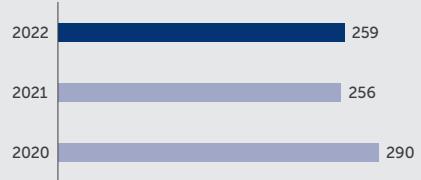
More information

- SSE's social contribution: page 58 [58](#)
- Financial Review: pages 82 to 94 [82 to 94](#)
- Transmission Operating Review: pages 96 to 97 [96 to 97](#)
- Distribution Operating Review: pages 98 to 99 [98 to 99](#)
- Renewables Operating Review: pages 100 to 102 [100 to 102](#)

RENEWABLE OUTPUT (GWH)*



SCOPE 1 GHG INTENSITY (GCO₂E PER KWH)

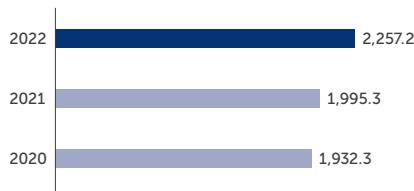


Strategic relevance: Renewables assets are core to SSE's business strategy, which is centred around the net zero transition. SSE has a goal of increasing renewable output fivefold by 2030.

Performance: SSE's renewable output decreased due to unfavourable weather conditions but this was offset by strong performance in hydro and pumped storage in volatile markets.

* Includes pumped storage, biomass and constrained off wind in GB.

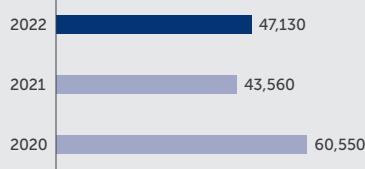
ADJUSTED EBITDA (£M) APM



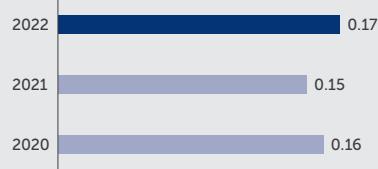
Strategic relevance: Extracting interest, tax, depreciation and amortisation from earnings provides a useful measure of SSE's operational performance.

Performance: EBITDA in 2021/22 reflects the strong operational performance achieved by SSE's balanced mix of businesses.

JOB SUPPORTED IN UK AND IRELAND



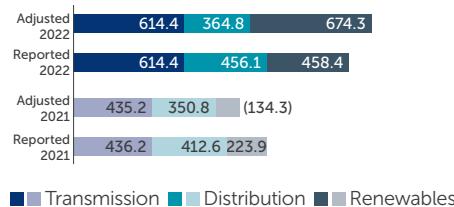
TOTAL RECORDABLE INJURY RATE PER 100,000 HOURS WORKED (EMPLOYEES AND CONTRACTORS COMBINED)



Strategic relevance: Safety is SSE's No. 1 value, and everybody in the Company operates to the safety licence of "if it's not safe, we don't do it".

Performance: A surge in construction associated with SSE's record capex in the year and increased activity following the recovery from coronavirus unfortunately led to rise in TRIR.

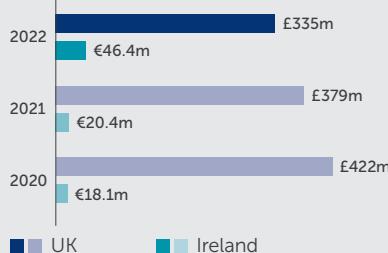
ADJUSTED AND REPORTED CAPEX BY CORE BUSINESS, BEFORE REFUNDS (£M)



Strategic relevance: The primary focus of SSE's capex plans is investment in the low-carbon electricity assets and infrastructure needed to achieve net zero.

Performance: SSE's renewables and networks businesses accounted for around 87% of capex. Over the course of current five-year plan capital expenditure will be split 40:40:20 between renewables; networks; and thermal/other respectively.

TAXES PAID IN THE UK/IRELAND



Strategic relevance: Taxes support the public services everyone relies on. When companies do well, they should share their success with society through the payment of taxes.

Performance: A small reduction in total taxes paid reflects the planned disposals of non-core business areas during 2021/22, changes in energy use by customers and outages at some generation sites.

ECONOMIC CONTRIBUTION IN UK/IRELAND



Strategic relevance: SSE depends on a healthy and thriving economy to enable its business success, which is why it calculates the value it adds to UK and Irish GDP each year.

Performance: SSE's GDP contribution in Ireland remained consistent with 2020/22, while its contribution in the UK increased in the year, in line with a surge in Net Zero Acceleration Programme-related investment.

Our strategy in action

Execution and acceleration

SSE is developing, building, operating and investing in a well-balanced mix of assets and businesses. The coming pages highlight how that strategic focus is making a meaningful difference in the transition to net zero through delivery of clean electricity infrastructure.

Investing in a net zero future

The completion of the sale of SSE's remaining 33.3% stake in SGN marked the final step in a strategic disposals programme announced in June 2020 to streamline the Group and sharpen its focus on net zero. The sale in March realised nearly £1.3bn in cash proceeds. SGN had been a good investment for the Group, delivering a return on investment of over 18% from an initial outlay in 2005 of £505m for a 50% stake, however it had become a purely financial interest less aligned with the Group's focus on electricity. The disposals programme overall achieved headline consideration of over £2.8bn, significantly in excess of the original £2bn target.

Gas networks are no longer part of SSE's strategic plans, but regulated electricity distribution and transmission networks businesses continue to be key drivers of net zero and engines of growth for the Group. Plans were outlined in the Net Zero Acceleration Programme to sell minority stakes in SSEN Transmission and SSEN Distribution, extending a partnering approach that has worked well in SSE Renewables to networks to fund growth and unlock opportunities across the Group. These plans are now progressing with a sales process initiated with banking advisers in Spring 2022 on a 25% share in SSEN Transmission.

While these are high-quality, strategically important businesses and SSE will retain control, the scale of potential growth and the associated investment required mean that bringing in minority partners will create greater long-term value by enabling SSE to harness this significant growth whilst maintaining an attractive balance of capital allocation across the Group.



2022



Engaging from a position of strength

SSE is focused on being part of the solution to the climate crisis, with the capabilities, businesses and assets to create value from efforts to tackle global warming. It is very deliberately aligned to prevailing government policy direction, with net zero at the heart of the business. COP26, where the UK Government asked SSE to participate as a Principal Partner, served to highlight the critical importance and global relevance of the Group's strategy.

The war in Ukraine has brought into sharp focus the need for greater energy security, prompting European countries urgently to reduce their reliance on fossil fuel imports. In this context, governments are recognising it is more important than ever that indigenous low-carbon investment is expedited to keep energy affordable and secure.

SSE welcomed the UK Government's net zero and energy security strategies, which give a clear signal to low-carbon investors and developers to keep investing at the scale needed to achieve net zero by 2050 and support more immediate energy security. And SSE also takes the support received at the 2021 AGM for an annual vote on its Net Zero Transition Report as a clear signal of ongoing shareholder support for its strategic decarbonisation efforts.

The Net Zero Acceleration Programme aligns SSE with 1.5°C science-based targets and positions it to enable around 20% of the UK's 50GW offshore wind target by 2030, and over 20% of upcoming UK electricity networks investment, whilst leading investments in flexibility and exporting our renewables capabilities overseas. The urgency of the climate emergency from COP26 and the resulting Glasgow Pact is clear. SSE believes that decarbonisation of the energy system could go further and faster and at the summit it was able to make that case on the world stage.



SSE's credentials as a world-class renewables developer (main image) gave SSE a voice at COP26 where Finance Director, Gregor Alexander, caught up with UN Special Envoy on Climate Action and Finance, Mark Carney (right).

Our strategy in action continued

Powering on with Group delivery

The 2021/22 year marked a number of significant project milestones across the SSE Group. SSE Renewables made good progress at Seagreen, the world's deepest, fixed-bottom wind farm, and offshore construction commenced at Dogger Bank, currently the world's biggest offshore wind farm at 3.6GW. Construction has also progressed on the 443MW Viking onshore wind farm, one of the highest yielding in Europe, which remains on track for completion in autumn 2024.

SSE's capital investment programme to extend the life of large flexible hydro assets has also progressed, with repowering works commencing at Tummel Bridge in April to extend the life of the iconic power station beyond 2060.

Commissioning of SSE Thermal's 893MW Keadby 2, which will become one of the world's most efficient CCGT power stations, started in October 2021 and full commercial operation is targeted for October 2022. Works are also progressing well at a 50MW energy-from-waste facility, Slough Multifuel, which remains on track to be commissioned by late 2024.

A landmark year of delivery for SSE saw the completion of distribution network upgrades throughout the North of Scotland and central southern England. SSEN Transmission meanwhile made significant progress in 2021/22, building out critical network infrastructure to unlock renewable generation in the North of Scotland. This included the completion of Tealing substation in January, which will enable the connection of the Seagreen offshore wind farm. Phase one construction milestones were also reached on major projects including Rothienorman substation and the Inveraray-Crossaig reinforcement, while construction began on the 275kV Kinardochy substation in November 2021. Substantial progress was also made on the pioneering Shetland HVDC link project, which is on track to connect the islands to the main GB energy system for the first time by 2024.

Significant progress has also been made by the newly refocused Distributed Energy business on developing and operating battery and solar technologies at scale, including the acquisition of a 50MW battery site in Salisbury. Existing grid connections at former coal-fired sites also put SSE in a relatively unique position to deploy battery storage at scale and pace, with 150MW opportunities being considered at Ferrybridge and Fiddlers Ferry. The secured solar and battery pipeline is now 380MW, with more than a 1GW of other opportunities being evaluated.





Work such as this resilience survey in Killin is part of SSE Transmission's efforts to ensure a network fit for net zero.

Growing our renewables pipeline

The Net Zero Acceleration Programme promises a trebling of SSE's renewables capacity by 2031 with early delivery already under way. SSE is currently building more offshore wind than anyone else in the world and its renewables business continues to expand its sector leading pipeline, now standing at 11GW with opportunities in development to grow this to a sustained target of 15GW. In January 2022, SSE and its partners Marubeni and CIP celebrated success in Crown Estate Scotland's ScotWind seabed leasing auction. This was SSE's preferred site and, once constructed, will become one of the largest floating wind projects in the world with a potential capacity of at least 2.6GW.

Plans to export SSE's significant capabilities to overseas markets gained momentum with the acquisition of an 80% interest in an offshore wind development platform in Japan. The new joint ownership company, SSE Pacifico, will pursue the development of offshore wind projects in Japan. SSE has taken initial steps into the emerging US offshore market, establishing a permanent base in Boston better to pursue options.

In Europe, SSE entered tender bids for the 1.4GW Hollandse Kust (west) wind farm development zone in the Netherlands; a 50/50 joint venture with Acciona is progressing in Spain and Portugal; application has been made, also with Acciona, for offshore development rights in the Baltic Sea in Poland; and most recently it acquired Siemens Gamesa Renewable Energy's (SGRE) Southern Europe wind, solar and batteries development platform. The SGRE portfolio includes c.3.9GW of onshore wind development projects – around half located in Spain with the remainder across France, Italy and Greece – with scope for up to 1GW of additional co-located solar development opportunities. SSE Renewables also takes on a team of around 40 employees who bring considerable local knowledge and expertise to complement the substantial experience of the existing SSE team in delivering major projects.

Emerging international options present pipeline opportunities; however, capital discipline will continue to guide investment decisions.

SSE also has consent for the UK's largest pumped storage hydro project at Coire Glas and there has been material progress in the policy and regulatory environment for such vital long-duration storage schemes.

Our strategy in action continued



Building networks fit for net zero

With electricity demand expected to more than double by 2050, regulated electricity networks are at the heart of the transition to net zero. SSE Transmission and SSEN Distribution continue to be critical to SSE's strategy and balanced business mix. The Net Zero Acceleration Programme will enable SSE to deliver over 20% of all planned UK electricity networks investment, increasing Regulated Asset Value (RAV) to £9bn by 2026 (net of proposed 25% minority stake sales).

SSEN Transmission has made substantial progress this year on major projects within its capital delivery programme, including the landmark Shetland HVDC Link. With options for substantial growth over and above capital expenditure plans approved under the RIIO-T2 price control, projects such as the Eastern HVDC, North Argyll and Skye reinforcement are expected to progress through the Needs Case assessment process.

In January 2022, National Grid Electricity System Operator (NGESO) published its annual Networks Options Assessment (NOA), which indicated the

need for more than £5bn of investment in electricity transmission infrastructure in the North of Scotland to maintain a pathway for net zero. These investments and the clear need to accelerate reinforcements to unlock ScotWind start to provide a clear line of sight on and tangible progress towards 2031 RAV growth forecasts for SSEN.

SSEN Distribution could see a trebling of demand in its network areas by 2050, with seismic shifts in consumption already in progress as electric vehicles and heat pumps rapidly scale up this decade. The likely load expenditure required to keep pace with these changes informed the final business plan for the 2023-28 RIIO-ED2 price control period, submitted to Ofgem in December 2021.

The almost £4bn plan sets out how improvements will be delivered for customers and network investment accelerated to power communities to net zero. The plan also proposes £900m of additional potential investment under regulatory Uncertainty Mechanisms to help protect customers and provide the necessary flexibility as opportunities and policy evolves.

Pioneering CCS and hydrogen

While renewable generation and enabling electricity networks are at the heart of the Net Zero Acceleration Programme, it is clear that flexible low-carbon power will be vital to ensure security of supply when the wind doesn't blow and the sun doesn't shine.

That is why carbon capture projects, like those SSE is developing in partnership with Equinor at Keadby and Peterhead, are so important. With thermal generation continuing to be relied upon to meet electricity system demand, the UK Government clearly recognises the pivotal role CCS will play in helping to achieve net zero targets, and SSE Thermal has made substantial progress this year in developing these projects. In January 2022, both Keadby and Peterhead Carbon Capture and Storage projects were submitted into Phase 2 of the UK Government's Cluster Sequencing Process, with outcomes expected to be announced in mid-2022.

In total, the two lower-carbon power stations at Keadby and Peterhead would capture up to three million tonnes of CO₂ a year – 10% of the UK Government's 2030 target. They form part of SSE's ambitions for the coming decade and the submission represents significant progress on delivering SSE's strategy.

SSE Thermal and Equinor are also working in collaboration on two further projects in the Humber: Keadby Hydrogen would be the world's first 100% hydrogen-fuelled power station while Aldbrough, located in East Yorkshire, could be one of the world's largest hydrogen storage facilities.

Hydrogen storage is expected to play an important role in a low-carbon hydrogen economy, balancing supply and demand with hydrogen produced using carbon capture and electrolytic technologies.



While Keadby 2 (pictured) will be operational in 2022, plans for CCS plants at nearby Keadby 3 and Peterhead in Scotland could play vital transitional roles in the future.

Sector review

Navigating a turbulent world

Having ridden out the worst of the global coronavirus outbreak, the energy sector was hit in 2021/22 first by a post-pandemic spike in demand and then the market repercussions of the war in Ukraine. This sector review outlines the events that have focused industry, government and consumer minds on the issues of affordability, energy security and the climate crisis.

GLOBAL INSTABILITY

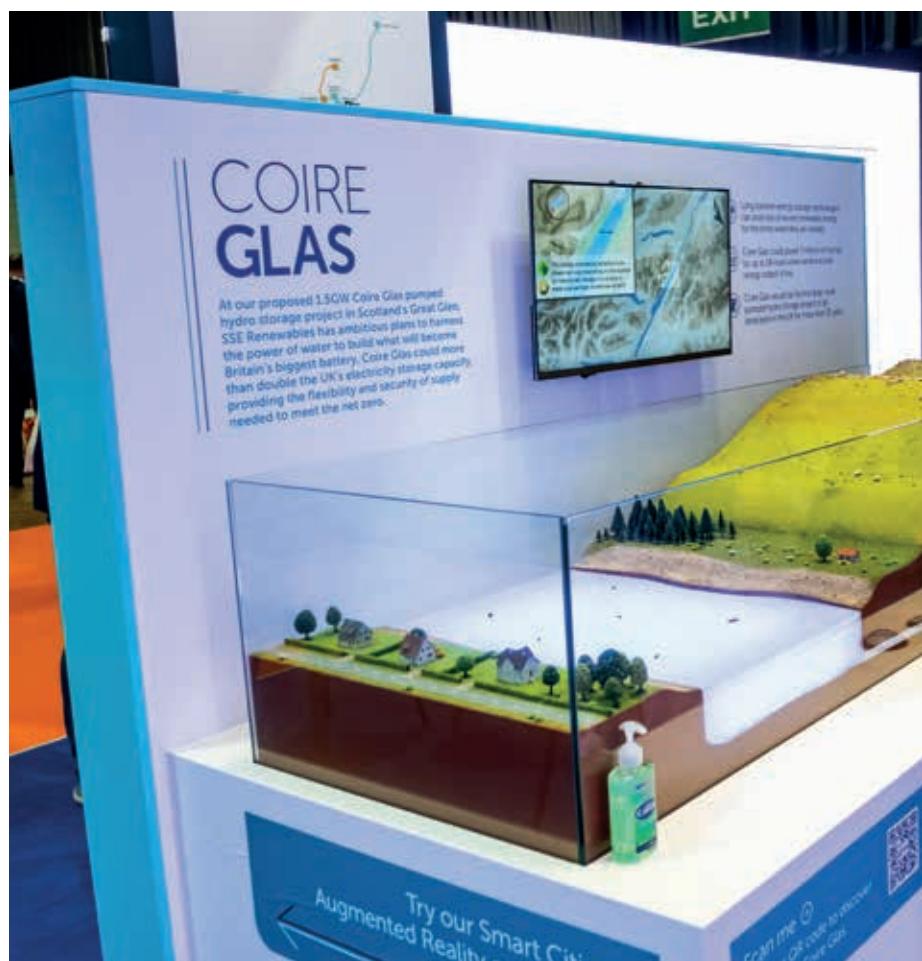
War in Europe deepens cost of living crisis

Despite COP26 and progress on net zero, the year was, again, dominated by uncertainty related to coronavirus and a post-pandemic energy crisis exacerbated by the Russian invasion of Ukraine. Soaring energy prices caused inflation to spike across the world, hastening a cost of living crisis amid global energy security concerns.

The commercial impact of a prolonged conflict in Ukraine is difficult to predict but SSE has so far been served well by a prudent hedging approach. SSE does not have any energy supply contracts with Russian counterparties, and ceased trading activities with these entities after the invasion of Ukraine. The true cost of war is the devastating humanitarian impact and in response to the conflict SSE contributed £1m to the Disasters Emergency Committee.

Governments rapidly introduced measures to support consumers, strengthen resilience and reduce fossil fuel import dependence. The UK Government's British Energy Security Strategy committed to a rapid scaling up of investment in indigenous renewable generation to support UK energy independence.

Coire Glas would offer 30GWh of pumped storage – doubling what is currently available in the UK.



THE CLIMATE EMERGENCY

Growing political resolve on net zero

COP26 demonstrated a growing consensus on the need to tackle climate change. The Glasgow Climate Pact set out the need to scale up clean power and energy efficiency, to phase down unabated coal power generation and to phase out inefficient fossil fuel subsidies. The message from COP26 was clear: the energy sector must lead the way on decarbonisation in the 2020s to hold global warming to a 1.5°C pathway.

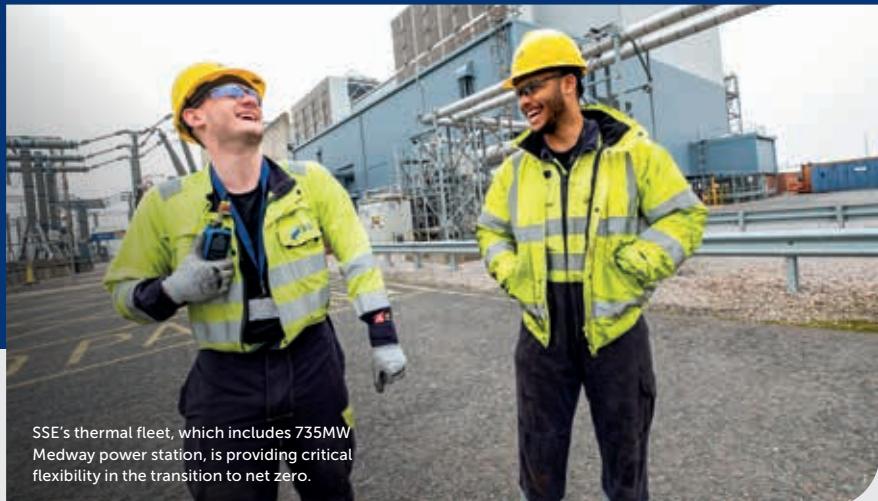
The year also saw significant domestic progress on net zero. Major announcements were made in the UK on carbon capture and storage (CCS), onshore wind, offshore wind and on the decarbonisation of heat.

7,000km²

Allocated seabed for up to 25GW of offshore wind in Scottish waters

In February, the Department for Business, Energy and Industrial Strategy (BEIS) announced that Contracts for Difference (CfD) auctions would be held annually from 2023 to speed up the UK's adoption of renewable power. In October, the UK's mid-decade CCS ambitions received a boost with the announcement of two 'Track 1' industrial clusters, including the Humber cluster, as well as a further reserve cluster in Scotland.

Crown Estate Scotland's January ScotWind announcement saw seabed totalling 7,000km² allocated for up to 25GW of offshore wind in Scottish waters, while the Scottish Government this year proposed to double onshore wind capacity, with an additional 8-12GW targeted by 2030. And even more recently, the British Energy Security Strategy signalled a bringing forward of a support mechanism for long-duration storage projects like SSE's at Coire Glas.



INNOVATION AND TECHNOLOGY

Driving down the cost of decarbonisation

Technological innovation has created vast efficiencies and opportunities in the energy sector and continues to be the driving force behind the net zero transition.

Fast paced innovation is helping to support affordability in the shift to a low-carbon world at a crucial time for consumers.

Advances in technology and larger turbine capacities have made wind power the most cost-efficient source of generation, with Contract for Difference (CfD) prices for offshore wind falling from over £140/MWh to less than £50.

High wholesale prices meant that, if all the UK's CfD-awarded wind farms due to be built by 2027 had been operating under their CfDs over the winter months of 2021/22, they would have made over £7bn of payments back to the scheme administrator that would have helped reduce future energy bill costs for consumers.

Meanwhile, SSE marked major developments in technology, including commissioning of Europe's most efficient CCGT, Keadby 2 in the Humber. Green hydrogen also took a significant step forward, as SSE Renewables and Siemens Gamesa announced the co-location of an electrolyser and battery storage facility at Gordonbush wind farm in the Scottish Highlands.



Sector review continued

ENERGY REGULATION

The need for a climate focused framework

Amid the energy sector's strong, positive trends, the regulatory environment remains challenging. Industry engagement with regulators continues to focus on the need for an enabling regulatory framework to be established for the delivery of net zero. In the UK, there remains a need for Ofgem's statutory duties to be amended to facilitate net zero and timely decision-making, and the Government has signalled its intention to address this.

Specific regulatory issues emphasised in 2021-22 included the development of a support mechanism for long duration electricity storage and the need to reform transmission charges to enable further investment in Scotland and northern England. Consumer affordability issues were also prominent, with changes to strengthen supplier financial resilience and cost recovery arising from supplier failure framing dialogue between the regulator and industry. SSE has engaged with the regulator in relation to networks price controls and uncertainty mechanisms to unlock the level of investment required to deliver decarbonisation and renewables targets.

Looking ahead, 2022-23 will be an important year as policymakers and regulators respond to the near-term impacts of the energy affordability crisis, while putting in place frameworks to unlock new low carbon technologies. Wider market and regulatory reforms are already under way to enable delivery of net zero at lowest cost and reduce exposure to global fossil fuel markets. The UK Government's Offshore Transmission Network Review (OTNR) will conclude with a Holistic Network Design setting out grid connection dates for

offshore wind projects and the transmission network upgrades required to deliver the UK's flagship 50GW offshore wind target.

More widely, other significant reforms either initiating or concluding include the introduction of a Future System Operator (FSO), distribution network flexibility, competition in transmission networks, market mechanisms and frameworks for long duration electricity storage, CCUS/Hydrogen and heat networks, many of which will be included in the UK's upcoming Energy Bill in summer 2022. For the longer term, BEIS will also initiate a Review of Electricity Market Arrangements (REMA) in mid-2022, which seeks to reform the GB electricity market to achieve a cost-efficient, low carbon power system by 2035.



Turbine jackets ready for installation at Dogger Bank, the world's biggest offshore wind farm.

CAPITAL MARKETS

The greening of debt and equity

The inherent value in developing and operating low-carbon infrastructure is increasingly recognised by investors beyond those with an Environmental, Social and Governance (ESG) focus. This is demonstrated by the influx of capital to the low carbon sector, with growing investment interest from oil majors and greater direct investment from infrastructure funds and institutional investors. This is creating strong opportunities for SSE in financial partnering and it supports creating value from successful development and operation of assets.

At the same time, both debt and equity investors are beginning to recognise the risks and opportunities from climate change, supported by initiatives such as the Task Force on Climate-related Financial Disclosures (TCFD). This means capital is increasingly flowing to projects and debt is attracted to green bonds that are well positioned to benefit from the low-carbon transition, and less exposed to the downsides associated with more emissions-intensive assets.

6

exceptional weather events in 12 weeks

EXTREME WEATHER

Adapting to exceptional events

The energy sector finds itself on the front line of altered and extreme weather conditions that are accompanying climate change. Changes in rainfall and wind patterns are felt right across the SSE Group. 2021/22 saw less wind and rain than the previous year, with April-September rainfall in its hydro catchment areas at the lowest level since records began in 1950.

For its energy-focused businesses, erratic weather can determine the output from renewables assets, the balancing requirements placed on flexible plant and energy demand from customers. The full

impact of exceptional weather is felt by electricity networks and last year no fewer than six exceptional weather events in 12 weeks tested the resilience of SSE Distribution's operations in both Scotland and England (see page 66 ▶).

SSE has established crisis management measures to mitigate the impact of severe weather on critical national infrastructure and it has meteorological expertise to forecast coming events. This forecasting not only allows SSE to mobilise operational teams in good time to support energy customers, it also informs trading positions

taken by the Energy Portfolio Management business and purchasing decisions by the Procurement team.

Climate adaptation strategies are becoming an increasingly important feature of government and business decision-making. For SSE, boosting weather resilience and assessing climate adaptation requirements are essential to the ongoing resilience of all its operational businesses.



Engineers clear the damage inflicted on SSE Distribution's northern patch by Storm Arwen.

Our stakeholders

Working for stakeholders

The following pages describe the engagement SSE undertakes with its stakeholders to enable it to fulfil its purpose, deliver its strategy and create lasting value.

Our key stakeholder groups

Information on our key stakeholder groups is highlighted by the yellow icon below throughout the Report.

The role of engagement

SSE recognises that a sustainable strategy is one that reflects stakeholder views and input. It promotes an open and transparent approach to engagement, which is supported by accountability at both Group and Business Unit level for demonstrating how stakeholders have been considered in long-term plans and day-to-day decision making.



SSE's key stakeholder groups

Employees

Why we engage:

Engagement helps SSE attract, retain and develop a diverse and talented workforce now and for the future.

Input to SSE:

Talent, skills, values and output.

Value created:

Inclusive, fulfilling and high-performing workplace, training and skills development.

Shareholders and debt providers

Why we engage:

We engage to ensure confidence and support from those that invest in and lend to SSE.

Input to SSE:

Provision of finance, strategic direction and stewardship.

Value created:

Sustainable return on investment.

Energy customers

Why we engage:

Dialogue aims to support the transition to a decarbonised energy system in a fair and affordable way.

Input to SSE:

Customer priorities and expectations.

Value created:

Reliable and inclusive provision of services now and in the future.



This approach derives from the following definition: The purpose of stakeholder engagement in SSE is to ensure that the perspectives, insights and opinions of stakeholders are understood and taken account of when key operational, investment or business decisions are being taken, so that those decisions:

- are more robust and sustainable in themselves; and
- support SSE's strategic approach of creating value for shareholders and society.

SSE's key stakeholder groups

A long-understood social contract informs SSE's view that its stakeholders are **people, communities and organisations with an interest in its purpose, strategy, operations and actions and who may be affected by them**.

The relationship with key stakeholders is two-way, with SSE relying on a range of inputs, in return for which value is generated. An overview of the reciprocal nature of SSE's relationship with its stakeholders is illustrated by the business

model framework on [pages 12 to 13](#) and set out in detail on the following pages.

Engagement methods

SSE adopts a range of engagement methods to build constructive relationships and a dynamic, two-way dialogue that tracks priorities and understanding on specific stakeholder issues.

These methods exist in a strategic framework that sees a combination of business-led and Board-level engagement and is reflective of legislative and regulatory requirements. This approach is characterised, for example, by the dedicated stakeholder forums in SSE's networks businesses. Details of just some of the engagement methods deployed, and views captured during 2021/22 are covered on [pages 34 to 39](#).

A single metric cannot define the success or otherwise of a stakeholder relationship. However, by considering the size of the stakeholder group, extent of engagement and value returned – financial or non-financial – certain measurements can aid

understanding of where further opportunities or risks exist. Examples of these measurements are shown in the business model on [pages 12 to 13](#) and overleaf.

SSE's approach results in stakeholder influence within, and validity of, business plans and supporting objectives.

The framework set by the Board in which decision making takes place is explained on [page 134](#). It confirms that consideration of SSE's purpose, vision, strategy and values, and its interconnectivity with stakeholders should drive appropriate outcomes.

Situations will exist where not every stakeholder interest can be addressed in full, however stakeholder regard continues to the fullest extent possible.

Given that stakeholder considerations are embedded in SSE's definition of a healthy business culture, demonstrating the influence of stakeholders and the consideration given to them remains a focus across this Annual Report and the accompanying Sustainability Report.

Government and regulators

Why we engage:
Constructive engagement aims to ensure fair energy sector frameworks for energy customers and investors.

Input to SSE:
Public policy and regulatory frameworks.

Value created:
Considered and expert sector views; delivery of policy and regulatory aims.

NGOs, communities and civil society

Why we engage:
Working openly and progressively seeks to support the achievement of shared goals with societal benefit.

Input to SSE:
Distinctive social, environmental and energy-related perspectives.

Value created:
Robust social contract through which value is shared.

Suppliers, contractors and partners

Why we engage:
Fostering healthy reciprocal relationships helps SSE to ensure it achieves the greatest all-round value from its investments and activities.

Input to SSE:
Quality goods and services and investment.

Value created:
Sustainable relationships, value creation and partnership expertise.



Our stakeholders continued



Employees

Engagement helps SSE attract, retain and develop a talented workforce now and for the future.



How we engage

Group engagement

- Multi-channel Leader-led Engagement Programme and business-specific updates.
- Group-wide employee survey to assess engagement levels.
- Continuous assessment of sentiment and strategic understanding through post-event polling.
- Data from employee exit surveys.
- Formal engagement with trade unions.

Board engagement

- Active participation in SSE's Leader-led Engagement Programme and mentoring of talent.
- Site visits and virtual engagement sessions.
- Complementary and focused work of SSE's Non-Executive Director for Employee Engagement.
- Continuous feedback on employee sentiment and the support being provided.

More on pages 137 to 139 [\[link\]](#)

Key developments 2021/22

- Ways of working implemented that draw on lessons learnt through the pandemic and meet employee expectations for greater flexibility.
- Agreement struck on pay progression for unionised employees.
- Active engagement with employees on a just transition.

Material issues raised in 2021/22

- Employee wellbeing, support and resilience.
- SSE's employee offering: reward, benefits, inclusivity, flexibility.
- Engagement with inclusion and diversity strategy.
- Engagement with strategy and the Net Zero Acceleration Programme.
- Engagement with SSE's approach to a just transition to net zero.
- Senior leader visibility and engagement.
- The opportunity for all colleagues to have a say and make a difference within SSE.
- Being supported to make decisions centred around doing the right thing.
- How employees could engage with and support SSE's Principal Partner role at COP26.

Priorities for 2022/23

- Engagement on purpose, vision, strategy and culture.
- Improving inclusion and diversity.
- Engagement on just transition.
- Articulation of what it means to work for SSE (employer brand), and the employee experience end-to-end.
- Enhanced, interactive digital channels including "always on" feedback functionality.
- Support through the transition to post pandemic ways of working.
- Recruiting the people needed to deliver on SSE's net zero ambitions.

MEASURING ENGAGEMENT AND VALUE CREATED

Employee engagement score



SSE's new Climate Academy



SSE's just transition approach informed by



Engagement in action case studies, see pages 61 and 139 [\[link\]](#)



Shareholders and debt providers

To ensure confidence and support from those that invest in and lend to SSE.



How we engage

Group engagement

- Responding to queries from shareholders and debt providers and holding meetings with all types of investors on an ongoing basis.
- Communicating shareholder and debt provider views to SSE's senior management teams.
- Engagement with environmental, social and governance (ESG) ratings agencies that many investors and debt providers rely on to gauge sustainability credentials.

Board engagement

- A programme of Director-investor meetings covering key financial announcements, long-term priorities and specific issues at investors' request.
- Participation in virtual and physical investor conferences.
- Monthly Board updates on investor and financial market sentiment.
- Detailed reporting of shareholder feedback during and after Half- and Full-year Results roadshows.
- Bi-annual updates from SSE's brokers.
- Executive Director engagement with credit ratings agencies used by debt providers.
- Engagement with shareholders at SSE's Annual General Meeting.

More on page 135

Material issues raised in 2021/22

- Financial and ESG performance.
- The merits of SSE's balanced mix of businesses versus the option to separate the renewables business.
- The optimal way to fund the Group's capex opportunity and the option to raise equity versus the proposed networks stake sale.
- Balancing growth and income in the context of shareholder remuneration.
- Returns and competitive pressure, particularly in renewables.
- Optimal capital allocation across the Group's businesses.
- Linking refreshed strategic ambition within SSE's Remuneration Policy review.

Priorities for 2022/23

- Reinforce shareholder and debt providers understanding of SSE, including its business mix, leadership approach, index linked assets and earnings and ESG credentials.
- Improve external understanding surrounding the role and value of flexible generation plant and the electricity networks businesses.
- Annual governance meetings between the Chair and shareholders.

Key developments

2021/22

- Initiation of a Shareholder Engagement sub-Committee to ensure equitable understanding of shareholders' priorities surrounding long-term direction, and reflection of shareholder views in SSE's strategic ambitions.
- Plans for a rebased dividend as part of SSE's Net Zero Acceleration Programme.
- Shareholder support for an annual vote on SSE's Net Zero Transition Report from 2022.
- Shareholder consultation on SSE's approach to Executive Remuneration.

M E A S U R I N G E N G A G E M E N T A N D V A L U E C R E A T E D

Dividend per share

	2022	85.7p
2021		81.0p
2020		80.0p

Earnings per share

	2022	95.4p
2021		78.4p
2020		83.6p

One-to-one investor sessions 2021/22

153

Engagement in action case studies, see pages 48, 128 and 136

Our stakeholders continued



Energy customers

Dialogue aims to support the transition to a decarbonised energy system in a fair and affordable way.



How we engage

Group engagement

- SSE directly serves energy customers in the domestic (all-island Irish) and business-to-business (UK and Ireland) energy supply markets and provides grid connection to non-direct networks customers in its Distribution and Transmission operating licence areas.
- Engagement methods include dedicated panels to ensure the perspectives of vulnerable customers are considered and forums to engage with large business customers.
- SSE also monitors a wide range of indicators of performance and customer sentiment.
- SSE works with third parties actively to identify and make provision for customer vulnerability, including through encouraging eligible customers to be added to the Priority Services Register.

Board engagement

- Board updates from each SSE business on the stakeholder factors which are driving business direction and propositions.
- Board monitoring of customer performance to ensure delivery of an appropriate level of service and investment.

Material issues raised in 2021/22

- Affordable and accessible energy in the context of ongoing market volatility and increasing international instability.
- Responsiveness to need and vulnerability with particular focus on impact of exceptional weather events.
- Quality customer service.
- Using energy efficiently.
- Costs and benefits of the ED2 business plan.

Priorities for 2022/23

- Sharp focus on cost of living means there is a need to increase support for SSE's vulnerable customers.
- Enhanced focus on emergency customer support following increased frequency of extreme weather events.
- Improved customer satisfaction and service.
- Updated customer strategy being reviewed and implemented in SSEN Transmission for connection customers i.e. generators.

Key developments

2021/22

- The impact of the rising cost of living on SSE's energy customers.
- Supporting customers through the impact of exceptional weather events on networks resilience.

MEASURING ENGAGEMENT AND VALUE CREATED

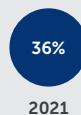
Customers on SSEN Distribution's Priority Services Register (PSR)

2022	768,104
2021	770,844
2020	746,821

Stakeholder engagement events held by SSEN Distribution

2022	827
2021	870
2020	765

SSE Airtricity Net Promoter Score (domestic customers)



Engagement in action case study, see page 66



Government and regulators

Constructive engagement aims to ensure fair energy sector frameworks for energy customers and investors.



How we engage

Group engagement

- Through SSE's Political Engagement Policy under which it makes representations to the institutions of government in a politically neutral way consistent with the company's core purpose.
- Ongoing constructive dialogue with Ofgem on networks regulatory price controls, market design and carbon pricing, CCS and hydrogen.
- Panel discussions and thought leadership reports to engage stakeholders with key issues.

Board engagement

- Board oversight of the implementation of SSE's Political Engagement Policy and corresponding advocacy priorities.
- Monitoring of engagement activity and responses to regulators to ensure that strategic, financial, investment and operating frameworks remain aligned to the external landscape.

Key developments 2021/22

- Through SSE's Principal Partnership of COP26 it was able to build key strategic relationships and support a number of climate-linked policy announcements.

Material issues raised in 2021/22

- Cost-effective delivery of low carbon infrastructure.
- Fair treatment of energy customers.
- Security of supply and critical infrastructure provision.
- The RIIO-T2 and RIIO-ED2 business plans.
- Flexible networks and the transition to Distribution Network Operator.
- Engagement on market design, carbon pricing and support mechanisms.

Priorities for 2022/23

- Required investment in electricity network infrastructure to deliver a net zero energy system.
- Flexible networks and the transition to DSO.
- Engagement focused on energy market reform including role of Electricity System Operator, role of Ofgem, competition and policy conducive to investment.
- Support mechanisms/framework to enable cost-effective delivery of low carbon/zero carbon generation and maintain security of supply (Coire Glas, CCS/hydrogen, heat networks etc).
- Establishing high-quality teams able to engage with government and regulatory stakeholders in new jurisdictions, in line with SSE's international expansion plans.

MEASURING ENGAGEMENT AND VALUE CREATED

Direct COP-related engagements

150

Public endorsements of SSE's net zero strategy

20

New strategic partnerships formed

14

Engagement in action case studies, see pages 23, 29 and 46

Our stakeholders continued



NGOs, communities and civil society

Working openly and progressively seeks to support the achievement of shared goals with societal benefit.

How we engage

Group engagement

- Partnering with key NGOs to deliver social and environmental benefits for the communities in which SSE operates.
- Community consultation events throughout the year to gather feedback on projects and business plans.
- Collaboration with academic partnerships to inform strategic decision-making and knowledge sharing on policy, energy systems and innovation.

Board engagement

- Review of SSE goals set within the UN Sustainable Development Goals framework and oversight of associated strategic delivery plans.
- Due consideration of the local community benefits of large capital project investment.

Material issues raised in 2021/22

- Environmental protection and decarbonisation.
- A fair and just transition to net zero.
- Cost of living crisis.
- Employment standards, including Living Wage and inclusion and diversity.
- How SSE shares value with local communities and wider society.
- Responsible behaviour of large businesses.

Priorities for 2022/23

- Continued advocacy and support for addressing energy affordability and fuel poverty.
- A fair and just transition to net zero.
- Decarbonisation of the energy system.
- Work between SSEN Transmission and other network operators on a standardised approach to social return on investment.



Key developments

2021/22

- Setting of interim business goals within the UN Sustainable Development Goals framework.
- Customer vulnerability and fuel poverty.

MEASURING ENGAGEMENT AND VALUE CREATED

Stakeholders consulted as part of ED2 business plan process

Communities directly engaged with through SSE Renewables' community investment funds

Strategic academic partnerships

Engagement in action case study, see page 67

>25,000 127

5



Suppliers, contractors and partners

Fostering healthy reciprocal relationships helps SSE to achieve the greatest all-round value from its investments and activities.



How we engage

Group engagement

- Regular meetings as part of SSE's Supplier Relationship Management (SRM) programme are held to discuss material issues for both companies.

Board engagement

- Executive Director meetings with strategic partners and suppliers.
- Board updates on joint venture project strategy and progress in domestic and international markets.

Material issues raised in 2021/22

- Management and mitigation of health and safety risks on sites.
- Economic opportunities in local supply chains.
- Mitigation and management of social and environmental impacts.
- Project design and innovation.
- Effective governance and operations.
- Fair expectation in the delivery of projects and prompt payment.
- Energy sector resource gaps.
- Third party labour practices in emerging technologies.

Key developments 2021/22

- Creation of the Powering Net Zero Pact to progress a just energy transition for the power sector by focusing on key areas of ambition.
- A notable output from the SRM programme was an increased focus on local content to encourage UK investment. This engagement continues in all areas of SSE's supply chain, from international turbine and cable manufacturers to more localised civil contractors.

Priorities for 2022/23

- The key focus areas of the Powering Net Zero Pact, namely: net zero, natural world, circular economy, fair work and valuing communities.
- Industry understanding of Scope 3 emissions.
- Development of sustainable policies and enhanced collaboration to implement more sustainable practices.
- Enhancing health and safety standards.
- Supply chain resilience and managing the impact of inflation across SSE's development pipeline.
- Interaction through the SRM programme presents opportunities to engage with the supply chain on value-adding areas such as innovation, engineering and sustainability, and allows SSE to work closely with suppliers to ensure visibility on latest technologies and efficiency improvements.

MEASURING ENGAGEMENT AND VALUE CREATED

Suppliers on SSE's strategic relationship management programme

2022	34
2021	28
2020	13

Strategic suppliers that, with SSE, are founding partners of the Powering Net Zero Pact

10

Leadership status achieved for supply chain engagement with CDP for its 2021 submission.

Engagement in action case study, see page 59

A sustainable approach

Powering sustainable change

"Sustainable outcomes do not happen by accident. They are the result of careful decision making that ensures social, environmental and economic impacts are balanced and enhance value. 2021/22 was an important year to that end, not least in developing detailed action plans that support the achievement of net zero. Predicting and pre-empting negative social impacts from the energy transition to net zero was a focus of SSE's attention too."

Rachel McEwen
Chief Sustainability Officer



SSE's Sustainability Report 2022

SSE's Sustainability Report 2022 is the sister document to the Annual Report 2022. It provides enhanced disclosure of SSE's policies, practices and performance against its key economic, social and environmental impacts and goals.

Sustainability highlights

SSE's approach to sustainability

[See more on page 41](#)

Protecting the environment

Climate-related financial disclosures.

[See more on page 42 to 55](#)

Conserving the natural environment.

[See more on pages 56 to 57](#)

SSE's social contribution

Generating value across society.

[See more on pages 58 to 59](#)

Guaranteeing fair work and good jobs.

[See more on pages 60 to 65](#)

Providing access to affordable and clean energy.

[See more on pages 66 to 67](#)

SSE's approach to Sustainability

Driven by SSE's strategy "...creating value for shareholders and society..."

Aligned to shared value global framework United Nations Sustainable Development Goals (SDGs)



A sustainable business strategy

The UN's 17 Sustainable Development Goals (SDGs) are the global blueprint for a sustainable future. SSE believes they provide a useful framework through which to align its strategic business objectives with societal objectives.

Since 2019, SSE has aligned its business strategy to the SDGs most material to its business. The schematic above depicts the flow of sustainability from SSE's objective set in its strategy statement to "create value for shareholders and society" with UN SDGs providing the framework to guide the creation of shared value. Within this framework SSE has identified four SDGs which are highly material to the business, and to which it has linked its four core 2030 Goals, and a further three material SDGs, which are focused on the environment and guide the pillars of SSE's environment strategy.

SSE refreshed its 2030 Goals in February 2022 to reflect SSE's increasing net zero ambitions. More information on SSE's sustainability framework can be found in the [Sustainability Report 2022](#).

Developments in sustainability reporting standards

At COP26, in November 2021, the creation of the new International Sustainability Standards Board (ISSB) by the International Financial Reporting Standards (IFRS) Foundation was announced. Most of the international standard setters have indicated their support for the ISSB and SSE hopes this will be an important step towards providing the clarity that companies are seeking around globally aligned sustainability reporting standards.

The UK Government has endorsed the ISSB approach, indicating its intentions to use the standards as the framework for the new UK Sustainability Disclosure Requirements (UKSDR). The UKSDR will build on measures

already under way to implement TCFD-aligned disclosure rules, expanding the scope to cover wider sustainability topics beyond climate change, and will include requirements for listed companies to publish net zero transition plans. Ahead of these requirements, SSE published its own Net Zero Transition Plan in March 2022, one of the aims of which is to stimulate enhanced engagement with shareholders and other stakeholders.

Aligning with external frameworks

SSE is a signatory to the United Nations Global Compact (UNGCG), incorporating the Ten Principles of the UNGC into its approach to business, and aligns disclosures and KPIs in its Sustainability Report to international non-financial reporting standards, including the Global Reporting Initiative (GRI) and the SASB Standards. SSE also actively engages with key investor ESG ratings agencies and investor-led initiatives. Detail of SSE's performance in these ratings can be found at [sse.com/sustainability](#).

A sustainable approach continued

Protecting the environment

The twin challenges of climate change and the decline in nature are the greatest threats facing the future of humankind. Addressing the challenge of climate change is the most material action SSE can take to reduce its impact on the environment, however it also has wider environmental impacts that must be carefully managed.

Climate-related financial disclosures

The Task Force on Climate-related Financial Disclosures (TCFD) was established by the Financial Stability Board to improve reporting of climate-related risks and opportunities. SSE has structured its climate disclosures according to the TCFD recommendations since 2018 believing that good quality information about its climate-related risks and opportunities supports shareholders to make long-term investment decisions.

Mandated climate-related financial disclosure in the UK

SSE is required to report against the TCFD recommendations and recommended disclosures in its Annual Report covering the financial year ended 31 March 2022 according to the Financial Conduct Authority (FCA) listing rule LR 9.8.6 R(8). The rule requires relevant companies to report on a 'comply or explain' basis against the TCFD recommendations. SSE is compliant with the TCFD recommendations and recommended disclosures, with the exception of recommended disclosure Strategy 2.c where it explains on [page 48](#) the work

it will carry out over the course of 2022/23 with a view to disclosing in 2023. SSE further believes there is an opportunity for increasing maturity of all TCFD disclosures and will actively seek feedback from shareholders and stakeholders on best practice.

Compliance is indicated against the recommended disclosures in the relevant sections using the following key:

Compliant	
Partially compliant	
Not compliant	



Task Force on Climate-related Financial Disclosures (TCFD) recommendations

1. Governance

Disclose the organisation's governance around climate-related risks and opportunities.

[More on page 43](#)

2. Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.

[More on page 45](#)

3. Risk management

Disclose how the organisation identifies, assesses, and manages climate-related risks.

[More on page 49](#)

4. Metrics and targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

[More on page 54](#)

Governing climate-related risks and opportunities

Board oversight of climate issues

The Board establishes SSE's purpose, vision and strategy with due consideration given to all material influencing factors including those related to climate change.

The Board assessment of climate-related matters is informed through presentations across dedicated strategy sessions and within Board meetings, which cover the substance of the physical and transitional opportunities and risks associated with climate change (see [page 133](#)). This approach is consistent with SSE's net zero-aligned strategic objectives and the presence of climate-related issues across vast areas of Board work.

The Board's assessment of risk is reflected both in the strategic decisions it takes, and in the identification of the Group Principal Risks and emerging risks which have the ability to affect achievement of agreed strategic objectives and, in turn, long-term success.

Within financial year 2021/22, the Board considered and approved accelerated science-based emission targets; revised business goals to 2030 aligned to the UN Sustainable Development Goals; the Net

Zero Acceleration Programme; and the Net Zero Transition Plan.

Board Committee support is provided on climate-related issues in the following ways:

- The Nomination Committee ensures the Board possesses the correct depth and balance of capabilities to support SSE's long-term position, including the expertise to assess the impact of climate change (see [pages 145 to 151](#)).
- The Audit Committee supports the Board on matters relating to financial reporting, internal control and risk management. The Committee reviews the integrity of SSE's climate-related financial reporting and the process used to develop SSE's TCFD-aligned disclosures (see [pages 152 to 161](#)).
- The remit of the Safety, Sustainability, Health and Environment Advisory Committee (SSHEAC) was expanded in the year to oversee SSE's climate adaptation and resilience plans (see [pages 164 to 167](#)).
- The Remuneration Committee supports implementation of Board approved policy on climate related opportunities and risks, through inclusion of sustainability-linked metrics and targets within performance



Meeting TCFD recommended disclosures:

1. Governance

a) Describe the board's oversight of climate-related risks and opportunities.

b) Describe management's role in assessing and managing climate-related risks and opportunities.

related pay for SSE's Executive Directors (see [pages 168 to 199](#)).

The Board-agreed division of responsibilities across key areas of SSE's Governance Framework, are set out in: the Board's Schedule of Reserved Matters; the Terms of Reference of the Board Committees and the Group Executive Committee; and the role profiles for key Board roles. See [sse.com](#) and [pages 124 and 142](#).

Structured governance pathways



A sustainable approach continued

Protecting the environment continued

Role of senior management

Strategy is implemented by the Group Executive Committee through the operational management of SSE's Business Units and monitoring of performance in line with agreed plans. This includes ensuring that business decisions are being taken in line with the parameters set by the Board, such as SSE's 2030 Goals and science-based targets, and for monitoring new and emerging issues that require escalation.

As Chair of the Group Executive Committee the Chief Executive retains responsibility for the management of climate-related initiatives under agreed strategy and in turn, driving progress. In support of this, the Chief Executive agrees the annual objectives for the Chief Sustainability Officer who is a direct report. The Chief Sustainability Officer advises the Board, Group Executive Committee, Group Risk Committee and Business Units on climate-related matters and progress under the stated Net Zero Transition Plan.

The Group Risk Committee (GRC) monitors all Group risks on a periodic basis and ensures that the Business Units are managing the risks for which they are responsible. The GRC has overall responsibility for ensuring the right mechanisms are in place for managing all risks, including climate-related risk and opportunities. Reporting to the GRC is a TCFD Steering Group, comprising of representatives from Group Finance, Group Risk and Sustainability, focused on advising, steering and governing the development of fair, balanced and understandable climate-related financial disclosures.

SSE has a set of Group Policies applicable across its entire organisation, of which Climate Change and Sustainability are two. Policies are reviewed and endorsed by Group Executive Committee and approved by the Board annually. Compliance with Group policies is also considered as part of the annual review of the effectiveness of the system of internal control (see [page 161](#)).

Aligning incentives to climate outcomes

SSE's approach to Executive Remuneration reflects the role of sustainability and climate-related considerations within SSE's purpose and strategy, with sustainability-linked metrics and targets an element of performance related pay. To date, performance has been assessed against the framework of SSE's 2030 Goals, which the Remuneration Committee is seeking to strengthen through its current Policy review.

[More on page 169](#)

SSE's key developments in 2021/22:

- Board approves SSE's Net Zero Transition Plan, which can be found at [sse.com/sustainability](#).
- Audit Committee now approves SSE's assurance arrangements for its TCFD disclosures, [see pages 153 and 155](#).
- Board consideration of net zero in strategic development and principal decisions, [see pages 126 to 133](#).

Timeline of climate governance in 2021/22

Some of the key decisions taken in the year; for further decisions made during the year, see [pages 126 to 131](#) – Directors' Report:

Board-level

Board approval of management-sponsored climate resolution proposed at the 2021 Annual General Meeting.	SSHEAC review of climate adaptation plans.	Board approval of the Net Zero Acceleration Programme.	Board approval of SSE's updated 2030 business goals.	Audit Committee approval of SSE's approach to climate-related financial disclosures and associated assurance arrangements.	Board approval of SSE's Net Zero Transition Plan.
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Executive-level

Recommended Board approval of accelerated science-based targets which aligned to the SBTi 1.5°C power sector guidance.	Recommended Board approval of SSE's updated 2030 business goals linked to the UN SDGs placing climate change at the centre of SSE's strategy, targets and actions.	Group Risk Committee approval of SSE's governance and controls for climate-related financial disclosures.	Recommended Board approval of SSE's Net Zero Transition Plan.
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A strategy to support net zero

Providing profitable solutions to climate change

Through the delivery of its purpose SSE is directly addressing the energy transition to net zero and reflecting society's priorities on climate change. It achieves this through its strategy of developing, building, operating and investing in the electricity infrastructure and businesses needed in the transition to net zero.

With SSE's direct emissions (scope 1) cut by 78% since their peak in 2006/07, SSE has a well established decarbonisation strategy and has been transitioning its electricity generation portfolio to one dominated by renewable and low-carbon thermal sources of generation.

SSE's goal is to achieve net zero GHG emissions across its scope 1 and scope 2 emissions by 2040 (subject to security of supply requirements) and for remaining scope 3 emissions by 2050. These long-term net zero ambitions are supported by interim science-based targets aligned to a 1.5°C pathway. Progress against these targets is outlined on [pages 54 to 55](#).

A plan for a net zero transition

In March 2022, SSE published its Net Zero Transition Plan. The Plan clearly sets out for stakeholders the key actions SSE will take to drive progress towards its net zero ambitions and its interim science-based targets aligned to a 1.5°C pathway.

SSE will disclose annual progress against this plan through its Net Zero Transition Report, which will be subject to shareholder vote each year. Progress in 2021/22 is disclosed across SSE's Annual and

Sustainability Reports. A standalone summary Net Zero Transition Report has also been published to aid stakeholder engagement, which can be found at [sse.com/sustainability](#).

Advocating for climate action

SSE actively and positively advocates for more ambitious climate change policy to achieve net zero, with a significant focus for advocacy activities in 2021/22 being linked to its Principal Partnership on COP26. SSE conducts its advocacy in line with the goals of the Paris Agreement and its own net zero strategy. It reviews trade association membership annually to ensure that the organisations of which it is a member also advocate in line with the ambitions of the Paris Agreement. In December 2021, it published the results of this annual review for the first time. Detail of advocacy activities undertaken across 2021/22 can be found throughout the Strategic Report of this Annual Report ([pages 1 to 94](#)) and in SSE's Sustainability Report 2022.

Investing in the net zero transition

In November 2021, SSE announced its Net Zero Acceleration Programme, which includes a £12.5bn, fully-funded capital investment plan between 2021 and 2026 alongside ambitious 2031 targets, aligned with net zero. The Programme is the practical application of SSE's strategy and seeks to cement SSE's position as a national clean energy champion, enabling the contribution of around 20% of the UK's revised 50GW offshore wind target and over 20% of the required investment in UK electricity networks, whilst deploying flexibility solutions to secure electricity supplies and exporting SSE's renewables capabilities overseas.



Meeting TCFD recommended disclosures:

2. Strategy

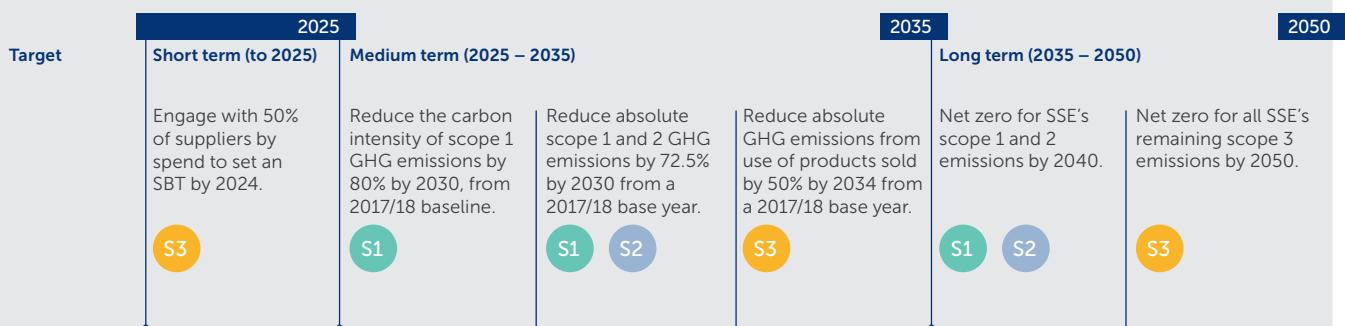
a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.

b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.

c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

All five of SSE's most material climate-related opportunities as outlined on [pages 51 to 52](#) are factored into this strategic capital investment plan. In 2021/22, SSE invested £2.1bn of this planned £12.5bn capital investment. SSE's future capital investment plans, including those for any thermal assets, will be based on clear internal investment criteria, which ensures alignment to SSE's commitment to its core 2030 business goals including the targeted reductions in GHG emissions.

Net Zero Transition Plan pathway



Note: for definitions of scopes 1, 2 and 3 SSE follows the GHG Protocol.
For further information on SSE's GHG and Water reporting criteria see [sse.com/sustainability](#).

A sustainable approach continued

Protecting the environment continued

ENGAGEMENT IN ACTION GOVERNMENT AND REGULATORS



FURTHER AND FASTER AT COP26

The cornerstone of SSE's engagement with government and regulators in 2021/22 was the Company's Principal Partnership with the UK Government on COP26. SSE was able to showcase its standing as a national clean energy champion in what was a significant stepping up of engagement activity in the lead-up to, during and after the Glasgow event. Through more than 150 direct COP-related engagements, SSE established 50 new business relationships, received more than 20 public endorsements from stakeholders, and formed 14 new partnerships.

Crucially, SSE was able to support a number of COP-linked policy announcements through its advocacy for decarbonisation of the energy sector to go further and faster. In the months following COP26, positive engagement, including meetings with the Secretary of State for Department of Business, Energy and Industrial Strategy and the Prime Minister, continued to maintain political resolve on the Glasgow Pact and highlight SSE's role in delivering national net zero targets.

SSE's Gregor Alexander and Alistair Phillips-Davies with Chancellor Rishi Sunak at COP26.



Financing climate strategies

SSE understands that investors are increasingly looking for robust mechanisms through which they can ensure their investments are sustainable and take account of climate-related risks. To support the growth of green finance, SSE also has pursued a strategy of issuing green bonds to fund its net zero investment plans. SSE has issued four green bonds, with the total outstanding at £2bn which reaffirms SSE's position as the largest issuer of green bonds in the UK corporate sector.

Aligning to taxonomy definitions

A developing UK Taxonomy

SSE supports the development of sustainable finance beyond green and sustainable debt markets. The establishment of a European Taxonomy is an important step forward in defining environmentally sustainable economic activity within equity markets and, as a UK-listed energy company, SSE is looking forward to the establishment of a UK Taxonomy based on the broad principles established by the EU. In support of a consistent, although UK-appropriate, taxonomy, SSE engaged constructively with several stakeholders in 2021/22, including HM Treasury and the Department of Business, Energy and Industrial Strategy to suggest ways in which the UK Taxonomy could be developed to be

simpler, transparent and auditable. SSE has made the case that:

- Any inclusion of gas generating activities within the UK Taxonomy should demand carbon abatement;
- The operational expenditure metric be replaced with alternative metrics which are clearly defined and auditable, such as operating profit and loss metric which is captured within the UK adopted IFRS financial reporting standards;
- To ensure all relevant economic activity is captured, activities measured should encompass projects within joint control, such as equity investments into large scale offshore wind farm projects.

Assessing SSE's activities

To provide stakeholders with an initial indication of SSE's economic activities according to taxonomy criteria, SSE has undertaken preliminary work to assess its activities using the eligible activities of the EU Taxonomy as a basis. The table on [page 47](#) provides an illustration of SSE's taxonomy aligned activities. Taxonomy eligible activities in 2021/22 are from SSE's onshore and offshore wind generation, hydro (run of river and pumped storage) as well as its networks transmission and distribution activities. In 2021/22, the proportion of SSE's taxonomy-eligible activities across the

different measures were: adjusted operating profit, 84%; adjusted investment and capital expenditure, 86%; and, revenue, 30%.

The reason that SSE's taxonomy-eligible activity appears low in relation to its revenue, is primarily due to Energy Portfolio Management trading activity and the sale of power to end customers, both of which are high volumes, with pass through costs and lower margins than in larger businesses such as renewables generation and networks businesses. SSE believes that revenue is a poor measure in assessing its economic activity and that the most appropriate measures of its taxonomy-eligible economic activity are in relation to its capital investment and its operating profit.

The taxonomy non-eligible activities are associated with SSE's thermal generation and gas storage businesses. Other activities that do not currently align may qualify for taxonomy alignment in the future.

Providing the UK Taxonomy does not deviate significantly from the EU model, SSE expects its assessment of its taxonomy eligible activities disclosed on [page 47](#) to be consistent with a future UK framework.

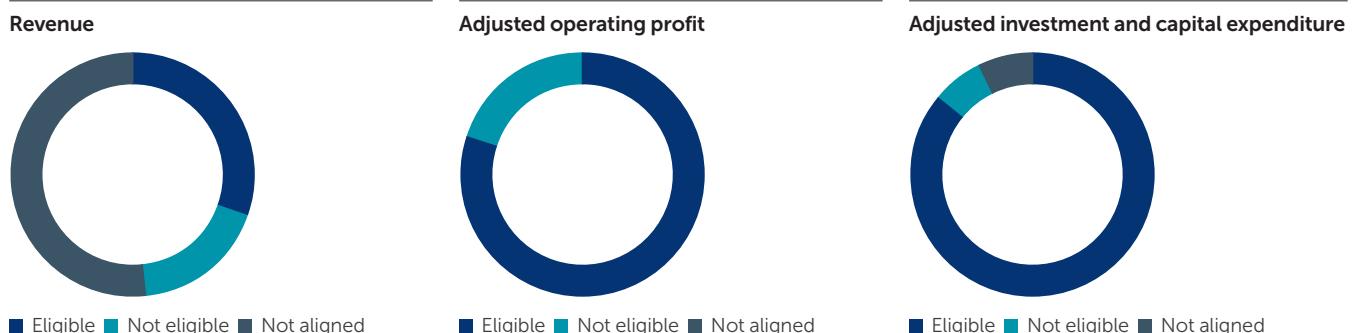
Financial impact of SSE's taxonomy activities

SSE's reported segments (a)	Taxonomy eligible activity(a)	Revenue (b)	Adjusted operating profit (c)		Adjusted investment and capital expenditure (d)		
		£m	%	£m	%	£m	%
SSEN Transmission	Transmission of electricity	589.7	7	380.5	25	614.4	32
SSEN Distribution	Distribution of electricity	954.6	11	351.8	23	364.8	19
SSE Renewables	Electricity generation	357.4	4	568.1	37	674.3	35
EPM	As route to market for SSE Renewables	713.6	8	(5.6)	0	0.8	0
Total taxonomy eligible activities		2,615.3	30	1,294.8	84	1,654.3	86
SSE Thermal	Thermal generation	844.2	10	306.3	20	129.3	7
Gas Storage	Supply of energy	8.7	0	30.7	2	2.1	0
EPM	As route to market for SSE Thermal	713.6	8	(5.6)	0	0.8	0
Taxonomy non-eligible activities		1,566.5	18	331.4	22	132.2	7
Business Energy		2,289.0	27	(21.5)	(1)	35.2	2
SSE Airtricity		1,177.3	14	60.4	4	4.6	0
Distributed Energy		176.9	2	(10.9)	(1)	26.6	1
EPM	As route to market for Business Energy	713.6	8	(5.6)	0	0.8	0
Corporate unallocated		69.7	1	(111.8)	(7)	78.7	4
Total taxonomy partially/not-aligned activities		4,426.5	51	(89.4)	(6)	145.9	8
Total continuing operations		8,608.2	100	1,536.8	100	1,932.4	100

Notes:

- (a) Alignment is based on segmental reporting in SSE's financial year end statements.
- (b) Revenue: derived from the disaggregation of revenue from contracts by customers, in line with the requirements of IFRS 15 "Revenue from Contracts with Customers" (see note 5.1.1).
- (c) Adjusted operating profit/loss: calculated as adjusted operating profit/loss related to the businesses aligned with the taxonomy categories (see note 5.1.2).
- (d) Adjusted investment and capital expenditure: calculated as adjusted capital expenditure related to assets or processes associated with taxonomy-eligible economic activities that is accounted for based on IAS 16, IAS 38 and IFRS 16 and thereby included within adjusted capital expenditure (see note 5.1.3).

Taxonomy eligible activities at a glance



Assumptions

SSE's accounting policies for these calculations are based on the EU Taxonomy Regulation and delegated acts and available guidelines from the UK Government.

- Linkage principle**

In calculating each taxonomy-eligible proportion, a 'linkage principle' has been applied, stipulating that any revenue, operating profit/loss or capital expenditure that can be justifiably linked to an identified taxonomy economic activity can be classified as taxonomy-eligible. Using this principle, revenue and operating profits from SSE's balancing activities, hedging, and trading can be linked to the EU taxonomy eligible activities when the activity is undertaken to directly support the eligible activities.

- Proxies**

Where the financial numbers are not appropriately split into Taxonomy compliant activities, namely for Energy Portfolio Management energy trading and power sales activities, a proxy has been used to estimate the ratio of purchased power volumes from

renewable versus non-renewable assets applied to revenue and operating profit/loss.

- Materiality**

The analysis has been prepared by applying a top-down review of SSE's activities and the alignment with existing segmental reporting within taxonomy eligible activities. There are some activities that fall below specified thresholds which are not taxonomy eligible. As SSE's reporting processes and controls are refined by the implementation of the UK Taxonomy, it is expected that some activities will be reclassified if they move above certain materiality thresholds.

- UK taxonomy eligibility**

SSE's transmission and distribution activities do not currently qualify as EU taxonomy eligible due to the use of Polychlorinated Biphenyls (PCBs). SSE has committed to removing PCBs within its business 31 December 2025 in line with recent UK legislation. It is therefore expected that the UK taxonomy will include these activities as taxonomy eligible.

A sustainable approach continued

Protecting the environment continued

Material climate impacts

SSE assesses the climate impact on its operations over the short (up to three years), medium (four to 10 years) and long term (up to 30 years) from the perspective of market, policy or regulatory transition risks and opportunities and the physical risks of a changed climate.

Material climate-related opportunities and risks ([pages 50 to 53](#)) have the potential to significantly impact SSE's business, strategy and financial planning.

The material opportunities ([pages 50 to 51](#)) relate to the role that renewables, transmission and distribution electricity networks, and thermal play in supporting the transition to net zero. The material risks ([pages 52 to 53](#)) are associated with the physical impacts of extreme or changing weather conditions on renewable and network operations; alongside transition risks related to renewable wholesale prices and resilience of thermal power generators to changing policy.

SSE has aligned its disclosures related to opportunities to its Net Zero Acceleration Programme out to 2026, where opportunities are more certain. Beyond this date a description of further opportunities has been provided, though these have not been quantified due to the inherent uncertainty in longer-term forecasting. Risks identified have been quantified based on SSE's exposure to the risk as at 31 March 2022.

Further information on each climate-related opportunity and risk is also presented in SSE's [Sustainability Report 2022](#) and CDP Climate Change Programme submission.

consideration different climate related-scenarios. SSE is still in the process of developing appropriate macro enterprise-level climate scenarios, building on climate scenario analysis performed in the past, with a view to complying from 2023. SSE's previous reports, *Post Paris*, published in July 2017, and *Transition to Net Zero*, published in November 2019, assessed the resilience of SSE's electricity businesses and gas businesses to different warming scenarios respectively. These reports can be found at sse.com/sustainability.

SSE's key developments in 2021/22:

- SSE announced its £12.5bn Net Zero Acceleration Programme aligned to its net zero ambitions, [see pages 4 to 5](#).
- SSE set accelerated science-based targets aligned to a 1.5°C pathway, [see pages 54 and 55](#).
- SSE reviewed its climate-related risks and opportunities in its Annual Report, [see pages 50 to 53](#).

ENGAGEMENT IN ACTION SHAREHOLDERS AND DEBT PROVIDERS



ENHANCING CLIMATE ENGAGEMENT WITH SHAREHOLDERS

Having worked closely with investor group Climate Action 100+ over 2020/21, SSE proposed an enabling resolution to its July 2021 Annual General Meeting (AGM) asking shareholders to accept and approve the Company's proposal to adopt a plan to become net zero across its scope 1, 2 and 3 GHG emissions by 2050 or sooner. The resolution received 99.96%

of the votes cast in favour and established a framework for SSE to propose a resolution at each AGM for shareholders to receive, consider and express non-binding advisory approval of SSE's Net Zero Transition Report. To aid the vote, SSE published a Net Zero Transition Plan in March 2022, from which its Net Zero Transition Reports will be based. The Plan sets out defined

targets and actions to allow for clear and simple disclosures which will facilitate high quality engagement. Ahead of the 2022 AGM, SSE will undertake a programme of shareholder engagement on the Net Zero Transition Report, which will be published in June 2022.



Climate-related opportunity and risk management

Identifying and assessing climate-related opportunities and risks

SSE's Group Risk Management Framework is complemented by a specialist, and longer-term, TCFD climate-related risk assessment process that provides the framework for the identification and assessment of climate-related opportunities and risks.

To identify and assess climate-related opportunities and risks SSE used the outputs from senior business leader assessments of climate opportunity and risk alongside risk assessment workshops held by business units to test relevance, materiality and potential financial impact of climate issues. Following the completion of these activities a long list of climate-related opportunities and risks was identified.

To test the relevance of the long list of climate-related opportunities and risk, the risk approach used climate-related trends in the external environment, stakeholder perspectives (including regulatory requirements); internal risk assessment outputs and climate-related influencing factors in the Group Risk Management framework.

To test materiality a significance test was conducted that assessed potential financial impact and the likelihood of

occurrence for each opportunity and risk. This assessment led to the definition of the final list of material climate-related risks and opportunities for SSE ([pages 50 to 53](#)).

Managing climate-related opportunities and risks

SSE has a series of actions that enable it to realise the climate-related opportunities and has a set of controls and financial mitigations in place to reduce the climate-related risks. This risk management section ([pages 49 to 53](#)) combined with SSE's Sustainability Report 2022 and CDP Climate Change response provides further information on these actions and controls.

Integrated climate-related risk assessment

SSE's Group Risk Management Framework ([page 161](#)) ensures the management of risks that can threaten the achievement of SSE's strategic objectives, including those that are related to climate change. Climate Change is one of SSE's Group Principal Risks, with scenarios related to both physical and transition risks posed by climate change included as part of SSE's viability assessment ([page 70](#)). Climate-related influencing factors and key developments continue to be considered against all relevant Group Principal Risks ([pages 71 to 81](#)).



Meeting TCFD recommended disclosures:

3. Risk Management

- a) Describe the organisation's processes for identifying and assessing climate-related risks.
- b) Describe the organisation's processes for managing climate-related risks.
- c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.

SSE's key developments in 2021/22:

- Group Risk Committee approves the process and controls of SSE's climate-related risk and opportunities, [see page 44](#).
- SSE's climate-related physical risks were assessed as part of the Group Risk Management process, [see pages 68 to 81](#).
- SSE achieved an 'A' for its CDP Climate Change disclosure, which provides detail on its TCFD disclosures. [See sse.com/sustainability](#) for the submission.

Material climate-related opportunities and risks

The following tables, on [pages 50 to 53](#), present SSE's quantification of the potential financial impact of its material climate-related opportunities and risks. More detail to these disclosures is presented in SSE's CDP Climate Change Programme submission 2022.

For the opportunities and risks identified, where relevant, SSE has outlined the time frame for investment in climate-related activities as well as the time frame for the impact of that investment, when the benefits will be realised. The time frames are:

- Short term (up to three years)
- Medium term (four to 10 years)
- Long term (up to 30 years)

These time frames have been determined based on a number of factors, including: SSE's Net Zero Acceleration Programme; market, policy and regulatory frameworks; and forecasted physical impacts of climate change.

A sustainable approach continued

Protecting the environment continued

Climate-related opportunities

VALUABLE FLEXIBLE HYDRO	Investment: Medium term Impact: Medium/long term	
<p>Context of the opportunity</p> <p>Increasing volumes of intermittent wind energy will require support from flexible generators that provide system services, such as short-term reserve, frequency and long-duration energy storage services. The opportunity exists, from existing hydro expertise, to develop long-duration, low-carbon flexibility solutions that provide significant enduring value to the GB electricity system.</p>		
<p>How SSE can realise this opportunity</p> <p>For SSE's existing hydro portfolio, ongoing investment in maintenance, upgrades and repowering will optimise the provision of low carbon flexibility.</p> <p>SSE also has an important development option for large-scale, long-duration pumped hydro storage at Coire Glas in Scotland, with planning consent for a 1.5GW capacity project and c.30GWh of storage capacity potential. This would more than double existing pumped hydro storage capacity in GB. SSE is working with Government and the regulator to establish a market mechanism that would unlock investment into long-duration storage projects such as Coire Glas given the critical role they can play in securing low-carbon energy supplies in the UK.</p>	<p>Potential financial impact</p> <p>SSE's current hydro generation capacity of 1.5GW had an adjusted operating profit of £293.1m and adjusted EBITDA of £324.7m in the year ended 31 March 2022. In 2021/22 SSE invested c.£50m on existing hydro asset maintenance and repowering.</p> <p>Early-stage development expenditure is already being incurred on Coire Glas, with the total capital cost for development expected to be in excess of £1bn. The timing of that investment, and returns generated, will depend on the emergence of suitable market mechanisms to stimulate this investment in long-duration storage.</p>	
<p>Context of the opportunity</p> <p>Significant growth in renewable wind in the north of Scotland requires significant expansion of the north of Scotland electricity transmission network, to transport the renewable electricity from the sources of generation to the sources of demand. In April 2022, the UK Government set out in the British Energy Security Strategy that it would ensure Ofgem expedites its approvals process to build networks in anticipation of major new sources of generation and demand. This is demonstrated by the Scottish Government's proposed target of 8-12GW of additional onshore wind by 2030, announced in November 2021, and the Crown Estate Scotland award of seabed leases in January 2022 of c.25GW of new offshore wind capacity.</p>	<p>How SSE can realise this opportunity</p> <p>SSEN Transmission's current RIIO-T2 business plan to 2026 envisages expanding and reinforcing the existing network for major new sources of generation. Regulatory approvals are in-flight for further projects such as reinforcements to Skye, Argyll and the Eastern HVDC offshore link which will connect the North of Scotland directly to demand centres in England.</p> <p>Beyond the current business plan, SSEN Transmission is working closely with stakeholders to determine the network expansion required to meet Government ambitions and new development projects. This will determine the scale of investment required in the next regulatory price control (2026 and 2031).</p>	<p>Potential financial impact</p> <p>The latest RIIO-T2 Price Control Financial Model, submitted to Ofgem in November 2021, envisages spending at least £4bn to expand and reinforce the existing network, with regulator-approved projects that are in-flight. With this investment, the Regulated Asset Value (RAV) of SSEN Transmission is expected to reach in excess of £6.5bn by the end of the price control (2026).</p> <p>Between 2026 and 2031 it is expected that RAV will reach between £8-10bn and there is the potential, if the additional expenditure is agreed, for RAV to reach £12bn in this time period. SSEN Transmission earns a return on its RAV, therefore growth of the RAV should result in earnings growth in future periods, subject to future regulatory earnings agreements.</p>

ACCELERATED WIND INVESTMENT

Investment: Medium term
Impact: Medium/long term

Context of the opportunity

International agreements to decarbonise electricity systems, alongside increased energy security and the need to reduce reliance on imported fossil fuels enhance the case for accelerated wind deployment. The UK Government has ambitions for up to 50GW of installed offshore wind capacity by 2030 (including up to 5GW of floating offshore wind) and the Irish Government has targeted 4GW of incremental onshore wind and 5GW of offshore wind capacity by 2030. In the long term, the Climate Change Committee's balanced net zero pathway suggests 95GW of UK offshore wind by 2050.

How SSE can realise this opportunity

SSE aims to build a renewable energy portfolio that generates at least 50TWh of electricity a year by 2030. SSE's accelerated capital investment plan (the Net Zero Acceleration Programme) published in November 2021 aims to double installed renewable capacity to 8GW (net) by 2026 and targets at least 13GW (net) of installed renewable capacity by 2026. In the longer term, SSE is exploring opportunities in the UK, Ireland and internationally.

Potential financial impact

SSE's existing wind generation portfolio (2.5GW capacity) had an adjusted operating profit of £275.1m and adjusted EBITDA of £470.4m in 2021/2022. Between 2021 and 2026, SSE's Net Zero Acceleration Programme plans to invest over £4bn in c.4GW (net) of new wind capacity, supporting a target of c.9GW (net) of new wind capacity by 2031. This planned investment is expected to significantly contribute to an 11-12% EBITDA compound annual growth rate in renewables across the five-year period.

DRIVING DISTRIBUTION TRANSFORMATION

Investment: Medium term
Impact: Medium/long term

Context of the opportunity

The UK Government's Net Zero Strategy accelerates the shift to zero emission vehicles, banning new petrol or diesel cars from 2030. National Grid's Future Energy Scenarios (2021) anticipates 12 million electric vehicles and 4 million residential heat pumps in GB in 2030. Depending on the scenario, there is potential for a five to ten-fold increase in annual load spend between now and 2038.

How SSE can realise this opportunity

SSEN Distribution's draft RIIO-ED2 business plan for the period 2023 – 2028 establishes an investment and innovation programme that will enable customers to connect their electric vehicles reliably to local electricity grids. To predict the scale of connections Distribution Future Energy scenarios suggest that between 2020 to 2030, the number of EVs in SSEN's Distribution areas may increase from 30,000 to 0.85-2.3 million and for heat pumps from under 50,000 to 0.27-1.05 million.

Potential financial impact

Over the RIIO-ED2 period to 2028, SSEN Distribution expects to invest c.£4bn in distribution networks resilience and reinforcement. This is expected to increase RAV to c.£5.5bn by 2026 with a further £7-8bn by 2031, subject to regulatory determination and required future load spend. SSEN Distribution earns a return on its RAV, therefore growth of the RAV should result in earnings growth in future periods, subject to future regulatory earnings agreements.

VALUABLE FLEXIBLE THERMAL

Investment: Medium term
Impact: Medium/long term

Context of the opportunity

As the electricity system decarbonises, increasing volumes of intermittent wind energy requires support from flexible generators that provide system services, such as short term reserve, frequency, security of supply and price stability. There is the opportunity to repurpose SSE's existing gas-powered electricity generators, as well as invest in new low-carbon thermal generation assets. The UK Government's 10 point plan for a Green Industrial Revolution involves a £1bn fund to facilitate CCS deployment in two industrial clusters by the mid-2020s and a further two by 2030 and a Net Zero Hydrogen Fund with £240m up to 2024/25.

How SSE can realise this opportunity

SSE is developing plans to support the UK's transition to net zero and accelerate the decarbonisation of some of the UK's most carbon intensive regions. SSE is progressing projects in the UK cluster sequencing programme with carbon capture power plants at Keadby in the Humber and Peterhead in the North of Scotland. SSE is also developing plans for a hydrogen power plant at Keadby and repurposing its Aldbrough Gas Storage site for the safe storage of hydrogen.

Potential financial impact

SSE's Net Zero Acceleration Programme seeks to invest £0.6bn in low-carbon flexible thermal generation, mainly carbon-capture technology but with some development investment in hydrogen projects ahead of potential investment decisions in the second half of the decade. Returns from CCS and hydrogen will depend on the level and nature of government support mechanisms, and plant availability, future consumer demand, generation supply mix within the system and energy commodity price volatility.

A sustainable approach continued

Protecting the environment continued

Climate-related risks

VARIABLE WIND GENERATION RISK	Impact: Short/medium/long term
Factors that impact business	
<p>Longer term changes in climate patterns cause sustained higher temperatures that may result in lower rainfall and reduced wind levels. These changes may impact SSE's renewable output and associated earnings. Weather variability is a perennial feature of risk for SSE as the largest generator of renewable electricity in UK and Ireland.</p>	
Potential impact to SSE	Potential financial impact
SSE's long-term monitoring of weather changes and current forecasts, established that a plausible scenario of significantly below-average rainfall and low wind combined may result in reduced renewable generation output and associated earnings. In the first half of 2021/22 this risk played out, as SSE experienced one of the driest and calmest summer periods (April to September) on record. By the end of September 2021, Renewable volumes were 30% below plan. Some of this volume was recovered during the winter period, with Renewable volumes ending the year c.13% down on plan.	The impact of this dry and calm period in this financial year was a reduction to adjusted operating profit from plan of c.£140m through the summer period. While the business recovered some of the volume through the second half of the financial year, the financial result for the year was c.£130m below plan.
For the future, it is expected that given SSE's planned trebling of renewables capacity by 2031 that this risk will continue to impact SSE.	Further significant and sustained weather patterns similar to this could impact the recoverable value of the assets. A sensitivity to the wind goodwill impairment model was performed with a 15% adverse volume variance, which indicated significant headroom on the carrying value of the assets (see note 15).
	There is still potential for events such as those that took place in 2021/22 to occur in the future, and therefore this remains a potential financial impact to SSE Renewables in the short, medium and long term.
STORM DAMAGE NETWORK RISK	Impact: Short/medium/long term
Factors that impact business	
<p>Increased severity of extreme weather events, such as storms, floods and heat waves bring prolonged extreme temperatures, wind or rainfall. This may damage or stress network assets resulting in additional costs to repair and maintain the network and the loss of incentive revenue for distribution operators.</p>	
Potential impact to SSE	Potential financial impact
<p>The impact of weather is a perennial feature of operating an electricity distribution network in the north of Scotland and south of England. In an exceptional 2021/22 winter season, seven storms were named by the Met Office including three, Storm Arwen, Storms Malik/Corrie and Storms Eunice/Franklin that became Red Alert events, the most in any year since SSE's records began. Each of these events impacted over 100,000 customers, with a significant number for a multi-day period. Future climate models predict that climate change will continue to bring extreme events such as storms, floods and heatwaves which will impact network assets.</p>	<p>Although the impact on the Interruptions Incentive Scheme (IIS) revenue is mitigated during the most severe weather events, there are significant additional costs incurred through the provision of compensation, customer welfare and upweighted operational requirements. In 2021/22, the total cash expenditure incurred on storm responses was £45m, including £18.7m in enhanced guaranteed standards compensation payments, up from the mandated £13.3m, reflecting the extreme nature of the impact on customers.</p> <p>It is recognised that 2021/22 brought 'once in a generation' levels of impact and disruption, but with climate impacts accelerating the potential remains for similar events to occur across the network in the short, medium and long term, resulting in potential financial impact. As SSE invests in its networks infrastructure, the impacts of climate change are being built into its capital and operational investment plans, including a Climate Resilience Strategy published as part of the RIIO-ED2 Distribution business plan.</p>

ACCELERATED GAS CLOSURE RISK

Impact: Medium term

Factors that impact business

More aggressive climate change policy may bring forward the closure of unabated gas generation from 2030. The UK Government's Net Zero Strategy outlines plans to decarbonise the power sector by 2035 with a target of 95% of GB electricity to be low carbon by 2030. It is plausible that to meet climate change commitments the UK Government (and potentially the Irish Government too) may strengthen climate change policies to require unabated gas generation to cease in the 2030s.

Potential impact to SSE

SSE's existing 5.3GW fleet of installed gas- and oil-fired generation will be nearing the end of its expected life by the end of the 2020s. However, 2.3GW of Combined Cycle Gas Turbine (CCGT) capacity will still be in operation in 2030.

It is a plausible scenario that this capacity will not be able to generate beyond 2030 without low-carbon abatement technology. For assets currently assumed to have a life beyond 2030, it is possible that SSE could invest further in low-carbon abatement technology to prolong their life beyond this date.

However, for the purposes of quantifying this risk, it is assumed that the financial impact of this policy change is the early closure of the remaining gas assets in 2030.

Potential financial impact

Due to market conditions during FY21/22, the short term value of these assets has increased, resulting in the reversal of historic impairments to unabated gas plant of £331.6m. Following this impairment reversal, the value of unabated gas plant as of 31 March 2022 was £1.1bn. This includes Keadby 2, Great Island and legacy GB CCGTs. Of SSE's legacy CCGTs, the current financial assumption is that these will either close by 2030, or SSE will not have a carrying value in the joint venture investment beyond 2030.

The potential impact of this policy change to SSE's impairment model at 31 March 2022 would be an impairment of £41.5m to Great Island and no impairment to Keadby 2 if it were assumed these plant would close in 2030 (see note 15). In addition to an impairment charge, SSE's decommissioning provisions would reduce by £8.4m at 31 March 2022 if the forecast closure date was brought forward (see note 20).

WIND-CAPTURE MARKET RISK

Impact: Medium term

Factors that impact business

In net zero consistent scenarios, the price wind energy can capture is forecast to reduce as more marginal cost wind generation is connected.

All credible pathways to net zero in the UK and beyond assume the dramatic scaling up of wind (especially offshore) generated electricity. This significant growth in wind power output without a corresponding increase in demand represents a potential climate-related transition risk. As wind generation capacity increases, the market (and SSE) expects the average electricity price which wind power receives ('wind capture price') to be less than the average price for electricity ('baseload price'). As wind becomes the dominant source of electricity output it will define the market price, so the volatility of electricity prices correlates to wind output, both high and low. While this is expected in the medium term, and is factored into investment decisions, there is a risk that this lower average price for wind output is more extreme than what the market (or SSE) expects. In the long term, and with careful market design reform, the effect of the wind capture price will stabilise as more low carbon technologies adapt their patterns of demand according to the price signal sent by the market. In its British Energy Security Strategy, the UK Government committed to a Review of Electricity Market Arrangements which will seek, among other things, to ensure future low-carbon generation is fairly remunerated.

Potential impact to SSE

The effect of a wind capture price only materially impacts wind generation that is fully exposed to market prices (or 'merchant' wind output), as it is not supported by government-backed fixed price mechanisms such as the Contracts for Difference. Assuming a build out rate of wind generation assets in SSE's renewable project pipeline [page 85](#), it is assumed there will be 10TWh of merchant wind output in 2029/30.

The scale of any impact of a change to the expected wind capture price would therefore be a function of the assumed wind capture price and the amount of merchant wind electricity generated.

Potential financial impact

The book value of the Group's wind assets at 31 March 2022 is £4.0bn. A sensitivity to the wind goodwill impairment model was performed with a sustained 10% reduction to wind capture price. This sensitivity scenario indicated significant headroom on the carrying value of the assets (see note 15).

A sustainable approach continued

Protecting the environment continued

Targeting improved climate performance

Carbon performance table

This table, taken in conjunction with the energy use information in the Energy use table on page 57, represents SSE's disclosures in line with the UK Government Streamlined Energy and Carbon Reporting requirements. It details SSE's direct and indirect GHG emissions (scopes 1, 2 and 3) performance (measured in million tonnes of carbon dioxide equivalent – MtCO₂e), provided as total emissions as well as split out by UK and Irish activity. It also provides a carbon intensity measure based on direct GHG emissions released for each unit of electricity SSE produced. For more information on SSE's GHG emissions data and how it is produced, see SSE's GHG and Water reporting criteria available at sse.com/sustainability.

	Unit	2021/22	2020/21
Total GHG emissions	MtCO ₂ e	9.93^(A)	11.03 ^(B)
Scope 1 GHG emissions – total (UK/Ire)	MtCO ₂ e	5.75^(A) (4.22/1.53)	7.10 ^(B) 6.00/1.10
Scope 2 GHG emissions – total (UK/Ire)	MtCO ₂ e	0.49^(A) (0.49/<0.01)	0.54 ^(B) (0.54/<0.01)
Scope 3 GHG emissions – total (UK/Ire)	MtCO ₂ e	3.69^(A) (2.86/0.83)	3.39 ^(B) (2.66/0.73)
Scope 1 GHG emissions intensity	gCO ₂ e/kWh	259^(A)	256
Total renewable generation output ¹ – total (UK/Ire)	GWh	8,799 (7,602/ 1,197)	9,649 (8,295/1,354)
Total non-renewable generation output ² – total (UK/Ire)	GWh	13,356 (10,394/2,962)	18,045 (15,612/2,433)
Total generation output – total (UK/Ire)	GWh	22,155 (17,996/4,159)	27,694 (24,014/3,680)

- 1 Totals include pumped storage and biomass output, and exclude GB constrained off wind.
 - 2 Includes 100% output from Seabank power station up to 31 September 2021 when SSE's power purchase agreement to purchase ended, and then excludes output from SSE's 50% ownership share from October 2021 onwards.
- (A) This data was subject to external independent assurance in 2022. The Limited Assurance Report can be found at sse.com/sustainability.
- (B) This data was subject to external independent assurance in 2021. The Limited Assurance Report can be found at sse.com/sustainability.

Increasing climate ambition

In 2021/22 SSE announced more stretching climate targets, ensuring its ambitions continue to align to the developing climate science. SSE is now targeting net zero GHG emissions across its scope 1 and scope 2 emissions by 2040 (subject to security of supply requirements) and for remaining scope 3 emissions by 2050.

On its pathway towards its longer-term net zero ambitions, SSE has a series of carbon targets which are approved by the Science Based Targets Initiative (SBTi). Originally set in April 2020, these targets were aligned to a 'well below 2°C' pathway which was the most stretching pathway for the power sector available from SBTi at the time. Since then, the SBTi has published a new pathway for the power sector, allowing electric utilities to set science-based targets in line with a 1.5°C pathway. In November 2021, SSE announced updated targets aligned to

this new 1.5°C pathway and approved by the SBTi. Progress against these more stretching SBTi-approved targets is detailed within this section and makes up part of SSE's progress against its Net Zero Transition Plan.

In October 2021, SSEN Distribution became the first UK Distribution Network Operator to set science-based targets in line with a 1.5°C pathway, verified by the SBTi. These targets play an important role in supporting the SSE Group's net zero ambitions, alongside the 1.5°C-aligned, SBTi-approved carbon targets set by SSEN Transmission in August 2020.

GHG emissions performance

In 2021/22, SSE's total GHG emissions consisted of 58% scope 1 emissions, 5% scope 2 emissions and 37% scope 3 emissions.



Meeting TCFD recommended disclosures:

4. Metrics and Targets

a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

SSE's total GHG emissions decreased by 10% between 2020/21 and 2021/22. The most material contributing factor was the reduction in energy demand as a result of market conditions and the weather which led to this reduction in GHG emissions. Although SSE's GHG emissions fell over 2021/22, the impact of weather and demand can create exceptional years of change. SSE's overall strategy is to cut GHG emissions in line with its 1.5°C-aligned carbon targets and its 2030 Goals.

Between 2020/21 and 2021/22, GHG emissions arising from electricity generation fell by 19%. These emissions continue to make up 99% of SSE's scope 1 emissions. This was predominantly a result of two factors:

1. The ending of SSE's power purchase agreement contract with Seabank gas-fired power station on 30 September 2021. As a result 50% of emissions from this power station are now reported in SSE's scope 3 GHG emissions category, based on SSE's ownership share; and
2. Output from SSE's thermal generation plant* was 26% lower compared to the previous year, due to planned and unplanned outages and market conditions.

* Includes 100% output from Seabank power station up to 31 September 2021 when SSE's power purchase agreement to purchase ended, and then excludes output from SSE's 50% ownership share from October 2021 onwards.

SSE's total scope 1 and 2 GHG emissions combined were 6.24MtCO₂e in 2021/22, an 18% reduction from the previous year and 44% reduction from the 2017/18 base year of SSE's SBTi-approved carbon target to reduce absolute scope 1 and 2 GHG emissions by 72.5% between 2017/18 and 2030. Overall, SSE's scope 1 and 2 GHG emissions have reduced significantly compared to the base year, reflecting lower output from thermal power stations and the closure of SSE's last coal-fired power plant in March 2020.

Total scope 3 emissions increased by 9% between 2020/21 and 2021/22. This is due to the inclusion of 0.3MtCO₂e emissions from Seabank gas-fired power station from October 2021 onwards. Previously, the power purchase agreement between Seabank and SSE required emissions associated with Seabank to be accounted as scope 1 emissions. From the end of the power purchase agreement in September 2021, the emissions from Seabank are defined as scope 3 emissions according to SSE's continuing 50% ownership share.

GHG emissions from gas sold to customers, which contribute 62% of SSE's scope 3 emissions in 2021/22, decreased by 3%. This was a result of lower market demand. This means GHG emissions from gas sold have reduced by 10% from 2017/18. SSE's SBTi-approved target is to reduce GHG emissions from gas sold by 50% between 2017/18 and 2034.

Change in SSE's scope 1 and 2 GHG emissions since 2017/18

-44%

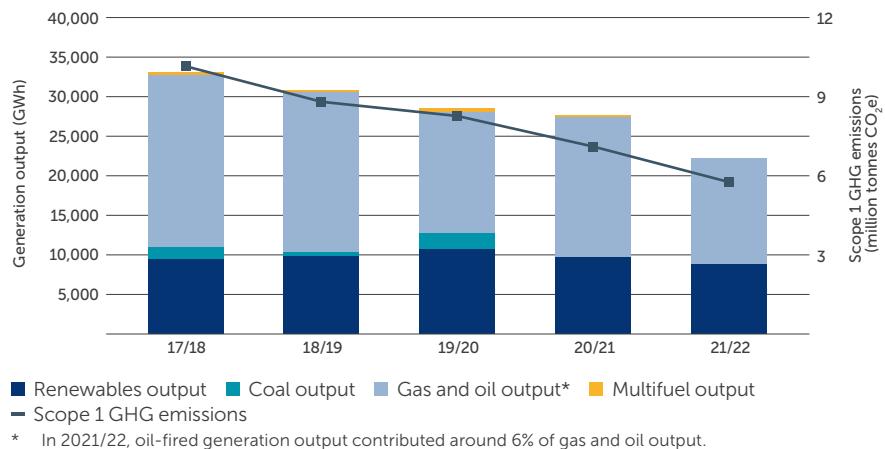
Scope 1 GHG emissions intensity

SSE's scope 1 GHG emissions intensity increased by 1% to 259gCO₂e/kWh from 256gCO₂e/kWh the previous year. There are a series of factors that contribute to the calculation of carbon intensity.

Output from SSE's renewable generation portfolio (inc. pumped storage and biomass) fell to 8.8TWh in 2021/22, from 9.6TWh the previous year. This was driven by exceptionally still and dry weather conditions, with the summer of 2021 being one of the least windy across most of the UK and Ireland and one of the driest in SSE's Hydro catchment areas in the last 70 years.

Output from SSE's thermal generation also fell, and by a greater extent than for renewables output. This meant that the proportion of total generation output contributed to by renewable generation

GENERATION OUTPUT AND SCOPE 1 GHG EMISSIONS



increased to 40% from 35% in 2020/21. The fall in thermal output did not result in a corresponding fall in the GHG emissions intensity, because there was increased generation output from the most intensive generating plant in SSE's portfolio, including from carbon intensive peaking plant in Ireland.

SSE remains on track to achieve its SBTi-approved target to reduce scope 1 GHG emissions intensity by 80% between 2017/18 and 2030, having reduced it by 16% in 2021/22 from the 2017/18 base year levels of 307 gCO₂e/kWh.

Change in SSE's scope 1 GHG emissions intensity since 2017/18

-16%

SSE's key developments in 2021/22:

- SSE total scope 1 GHG emissions reduced by 10%, see page 54 ▶.
- SSE's Net Zero Transition Plan sets its GHG targets and actions, see sse.com/sustainability ▶.
- SSE's Net Zero Transition Report summarises SSE's disclosed progress against its Net Zero Transition Plan, see sse.com/sustainability ▶.

Working with supply chain partners to drive climate action

One of SSE's SBTi-approved targets is to engage with 50% of suppliers (according to financial expenditure) to set their own science-based targets by 2024. Following on from the workshops held in 2020/21, which facilitated dialogue around science-based targets, during 2021/22, SSE continued to engage with key suppliers through direct engagement and hosted a live webinar, in partnership with the Supply Chain Sustainability School, on the topic of carbon. At 31 March 2022, 48% of SSE's suppliers (by value) had set or committed to set their own science-based targets through the SBTi. Over 2021/22, SSE and CDP Supply Chain collaborated to deliver its first supplier webinar focusing on carbon reporting, which reached over 50 key suppliers and contributed to the highest supplier response rate SSE has had since beginning supply chain reporting.

A sustainable approach continued

Protecting the environment continued

Conserving the natural environment

A strategy for environmental protection

While SSE's GHG emissions are its most material environmental impact, it also has wider impacts on the natural world that must be carefully managed. SSE considers these environmental impacts through its Environment Strategy, which sits within SSE's sustainability hierarchy outlined on [page 39](#). The strategy is founded on robust environmental management and governance, with three core environmental SDGs providing the framework for sustainable environmental development: SDG14 Life Below Water; SDG15 Life Above Land; and, SDG12 Responsible Consumption and Production.

Detail on SSE's environmental impacts and how it is managing them is outlined in this section, as well as in SSE's [Sustainability Report 2022](#).

Protecting the natural environment

SSE operates in some of the UK and Ireland's most remote areas which are home to a wide variety of valuable ecosystems and habitats. It works to manage its impacts of its activities to ensure it protects and, where possible enhance these environments.

All of SSE's Business Units have signed up to no net loss in biodiversity by 2023 and net gain in biodiversity by 2025 on onshore Large Capital Projects. As part of its approach to biodiversity net gain, SSEN Transmission is implementing its optioneering toolkit which allows consideration of biodiversity at the earliest stages of development and which has won a number of external awards.

With the increasing focus on how to effectively value nature, which has included the publication of the Taskforce for Nature-related Finance Disclosures (TNFD) Beta framework in March 2022, SSE is closely monitoring developments in this area and is now a member of the TNFD Forum, a multi-disciplinary consultative group of over 350 members, to help inform its next steps. You can read more about SSE's initiative to protect and enhance the natural environment in its Biodiversity Report and [Sustainability Report 2022](#).

Managing water use

Water plays a significant role in SSE's operations, being used in the energy production process including as a coolant in power stations and a source for power generation in hydroelectric generators. SSE also uses water as an amenity in its buildings.

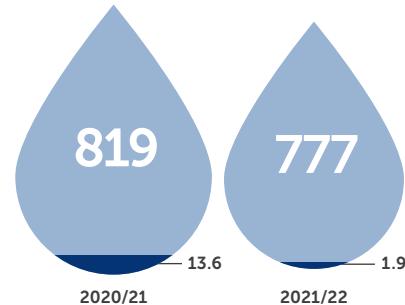
SSE has robust policies and processes in place, and works closely with environmental regulators, to ensure that it uses water in a sustainable way in its operations. SSE has an ongoing investment programme within its hydro operations to improve efficiency, enhance water capture and minimise spill from its plant. None of SSE's thermal and hydro generation assets impact on water stressed areas, as defined by the relevant environmental regulators in the jurisdictions in which they operate.

In 2020/21, total water abstracted by SSE fell to 23,896 million m³ from 26,032 million m³ the previous year. This was largely due to a reduction in water passing through SSE's hydro generation plant as a result of lower levels of rainfall compared to the previous year. The vast majority (97%) of water abstracted in 2021/22 was used in SSE's hydro generation operations. This water is technically recorded as abstracted, but it passes through turbines to generate electricity and is returned to the environment almost immediately, and therefore has minimal environmental impact. To help stakeholders to understand a more proportionate environmental

impact, water abstracted volumes are also provided in the table excluding hydro generation data. SSE's total water abstracted excluding hydro operations also fell over this period. This was predominantly due to a reduction in thermal generation output which resulted in a corresponding fall in water abstracted.

Total water abstracted by SSE (excluding hydro generation) (million m³)

- Fresh water (rivers and groundwater)
- Brackish and estuarine water



Total water consumed also fell significantly over this period, by over 78%. This was due to reduced output from thermal generation overall, as well as a proportional reduction in the output from thermal power plant with cooling systems that have evaporative losses of water.

Water use	Unit	2021/22	2020/21
Total water abstracted	Million m ³	23,896 ^(A)	26,032*
Total water abstracted (exc. hydro generation)	Million m ³	779	832
Freshwater abstracted (rivers and groundwater) (exc. hydro generation)	Million m ³	1.9	13.6
Total water returned	Million m ³	23,895 ^(A)	26,028*
Total water consumed	Million m ³	0.8 ^(A)	3.9*

(A) This data was subject to external independent assurance in 2022. For the limited assurance opinion see [sse.com/sustainability](#).

* This data was subject to external independent assurance in 2021. In 2021/22, additional data points and minor amendments to methodologies has resulted in some 2020/21 figures being restated. For the Limited Assurance Report see the limited assurance opinion [sse.com/sustainability](#).

SSE's energy consumption

Between 2020/21 and 2021/22, the energy SSE purchased for use in its assets (offices, depots, thermal power stations, gas storage facilities, and data centres) fell by around 16%, from 234GWh to 196GWh.

Energy consumed in SSE's thermal power stations and gas storage facilities fell by 17% compared to 2020/21. This was largely due to a fall in electricity consumed at the now closed Fiddler's Ferry coal-fired power station, as decommissioning activity reduced, and a reduction in energy consumption at SSE's Aldborough gas storage facility.

Energy consumed in SSE's offices, depots and data centres also fell slightly. Despite an increase in numbers of employees working from home due to the pandemic, energy consumption in SSE's facility managed offices has not reduced significantly due to the need to maintain buildings to meet heating and ventilation industry and government guidelines for the safe operation of buildings.

During 2021/22, SSE invested in a range of energy efficiency measures including a programme of LED lighting upgrades to depot sites. Over this period, SSE purchased 100% of its electricity for use in its facility managed offices from renewable sources, backed by renewable guarantees. In 2020/21, 39% of the electricity that SSE purchased for its assets was from renewable sources, up from 29% the previous year.

Data assurance and environmental metrics

SSE takes an integrated approach towards assurance utilising internal audit and external assurance providers to ensure accurate, complete disclosures. Where data has been externally and independently assured, this has been noted in the relevant tables. In all other areas, data is identified and disclosed according to SSE's internal processes, guided by environmental regulations where appropriate.

SSE's 'Better Off' behaviour change campaign, alongside its investment of £12.8m since 2011/12 in energy efficiency and building renewable generation programmes, has helped to reduce carbon emissions from energy used in its facility managed offices by 42% since 2017/18. SSE is a member of the Climate Group's EP100 initiative to encourage businesses to

double energy productivity associated with office and depot buildings by 2030 from a 2011 baseline. From 1 April 2022 onwards SSE will revise its annual reduction target to 7.19% against a 2020/21 baseline, to align with its ambition of achieving a net zero non-operational buildings (offices, depots and data centres) estate by 2035.

	Unit	2021/22	2020/21
Energy use*			
Purchased heat from non-renewable sources – UK/Ire	GWh	3.3/0.08^(A)	3.6/0.14
Purchased electricity from renewable sources – UK/Ire	GWh	73.3/0.98	87.3/0.9
Purchased electricity from non-renewable sources – UK/Ire	GWh	118.6/0	142.4/0

(A) This data was subject to external independent assurance in 2022. For the limited assurance opinion see sse.com/sustainability.

* This information, taken in conjunction with the Carbon performance summary table on [page 54](#), represents SSE's disclosures in line with the UK Government Streamlined Energy and Carbon Reporting requirements.

Managing air emissions

In 2020/21, SSE's thermal generation sites emitted 4,573 tonnes of nitrogen oxides (NOx), compared 4,106 tonnes the previous year, an increase of around 11%. Emissions of sulphur dioxide (SO₂) more than doubled to 3,021 tonnes, from 1,378 tonnes the previous year. In addition, particulate emissions (PM10) rose to 277 tonnes, from 182 tonnes in 2020/21, and mercury emissions to air decreased significantly from 19.5kg in 2021/21, to 1.9kg in 2021/22.

The rising trend across three of these key air emission sources, reflects the increased demand for oil-fuelled peaking plant in Ireland that arose as a result of the need to balance the grid.

In 2021/22, SSE's sulphur hexafluoride (SF₆) emissions increased slightly to 305kg from 295kg the previous year. SF₆ is widely used by the electricity industry around the world due to its insulating properties and therefore its ability to keep people safe from electrical 'arcing', however it is a potent greenhouse gas (GHG). SSE has a number of initiatives to reduce GHG emissions from SF₆ in its networks, including working with suppliers to install SF₆-free alternatives across its electricity transmission network. You can read more about what SSE is doing to reduce the impact of SF₆ in its business activities in its [Sustainability Report 2022](#) and its Net Zero Transition Plan.

	Unit	2021/22	2020/21
Air emissions			
Sulphur dioxide (SO ₂) – thermal generation	Tonnes	3,021	1,378
Nitrogen oxide (NOx) – thermal generation	Tonnes	4,573	4,106
Sulphur hexafluoride (SF ₆) – thermal generation and electricity transmission and distribution activities	kg	305	295
Particulates emissions (PM10) from thermal generation assets	Tonnes	277	182
Mercury emissions from thermal generation assets	kg	1.9	19.5

A sustainable approach continued

SSE's major investments in projects like Dogger Bank, Seagreen and Viking wind farms. SSE supported a total of 47,130 jobs across the UK and Ireland in 2021/22.

SSE also publishes socio-economic analysis for individual projects. Over 2021/22, SSE published reports on the socio-economic impact of Keadby 3 and Peterhead 2 CCGT plants. All socio-economic reports for the SSE Group and at a project-level can be found on sse.com/sustainability/reporting.

Paying a fair share of tax

SSE has long recognised that paying a fair share of tax is part of its social licence to operate and right to make a profit. SSE has been accredited with the Fair Tax Mark since 2014. This means the Fair Tax Foundation has independently assessed it as having a responsible and transparent approach to paying tax, and that SSE explicitly rules out the use of tax havens or an aggressive approach to tax avoidance.

Over 2021/22, SSE's total tax contribution was £944m, split between £375m in taxes paid (including £70m paid in corporation tax) and £569m in taxes collected. This is a decrease of 5.5%, 5.6% and 5.4% respectively compared to 2020/21. This small reduction was the result of three key drivers: (1) 2020/21 tax figures include the tax contribution from SSE Contracting over the full financial year, whereas the disposal of this business in 2021/22 means that the tax contribution from SSE Contracting was only included up to 30 June 2021; (2) environmental taxes paid were lower this year due to outages at some generation sites; and (3) environmental taxes collected were lower due to lower energy usage by business customers.

SSE's social contribution

Following its publication of the world's first company Just Transition Strategy, SSE has been ranked top in the World Benchmarking Alliance's just transition assessment. Continued leadership on a transition to net zero which happens in a way that is fair and just for workers, communities and consumers is a key strategic objective for SSE.

Generating value across society

Contribution to GDP and jobs

With a £12.5bn Net Zero Acceleration Programme, the way this money is invested can deliver significant economic benefits to communities and businesses in the places SSE operates within. To understand its wider socio-economic contribution, SSE has commissioned PwC to measure the value it adds to GDP and the jobs it supports across the Scottish, UK and Irish

economies for the last 11 years. In total over 2021/22, SSE added £5.8bn to UK GDP, of which over £2bn was in Scotland, and €438m to Irish GDP. While the contribution to Irish GDP was consistent with last year (2020/21: €439m), this represents an increase of 36% increase in the Scottish GDP contribution (2020/21: £1.5bn) and a 12% increase in the UK GDP contribution (2020/21: £5.2bn), driven by

2021/22 UK and Irish GDP contribution, jobs supported and taxes paid



Further information on SSE's tax contribution can be found in the Sustainability Report 2022. Each year SSE also publishes a Talking Tax report which provides detailed information on the taxes it pays in every jurisdiction it operates within, with disclosure of its tax strategy and approach. SSE's Talking Tax reports can be found on sse.com/sustainability.

Targeting sustainable supply chains

An overhaul of SSE's sustainable procurement strategy began in 2020, recognising the opportunity for an increased focus on social and environmental value through its supply chain. SSE's new Sustainable Procurement Code and accompanying Supplier Guidance document were published in April 2021, with both documents available on SSE's website. All suppliers working with SSE must sign-up to the new Code which aligns to the Group's overall sustainability approach and UN's SDGs most material to the Company. The Code sets out in detail the sustainability requirements and expectations for SSE's suppliers.

Over 2021/22, SSE has also embedded risk-based sustainability questions within its new sourcing system for all tender events to support the consideration of sustainability more fully throughout the supply chain, with a weighting of up to 20% for sustainability criteria. Registration and pre-qualification questionnaires have also been reviewed to include enhanced sustainability questions. Recognising the need for improved sustainability data capture from its suppliers, SSEN Transmission also launched its new supply chain reporting tool in 2021/22.

Finally, collaboration with its supply chain partners is central to delivery of SSE's sustainable procurement strategy. Sustainability is now an agenda item at all Strategic Relationship Management (SRM) meetings. With 34 SRM suppliers, each is required to provide a detailed annual business update inclusive of sustainability. SSE has also been working with a number of these suppliers to develop and launch the new global Powering Net Zero Pact (see case study below.)

Embedding sustainability through Large Capital Projects

SSE undertook an initiative over 2021/22 to ensure its Large Capital Projects (LCPs) are designed and constructed to enable the journey to net zero, deliver socio-economic benefits and facilitate a just transition. The newly updated LCP Governance Manual now includes guidance and requirements to embed sustainability through SSE's LCPs, ensuring sustainability risks are mitigated and sustainability opportunities maximised across 10 sustainability criteria. From 1 April 2022, a Sustainability Assessment and Action Plan (SAAP) is required for all new or early development projects, ensuring that sustainability is incorporated into all phases of major project development, construction and operation. Guidance, training and additional resources for project teams were also developed to support the roll-out of this new approach. While sustainability has always been a key consideration in SSE's LCP activity, this work has helped to formalise it as part of the overall governance approach.

Delivering local opportunities and community investment

An integral part of a just transition is delivering opportunities and sharing value locally. SSE primarily does this in two ways: providing local jobs and supply chain investment; and granting direct funds for community projects. With the level of ambition and action needed to reach net zero, there are many opportunities to deliver sustainable, competitive domestic supply chains which maximise local economic benefits. Information on SSE's focus on supporting local supply chains can be found in the Sustainability Report 2022.

Over 2021/22, £9.7m of community investment grants were administered by SSE Renewables (2020/21: £10.2m). This financed 1,048 community projects across the UK and Ireland, including more than 130 rural jobs, 96 scholarships and 108 community projects which enhance local net zero ambitions. Detailed disclosure on this funding can be found on sserenewables.com/communities. In addition to this direct community investment through renewables projects, almost £500,000 was administered to communities through SSEN's Resilient Communities Fund, and a further £1m was donated by SSE directly to the Disasters Emergency Committee in support of humanitarian aid in Ukraine.

ENGAGEMENT IN ACTION SUPPLIERS, CONTRACTORS AND PARTNERS



INTRODUCING THE POWERING NET ZERO PACT

The Powering Net Zero Pact ('the Pact') is a new initiative created by SSE with a group of other leading companies working across the power sector, which was developed as a legacy of COP26. The Pact aims to bring together companies across all tiers of the power sector globally to achieve a fair and just energy transition to net zero.

Over a six-month period, the 11 founding partners of the Pact – which alongside SSE includes: Balfour Beatty; DEME Group; GE Renewables; Hitachi Energy; NKT; RJ McLeod; Siemens Energy; Siemens Gamesa; Subsea 7; and Vestas – met on a regular basis to

agree areas of focus, shared commitments and topics for future collaboration. Together the founding partners operate in over 100 countries, employ more than 240,000 people globally, had a combined turnover in 2021 of around £56bn, and work with approximately 120,000 suppliers.

The Pact focuses on five areas of ambition: (1) achieving net zero carbon emissions; (2) protecting and enhancing the natural environment; (3) transitioning to a circular economy; (4) guaranteeing fair work and sustainable jobs; and (5) adding value to local communities. Each area of ambition has a shared

commitment and area for collaboration. For example, to achieve net zero, Pact signatories commit to working towards 1.5°C science-based carbon targets by 2025 and will participate in a working group focused on the quantification of scope 3 carbon emissions.

The Powering Net Zero Pact launched in Glasgow in May 2022, six months on from COP26. Any company involved in the power sector which shares the ambition of the Pact can become a signatory. More information can be found on sse.com/sustainability/poweringnetzeropact.

A sustainable approach continued SSE's social contribution continued

Guaranteeing fair work and good jobs

Growing green jobs

The scale of growth needed to deliver SSE's net zero ambitions will result in significant employment opportunities. SSE plans to create 1,000 jobs every year to 2026. Opportunities will be created for new employees across a range of positions in many different areas across the UK, Ireland and beyond.

The sharpening of SSE's strategic focus around electricity infrastructure and net zero saw it continue with planned disposals of non-core business areas over 2021/22. These changes, which impacted around 2,300 employees, were undertaken with full consultation with impacted employees and employee representatives.

Due to the disposal of certain business areas, SSE's headcount reduced from 12,489 at the end of 2020/21 to 10,754 at the end of 2021/22. However, to meet the demand of its other growing Business Units, the total number of people joining SSE rose from 1,529 in 2020/21 to 2,290 in 2021/22. This means that SSE filled a total of 3,195 positions across internal and external recruitment over 2021/22, an increase of 43% from 2020/21. The size of SSE's contingent workforce reduced between 2020/21 and 2021/22, from 1,950 to 1,767 people. This is attributed in part to the reshaping of the business and in part to the impact of the IR35 tax regulations.

SSE's employee retention levels in 2020/21 were historically high. As stated in the Annual Report 2021, this was largely attributed to the coronavirus crisis and consequential reduced activity within the wider labour market. Coinciding with the easing of coronavirus restrictions, SSE's 2021/22 retention levels have decreased compared from 2020/21, from 92.1% to 90.5%, however this remains higher than the 2019/20 retention rate of 88.0%. SSE's 2021/22 voluntary turnover rate was 7.8% (2020/21: 3.6%, 2019/20: 6.5%). Attraction and retention of employees remains a key focus for SSE.

Committed to leading labour standards

Creating job opportunities is an important element of the just transition to net zero, however ensuring these are high-quality jobs is equally important. SSE implements robust

labour standards in line with its responsible employer ethos, going beyond minimum standards to ensure that those that work for it, either directly or on its behalf through its supply chain, are treated fairly and with dignity and respect.

Protecting health and safety

Safety remains SSE's first priority with the objective that 'everyone gets home safe'. In the 2021 all-employee Great Place to Work survey which had a 77% response rate, 92% of employees said that they work in a safe and healthy work environment and 90% said that SSE makes it easy for people to do the right thing on Safety, Health and Environment.

Over 2021/22, SSE achieved 254 Safe Days (days where there were no minor, serious or major SSE or contractor safety or environmental incidents or any incident with high potential for harm to people or the environment) and reported a Total Recordable Injury Rate (TRIR) for employees and contractors combined of 0.17 per 100,000 hours worked. The number of Safe Days decreased and the TRIR increased in 2021/22 compared to 2020/21. SSE believes this is a result of employees continuing to manage the implications of the coronavirus pandemic and changes in working patterns, including a significant increase in contractor hours. Support for employees during the coronavirus pandemic continued over 2021/22.

Further information on SSE's health and safety performance over 2021/22 is provided in the Safety, Sustainability, Health and Environment Advisory Committee report on [pages 164 to 167](#) and in the [Sustainability Report 2022](#).

Paying the real Living Wage

SSE has been a Living Wage accredited employer in the UK since 2013 and has paid the Living Wage in Ireland since 2016. SSE began chairing Living Wage Scotland's Leadership Group in April 2021 and the company is now beginning to explore how it extends its commitment to paying workers a real Living Wage beyond just the UK and Ireland.

Guaranteeing secure working hours

Living Hours guarantees workers with fair and secure working hours alongside a real Living Wage, specifically requiring:

- Decent notice periods for shifts of at least four weeks, with guaranteed payment if shifts are cancelled within this notice period;
- The right to a contract that reflects accurate hours worked; and
- A guaranteed minimum of 16 hours a week (unless the employee requests otherwise).

Since its accreditation as a Living Hours employer in March 2021, SSE has been working to roll-out this enhanced standard across its supply chain. It also continues to be a member of the Living Wage Foundation's Living Hours Steering Group where it provides advice and a business perspective on how to grow the accreditation initiative.

Recognising the issue of work security more broadly, the vast majority of SSE employees are on permanent contracts. In 2021/22, 94.4% of employees were on permanent contracts, 0.6% were on non-guaranteed or short hour contracts, and 5% were on temporary contracts.

Developing employees from within

SSE's investment in learning, training and development increased to £7.5m in 2021/22 from £6.8m in 2020/21. Average training hours per full-time employee also returned to near pre-pandemic levels (2021/22: 20.7, 2020/21: 9, 2019/20: 23.4), with 84.2% of SSE's employees receiving some form of training over the year.

In addition, while the number of people on one of SSE's pipeline programmes (apprenticeships, technical skills trainee programmes, graduate programmes, conversion programmes and other pipeline programmes) remained relatively static (2021/22: 465 individuals, 2020/21: 470 individuals), the decrease in SSE's headcount meant that this actually represented a notable increase in the proportion of SSE's workforce on a pipeline programme, rising from 3.8% to 4.3%. Investment in pipeline programmes also increased to £9.8m in 2021/22 from £9.0m in 2020/21. This brings SSE's total investment in pipeline programmes over the last three years to just under £30m.

More information on SSE's approach to learning and development and its training programmes can be found in its Sustainability Report 2022.

Boosting inclusion and diversity

SSE understands that greater inclusion and diversity is central to its success going forward, which is why it has reviewed and refocused efforts over 2021/22 to accelerate progress. Detail can be found on the inclusion and diversity section of this report (see [pages 64 and 65](#) and within SSE's Inclusion and Diversity Report 2022, available on sse.com/sustainability/reporting).

Valuing employee voice

Everyone that works for SSE has the fundamental right to freedom of association and to join a trade union. SSE has four recognised trade union partners (Prospect, Unite, Unison and the GMB)

which it works with through the Joint Negotiating and Consultative Committee and through regular on-going dialogue. In 2021/22, 54.2% of SSE's total direct workforce were covered by collective bargaining agreements.

Broader incorporation of employee voice is recognised by SSE as an important part of decision-making and strategy. See the stakeholder engagement section on employees on [page 34](#) and the case study below for more information.

Providing employee benefits

SSE offers a wide range of employee benefits, detailed on careers.sse.com/employee-benefits. This includes

flexible working arrangements, 21 weeks of fully-paid maternity leave, all-employee share plans, a holiday purchase scheme, cycle-to-work schemes, salary sacrifice low emissions car scheme, and technology loans. 96% of SSE's employees participated in one of its pension schemes over 2021/22.

Transparency of workforce disclosure

SSE provides open disclosure on its direct and supply chain workforce. In 2021/22, the company participated in the investor-led Workforce Disclosure Initiative (WDI) survey for the sixth consecutive year, remaining in the 10% of submissions for open disclosure.

ENGAGEMENT IN ACTION EMPLOYEES



SUPPORTING WORKERS TRANSITION FROM HIGH TO LOW-CARBON CAREERS

Over 2021/22, SSE undertook wide-ranging stakeholder engagement on its just transition approach. This included meeting and consulting with policy makers, trade union partners, suppliers, oil and gas companies, investors, academics, and industry and skills bodies. Most importantly though, SSE sought insights from its own employees.

Using SSE's 2021 Great Place to Work survey, the company established that more than 1 in 5 of all employees had previously worked in high-carbon roles, rising to as high as a third of all employees in certain parts of the business such as SSE Renewables. To understand the drivers of change, and what SSE could do better to further attract and retain people from high-carbon industries, the Company undertook qualitative research with employees that had previously worked in high-carbon roles. Over 150 of these employees answered a detailed just transition survey, providing SSE with rich information about their experiences and offering feedback for the company.

These findings, and the wider engagement with other stakeholders, were used to inform SSE's second report on the just transition which was published in September 2021. This

report, '*From Principles to Action*', looks specifically at how best to support workers make the move from high to low-carbon careers. It outlines 20 commitments for SSE as well as 10 recommendations for industry and 10 recommendations for Government. It also includes 137 individual pieces of advice from SSE employees that have made the transition, verbatim and uncensored.

At an industry and government level, these recommendations include developing 'all energy' frameworks for skills, fair work terms where there is public sector support for climate action, and making sure net zero sector plans embed the concept of a just transition. For SSE, commitments include things like not asking for industry-specific experience unless it is genuinely required, piloting an engineering conversion programme, and paying for workers to develop the skills they need.

SSE has continued to work with its employees on its just transition approach. Beginning in March 2022, a programme of just transition employee focus groups commenced to gather deeper insights on the opportunities and challenges from a worker perspective. This included an employee focus group session in March 2022 held

jointly with one of SSE's recognised trade union partners, Prospect. SSE has also created a new page on its careers website specifically designed for those interested in joining the company from high-carbon sectors.



SSE's Just Transition Strategy, its 'From Principles to Action' report and wider information on its just transition approach is available on sse.com/sustainability/just-transition.

A sustainable approach continued

SSE's social contribution continued

Promoting and maintaining a healthy business culture

SSE is a business growing and changing for a net zero world. Underpinning this is a strong commitment to a healthy business culture that supports people to do the right thing.

SSE's guide to good business ethics is updated regularly, and underwent a full review over 2021/22. The guide applies both to direct employees and those that work on SSE's behalf. It is promoted to all employees through SSE's internal communication channels and mandatory elearning modules, and is highlighted to suppliers on page 1 of SSE's Sustainable Procurement Code. Topics covered include bribery and corruption, fair competition, business separation, engagement with politicians and regulators, modern slavery, safeguarding the environment, managing data and cyber security. SSE's 'Doing the Right Thing' guide is publicly available on sse.com/sustainability/policies-and-assurances.

In addition to this overall guide, guidance and supporting documents to help employees do the right thing include SSE's Financial Crime Guide, Anti-Financial Crime Framework, Group Inherent Fraud Risk



SSE's 'Doing the right thing' guide to good business ethics is available on sse.com/sustainability.

Register, Corporate Hospitality Procedure, and iComply portal.

Specific responsibility for financial crime horizon scanning, regulatory news and preparing internal financial crime updates sits with SSE's Group Anti Financial Crime Officer, with each of SSE's business units having their own Anti Financial Crime Officer that provide further support and guidance. SSE's Anti-Corruption and Financial Crime Committee reports directly into the Group Risk Committee and is responsible for driving adherence and monitoring implementation of SSE's Group Corruption and Financial Crime Prevention Policy which is also publicly available.

To ensure a constant minimum standard across SSE's workforce on good business ethics, SSE has a suite of mandatory ethics and compliance training modules. This includes modules on Fraud Awareness, Bribery and Anti-Corruption, and Anti-Money Laundering and Financial Sanctions which all employees must complete bi-annually, with additional modules on competition law and REMIT for selected employees.

A review of cultural metrics is undertaken by SSE's senior leadership and a review of SSE's cultural dashboard is undertaken by the Board twice annually (see [page 141](#)).

Reporting and investigating wrongdoing

While SSE aims to reinforce a healthy culture at all levels of the organisation, it knows that sometimes things go wrong. The company therefore has an independent whistleblowing channel, SafeCall, as well as internal channels which employees can use to speak up against wrongdoing. SSE's Group Whistleblowing Policy is available on sse.com/sustainability/policies-and-assurances, with the effectiveness of SSE's whistleblowing arrangements reviewed twice yearly by the GEC and the Board.

Over calendar year 2021, there were 52 reports of wrongdoing made through SSE's speak up channels, a 21% decrease from 66 reports over calendar year 2020 which is understood to be driven primarily by the impacts of Covid-19. Of these 52 reports: 17% related to Dishonest Behaviour (Fraud/

Theft/Bribery/Integrity/Money Laundering/Corruption); 27% related to HR (Bullying/Harassment/Victimisation); 4% related to Inclusion and Diversity (Racism/Discrimination/Unfair Treatment); 50% related to Health and Safety (General Safety/Covid-19/Environmental/Product Contamination); 2% related to Drugs/Alcohol; and 0% related to Regulatory Compliance.

All of these reports of wrongdoing were passed on for formal investigation. One resulted in dismissal; four resulted in warnings issued; five resulted in no action taken; one was subsequently investigated as a grievance; 10 were investigated and partly substantiated but with no action taken; 19 were investigated but with the case was not proven; four resulted in an initial investigation establishing that there was insufficient evidence to proceed further; and eight cases could not be investigated due to insufficient information to establish the nature, cause, location or otherwise of the allegation being provided.

Encouraging a 'speak up' culture is fundamental to an ethical business culture. People that work for SSE or on its behalf are encouraged to speak up without fear of retribution. SSE's Speak Up Aftercare Programme has been designed to promote good communication with people who speak up and reassurance that there will be no detriment for anyone speaking up in good faith. The Programme takes the form of a survey that is issued at the point of initial complaint, at 90 days and then at 180 days. Each survey is slightly different, having been designed to ensure that there is opportunity to highlight detriment in any form, provide an outlet for discussion and resolutions, and also seek feedback for SSE on the user experience, ease of reporting, what went well and to constantly improve the service we are offering.

Targeting modern slavery risk

Protecting human rights and mitigating against the risk of modern slavery is the foundation of any good business and a fair and just transition to net zero. Over 2021/22, SSE continued to increase focus on this issue through delivery of its targeted Modern Slavery Action Plan. This Action Plan was created in 2020/21 following a gap analysis of its human rights approach

by experts Stronger Together, with detail of this process provided in SSE's Modern Slavery Statement 2021.

Key developments over 2021/22 are highlighted below, with further information reported within SSE's Modern Slavery Statement 2022 which will be published on the sse.com homepage in August 2022.

- Major initiative undertaken to embed sustainability, including human rights, through SSE's Large Capital Projects governance process (see [page 59](#));
- Deep-dive risk assessments of the supply chains of two major infrastructure projects undertaken by Stronger Together;

- Stronger Together carried out two on-site human rights assessments during the construction of two major SSE projects in the UK;
- Enhanced engagement and further commitment to collaborate on modern slavery in global supply chains with strategic suppliers (see Powering Net Zero Pact case study on [page 59](#));
- Roll-out of employee awareness raising and development of bespoke learning pathways for priority employees;
- Creation of a Human Rights Working Group, which reports on progress to SSE's Human Rights Steering Group;

- Active collaboration with peers through the Utilities Against Slavery group, facilitated by the Slave Free Alliance, and SSE's partnership with the Supply Chain Sustainability School.

SSE ranked 2nd out of 47 companies in the utilities sector in the Global Child Forum and the Boston Consulting Group's The State of Children's Rights and Business 2021 Benchmark. The benchmark assesses a total of 832 companies' approaches to human rights issues affecting children, using publicly available information.

SSE sees proactive stakeholder engagement – like this school visit to Viking wind farm – as key to a healthy business culture.



A sustainable approach continued SSE's social contribution continued

SSE's enhanced Inclusion and Diversity Strategy

The innovative solutions required to deliver net zero need a workforce with diverse perspectives, different experiences, and new skills. Over 2021/22, SSE has refreshed its strategic approach to inclusion and diversity, recognising that this is an essential driver to deliver net zero in a way that is fair and affordable.



SSE's Inclusion and Diversity Report 2022

Reflecting its increased strategic focus to drive greater inclusion and diversity across the business, SSE has published a new comprehensive standalone Inclusion and Diversity Report 2022, providing detailed information on SSE's updated Inclusion and Diversity Strategy, progress made, and a range of key performance indicators for 2021/22. Transparency on its inclusion and diversity approach allows SSE to share successes and learnings, as well as gain feedback from key stakeholders. Read the report on sse.com/sustainability/reporting.

2022 gender pay gap

SSE's headline gender pay gap figures as at 5 April 2022 are provided below, with further data, analysis and disclosure of actions taken to reduce the gap provided in SSE's [Inclusion and Diversity Report 2022](#). SSE has voluntarily disclosed its Ireland Gender Pay Gap since 2021, calculated in line with the UK Gender Pay Gap methodology, based on a snapshot date of 5 April. The figures below follow this approach for 2022. In May 2022, the Irish Government launched new mandatory requirements for calculating the Gender Pay Gap in Ireland, which will require companies to use a June 2022 snapshot date and report this data publicly by December 2022. The June 2022 snapshot is beyond the last practicable day for inclusion in the Annual Report 2022 (being 24 May 2022), but SSE confirms the data will be reported in line with stated December deadline.

UK (93% of SSE's total 2021/22 workforce)

Mean gender pay gap:

13.2%

2021: 16.5%

Median gender pay gap:

18.0%

2021: 18.3%

Ireland (7% of SSE's total 2021/22 workforce)

Mean gender pay gap:

18.4%

2021: 18.9%

Median gender pay gap:

25.6%

2021: 27.1%

In 2021/22, SSE refreshed its Inclusion and Diversity Strategy by developing four strategic areas of focus: (1) Ambition; (2) Education and Development; (3) Inclusive Processes; and (4) Employee Voice. The new strategy relies on a collective effort and focus from all leaders. Actions to help shape and influence positive change in delivering greater inclusion and diversity are informed through collaboration with external partners to identify opportunities for further improvement, as well as listening to employees' lived experiences.

The refresh ensures SSE delivers greater inclusion and diversity across all levels of the Company and embeds systemic and behavioural change, supporting the delivery of SSE's 'IN, ON, UP' approach which it has been implementing since 2017. This approach, developed with inclusion experts EAinclusion, focuses on attracting diverse talent IN, enabling them to stay ON, and supporting them to progress UP, by providing opportunities that are fair and transparent for all.

A high-level overview of progress against the new strategy is outlined on these pages, with more detail available in SSE's [Inclusion and Diversity Report 2022](#).

1. Ambition: setting measurable goals

SSE has simplified its gender reporting and set new stretching gender ambitions in 2021/22, approved by the Group Executive Committee (GEC) and Board-level Nomination Committee. This includes increasing the proportion of women within the GEC and Direct reports to 40% by 2025, in line with the FTSE Women Leaders Review. In addition, SSE will increase female representation in its wider Leadership Group, which covers around 900 employees, to 40% by 2030, as well as increase overall female representation across the company to 33% by 2030. Performance against these ambitions is shown in the table on the following page, with information on key changes detailed below.

As at 31 March 2022, female representation across the Group Executive Committee and Direct Reports population (excluding administrative employees) was 22.4%. This represented a reduction from the 2020/21 level of 25% and was attributed to six men joining this population, whilst the number of women remained the same.

Between 31 March and the last practicable day for inclusion in the Annual Report 2022, 24 May 2022, a number of planned changes within the above group came into effect. These were the effective appointment of Catherine Raw as MD, Thermal as previously announced in February 2022; structural changes across the SSE Renewables

SSE's Gender Ambitions

Gender split of:	Year	Ambition	24 May 2022 ³ % Female (Male/Female headcount)	31 March 2022 % Female (Male/Female headcount)	31 March 2021 % Female (Male/Female headcount)
Group Executive Committee (GEC) ¹	–	–	20% (8/2)	25% (6/2)	25% (6/2)
GEC ¹ and direct reports (excl. administrative roles)	2025	40% female	34.2% (52/27)	22.4% (45/13)	25% (39/13)
Leadership Group ²	2030	40% female	–	23.7% (681/212)	20.2% (649/164)
All employees	2030	33% female	–	28.8% (7,658/3,096)	26.4% (9,190/3,299)

- 1 In the context of gender reporting, the GEC includes all members of the GEC and the Company Secretary. This is the definition of senior managers in SSE for the purposes of s414C(8)(c)(ii).
 2 Employees in SSE's senior level pay grades.
 3 24 May 2022 is the last practicable day for inclusion in the Annual Report 2022.

Leadership Team following Stephen Wheeler's appointment as MD, SSE Renewables in January 2022; and the Director of HR and Director of Corporate Affairs and Strategy, becoming full members of the Group Executive from their previous positions of Regular Attendee. As a result, female representation in the GEC has decreased from 25% to 20%, but has risen across the Group Executive Committee and Direct Reports from 22.4% to 34.2%.

SSE considers external benchmarking when setting ambitions, which includes the FTSE Women Leaders Review, the successor to the Hampton Alexander, as well as the Workforce Disclosure Initiative, the Bloomberg Gender Equality Index, and the UN Women's Empowerment Principles gap analysis tool.

Supplementing its externally disclosed gender ambitions, SSE tracks progress against a wider range of diversity metrics, including the proportion of women, ethnic minority, disabled and LGBTQ+ employees. Senior leaders have a quarterly focus on progress against broader internal inclusion and diversity ambitions. These metrics are reviewed by the GEC twice yearly and by the Board annually, with the company exploring options for setting diversity ambitions beyond gender.

2. Education and development: focusing on behaviours

Senior leadership commitment to inclusion and diversity is paramount for delivering change, and SSE's leaders have a responsibility to build a culture of belonging for all. To support its senior leaders to do this, SSE invests in behavioural change initiatives and resources.

In 2021/22, SSE provided a series of educational interventions to ensure that inclusion and diversity is prioritised, build

collective leadership confidence to create the right environment, and lead inclusively.

This included the 'Igniting Inclusion Development Programme', developed in partnership with Ashridge Business School, which provided insights, education, and discussion on: the Neuroscience of Inclusion and Diversity; Growth Mindsets; and Psychological Safety. 186 senior leaders participated in this programme, with 94% of those who responded to the feedback survey on the three sessions reporting a better understanding of the topics, and 95% felt more confident in applying their learning.

SSE has dedicated internal webpages which act as a central point of resource for all employees. This includes best practice materials, webinar recordings, learning materials, employee blogs and vlogs to talk about experiences, and manager guides to support employees and managers with how to create an inclusive workplace.

SSE developed a Strategic Secondary School network across 25 priority locations, offering a bespoke programme based on Tomorrow's Engineers STEM Code to inspire and showcase the range of opportunities within the energy sector. The secondary schools are chosen by indicators such as high levels of Black, Asian and Minority ethnicities, areas of deprivation, gender imbalance in STEM subjects, and attainment gaps or rurality.

SSE is currently working with its social mobility education partner, Teach First, to build a Just Transition themed programme for all primary schools throughout the UK and Republic of Ireland. The content for both primary and secondary is curriculum aligned, inclusive and demonstrates diversity.

There are 38 secondary school Strategic Partnerships with a STEM Volunteer community of 365 across the Businesses, geographic spread and various disciplines. In 2021/22 SSE delivered over 159 educational interventions across the UK, with an average

score of 9/10 for both "Helpful to pupils' learning" and "Helpful to pupils' career aspirations" from the host teachers.

3. Inclusive processes: embedding best practice

Developing robust policies and processes, to embed inclusion and diversity, ensures SSE creates a workplace that supports all employees and future employees. SSE believes improved diversity characteristics are a result of embedding best practice into existing process and routinely reporting on key drivers of inclusion.

A "Hiring for Difference" scorecard, which is reviewed by the Group Executive Committee and Board quarterly, shows progress against targets on the percentage of diverse recruitment panels, number of roles openly advertised, and the promotion of flexible working for senior hires. Over 2021/22, these metrics have improved significantly to over 90% for each, with the number of diverse panels more than doubling since April 2021.

In addition, using diverse job candidate short-lists has improved from 33% in Q1 2021/22 to 80% in Q4 2021/22. SSE increased its hiring rate of women into its Leadership Group (around 900 employees), from 15% over 2020/21 to 32% over 2021/22, and as a result the female representation in SSE's Leadership Group has increased from 20.0% to 23.7%. In addition, SSE prioritised transferable skills in job descriptions, over technical skills, to increase the diversity of job applicants. This was done through facilitated workshops which challenged the details, tasks, and key requirements of job roles.

4. Employee voice: actively listening

Listening to SSE's employee voice helps to build trust with its employees, drives innovation, and focuses business priorities. It also helps employees feel valued, resulting in better job satisfaction and increased opportunities for development. Over 2021/22 SSE has listened to employees' lived experiences on subjects such as graduate recruitment and used this to drive inclusion and diversity forward by influencing the breadth and types of universities that it engages with as well as how information about SSE is positioned.

SSE's 'Belonging Communities' aim to unite employees by encouraging open and constructive discussion. Focus groups were carried out over 2021/22 with several Belonging Communities, exploring how external best practices compare to lived experiences to create bespoke plans of action to help SSE be even more inclusive.

A sustainable approach continued
SSE's social contribution continued

Providing access to affordable and clean energy

Avoiding the next energy crisis

With post-pandemic market tightness and the Russian invasion of Ukraine, energy prices have been at generational highs feeding into a cost-of-living crisis that looks to continue until at least spring 2023. SSE has engaged widely with governments, devolved administrations, regulators, and other stakeholders, both bilaterally and through its trade associations, to inform options for near term alleviation of the impact of rising energy bills on households and businesses in the UK and Ireland, particularly the most vulnerable.

To help reduce the economy's exposure to gas imports in the medium term, SSE has worked closely with governments, including on the UK's British Energy Security Strategy, to ensure its £12.5bn Net Zero Acceleration Programme (NZAP) can have the greatest impact in reducing energy costs. To help protect the UK and Ireland from the next energy crisis, SSE has commissioned independent analysis to inform developing plans which aim to reduce costs, gas and carbon as soon as possible.

Responding to the affordability challenge

SSE recognises the huge challenges faced by its customers during the current affordability crisis. Over winter 2021/22, SSE Airtricity provided up to €500,000 of funding for customers requiring additional support. The company has also established a €1m fund to directly support customers who may be struggling to pay their bills. The business also made a donation of €1m to a trusted all-island charity partner to support hard-to-reach cohorts struggling with the cost of living. In May 2022 a price promise was announced by SSE Airtricity to hold energy tariffs for existing domestic financially vulnerable customers in Ireland for the remainder of the year.

SSE Airtricity has also expanded the range of external stakeholders it works with to include agencies working directly with customers in financial difficulty. The development of these partnerships has helped support direct referrals and provided better support for customers who are struggling. SSE is also supporting

customers with energy efficiency measures, including some free of charge energy upgrades to those experiencing fuel poverty, see the next page.

Providing an inclusive service

SSEN Distribution attained the British Standard for inclusive service provision (BS 18477) for the sixth year in a row in 2021/22. This was achieved through rigorous assessments to ensure SSEN's policies, procedures and services are accessible and fair to all customers.

SSEN Distribution's Priority Services Register (PSR) also provides help to those who need it most on the rare occasions there is a power cut. Throughout 2021/22, SSEN has been encouraging customers to sign up to the PSR, raising awareness of free additional services via podcasts, events, posters, and partnerships. The PSR had 768,104 people registered on it in at the end of 2021/22 (2020/21: 770,844). This covers 71.3% of eligible households in SSEN's distribution network areas, an increase from 68.5% in 2020/21.

ENGAGEMENT IN ACTION ENERGY CUSTOMERS



RESPONDING TO EXCEPTIONAL WEATHER EVENTS

In response to a 2021/22 winter of consecutive exceptional weather events, SSEN Distribution teams worked tirelessly to maintain supply with a particular focus on supporting isolated and vulnerable customers. Between November 2021 and February 2022, SSE's network areas in both north and south were tested by six exceptional weather events, including back-to-back named storms with three storms occurring in just one week.

In the aftermath of storms Arwen, Malik, Corrie and Eunice, around 430,000 customers were affected and SSEN's

Priority Services Register, which had been extended in response to the coronavirus pandemic, was used extensively by dedicated outreach teams to proactively engage via phone and text message with vulnerable customers. Engagement with impacted customers was further enhanced on the ground by good attendance at around 90 Local Resilience Partnership meetings. In addition to the reconnection efforts by operational teams, localised support was provided through door-to-door welfare checks and the provision of more than 140,000 hot meals and drinks.

In recognition of the hardship caused for customers by these extreme weather events, SSEN has boosted its Resilient Communities Fund to a total of £2m across licence areas.



Helping homes and businesses go green

SSE Energy Customer Solutions is committed to supporting customers and broader communities to work towards a cleaner, greener future.

In March 2022, building upon the success of existing partnerships with An Post and several Local Authorities across the country, SSE Airtricity became the first nationally accredited one-stop-shop for home energy upgrades with the Sustainable Energy Authority of Ireland (SEAI). As part of this initiative, in April 2022 SSE Airtricity committed to delivering home energy upgrades to up to 600 homes experiencing fuel poverty free of charge. SSE Airtricity has also been awarded the contract to install the first communal heat pump system in Ireland, where 44 of the 88 units are assisted living centres.

During 2021/22, SSE's business customers on green products grew from 6% to almost 30%. Over the year, the business ensured that customers joining or rolling onto new fixed contracts were provided with 100% renewable electricity, matched with independently verified and assured output from SSE's UK wind farms and hydro plants. In May 2021, a simplified Corporate Power Purchase Agreement (CPPA) approach was announced to enable a wider range of customers to purchase energy directly from SSE's renewable assets, giving customers fully traceable access to 100% renewable energy. Finally, in September

2021, SSE also launched the Green EV tariff, which supports businesses running on, or switching to, electric vehicles and enables them to charge fleets with 100% renewable electricity. In response to feedback from SMEs which showed 84% considered product sustainability as an important procurement choice but 50% were unsure of actions required, SSE launched its new Energy Solutions website. The site provides a knowledge centre for customers to access the range of products available from SSE, and assist them with reducing the carbon footprint of their businesses and supply chains.

Unlocking local solutions through global partnerships

As part of its COP26 legacy and inspired by Project LEO, the most ambitious and holistic smart grid trial in the UK, SSEN developed a new global smart grid partnership. Discussions with global and community partners resulted in the launch of the International Community for Local Smart Grids (ICLSG). The ICLSG consists of electricity distribution companies from the UK, Australia, Italy and Japan, with SSEN, Ausgrid and Enel as founding partners. These companies have joined forces to revolutionise and support communities to engage with electricity grids of the future. Launched at COP26, the University of Oxford-led initiative in cooperation with the Enel Foundation, will bring together electricity networks and community energy groups, scientists, and practitioners from across the world to remove barriers to

delivering net zero at a local level and share key learnings from innovation projects, facilitate discussions around challenges and support a collaborative transition to a decarbonised future. In addition to tackling climate change this partnership benefits consumers by building resilient communities.

Increasing accessibility of electric vehicles with Equal EV

A core element of the just transition to net zero is ensuring it is cost-effective, secure and inclusive for all. This means ensuring opportunities are open to all customers and infrastructure is developed in a fair and accessible manner. Over 2021/22, SSEN Distribution continued its partnership with leading charity Disabled Motoring UK to support more blue badge holders to get on the road with EVs, and worked with Energy Systems Catapult (ESC) on the second phase of the Equal EV project. Equal EV aims to overcome the four key barriers preventing disabled motorists from making the switch and benefitting from low carbon transport. This includes: (1) accessibility of charging points; (2) costs of modifications; (3) range anxiety; and (4) lack of support with charging compatibilities. In March 2022, SSEN and ESC produced their first Equal EV report which maps out customer journeys for people with disabilities and identifies how available and emerging technologies can mitigate the barriers and challenges identified in the project's first phase.

ENGAGEMENT IN ACTION NGOS, COMMUNITIES, CIVIL SOCIETY



BUILDING A SENSE OF COMMUNITY AROUND RIIO-ED2

Communities are at the core of SSEN Distribution's RIIO-ED2 business plan for the next price control. An extensive stakeholder engagement programme in 2021/22 gave more than 25,000 people the opportunity to have a say on the plan, shaping 64 outputs. The process featured qualitative and quantitative research, and 'Citizens Juries' were held on key ED2 topics such as sustainability and innovation while the Managing Director hosted a roundtable with fuel poverty charities, the regulator and consumer groups in November 2021.

COP26 provided a forum to engage on SSEN Distribution's role in a smart and fair transition to net zero through delivery of its ED2 plan. ED2 also featured in the business's established engagement framework which includes a Stakeholder Advisory Panel (meets quarterly); an ED2 Customer Engagement Group (met six times in the year); Inclusive Service Panels (met three times) and Connections Expert Customer Panels.



Risk-informed decision making

Managing SSE's Principal Risks

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

SSE's established Risk Management Framework and the wider system of internal control described on [page 161](#) of the Directors' Report continued to inform strategic decision making in 2021/22.

As highlighted in the Chair's Statement on [pages 6 and 7](#) and in the sector review on [pages 28 to 31](#) throughout 2021/22 SSE met and managed a number of challenging external factors with extreme storms, the climate emergency, unprecedented and sustained volatility in energy markets and the ongoing pandemic featuring heavily in strategic risk discussions.

Despite these significant challenges, SSE has made substantial progress this year on major projects within its capital delivery programme, including the landmark Shetland HVDC Link, with options for substantial growth over and above capital expenditure plans approved under the RIIO-T2 price control, seeking to balance affordability for energy consumers with the

need to attract the investment required for the transition to net zero.

SSE has also continued to deliver significant strategic progress through its disposal programme, with proceeds in the region of £2.8bn secured to date against the target set in June 2020.

These factors along with ongoing war in Ukraine that has exacerbated the already intensified market volatility, security of supply concerns and affordability pressures formed the basis of the full review of SSE's Principal Risks that took place during the financial year.

Board considerations

Effective identification, understanding and mitigation of Principal Risks underpins the Board's approach to setting strategic objectives for SSE and informing strategic decision making. The Board aims to consider all material influencing factors and key external trends in the energy market, including those relating to climate change,

technological developments and capital flow and aims to do so in a way that reflects the expectations of SSE's key stakeholder groups.

These material influencing factors also have an impact on the nature and extent of risks the Board is willing to take to meet these objectives, and related mitigation strategies adopted by the Group. Material changes in the nature and potential impacts of SSE's Group Principal Risks are regularly assessed with appropriate mitigations implemented where necessary.

Overseeing risk

The Group Executive Committee and its sub-committees have responsibility for overseeing SSE's Principal Risks. During the third quarter of SSE's financial year, an assessment of each Principal Risk is completed by the assigned oversight committee. This assessment requires committee members to provide commentary on contextual changes to the risks, consider whether over the course of the year the risks have become more or less material based on impact and likelihood and to confirm procedures and policies are in place for controlling risks. Consideration is also given to emerging risks and whether any of those identified have the potential to become a Principal Risk to the business in the medium to long-term.

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



Key

▲ Risk has increased in materiality

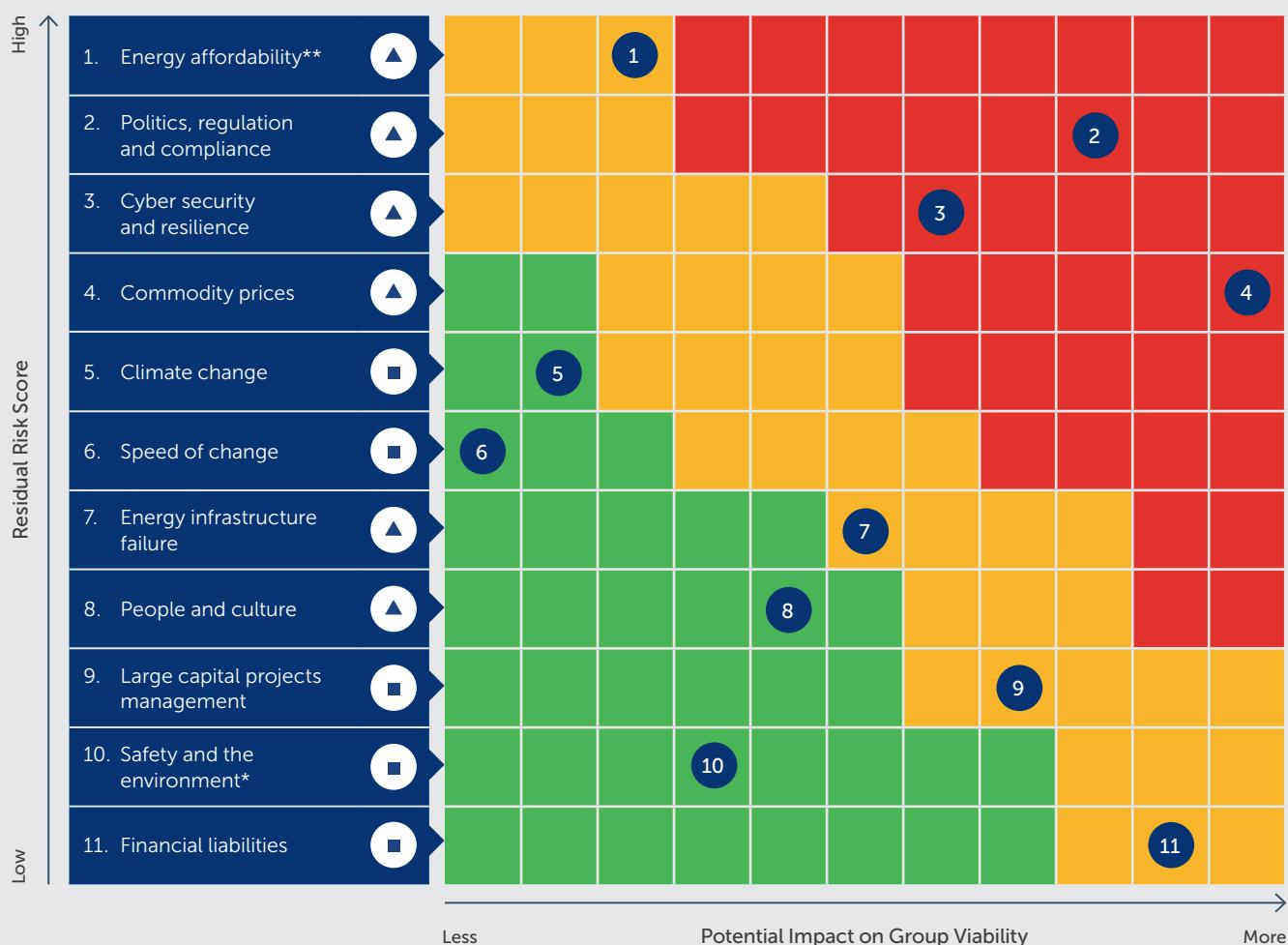
■ Risk has not changed significantly

▼ Risk has reduced in materiality

Group Principal Risks

The graphic below illustrates SSE's 11 Group Principal Risks positioned on a relative basis against the output of the Principal Risk Self-Assessment process based on the residual risk score (impact vs likelihood) of each risk and the potential impact on Group Viability based on critical risk scenarios developed with business experts.

SSE's 11 Group Principal Risks



* Safety remains SSE's most important value, and management of this risk remains SSE's highest priority.

** It should be noted that Energy Affordability is particularly closely linked to – and therefore impacted by – Politics, Regulation and Compliance and Commodity Prices.

process that results in considered and objective outputs and a robust assessment of Principal Risks.

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

2021/22 review outcome

Following the 2021/22 annual review process, the number of Principal Risks to the Group remains at 11 with one revision of note.

An essential tenet of SSE's Risk Management process is the consideration of potential emerging risks and whether any of those identified have the potential to become a Group Principal Risk in the medium to long-term. As such, following the 2021/22 review process and due to the development of a Joint Venture Governance framework throughout the year, the emerging risk "Joint Venture and Partner Management" was not retained as an emerging risk. Joint Venture and Partner Governance has however been included as a key mitigation against the Group Principal Risks of Large Capital Project Management,

People and Culture, Politics, Regulations and Compliance and Speed of Change.

Important revisions have also been made to the descriptions of each of the Principal Risks to take account of key developments and corresponding mitigations that were introduced during the year. Full details of the Group Principal Risks are available on [pages 71 to 81](#).

Risk-informed decision making continued

Managing SSE's Principal Risks continued

Risk Appetite Statement

No business is risk free and indeed the achievement of SSE's strategic objectives necessarily involves taking risk. SSE will however only accept risk where it is consistent with its core purpose, strategy and values; is well understood; can be effectively managed; is in line with stakeholder expectations and offers commensurate reward.

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

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

The key elements of SSE's Strategic Framework – including the focus on regulated energy networks and renewable sources of energy, particularly clean electricity, complemented by flexible thermal generation and business energy sales – and its financial objective in relation to dividend growth are fully reflective of its risk appetite.

Fundamentally:

- SSE's strategy is to create value for shareholders and society in a sustainable way by developing, building, operating and investing in the electricity infrastructure and businesses needed in the transition to net zero.
- 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 new international markets being subject to especially rigorous scrutiny and ensuring that the appropriate governance arrangements which are consistent with the Group's values and strategic goals are in place.
- Safety is SSE's first value and it has no appetite for risks brought on by unsafe actions, nor does it have any appetite

for risks brought on by insecure actions including those relating to cyber security. In areas where SSE is exposed to risks for which it has little or no appetite, even though it has implemented high standards of control and mitigation, the nature of these risks mean that they cannot be eliminated completely.

In determining its appetite for specific risks, the Board is guided by three key principles:

1. Risks should be consistent with SSE's core purpose, financial objectives, strategy and values;
2. Risks should only be accepted where relevant approvals have been attained through the Governance Framework to confirm appropriate reward is achievable on the basis of objective evidence and in a manner that is consistent with SSE's purpose, strategy and values; and
3. Risks should be actively controlled and monitored through the appropriate allocation of management and other resources, underpinned by the maintenance of a healthy business culture.

The Board has overall responsibility for determining the nature and extent of the risk it is willing to take to achieve strategic objectives and for ensuring that risks are managed effectively across the Group.

Viability Statement

SSE provides the energy needed today while building a better world of energy for tomorrow. It develops, builds, operates and invests in low-carbon infrastructure in support of the transition to net zero, including onshore and offshore wind, hydro power, electricity transmission and distribution networks, localised flexible energy systems alongside providing energy products and services for businesses and other customers. The delivery of SSE's purpose and execution of its strategy depends on the skills and talent of a diverse workforce, the quality of its assets and the effective identification, understanding and mitigation of risk.

As required within provision 31 of the UK Corporate Governance Code, the Board has formally assessed the prospects of the Company over the next four financial years to the period ending March 2026. The Directors have determined that as this time horizon aligns with the Group's Net Zero Acceleration Programme, which includes a fully funded capital investment programme to 2026, 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 undrawn committed lending facilities of £1.5bn – with £1.3bn committed to March 2026 and £0.2bn committed to October 2026. The Group is an owner and operator of critical national infrastructure and has a proven ability to maintain access to capital markets during stressed economic conditions. The Group has demonstrated this through securing £1.2bn of funding since April 2021 including the issuance of a 1bn Euro Hybrid bond in April 2022. Further detail relating to planned funding is available in A6.3 Accompanying Information to the Financial Statements in the Annual Report and Accounts.

The Group has a number of highly attractive and relatively liquid assets – including a regulated asset base which benefits from a strong regulated revenue stream as well as the operational wind portfolio – which provide flexibility of options. This has been demonstrated through the success of the programme of disposals set out by the Group in June 2020 with £2.8bn secured to date.

To help support this Statement, over the course of the year a suite of severe but plausible scenarios has been developed for each of SSE's Principal Risks. These scenarios are based on relevant real life events that have been observed either in the markets within which the Group operates or related markets globally. Examples include critical asset failure resulting in sustained impacts to network assets (for Energy Infrastructure Failure); changes to key government energy policies (for Politics, Regulation and Compliance); and the physical impacts of climate change on distribution assets through more frequent and increasingly severe storm events (for Climate Change).

Scenarios are stress tested against forecast available financial headroom and in addition to considering these in isolation, the Directors also consider the cumulative impact of different combinations of scenarios, including those that individually have the highest impact.

Upon the basis of the analysis undertaken, and on the assumption that the fundamental regulatory and statutory framework of the markets in which the Group operates does not substantively change, and the Group continues to be able to refund its debt at maturity, 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 2026.

Principal Risks and uncertainties

Group Principal Risks

Linkage to Strategy



Develop



Build



Operate



Invest

2030 Goals



Cut carbon intensity by 80%



Increase renewable energy output fivefold



Enable low-carbon generation and demand



Champion a fair and just energy transition



CLIMATE CHANGE

What is the risk?

The risk that SSE's strategy, investments or operations are deemed to have an unacceptable future impact on the natural environment and on national and international targets to tackle climate change.

Oversight

Group Executive Committee

Material influencing factors

- The impact of physical risks associated with climate change, such as severe adverse weather that causes damage or interrupts energy supply or generation.
- The speed of technological developments.
- Transitional risks relating to developments in political and regulatory requirements related to the products and services that SSE provides.
- Ensuring the continuation of Large Capital Projects which are fundamental to Group net zero targets.
- Global and domestic policies including those published by the UK's Committee on Climate Change relating to the 6th carbon budget for the period 2032 and 2037.
- Political and regulatory engagement.
- Plans to transition to a decarbonised energy system.

Key developments

- In its role as a Principal Partner to the UK Government at COP26, SSE highlighted the critical importance and global relevance of the Group's strategy of creating value for shareholders and society in a sustainable way required in the transition to net zero. More information on COP26 is available on [page 46](#) of the Sustainability Report.
- Within 2021/22, the Board considered and approved accelerated science-based greenhouse gases (GHG) emission targets, revised business goals to 2030 aligned to the UN Sustainable Development Goals (SDGs), the Net Zero Acceleration Programme, and the Net Zero Transition Plan.
- In March 2022, SSE published its Net Zero Transition Plan. The Plan clearly sets out for stakeholders the key actions SSE will take to drive progress towards its net zero ambitions and its interim science-based targets aligned to a 1.5°C pathway. SSE will disclose annual progress against this plan through Net Zero Transition Report.

Key mitigations

- Policy Link: SSE Climate Change Policy and SSE Sustainability Policy.
- SSE provides transparent disclosures of its governance around climate-related risks and opportunities to allow its stakeholders to properly assess its performance in managing climate related issues.
- The Group Executive Committee is responsible for implementing the Group strategy set by the Board and driving climate-related performance programmes across the organisation. The Chief Sustainability Officer is responsible for advising the Board, Group Executive Committee and businesses on climate-related matters and provides support in the implementation of relevant initiatives across the Group.
- The TCFD Steering Group, which consists of representatives from Finance, Group Risk and Sustainability conducts an annual review of the outputs of the climate-related risk and opportunity assessment process and assesses the potential financial impact of key risks and opportunities in a fair, balanced and understandable way. This is then reviewed and approved by the Group Risk Committee.
- SSE's approach to Executive Remuneration reflects the role of sustainability and climate-related considerations within SSE's purpose and strategy, with sustainability-linked metrics and targets an element of performance related pay. To date, performance has been assessed against the framework of SSE's 2030 Goals, which the Remuneration Committee is seeking to strengthen through its current Policy review.

Linkage to Strategy:



Aligned to 2030 Goals:



Principal Risks and uncertainties continued

Group Principal Risks continued

COMMODITY PRICES	
What is the risk?	Oversight Group Risk Committee
The risk associated with the Group's exposure to fluctuations in both the physical volumes and price of key commodities, including electricity, gas, CO ₂ permits, oil and related foreign exchange values.	
Material influencing factors <ul style="list-style-type: none"> Global geopolitical events. Weather-associated seasonal fluctuations in demand, supply and generation capabilities which may not be in line with historical trends, and which may or may not be associated with climate change both in Great Britain and globally. Further detail is available on page 31 of the Strategic Report. Generation technology advancements. Global and domestic political change. European generation outputs and availability. International and national agreements on climate change. International flows of fuel. Fluctuations in foreign exchange values. Fluctuations in the global supply and demand of fuel. Global economic growth. 	Key developments <ul style="list-style-type: none"> Managing the impacts of significant global geopolitical events. Managing the impacts of significant fluctuations in commodity prices, foreign exchange values and strong economic demand combined with more extreme weather conditions, has increased electricity demand and strained commodity supply chain resulting in wholesale energy prices reaching an all-time high.
	Key mitigations <ul style="list-style-type: none"> Policy Link: An asset-by-asset approach to hedging strategy that ensures trading positions cannot have a material impact on SSE Group earnings. The latest update on SSE's hedging approach can be found in the Financial Review section of the Annual Report and Accounts. The Group Energy Markets Exposure Risk Committee has operational oversight of commodity positions; reporting to the Board Energy Markets Risk Committee that has responsibility for monitoring the ongoing effectiveness of Group hedging arrangements. For further details please see pages 162 and 163. SSE uses VaR and PaR measures to monitor and control exposures. Trading limits are reviewed regularly by the Energy Markets Risk Committee, with consideration given to changes in the material influencing factors noted above, before being approved by the Board. SSE's Energy Economics team provides commodity price forecasts which are used to inform decisions on trading strategy and asset investment. SSE utilises hedging instruments to minimise exposure to fluctuations in foreign exchange markets, details of which are available in the Financial Statements section of the Annual Report and Account.
Linkage to Strategy:	Aligned to 2030 Goals:
	

Linkage to Strategy

Develop



Build



Operate



Invest

2030 Goals

Cut carbon intensity by 80%



Increase renewable energy output fivefold



Enable low-carbon generation and demand



Champion a fair and just energy transition

**CYBER SECURITY AND RESILIENCE****What is the risk?**

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

Oversight

Group Risk Committee

Material influencing factors

- Software or hardware issues, including telecom network, connectivity and power supply interruption.
- Geopolitical events.
- 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.
- Malicious cyber-attack.

Key developments

- Ensuring resilience of systems and processes associated with divestments as well as international mergers and acquisitions.
- Ensuring the continued security and resilience of Critical National Infrastructure given the heightened threat of malicious cyber-attack, particularly the increased volume and sophistication of ransomware attacks and the heightened threat of cyber-attacks following the Russian invasion of Ukraine.

Key mitigations

- Policy Link: SSE Cyber Security Policy and SSE Data and Information Management Policy.
- Key technology and infrastructure risks are incorporated into the design of systems and are regularly appraised with risk mitigation plans recommended.
- SSE conducts regular internal and third-party testing of the security of its information and operational technology networks and systems.
- Continued strengthening and embedding of the cyber risks and controls framework to continue to identify threats and reduce exposures through, for example, improved use of data analytics and further migration from unsupported systems.
- Significant longer term Security Programme investment and planning which seeks to strengthen the resilience of the systems on which SSE relies.
- IT Service Assurance works with individual Business Units to form and agree appropriate service level agreements for business-critical IT services.
- Business continuity plans are reviewed in response to changes in the threat to the Group and regularly tested.

Linkage to Strategy:**Aligned to 2030 Goals:**

Principal Risks and uncertainties continued

Group Principal Risks continued

ENERGY AFFORDABILITY

What is the risk?

The risk that energy customers' ability to meet the costs of providing energy, or their ability to access energy services is limited, giving rise to negative political or regulatory intervention that has an impact on SSE's core regulated Networks and Renewables businesses.

Oversight

Group Risk Committee

Material influencing factors

- Technology changes and innovations to develop sustainable infrastructure and energy solutions.
- Supply chain cost management.
- Public policies, including those aimed at reducing carbon emissions and energy consumption.
- Accessibility to energy and related services for all.
- Increased focus on energy security in response to current geopolitical events.
- Required investment in the upgrading of the UK's energy infrastructure to achieve net zero.
- Political interventions.
- Macro-economic impacts on household and business incomes, including the removal of the energy price cap.
- Fluctuations in the cost of fuels.
- Supplier and customer failures and related bad debt.

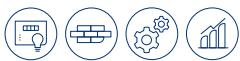
Key developments

- SSE remains committed to the supply of affordable and accessible energy in its customer businesses and responsive to the needs of those who count on the safe and reliable running of resilient electricity networks.
- In 2020, SSE Airtricity established a Generation Green Home Upgrade, the first utility company to launch a retrofit solution. In 2021 SSE supported almost 800 customers (including fuel poor customers) to retrofit their homes and improve energy efficiency by bringing the homes up by an average BER of B2.
- Investment in indigenous, low-carbon power sources and greater flexibility will help reduce the amount of imported gas the UK and Ireland needs.

Key mitigations

- Policy Link: SSE Sustainability Policy.
- SSE Airtricity continues to focus on helping customers reduce their carbon output and to save on energy costs. Through partnerships with local authorities, the Sustainable Energy Authority of Ireland (SEAI) and others, SSE Airtricity Energy Services has been delivering large-scale energy efficiency retrofit projects for homes across Ireland.
- Robust stakeholder engagement across Government, regulators and relevant counterparties.
- SSE continues to advocate for progressive policies that will help bring forward necessary investment in low-carbon infrastructure at lowest cost to reduce customers' exposure to gas price volatility and deliver net zero affordability.

Linkage to Strategy:



Aligned to 2030 Goals:



Linkage to Strategy



2030 Goals



ENERGY INFRASTRUCTURE FAILURE

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.

Oversight

Group Executive Committee

Material influencing factors

- Severe adverse weather that causes damage or interrupts energy supply or generation.
- Longer term changes in climate patterns cause sustained higher temperatures that may result in lower rainfall and reduced wind impacting renewable generation output.
- Government policy regarding the operation of the energy network which relates to security of supply.
- Failures in any aspect of the Great Britain national critical infrastructure.
- SSE invests in low-carbon infrastructure in support of the transition to net zero.
- Continuing access to the European energy markets and continued inclusion of Northern Ireland in the all-island Single Electricity Market.
- Appropriate asset management and necessary upgrading works of both generation and network assets.
- Malicious attack on the Great Britain energy infrastructure.
- Energy network balancing mechanisms.
- Continued availability of competent personnel.
- Continued availability of key systems.

Key developments

- In November 2021, SSE launched a Net Zero Acceleration Programme to accelerate clean growth and lead the transition to net zero.
- The Net Zero Acceleration Programme is the optimal pathway to value creation. It positions SSE as a national clean energy champion with the scale to contribute around 20% of the UK's revised 50GW offshore wind target and over 20% of upcoming UK electricity networks investment, deploy flexible solutions to keep the lights on, whilst exporting its renewables capabilities overseas.
- With electricity demand expected to more than double by 2050, regulated electricity networks are at the heart of the transition to net zero. SSEN Transmission and SSEN Distribution continue to form a key part of the low-carbon electricity core of SSE. The Net Zero Acceleration Programme could increase total networks Regulated Asset Value (RAV) to between £8bn and £10bn by 2031.

Key mitigations

- Policy Link: Business Unit Asset Management Policies.
- SSE assesses the climate impact on its operations over the short, medium and long term from the perspective of market, policy or regulatory transition risks and opportunities and the physical risks of a changed climate.
- SSE's dedicated Engineering Centre of Excellence reviews and develops plans to ensure the ongoing integrity of its generation assets is maintained.
- Targeted investment plans to ensure the ongoing health and integrity of network assets.
- Crisis management and business continuity plans are in place across the Group. These are tested regularly and are designed for the management of, and recovery from, significant energy infrastructure failure events. Where there are material changes in infrastructure (or the management of it) additional plans are developed.
- SSE continues to be an active participant in national security forums such as the Centre for the Protection of National Infrastructure (CPNI).
- Flexible and reliable power will continue to be required to back up wind and solar generation, ensuring security of supply across the UK. In line with its commitment to a net-zero future, SSE is actively progressing plans to deliver new low-carbon capacity to play this critical role, with CCS and pumped storage hydro projects in development.

Linkage to Strategy:



Aligned to 2030 Goals:



Principal Risks and uncertainties continued

Group Principal Risks continued



FINANCIAL LIABILITIES

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.

Oversight

Group Risk Committee

Material influencing factors

- Ongoing commitment to an investment grade credit rating.
- Global macro-economic changes and subsequent volatility in foreign exchange markets.
- Fluctuations in interest rates and inflation which influence borrowing costs.
- Defined benefit pension scheme performance including the impact of fluctuations in gilt yields on the value of scheme liabilities.
- Counterparty credit limit exposures.

Key developments

- Proceeds in the region of £2.8bn secured against the disposal programme target set in June 2020.
- In May 2021, HMRC awarded SSE a formal Low Risk Rating which remains in place for three years. The Low-Risk Rating was awarded following HMRC review of the risk and control information relating to tax management across the Group.

Key mitigations

- Policy Link: SSE Financial Management Policy.
- Committed borrowings and facilities are always available 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.
- The approval of all material counterparty credit limits is a matter reserved for the Board.
- To support the growth of green finance, SSE also has pursued a strategy of issuing green bonds to fund its net zero investment plans. SSE has issued four green bonds, with the total outstanding at £2bn which reaffirms SSE's position as the largest issuer of green bonds in the UK corporate sector.

Linkage to Strategy:



Aligned to 2030 Goals:



Linkage to Strategy



2030 Goals



LARGE CAPITAL PROJECTS MANAGEMENT

What is the risk?

The risk that SSE develops and builds major assets that do not realise intended benefits or meet the quality standards required to support economic lives of typically 25 to 60 years within forecast timescales and budgets.

Oversight

Group Large Capital Projects Committee

Material influencing factors

- Appropriate contractual arrangements which meet the requirements of any jurisdiction in which SSE operates.
- New or unproven technology.
- Appropriate and effective budget management.
- All aspects of supply chain management, including those relating to human rights, modern slavery and labour standards as well as supply chain impacts associated with new entities, new assets and a new network structure created by joint ventures and Brexit.
- Availability of competent contractors in any jurisdiction in which SSE operates.

Key developments

- Over 2021/22 SSE undertook a major project to ensure its Large Capital Projects are designed and constructed to enable the journey to net zero. From the 1 of April 2022, a Sustainability Assessment and Action Plan (SAAP) is required for all new or early development projects, ensuring sustainability is incorporated into all phases of major project development, construction and operation. For further details please see the Sustainability Report.
- SSE's Net Zero Acceleration Programme, establishes a five year £12.5bn investment plan to deliver the low-carbon energy infrastructure.
- Continued Progress with SSE's flagship projects including Seagreen, Viking, Shetland HVDC link and Dogger Bank.
- Between 2021 and 2026, SSE's Net Zero Acceleration Programme establishes a plan to invest around £4.3bn in onshore and offshore wind projects. In addition, SSE has an important development option for large scale, long duration pumped hydro storage at Corie Glas in the Scottish Highlands.

Key mitigations

- Policy Link: SSE's Large Capital Projects Governance Framework manual ensures that all major capital investment projects for the Group are governed, developed, approved and executed in a consistent and effective manner, with full consideration of best practice project delivery. The manual, which was reviewed in detail during the year, with support from a specialist third party, provides common standards across the Group and incorporates continuous improvement practices.
- The Large Capital Project Services function employs dedicated quality and assurance teams who perform in-depth quality reviews.
- In major projects, SSE generally manages insurance placement by organising owner-controlled insurance. This strategy allows it to have greater control and flexibility over the provisions in place. SSE also sees the insurance market as an important source of information on the reliability of technology and uses this to inform the design process of major projects.
- Appropriate Governance arrangements, including those relating to Joint Venture and Partner Management.

Linkage to Strategy:



Aligned to 2030 Goals:



Principal Risks and uncertainties continued

Group Principal Risks continued



PEOPLE AND CULTURE

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.

Oversight

Group Executive Committee

Material influencing factors

- Rewarding employee contributions through fair pay and benefits.
- Acquisition of competent skills and resources to support growth plans in international markets.
- SSE embraces cultural diversity in the workplace and recognition of the value and benefit of having an inclusive and diverse workforce.
- A responsible employer ethos. For full details please see the Sustainability Report.
- Clearly defined roles, responsibilities and accountabilities for all employees.
- Availability of career development opportunities and appropriate succession planning that recognises potential future skills shortages.
- Clear personal objectives and communication of the SSE set of values.
- A focus on ethical business conduct and creating a culture in which employees feel confident to speak up when they suspect wrongdoing.
- The health and wellbeing of all employees (see the Sustainability Report for further detail).
- Clear and well-structured employee communications.

Key developments

- SSE has been a Living Wage accredited employer in the UK since 2013 and paid the Living Wage in Ireland since 2016. In March 2021 SSE gained the Living Hours employer accreditation. SSE also continues to be a member of the Living Wage Foundation's Living Hours Steering Group. Further details on [page 60](#).
- During 2021/2022 SSE undertook wide ranging stakeholder engagement on its just transition approach from key stakeholders and through SSE's 2021 all-employee survey. The findings of this survey and the wider engagement with other key stakeholders were used to inform a new report, published in September 2021 which focused on moving from principles to action. This follows on from SSE's Just Transition Strategy, published in November 2020.
- SSE's Just Transition Strategy was the world's first business strategy for a Just Transition to net zero. The new report published in September 2021, outlines SSE's 20 commitments, ten recommendations for industry and ten recommendations for government to support workers transition from high to low-carbon careers. More information on SSE's Just Transition Strategy is available on sse.com.

Key mitigations

- Policy Link: SSE Employment Policy and SSE Whistleblowing Policy.
- SSE has a detailed Inclusion and Diversity plan, progress against which is reviewed and monitored by SSE's Group Executive Committee on a regular basis. Further details are available on [pages 64 and 65](#) and on [page 138](#) of the Directors' report.
- SSE Governance arrangements, including those relating to JV and Partner Management.
- There are a wide range of tools and services available to all employees to support mental health and wellbeing, including those provided as part of the Employee Assistance Programme. Further details on careers.sse.com/employee-benefits.
- "Doing the Right Thing, a guide to ethical business conduct", explicitly outlines the steps employees should take to ensure their day-to-day actions and decisions are consistent both with SSE's values and ethical business principles. SSE employees can report incidents of wrongdoing through both internal and external mechanisms. SSE uses an independent "Speak Up" phone line and email service, hosted externally by SafeCall, through which incidents can be reported.
- 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.

Linkage to Strategy:



Aligned to 2030 Goals:



Linkage to Strategy



2030 Goals



POLITICS, REGULATION AND COMPLIANCE

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.

Oversight

Group Risk Committee

Material influencing factors

- SSE's most significant contribution is to align with the Paris Agreement goal and aim to achieve net zero greenhouse gas emissions by at least 2050.
- Material changes to regulatory frameworks in any jurisdiction in which SSE operates.
- Government intervention into the structure of the energy sector in any jurisdiction in which SSE operates.
- Constitutional uncertainty in any jurisdiction in which SSE operates.
- Changes in financial, employment, safety and consumer legislation and regulation and the impact of these changes on business-as-usual activities in any jurisdiction in which SSE operates.

Key developments

- In April 2022, the UK Government published the British Energy Security Strategy which builds upon the Prime Minister's Ten Point Plan for a Green Industrial Revolution. SSE is working to deliver the renewables capacity, the network infrastructure, lower carbon thermal generation and energy storage needed to meet the ambition of the paper.
- SSE's Net Zero Transition Plan, published in March 2022, outlines SSE's strategy to develop, build, operate and invest in low-carbon electricity infrastructure for many decades to come whilst maintaining high standards of safety and reliability for energy consumers. More information on SSE's Net Zero Transition Plan is available on sse.com.

Key mitigations

- Policy Link: SSE Political and Regulatory Engagement Policy.
- The Group has dedicated Corporate Affairs, Regulation, Legal and Compliance departments that provide advice, guidance and assurance to each business area regarding the interpretation of political, regulatory and legislative change. These teams take the lead in engagement with regulators, politicians, officials, and other such stakeholders.
- SSE has a clear Political Engagement Policy that sets out principles for any employees who make representations to institutions of governments or to legislatures on the Company's behalf.
- SSE Governance arrangements, including those relating to JV and Partner Management.
- The Group puts in place dedicated project teams to manage all aspects of significant regulatory and legislative change.
- There is regular engagement with the Board and Group Executive Committee on political and regulatory developments which may impact SSE's operations or strategy. Further details are available on [page 132](#) of the Directors' Report.

Linkage to Strategy:



Aligned to 2030 Goals:



Principal Risks and uncertainties continued

Group Principal Risks continued



SAFETY AND THE ENVIRONMENT

What is the risk?

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

Oversight

Group Safety, Health and Environment Committee

Material influencing factors

- Clear and appropriately communicated safety processes.
- Regular and documented training.
- Adverse weather.
- The size, scale, complexity and number of projects under way.
- Challenging geographic locations.
- Appropriate task and asset risk assessment.
- Safety culture – "if it's not safe, we don't do it".
- Clear, effective and regular communications of all relevant safety updates.
- Competent employees and contractors.

Key developments

- In 2021/22, the Safety, Sustainability, Health and Environment Advisory Committee (SSHEAC) reviewed the Safety, Health and Environment Strategy for the next five years. As part of the SSHEAC review the following focus areas were set out (a) strengthening of controls and assurance; (b) enablers to help people do the right thing; and (c) drive progress with SSE's eight Enduring Goals for safety.
- The remit of the Safety, Sustainability, Health and Environment Advisory Committee (SSHEAC) was expanded in the year to oversee SSE's climate adaptation and resilience plans.

Key mitigations

- Policy Link: SSE Safety and Health Policy and SSE Environment Policy.
- Safety is the Group's No. 1 value with Board oversight being provided by the Safety, Sustainability, Health and Environment Advisory Committee (SSHEAC).
- Crisis management and business continuity plans are in place across the Group. These are tested regularly and are designed for the management of, and recovery from, significant safety and environmental events.
- Each business carries out regular SHE assurance reviews of the risks faced, the controls in place and the monitoring that is undertaken.
- SSE's dedicated Engineering Centre of excellence reviews and develops plans to ensure that the integrity of its generation assets is maintained.

Linkage to Strategy:



Aligned to 2030 Goals:



Linkage to Strategy



2030 Goals



SPEED OF CHANGE

What is the risk?

The risk that SSE is unable to keep pace with the speed of change affecting the sector and markets in which it operates and so fails to meet the evolving expectations of its stakeholders or achieve its strategic objectives.

Oversight

Group Executive Committee

Material influencing factors

- Geopolitical events.
- Fast developing customer needs and expectations in relation to efficient, innovative and flexible products and services.
- Technological developments and innovation.
- Net-zero strategic goals.
- Increased competition from market entrants including international oil companies.
- Longer term capital investment plans and budgets.
- The size, scale and number of change programmes underway, including those relating to regulatory or legislative requirements in any jurisdiction in which SSE operates.
- Governance and decision-making frameworks, including those relating to JV and Partner Management.

Key developments

- SSE is spending £7m a day on assets and infrastructure to decarbonise the energy system through the Net Zero Acceleration Programme and actively progressing plans to secure flexible and reliable power generation with CCS and pumped storage hydro projects in development.
- The 2021/22 year marked several significant project milestones for SSE Renewables, including progress made at Seagreen, the world's deepest, fixed bottom wind farm, and offshore construction commencing at Dogger Bank, currently the world's biggest offshore wind farm.
- Plans to export SSE's significant capabilities to overseas markets gained momentum with the acquisition of an 80% interest in an offshore wind development platform in Japan. The new joint ownership company, SSE Pacifico, will pursue the development of offshore wind projects in Japan.

Key mitigations

- Policy Link: SSE Operating Model Policy.
- The Board sets the risk appetite of the Group and approves and regularly reviews the Group's commercial strategy, business development initiatives and long-term options ensuring alignment of risk appetite and strategic objectives.
- SSE's revised Group operating model has been designed to ensure dynamic and efficient decision-making, empowered and accountable delivery of Business Unit strategies and to fulfil SSE's purpose to provide energy needed today while building a better world of energy for tomorrow. Details of SSE's decision making framework are available on [page 134](#) of the Directors Report.
- The Group Executive Committee is responsible for ensuring that Business Unit strategies are consistent and compatible with the overarching Group strategy and its vision to be a leading energy provider in a net zero world.

Linkage to Strategy:



Aligned to 2030 Goals:



Financial review



Delivering for shareholders

Financial performance in 2021/22 underscores the value-creation potential of SSE's Net Zero Acceleration Programme.

The strong operational performance outlined in this Annual Report and Accounts has enabled us to meet our financial objectives in what was a challenging year. And SSE's conviction that a deliberately-integrated and well-balanced group of market-based and economically-regulated businesses offers the optimal route to value creation for shareholders has again been borne out in 2021/22.

We are proposing payment of a full-year dividend of 85.7p, in line with plan, and we remain committed to our existing five-year dividend plan to 2023, which targets dividend increases in line with RPI each year as set out on [page 4](#).

We completed our £2bn-plus disposals programme announced in June 2020 with the sale of our remaining financial stake in SGN for nearly £1.3bn in cash proceeds. Overall we achieved headline consideration of over £2.8bn from our disposals programme, significantly in excess of the original £2bn target and this is reflected in the disparity in adjusted and reported metrics for the year.

Over the course of the year we invested a record level of £2.1bn in the assets and

infrastructure needed to maintain a 1.5°C pathway on global warming. Thanks to strong operational performance, adjusted operating profit increased by 15% to around £1.5bn. And adjusted EPS was up 22% to 95.4p reflecting our strong performance in the year.

We have now updated our adjusted EPS CAGR target for 2026 from between 5-7% to between 7-10% due to confidence derived from strong delivery in 2021/22; higher inflationary forecasts; anticipation of continued volatile and high energy commodity prices; and evidence of increased value creation potential from flexibility provided by SSE's thermal and hydro generation, and gas storage assets.

We have financed ourselves robustly in uncertain times with good liquidity. We have a stable debt profile and our financing strength has enabled us to be nimble in the acquisition and partnering decisions we have made.

Our balance sheet remains strong, supported as it is by world-class assets and investment-grade credit metrics. The credit rating agencies reviewed our Net Zero Acceleration Programme and we were

pleased with their positive response. SSE's S&P credit rating remains at BBB+ 'stable outlook' and our Moody's rating remains at Baa1, having been updated to 'stable outlook' after the announcement of our plans in November 2021.

Our financial strength is critical in enabling us to take forward projects of the size and scale society needs, such as Berwick Bank which will be larger even than the world's largest wind farm that we are currently building at Dogger Bank.

Overall, this year has underscored the advantages of a balanced, integrated business – giving investors strong returns in clearly volatile times and leaving us well positioned to take forward emerging opportunities across the clean energy value chain.

A handwritten signature in black ink, appearing to read "Gregor Alexander".

Gregor Alexander
Finance Director
24 May 2022

Group Financial Review

Year to 31 March 2022

This Group Financial Review sets out the financial performance of the SSE Group for the year ended 31 March 2022. See also the separate sections on Group Financial Outlook, 2022/23 and beyond and Supplemental Financial Information.

The definitions SSE uses for adjusted measures are consistently applied and are explained in the Alternative Performance Measures section of this document, before the Financial Statements.

Key financial metrics (continuing operations)

	Adjusted		Reported	
	March 2022 £m	March 2021 £m	March 2022 £m	March 2021 £m
Operating profit from continuing operations	1,536.8	1,333.5	3,755.4	2,654.9
Net Finance costs	(372.8)	(384.6)	273.2	(236.9)
Profit before Tax	1,164.0	948.9	3,482.2	2,418.0
Current Tax charge	(107.1)	(85.9)	(882.8)	(224.3)
Effective current tax rate (%)	9.2	9.1	25.4	9.3
Profit after Tax on continuing operations	1,056.9	863.0	2,599.4	2,193.7
Less: hybrid equity coupon payments	(50.7)	(46.6)	(50.7)	(46.6)
Profit after Tax from continuing operations attributable to ordinary shareholders	1,006.2	816.4	2,548.7	2,147.1
EPS from continuing operations (pence)	95.4	78.4	241.6	206.3
Number of shares for basic/reported and adjusted EPS (million)	1,055.0	1,040.9	1,055.0	1,040.9
Shares in issue at 31 March (million)**	1,067.6	1,043.0	1,067.7	1,043.0

* Comparative information has been re-presented to reflect the classification of Scotia Gas Networks as a discontinued operation and the changes to segmental disclosures made in the year (see note 1.2 of the Financial Statements).

** Excludes treasury shares.

Dividend per Share

	March 2022	March 2021
Interim Dividend (pence)	25.5	24.4
Final Dividend (pence)	60.2	56.6
Full Year Dividend (pence)	85.7	81.0

Financial review continued

Operating profit performance 2021/22

Business-by-business segmental

	Adjusted	Reported		
	March 2022 £m	March 2021 £m	March 2022 £m	March 2021 £m
Operating profit/(loss)				
SSEN Transmission	380.5	220.9	380.5	220.9
SSEN Distribution	351.8	275.8	351.8	275.8
Electricity networks total	732.3	496.7	732.3	496.7
SSE Renewables	568.1	731.8	427.8	856.0
SSE Thermal	306.3	160.5	630.1	775.3
Gas Storage	30.7	(5.7)	125.4	2.8
Thermal Total	337.0	154.8	755.5	778.1
Business Energy (GB)	(21.5)	(24.0)	(21.5)	(3.9)
SSE Airtricity (NI and Ire)	60.4	44.0	60.4	50.0
Energy Customer Solutions Total	38.9	20.0	38.9	46.1
Energy Portfolio Management	(16.8)	18.4	2,083.6	608.5
Distributed Energy	(10.9)	(27.0)	(29.2)	(76.1)
Neos	(16.1)	(2.8)	(140.0)	(14.1)
Corporate unallocated	(95.7)	(58.4)	(113.5)	(40.3)
Total operating profit from continuing operations	1,536.8	1,333.5	3,755.4	2,654.9
Net finance costs	(372.8)	(384.6)	(273.2)	(236.9)
Profit before tax from continuing operations	1,164.0	948.9	3,482.2	2,418.0
Discontinued operations:				
Gas Production Assets	101.4	33.0	(19.4)	33.0
Scotia Gas Networks	21.0	173.0	495.4	88.6
Total operating profit/(loss) from discontinued operations	122.4	206.0	476.0	121.6

* Comparative information has been re-presented to reflect the classification of Scotia Gas Networks as a discontinued operation and the changes to segmental disclosures made in the year (see note 1.2 of the Financial Statements).

In order to present the financial results and performance of the Group in a consistent and meaningful way, SSE applies a number of adjusted accounting measures throughout this financial report. These adjusted measures are used for internal management reporting purposes and are believed to present the underlying performance of the Group in the most useful manner for ordinary shareholders and other stakeholders.

The definitions SSE uses for adjusted measures are explained in the Alternative Performance Measures section before the Financial Statements. A reconciliation of adjusted operating profit by segment to reported operating profit by segment can be found in note 5.1(ii) to the Financial Statements.

Segmental EBITDA results are included in note 5.1(v) to the Financial Statements.

Impact from market volatility

The Group reduces direct exposure to short term commodity price volatility through its business mix, the disciplined application of its clearly defined approach to hedging and low VAR trading limits. Nevertheless, the higher and more volatile gas and power market prices, combined with increasing inflation rates have had some impact upon SSE's businesses which can be summarised as follows:

SSEN Transmission and SSEN Distribution operate under a regulatory price control framework which is set by Ofgem. Returns under this framework have no direct relationship to gas and power market prices, however both allowed revenues and Regulated Asset Values are index linked (Transmission to CPI(H). Distribution to RPI (for ED1 price control) and CPI(H) (for ED2 price control)).

Within **SSE Renewables**, in periods where wind volume output was significantly lower than expected, excess forward sale contracts had to be 'bought back' in the market at higher prices, further reducing the trading result.

For **SSE Thermal** (as well as the Hydro plant within SSE Renewables), value has come from the ability of the plant to respond to market conditions and provide vital balancing services to provide security of supply and flexibility in higher, more volatile market conditions. The current market conditions are therefore generally positive for these businesses, although this is dependent upon plant availability at times of system stress.

Both **EPM and Gas Storage**, through their respective exposure to unsettled commodity contracts and physical gas inventory, have experienced significant positive unrealised mark-to-market remeasurement gains in the year. However, EPM is not expected to realise significant gains upon settlement of the contracts, as they are largely offset by significant adversely marked-to-market 'own use' operating derivatives which are excluded from disclosure as remeasurements under IFRS 9. In addition, for EPM, market volatility and retail energy supplier failure has resulted in a significant increase in the collateral requirements necessary to allow the businesses to continue to trade with counterparties and on exchanges as required. To date these increased collateral requirements have generally been managed by issuing new Letters of Credit, Guarantees and Performance Bonds, however exchange cash collateral requirements have been subject to volatility in recent months. The Group closely monitors this and maintains

more than sufficient liquidity to manage these increased collateral requirements.

SSE Business Energy and SSE Airtricity (aside from Northern Ireland, where SSE Airtricity is subject to a regulatory pricing mechanism) are not subject to a regulated price cap and therefore variable tariffs are adjusted dynamically and fixed tariff rates are reset for new customers as wholesale costs increase or decrease. Although the businesses are insulated against gas price rises insofar as they are fully hedged, there are external circumstances that would result in hedge adjustments such as weather, supplier failures and broader economic conditions. A dynamic forecasting approach has been in place to quickly respond to volume changes. In relation to Airtricity, vertical integration of generation and customer businesses in the Irish market limits commodity exposures with some benefit received through REFIT receipts on legacy wind assets.

Finally, **SSE Group** is well funded with a strong investment grade credit rating, a high proportion of the £8.6bn adjusted net debt (c.96%) is fixed rate and the long average maturity of SSE's debt is 6.8 years. The Group has been successful in challenging debt markets, issuing a €1bn Hybrid and £350m Private Placement post year-end. SSE's balance sheet strength allows the Group to meet additional collateral increases on higher and volatile commodity contracts, while the high proportion of fixed rate debt provides robust financing in an inflationary environment.

Operating profit

Adjusted and reported operating profit/losses in SSE's business segments for the year to 31 March 2022 are set out below; comparisons are with the same period to 31 March 2021 unless otherwise stated.

SSEN Transmission: Adjusted and reported operating profit increased by 72% to £380.5m. This was mainly due to higher allowed revenues in FY22 (the first year of the RIIO-T2 price control) resulting from an increased proportion of higher totex allowances received through the 'fast money' mechanism, and an over-recovery of £9m, as timing impacts passed from the Electricity System Operator to Transmission Operators. This higher revenue was partially offset by increases in operating costs and depreciation charges, as the business continues to expand its operational capability and asset base.

SSEN Distribution: Adjusted and reported operating profit increased by 28% to £351.8m compared to £275.8m which was lower than expected due to a c.£40m

impact of coronavirus in FY21 which will be recovered in FY23. In FY22, higher allowed revenue and an over-recovery of £17m were partially offset by a £51m increase in operating costs, c£40m of which related to expenditure incurred managing the impact of several severe weather events during the year.

SSE Renewables: Adjusted operating profit decreased by 22% to £568.1m, compared to £731.8m, mainly as developer profits of £64m from a 10% stake disposal in Dogger Bank C on 10 February 2022 were lower than the £226m of developer profits in the prior year. Excluding developer profits, operating profit was broadly flat as exceptionally still and dry weather in the summer months led to a decrease in output of 7% or 0.7TWh compared to the prior year, offset by strong financial performance from hydro and pumped storage in volatile markets. The financial impact of lower output – equivalent to 13% or 1.4TWh below planned levels – included the cost of buying back hedged volumes at high market prices.

In addition to the factors outlined above, reported operating profit of £427.8m compared to £856.0m which included one-off exceptional gains of £214.5m. In addition, reported operating profit was also impacted by a £21.5m increase in joint venture share of interest and tax charges and the impact of the UK Corporation tax rate change on deferred tax balances in joint ventures.

SSE Thermal: adjusted operating profit increased 91% to £306.3m, compared to £160.5m. This increase was mainly due to higher achieved spark spread, including buying back forward power sales on high wind days, and strong performance in the balancing market. This was partially offset by non-recurring developer profits on the disposal of a 50% stake in Slough Multifuel in the prior period, lower profit contribution following divestment of Ferrybridge Multifuel and increased depreciation following the part-reversal of historic impairment charges at the half year.

Reported operating profit decreased to £630.1m from £775.3m in the prior year which had included one-off gains of £669.7m on the sale of Multifuel Energy and £21.3m on Slough Multifuel offset by a £58.1m exceptional impairment charge for Great Island CCGT. In addition to the factors affecting operational performance highlighted above, the reported result reflects the associated impairment reversal of £331.6m to the carrying value of SSE's CCGT assets following higher forward price curves, alongside other minor tax and interest movements.

Financial review continued

Gas Storage: Adjusted operating profit of £30.7m, compared with a prior year loss of £(5.7)m. SSE continues to operate the plant on a merchant basis, with the ability to capture positive gas price spreads during periods of heightened market volatility. The operating result for the period reflects continued volatile market conditions, which allows Gas Storage to optimise the value from storage of physical gas against changes in the spread between summer and winter prices.

Reported operating profit of £125.4m included an impairment reversal of £97.3m as a result of improved operating prospects given projected gas price volatility, together with a £(2.6)m revaluation loss on gas held in storage, compared to a revaluation gain of £8.5m in the prior year.

SSE Business Energy: Adjusted operating loss of £(21.5)m has slightly improved compared with an adjusted operating loss of £(24.0)m last year. Both years have been impacted by significant volatility; the prior year result included approximately £24m of losses on early settlement of excess commodity hedges linked to Covid, while the current year has borne non-recoverable BSUoS costs of around £20m and £14m of additional mutualisation costs due to a significantly higher number of supplier failures. These were partially offset by an improvement in bad debt recovery of £14m as the economy emerged from the impact of coronavirus. The underlying business remains stable with a solid customer book.

Reported operating loss was also £(21.5)m, compared to £(3.9)m loss in the prior year which included a £20.1m release of excess bad debt provisioning originally expected to arise from coronavirus impact.

SSE Airtricity: Adjusted operating profit increased to £60.4m compared to £44.0m in the previous year, with the increased profit due to £51m of higher generation receipts on wind assets which are contracted through Airtricity. This was partially offset by a £25m adjustment in relation to historic use of system costs.

The business has grown customer numbers year on year but seen a drop in customer margins as energy prices increased; commodity costs increased significantly in the year and were managed through our approach to hedging and where necessary through tariff increases.

Reported operating profit was also £60.4m, compared to £50.0m profit in the prior year which included a £6.0m release of excess bad debt provisioning originally expected to arise from coronavirus impact.

Energy Portfolio Management: Adjusted operating loss of £(16.8)m, compared to an adjusted operating profit of £18.4m which included a net £20.4m income from legacy Gas Production hedges. The operating loss is primarily due to a legacy power contract with Ovo which fully unwound during the year in a higher commodity price environment. EPM continues to expect to earn a small adjusted operating profit through service provision to those SSE businesses requiring access to energy markets.

Reported operating profit of £2,083.6m reflects a material net remeasurement gain in the year on unsettled fair value forward commodity contracts, under IFRS 9. In line with reporting in previous years, this result excludes an adverse remeasurement of 'own use' contracts of approximately £2.0bn which largely offsets the IFRS 9 gain.

SSE Distributed Energy: An adjusted operating loss of £(10.9)m was reported, compared with an adjusted operating loss of £(27.0)m which included an impact from coronavirus. This reporting segment includes the result from the Contracting and Rail business, which remains reported within this segment up to the point of disposal on 30 June 2021. The segment no longer includes Out of Area Networks, which is now reported within the Distribution segment, and Neos Networks JV, which has been separately presented below.

Reported operating loss of £(29.2)m reflects the above factors together with an exceptional loss on disposal of £18.3m upon completion of the sale of Contracting and Rail.

Neos Networks JV: SSE's remaining 50% share in the Telecoms business Neos Networks recorded an adjusted operating loss of £(16.1)m compared with £(2.8)m in FY21. The reported loss of £(140.0)m includes both an impairment of £(106.9)m and an adjustment to original transaction consideration.

Corporate unallocated: Adjusted operating loss of £(95.7)m compared with £(58.4)m, reflecting a natural reduction in external revenues as enduring service agreements with recently divested businesses roll-off, together with higher central costs including increased Group IT costs as the Group accelerates its investment in digitalisation.

Reported operating loss of £(113.5)m reflects the above factors together with a £(13.1)m revaluation adjustment to the legacy Gas Production decommissioning provision, part of Corporate unallocated following the business disposal in the year, and other minor tax and interest movements.

Adjusted earnings per share

To monitor its financial performance over the medium term, SSE reports on its adjusted earnings per share measure. This measure is calculated by excluding the charge for deferred tax, interest costs on net pension liabilities, exceptional items, valuation movements on the retained Gas Production decommissioning liabilities, depreciation on fair value adjustments and the impact of certain remeasurements.

SSE's adjusted EPS measure provides an important and meaningful measure of underlying financial performance. In adjusting for the items mentioned, adjusted EPS reflects SSE's internal performance management, avoids the volatility associated with mark-to-market IFRS 9 remeasurements and means that items deemed to be exceptional due to their nature and scale do not distort the presentation of SSE's underlying results. For more detail on these and other adjusted items please refer to the Adjusted Performance Measures section of this statement.

In the year to 31 March 2022, SSE's adjusted earnings per share on continuing operations was 95.4p. This compares to 78.4p for the year to 31 March 2021 (restated for SGN disposal – 87.5p previously reported) and reflects the movements in adjusted operating profit outlined in the section above.

Group financial outlook – 2022/23 and beyond Key points for 2022/23

The group has enjoyed a strong start to delivery of the targets it set out in its Net Zero Acceleration Programme with thermal and hydro plant performing particularly well in the second half of 2021/22.

SSE's focus continues to be on long-term, sustainable financial performance. Through high levels of investment expected in Transmission, a step up in profits expected in Thermal generation and an expected return to normal weather for Renewables, SSE is confident about delivery of strong earnings growth for this financial year, specifically:

- For SSEN Transmission: SSE expects to report strong growth in adjusted EBIT with a 20% increase in allowed revenues under the RIIO-T2 price control, as the network continues to expand its operational capability and asset base;
- For SSE Renewables: assuming normal weather and plant availability, SSE expects to report generation output of 11.4TWh, including 0.9TWh from Seagreen; and
- For SSE Thermal and Gas Storage: assuming normal plant availability and excluding the benefit of Keadby 2, SSE expects to report adjusted EBIT for 2022/23 of at least £337m, the same level as 2021/22.

Taking the above into account SSE currently expects to report full year adjusted earnings per share of at least 120p.

The Group remains committed to its five-year dividend plan to March 2026 and is recommending a 2022/23 full-year dividend of 85.7 pence in line with that plan.

Capital expenditure and investment is expected to total in excess of £2.5bn in 2022/23 (including acquisitions but net of project finance development expenditure refunds) assuming the recent Southern European acquisition successfully completes as planned. This is consistent with maintaining SSE's target net debt to EBITDA ratio of 4.5 times or below.

Update to net zero acceleration programme

In November 2021 SSE set out that it expected to deliver adjusted EPS CAGR on the 87.5 pence reported for the year ended March 2021 (before restatement) of between 5-7% in the period to 31 March 2026. This was underpinned by index-linked revenue streams driving 60% of EBITDA and was after a modelling assumption of a 25% minority interest disposal of Transmission and Distribution during FY24.

SSE now expects to deliver an adjusted EPS CAGR of between 7-10%* over the same period as a result of: confidence derived from strong delivery in 2021/22; higher RPI forecasts; higher and more volatile energy commodity prices; and evidence of increased value creation potential from flexibility provided by SSE's Thermal and Hydro generation, and gas storage assets.

* Using the same baseline adjusted EPS of 87.5p (before restatement for SGN disposal) and continuing to model a 25% minority interest disposal of Transmission and Distribution during FY24.

Supplemental financial information Adjusted investment and capex summary

	March 2022 Share %	March 2022 £m	March 2021 £m
SSEN Transmission	30	614.4	435.2
SSEN Distribution	18	364.8	350.8
Regulated networks total	48	979.2	786.0
SSE Renewables	39	811.0	294.3
SSE Thermal	6	129.3	106.5
Gas Storage	–	2.1	1.9
Thermal Total	6	131.4	108.4
Energy Customer Solutions	2	39.8	31.2
Energy Portfolio Management	–	2.4	2.1
Gas Production*	–	–	26.8
Distributed Energy	1	26.6	17.6
Corporate unallocated	4	78.7	74.2
Adjusted investment and capital expenditure, before refunds	100	2,069.1	1,340.6
Project finance development expenditure refunds		(136.7)	(428.6)
Adjusted investment and capital expenditure	1,932.4	912.0	
Acquisitions		141.3	–
Adjusted investment, capital and acquisitions expenditure	2,073.7	912.0	

* Discontinued operation, the Gas Production business was disposed on 14 October 2021.

Disposal of minority stake in networks

SSE continues to regard partnering as vital for the future and an important means of unlocking future opportunities in its businesses.

In line with the modelling assumption in its Net Zero Acceleration Programme, announced in November 2021, the Group has recently initiated a sales process with banking advisers for a 25% share of the SSEN Transmission business which is expected to formally commence in Summer 2022. Given the SSEN Distribution business is currently progressing its ED2 price control negotiations, a decision on the timing of a similar stake sale will be made later in the financial year.

While these are high-quality, core businesses and SSE will retain control, the scale of potential growth and the associated investment required mean that bringing in non-controlling partners will create greater long-term value by enabling SSE to harness this significant growth whilst maintaining an attractive balance of capital allocation across the Group.

Progress in SSE's capital expenditure programme

During the year to March 2022, SSE's adjusted investment, capital and acquisition expenditure, which now includes equity expenditure on acquisitions per above, totalled £2,073.7m, an increase of 127% compared with the prior year and representing the highest ever investment recorded by the Group. Almost £2bn of this was invested within SSE's Renewables, Thermal and Networks businesses, all which are fundamental to delivery of the UK's net zero ambitions. In summary:

- Excellent progress was made in SSEN Transmission's investment programme, with a total of £614.4m invested in building out and reinforcing the network in the North of Scotland. Work was completed on Tealing Substation Extension, required to facilitate the connection of Seagreen to the grid. In addition, construction is well under way on the link between Shetland and mainland Scotland, which will see a submarine cable laid in order to transmit power beneath the seabed between converter stations at Weisdale Voe on Shetland and Noss Head in Caithness.

Financial review continued

- SSEN Distribution continued its capital investment programme across both the north and south networks, with a total spend of £364.8m, mainly on strategic investment and construction in both the north and south regions, as well as progressing the replacement of the submarine cable between Skye and Harris. All of which is designed to deliver improvements for customers.
- Significant further capex was deployed on SSE Renewables' flagship projects, including nearly £500m investment on Seagreen, Scotland's largest offshore wind farm, and around £100m on Viking onshore wind farm, which will be one of Europe's most productive onshore wind farms, once complete. In addition, progress was made at the 30MW Lenalea onshore wind farm in County Donegal and the 38MW Gordonbush Extension onshore wind farm in Sutherland was commissioned during the year.
- Investment in SSE Thermal was focused on the final stages of the 893MW Keadby 2 CCGT, with commissioning started in October 2021 and full commercial operation expected 1 October 2022.

In April 2022, an incident occurred on a sub-contractor S7000 installation vessel which is contracted to the Seagreen offshore wind farm construction project. The project team are working closely with contractors to manage and mitigate project impacts and the project is currently expected to achieve first power in July 2022 and full commercial operation in April 2023.

SSE's hedging position at 18 May 2022

SSE has an established approach to hedging through which it generally seeks to reduce its broad exposure to commodity price variation at least 12 months in advance of delivery. As market conditions change, SSE may decide to alter its hedging approach in response to any changes in its exposure profile. SSE will continue to provide a summary of its current hedging approach, including details of any changes in the period, within its Interim and Full-year Results statements.

A summary of the hedging position for each of SSE's market-based businesses is set out above.

Volumes are based on average expected output, and the contracted hedge price is either at 31 March or 18 May as noted in the table above.

SSE Renewables – GB wind and hydro

Forward power prices and volatility have been increasing, driven by supply-demand tensions, the acceleration in carbon pricing, nuclear outages and closures and the reconfiguration of the merit order in both GB and Ireland. These trends have been amplified by scarcity concerns across Europe. In response to this, SSE Renewables has increased its hedge position against its target volume for financial years 2023/24 and 2024/25.

In order to show this hedge acceleration, the table below has been updated to show the position at 18 May 2022 for those periods.

		As at 31 March 2022		As at 18 May 2022		
		2021/22	2022/23	2023/24	2024/25	2025/26
Wind	Expected volume – TWh	4.2	5.3	6.8	8.4	8.7
	Volume hedged – %	85%	91%	78%	37%	1%
	Hedge price – £MWh	£48	£54	£69	£105	£108
Hydro	Expected volume – TWh	3.6	3.5	3.7	3.8	3.8
	Volume hedged – %	83%	85%	70%	38%	1%
	Hedge price – £/MWh	£50	£63	£74	£110	£108

The expected volumes include anticipated volumes from SSE's wind farms in construction, Seagreen (pre CFD) and Viking. No volumes have been included for Dogger Bank wind farm. Seagreen accounts for approximately 0.9TWh in 22/23 and 2.5TWh in each of 23/24, 24/25 and 25/26 with Viking accounting for 1.6TWh in 24/25 and 1.9TWh in 25/26. These volumes represent SSE's most up to date view of the output from Seagreen taking account of recent issues encountered by the S7000 installation vessel. In the event that further construction delays result in a shortfall against wind hedged volumes, it is expected that the exposure will continue to be managed within the wider SSE generation portfolio.

The table excludes additional volumes and income for BM activity, ROCs, ancillary services, pre-commissioning, capacity mechanism and shape variations. It also excludes volumes and income relating to Irish wind output, pumped storage and CfDs.

Energy output hedges for both wind and hydro are progressively established over the 36 months prior to delivery (although the extent of hedging activity for future periods depends on the level of available market depth and liquidity). Target hedge levels continue to be achieved through the forward sale of either electricity, or gas and carbon equivalents (assuming a constant 1MWh : 69.444 tCO₂ and 1MWh : 0.3815 te/MWh conversion ratio between commodities), with the balance determined by the optimal hedge price across those markets. This approach aims to reduce the exposure of renewables assets to volatile spot power market outcomes whilst still providing an underlying commodity price hedge.

For wind energy output, SSE's established approach to hedging seeks to account for the effect of the 'wind capture price' by targeting a hedge of less than 100% of its anticipated wind energy output for the coming 12 months. The targeted hedge percentage is reviewed and adjusted as necessary to reflect any changes in future market and wind capture insights. The last such revision occurred in May 2021, with at least 90% of the anticipated energy output from wind for the coming twelve months being hedged from that date.

The approach to hedging hydro energy output remains unchanged at approximately 85% of its forecast energy output for the coming 12 months.

UK Business Energy: The business supplies electricity and gas to business and public sector customers. Sales to contract customers are 100% hedged: at point of sale for fixed contract customers; upon instruction for flexi contract customers; and on a rolling hedge basis for tariff customers.

Given the pricing and macro-economic context Business Energy is dynamically monitoring nearer term consumption actuals for any early signs of demand variability, and adjusting future volumes hedged accordingly.

GB Thermal: In the six months prior to delivery, SSE aims to hedge all of the expected output of its CCGT assets, having progressively established this hedge over the preceding eighteen months. Hedging activity depends on the availability of sufficient market depth and liquidity, which can be limited, particularly for periods further into the future.

SSE continues to monitor market developments, in particular the recent energy and carbon price volatility, and will adjust its hedging approach to take account of any resultant change in exposures.

Gas Storage: The annual auction to offer gas storage capacity contracts from Atwick, held in April 2022, resulted in no third-party contracts being secured. As such the assets are being commercially operated to optimise value arising from changes in the spread between summer and winter prices, market volatility and plant availability.

Energy Portfolio Management (EPM): EPM provides the route to market and manages the execution for all of SSE's commodity trading outlined above (spark spread, power, gas, oil and carbon). This includes monitoring market conditions and liquidity and reporting net Group exposures. The business operates under strict position limits and VAR controls. There is some scope for small position-taking to permit EPM to manage around shape and liquidity whilst taking small optimisation opportunities. This is contained within a VAR limit of £2m (£1m for the curve period and £1m for the prompt).

Ireland: Vertical integration of the generation and customer businesses in Ireland limits the Group's commodity exposure in that market.

In addition to the above exceptional items from continuing operations, a net exceptional gain within discontinued operations of £455.7m before tax was recognised. This net exceptional profit consisted of:

- a £576.5m gain recognised on completion of the disposal of the Group's 33.3% investment in SGN on 22 March 2022; offset by
- a £120.8m loss relating to the disposal of the Gas Production assets and liabilities on 14 October 2021.

For a full description of exceptional items, see note 7 of the Financial Statements.

Operating derivatives

SSE enters into forward purchase contracts (for power, gas and other commodities) to meet the future demands of its energy supply businesses and to optimise the value of its generation assets. Some of these contracts are determined to be derivative financial instruments under IFRS 9 and as such are required to be recorded at their fair value as at the date of the financial statements.

Summarising movements on exceptional items And certain remeasurements

Exceptional items

In the year to 31 March 2022, SSE recognised a net exceptional gain within continuing operations of £305.0m before tax. The following table provides a summary of the key components making up the net gain position:

	Total £m
Exceptional Credits/(Charges) within continuing operations	
Disposals of non-core assets:	
Contracting & Rail business – loss on disposal	(18.9)
Impairments and other exceptional items	
Thermal Electricity Generation historic impairment reversal	331.6
Gas Storage historic impairment reversal	97.3
Neos Networks investment impairment and adjustment to consideration	(113.1)
Other historic true-up credits	8.1
	323.9
Total exceptional items	305.0

Notes:

The definition of exceptional items can be found in note 3.2 of the Financial Statements. Non-core assets are defined as being assets in which SSE is not the principal operator or are less aligned with the transition to net-zero emissions.

Certain remeasurements

In the year to 31 March 2022, SSE recognised a net remeasurement gain within continuing operations of £2,118.8m before tax. The following table provides a summary of the key components making up the net gain position:

	Total £m
Certain remeasurements within continuing operations	
Operating derivatives	2,100.4
Commodity stocks held at fair value	(2.6)
Financing derivatives	21.0
Total	2,118.8

SSE shows the change in the fair value of these forward contracts separately as this mark-to-market movement does not reflect the realised operating performance of the businesses. The underlying value of these contracts is recognised as the relevant commodity is delivered, which for the large majority of the position at 31 March 2022 is expected to be within the next 12-18 months.

The change in the operating derivative mark-to-market valuation was a £2,100.4m increase from a small "in-the-money" position at 31 March 2021 into a significantly "in-the-money" position at 31 March 2022. This movement consisted of:

- Settlement during the year of £(1,426.8)m of previously "in-the-money" contracts in line with the contracted delivery periods; and
- Mark-to-market gains of £3,527.2m on unsettled contracts entered into during the course of 2020/21 and 2021/22 in line with the Group's stated approach to hedging. These mark-to-market gains reflect the significant volatility in commodity markets during the period.

As in prior years, the reported result does not include remeasurement of 'own use' adverse hedging agreements which would have settled at a mark-to-market loss in the year of c.£1.95bn and which would be valued at c.£(2.1)bn at 31 March 2022; these contracts are excluded from recognition under IFRS 9 and largely offset the IFRS 9 remeasurement noted above.

Commodity stocks held at fair value

Gas inventory purchased by the Gas Storage business for secondary trading opportunities is held at fair value with reference to the forward month market price. The £(2.6)m negative movement in the year mainly resulted from a decrease in the underlying volumes of gas held at year end, as gas was sold in the second half of the financial year realising the significant increase in the fair value of that gas during the year.

Financial review continued

Financing derivatives

In addition to the positive movements above, a positive movement of £21.0m was recognised on financing derivatives in the year to 31 March 2022, including SSE's share of joint venture financing derivative remeasurements, and related to mark-to-market movements on cross-currency swaps and floating rate swaps that are classed as hedges under IAS 39. These hedges ensure that any movement in the value of net debt is predominately offset by a movement in the derivative position. The adjustment was primarily driven by weaker Sterling against the Dollar partially offset by stronger Sterling against the Euro.

These remeasurements are presented separately as they do not represent underlying business performance in the period. The result on financing derivatives will be recognised in adjusted profit before tax when the derivatives are settled.

reported results also reflect the reversal of historic SSE Thermal and Gas Storage impairment charges of £428.9m as well as other pre-tax exceptional items totalling £(123.9)m as detailed within note 7 of the Financial Statements.

Reported profit before tax and earnings per share

Taking all of the above into account, reported results for the year to 31 March 2022 are significantly higher than the previous year. In addition to the £2,118.8m cumulative net gain on forward commodity, gas inventory and financing derivative fair value remeasurements noted above,

Reported results in the prior year reflected pre-tax exceptional and certain re-measurement gains of £1,503.7m recognised which were driven by a combination of progression with the Group's £2bn plus non-core asset disposal programme and IFRS 9 remeasurements on operating derivatives.

Financial management and balance sheet

Debt metrics

	March 2022 £m	September 2021 £m	March 2021 £m
Net Debt/EBITDA*	4.0	N/A	4.7
Adjusted net debt and hybrid capital (£m)	(8,598.2)	(9,611.4)	(8,898.9)
Average debt maturity (years)	6.8	7.2	7.4
Adjusted interest cover (times)	4.0	1.6	3.5
Average interest rate for the period (excluding JV/assoc. interest and all hybrid coupon payments)	3.29%	3.35%	3.12%
Average cost of debt at period end (including all hybrid coupon payments)	3.81%	3.89%	3.75%

* Note: Net debt represents the group adjusted net debt and hybrid capital. EBITDA represents the full year group adjusted EBITDA, less £125.4m (at March 2022) for the proportion of adjusted EBITDA from equity-accounted Joint Ventures relating to project financed debt.

Net finance costs reconciliation

	March 2022 £m	March 2021 £m
Adjusted net finance costs	372.8	384.6
Add/(less):		
Lease interest charges	(30.4)	(35.3)
Notional interest arising on discounted provisions	(5.7)	(3.8)
Hybrid equity coupon payment	50.7	46.6
Adjusted finance costs for interest cover calculation	387.4	392.1

SSE Principal Sources of debt funding

	March 2022 £m	September 2021 £m	March 2021 £m
Bonds	55%	58%	58%
Hybrid debt and equity securities	21%	22%	24%
European investment bank loans	7%	7%	8%
US private placement	9%	9%	8%
Short-term funding	5%	1%	0%
Index-linked debt	3%	3%	2%
% Of which has been secured at a fixed rate	96%	100%	98%

Rating Agency	Rating	Criteria	Date of Issue
Moody's	Baa1 'negative outlook'	'Low teens' Retained Cash Flow/Net Debt	November 2021
Standard and Poor's	BBB+ 'outlook stable'	About 18% Funds From Operations/Net Debt	November 2021

Maintaining a strong balance sheet

While there may be short-term fluctuations, a key objective of SSE's approach to managing cash outflow and securing value and proceeds from disposals is its target of a net debt/EBITDA ratio of 4.5x or lower across the five years to 31 March 2026.

As well as promoting the long-term success of the Company, this approach is also designed to ensure that SSE maintains credit rating ratios (Retained Cash Flow (RCF)/Net Debt and Funds From Operations (FFO)/Net Debt) that are comparable with private sector utilities across Europe and comfortably above those required for an investment grade credit rating.

SSE's S&P credit rating remains at BBB+ 'stable outlook' and its Moody's rating also remains at Baa1, but updated to 'stable outlook' following the strategic review update in November 2021.

Adjusted net debt and hybrid capital

SSE's adjusted net debt and hybrid capital was £8.6bn at 31 March 2022, down from £8.9bn at 31 March 2021. This movement reflects the completion of the non-core asset disposal programme announced in 2020, which included completion of the sale of the 33.3% investment in SGN in March 2022, partially offset by the ongoing investment programme, including the acquisition of an 80% stake in a Japanese

development platform from Pacifico Energy in September 2021, as well as various working capital movements.

Following the significant debt issued in the 20/21 financial year, where the SSE Group accessed the debt and hybrid capital markets three times issuing c.£2.5bn of debt over six tranches, no new medium-long-term debt was issued in the 2021/22 financial year. The SSE Group did however re-enter the short-term Commercial Paper market during the year and at 31 March 2022 had £507m of Commercial Paper outstanding.

Debt summary as at 31 March 2022

As stated above no new medium-long-term debt was issued and received in 2021/22 however the following two debt issues were committed to or completed either side of the financial year end:

- In March 2022, the SSE Group through its SSEN Transmission entity priced and committed to a £350m dual tranche private placement, being a £175m 10-year tranche at 3.13% and £175m 15-year tranche at 3.24% giving an all-in average rate of 3.19%. The pricing was committed to in March 2022 and the proceeds will be received on 30 June 2022.
- In April 2022, SSE plc issued a €1bn NC6 equity accounted hybrid bond at 4% to refinance the dual tranche debt accounted hybrid bonds issued in March 2017. SSE has taken advantage of the

3-month par call option on these 2017 hybrid bonds, meaning they will now be repaid on 16 June 2022 in advance of the first call date. The €1bn equity accounted hybrid bond has been kept in Euros and the proceeds will be used to cover the portion of the maturing hybrid that was swapped to Euros (€575m) and to finance a portion of the Southern European onshore wind development platform acquisition cost which is expected to complete by September 2022.

In addition to the hybrid bonds called in June 2022 a further £613m of medium-long-term debt matures in 2021/22 being £163m (USPP) which matured in April 2022, £300m (Eurobond) maturing in September 2022 and £150m (EIB) maturing in October 2022. A further £507m of short-term debt in the form of Commercial Paper is also due to mature in the first half of 2021/22, however the current intention is to roll this maturing short-term debt forward where possible.

Hybrid bonds summary as at 31 March 2022

Hybrid bonds are a valuable part of SSE's capital structure, helping to diversify SSE's investor base and most importantly to support credit rating ratios, with their 50% equity treatment by the rating agencies being positive for SSE's credit metrics.

A summary of SSE's hybrid bonds as at 31 March 2022 can be found below:

Issued	Hybrid Bond Value*	All in rate	First Call Date	Accounting Treatment
March 2017	£300m	3.73%	September 2022	Debt accounted
March 2017	\$900m (£749m)	2.72%	September 2022	Debt accounted
July 2020	£600m	3.74%	Apr 2026	Equity accounted
July 2020	€500m (£454m)	3.68%	July 2027	Equity accounted

* Sterling equivalents shown reflect the fixed exchange rate where proceeds have been swapped to Sterling and where proceeds remain in Euros the Sterling equivalent is revalued each period.

In accordance with the first call date, the €600m (£440m) March 2015 Hybrid Bond was called and redeemed in April 2021 and therefore not included in the table above. The March 2017 hybrids have a 3-month par call option that SSE has invoked meaning these two hybrids will now be called and settled on 16 June 2022.

Further details on each hybrid bond can be found in Notes 21 and 22 to the Financial Statements and a table noting the amounts, timing and accounting treatment of coupon payments is shown below:

Hybrid coupon payments

	2022/23		2021/22	
	HYe	FYe	HYa	FYa
Total equity (cash) accounted			£51m	£51m
Total debt (accrual) accounted	£39m	£39m	£15m	£31m
Total hybrid coupon	£21m	£21m	£66m	£82m

Financial review continued

SSE's March 2015 and July 2020 hybrid bonds are perpetual instruments and are therefore accounted for as part of equity within the Financial Statements but, as in previous years, have been included within SSE's 'Adjusted net debt and hybrid capital' to aid comparability. The March 2017 hybrid bonds which have been called and will be settled in 2022/23 had a fixed redemption date and have therefore been debt accounted and included within Loans and Other Borrowings; as such they were already part of SSE's adjusted net debt and hybrid capital.

The coupon payments relating to the equity accounted hybrid bonds are presented as distributions to other equity holders and are reflected within adjusted earnings per share when paid. The coupon payments on the debt accounted hybrid bonds are treated as finance costs under IFRS 9.

Managing net finance costs

SSE's adjusted net finance costs – including interest on debt accounted hybrid bonds but not equity accounted hybrid bonds –

were £372.8m in the year to 31 March 2022, compared to £384.6m in the previous year after restatement for SGN related finance costs. The relatively stable level of finance costs from year to year, despite periods of high inflation, reflects the high proportion of fixed rate debt held by the Group.

Reported net finance costs were £273.2m compared to £236.9m, after restatement for SGN related finance costs, reflecting a £34.6m year-on-year change in the mark-to-market revaluation of financing derivatives held at fair value.

Summarising cash and cash equivalents

At 31 March 2022, SSE's adjusted net debt included cash and cash equivalents of £1.0bn, down from £1.6bn at March 2021 which reflects the continued strong cash generation from operating activities, offset by a significant increase in capital investment, a reduction in year-on-year disposal proceeds as the June 2020 non-core asset disposal programme came to an end and a net repayment of

borrowings. This continued strong cash position will allow SSE to meet its near-term debt repayment and capital investment needs as set out above.

As the fair value of forward commodity contracts has moved from an 'in the money' position in the prior year to an 'out the money' position in the current year, the related collateral required has similarly unwound. At 31 March 2022, £74.7m of cash was provided as collateral to third parties compared to £37.1m held as collateral from third parties on these 'in the money' contracts in the prior year.

Revolving credit facility/short term funding

SSE has £1.5bn of committed bank facilities in place to ensure the Group has sufficient liquidity to allow day-to-day operations and investment programmes to continue in the event of disruption to Capital Markets preventing SSE from issuing new debt for a period of time. These facilities are set out in the table below.

Date	Issuer	Debt type	Term	Value
Mar 19	SSE plc	Syndicated Revolving Credit Facility with 10 Relationship Banks	2026	£1.3bn
Oct 19	SSE plc	Revolving Credit Facility with Bank of China	2026	£200m

The facilities can also be utilised to cover short-term funding requirements; however, they remain undrawn for most of the time and at 31 March 2022 they were both undrawn.

Both facilities are classified as sustainable facilities with interest rate and fees paid dependant on SSE's performance in environmental, social and governance matters, as assessed independently by Vigeo Eiris.

In addition to these committed bank facilities, the Group has access to £100m of uncommitted bank lines and a £15m overdraft facility.

Maintaining a prudent treasury policy

SSE's treasury policy is designed to be prudent and flexible. In line with that, cash from operations is first used to finance regulatory and maintenance capital expenditure and then dividend payments, with investment and capital expenditure for growth generally financed by a combination of cash from operations, bank borrowings and bond issuance. In 2021/22 growth was also financed by disposal proceeds.

As a matter of policy, a minimum of 50% of SSE's debt is subject to fixed rates of interest. Within this policy framework, SSE borrows as required on different interest bases, with financial instruments being used to achieve the desired out-turn interest rate profile. At 31 March 2022, 96% of SSE's borrowings were at fixed rates.

Borrowings are mainly in Sterling and Euros to reflect the underlying currency denomination of assets and cash flows within SSE. All other foreign currency borrowings are swapped back into either Sterling or Euros.

Transactional foreign exchange risk arises in respect of procurement contracts, fuel and carbon purchasing, commodity hedging and energy portfolio management operations, and long-term service agreements for plant.

SSE's policy is to hedge any material transactional foreign exchange risks through the use of forward currency purchases and/or financial instruments. Translational foreign exchange risk arises in respect of overseas investments; hedging in respect of such exposures is determined as appropriate to the circumstances on a case-by-case basis.

Ensuring a strong debt structure through medium- and long-term borrowings

The ability to raise funds at competitive rates is fundamental to investment. SSE's fundraising over the past five years, including senior bonds, hybrid capital and term loans, now totals £7.7bn and SSE's objective is to maintain a reasonable range of debt maturities. Its average debt maturity, excluding hybrid securities, at 31 March 2022 was 6.8 years, down from 7.4 years at 31 March 2021. This movement reflects the £2.1bn of debt maturing in the next 12 months and is forecast to return to 7.5 years during 2022/23. SSE's average cost of debt is now 3.81%, compared to 3.75% at 31 March 2021.

Going concern

The Directors regularly review the Group's funding structure and have assessed that the Financial Statements should be prepared on a going concern basis.

In making their assessment the Directors have considered sensitivities on the forecast future cashflows of the Group for the period to 31 December 2023 resulting from the current volatile market conditions; the Group's credit rating; the success of the Group's disposal programme through

2020/21 and 2021/22; and the successful issuance of £1.2bn of hybrid equity and private placement debt issued since the March 2022 financial year end. The Directors have also considered the Group's obligations under its debt covenants, with projections to 31 December 2023 supporting the expectation that there will be no breaches.

The Directors have also assessed that the Group remains able to access Capital Markets, as demonstrated by the £3.7bn of debt issued over the last 24 months. There is also an expectation of continued availability of the Commercial Paper market along with future available liquidity in the

private placement market in addition to the Group's existing liquidity with £1.5bn of undrawn committed borrowing facilities.

SSE's principal joint ventures and associates

SSE's financial results include contributions from equity interests in joint ventures ("JVs") and associates, all of which are equity accounted. The details of the most significant of these are included in the table below. This table also highlights SSE's share of off-balance sheet debt associated with its equity interests in JVs which totals less than £2.5bn as at 31 March 2022.

SSE principal JVs and associates ¹	Asset type	SSE holding	SSE share of external debt as at 31 March 2022	SSE Shareholder loans as at 31 March 2022
Seabank Power Ltd	1,234MW CCGT	50%	No external debt	No loans outstanding
Marchwood Power Ltd	920MW CCGT	50%	No external debt	£39m
Clyde Windfarm (Scotland) Ltd	522MW onshore wind farm	50.1%	No external debt	£127m
Dogger Bank A Wind Farm	Up to 1,200MW offshore wind farm.	40%	£532m	Project financed
Dogger Bank B Wind Farm	Up to 1,200MW offshore wind farm.	40%	£364m	Project financed
Dogger Bank C Wind Farm	Up to 1,200MW offshore wind farm.	40%	£185m	Project Financed
Seagreen Windfarm Ltd	1,075MW offshore wind farm	49%	£570m	£477m ²
Seagreen 1a Ltd	Offshore wind farm extension	50%	No external debt	£9m
Lenalea Wind Energy Ltd	30MW of onshore windfarm	50%	No external debt	£3m
Beatrice Offshore Windfarm Ltd	588MW offshore wind farm	40%	£736m	Project financed
Cloosh Valley Wind Farm	105MW onshore windfarm (part of Galway Wind Park)	25%	£25m	Project financed
Neos Networks Ltd	Private telecoms network	50%	No external debt	£91m
Slough Multifuel Ltd	50MW energy-from-waste facility	50%	No external debt	£63m
Stronelairg Windfarm Ltd	228MW onshore wind farm	50.1%	No external debt	£88m
Dunmaglass Windfarm Ltd	94MW onshore windfarm	50.1%	No external debt	£47m

Notes:

1 Greater Gabbard, a 504MW offshore windfarm (SSE share 50%) is proportionally consolidated and is reported as a Joint Operation with no loans outstanding.

2 For accounting purposes, £205m of the £477m of SSE Shareholder loans advanced to Seagreen Windfarm Limited as at 31 March 2022 have been classified as equity.

Taxation

SSE is one of the UK's biggest taxpayers, and in the PwC survey published in November 2021 was ranked 16th out of the 100 Group of Companies in 2021 in terms of taxes borne (those which represent a cost to the company, and which are reflected in its financial results).

SSE considers being a responsible taxpayer a core element of its social contract with the societies in which it operates. SSE seeks to pay the right amount of tax on its profits, in the right place, at the right time, and was the first FTSE 100 company to be awarded the Fair Tax Mark. While SSE has an obligation to its shareholders, customers and other stakeholders to efficiently manage its total tax liability, it does not seek to use the tax system in a way it does not consider it was meant to operate, or use tax havens to reduce its tax liabilities.

Under its social contract SSE has an obligation to the society in which it operates, and from which it benefits – for example, tax receipts are vital for the public

services SSE relies upon. Therefore, SSE's tax policy is to operate within both the letter and spirit of the law at all times.

In December 2021, SSE published 'Talking Tax 2021: Tax as a driver for change' report. It did this because it believes building trust with stakeholders on issues relating to tax is important to the long-term sustainability of the business.

In the year to 31 March 2022, SSE paid £335.3m of taxes on profits, property taxes, environmental taxes, and employment taxes in the UK, compared with £379.0m in the previous year. The reduction in total taxes paid in 2021/22 compared with the previous year was primarily due to:

- The sale of SSE's Contracting business in June 2021. Only three months of profit taxes, property taxes and employment taxes are included in relation to that business in 2021/22 compared with a full year in 2020/21;
- Lower Climate Change Levy being paid as a result of outages at SSE's gas-fired power stations.

In 2021/22 SSE also paid €46.4m of taxes in Ireland, compared to €20.4m the previous year, due to increased profits in SSE's Irish businesses. Ireland is the only country outside the UK in which it currently has significant trading operations. SSE's operations elsewhere are still at an early stage and are not yet paying material amounts of tax.

As with other key financial indicators, SSE's focus is on adjusted profit before tax and, in line with that, SSE believes that the adjusted current tax charge on that profit is the tax measure that best reflects underlying performance. SSE's adjusted current tax rate, based on adjusted profit before tax, was 9.2%, compared with 9.1% in 2020/21 on the same basis. Total deferred tax for the period increased to £797.4m from £145.4m and was principally driven by the tax effect on the significant mark-to-market valuation movement on derivative contracts, in addition to a £244.7m adjustment relating to the tax rate change to 25% which was substantively enacted on 24 May 2021.

Financial review continued

Pensions

Contributing to employees' pension schemes – IAS 19

	March 2022	September 2021	March 2021
Pension scheme asset recognised in the balance sheet before deferred tax £m	584.9	501.7	543.1
Pension scheme liability recognised in the balance sheet before deferred tax £m	–	(63.7)	(186.1)
Net pension scheme asset recognised in the balance sheet before deferred tax £m	584.9	438.0	357.0
Employer cash contributions Scottish Hydro Electric scheme £m	1.0	0.5	1.1
Employer cash contributions Southern Electric scheme £m	58.0	30.7	55.2
Deficit repair contribution included above £m	40.9	20.4	37.9

In the year to 31 March 2022, the net surplus across SSE's two pension schemes increased by £227.9m, from £357.0m to £584.9m, primarily due to actuarial gains of £197.3m and contributions made to the schemes offset by current service costs.

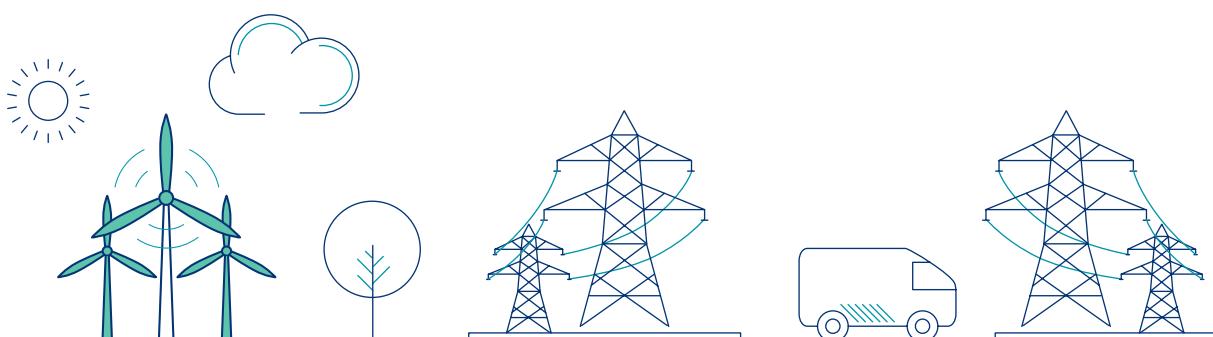
The valuation of the Southern Electric Pension Scheme ('SEPS') increased by £253.5m in 2021/22 primarily due to

actuarial gains of £221.9m, in particular the impact of higher discount rates, and deficit repair contributions exceeding service costs.

The Scottish Hydro Electric Pension Scheme ('SHEPS') has insured against volatility in its deferred and pensioner members through the purchase of 'buy-in' contracts meaning that the Group only

retains exposure to volatility in active employees. During the year the SHEPS surplus decreased by £25.6m.

Additional information on employee pension schemes can be found in note 23 to the Financial Statements.



Business Unit operating review

SSE's strategy is delivered through a focused mix of market-based and economically-regulated energy businesses. SSE's businesses are key to enabling a net zero economy, have significant growth potential and, importantly, fit together. With common skills and capabilities in the development, building and operation of world-class, highly technical electricity assets, there are strong synergies between them. SSE's business mix is very deliberate, highly effective, fully focused and well set to prosper on the journey to net zero and beyond.

The review of the Business Units that follows provides visibility of performance and future priorities.



Operating review continued

SSEN Transmission

SSEN Transmission key performance indicators

	March 2022	March 2021
SSEN Transmission		
Transmission adjusted and reported operating profit – £m	380.5	220.9
Regulated Asset Value (RAV) – £m	4,155	3,631
Renewable Capacity connected to SSEN Transmission Network – MW	7,790	6,750
Transmission adjusted investment and capital expenditure – £m	614.5	435.2

SSEN Transmission overview

SSEN Transmission owns, operates and develops the high voltage electricity transmission system in the North of Scotland and its islands. Over the duration of the five-year RIIO-T2 price control, which began in April 2021, total expenditure by SSEN Transmission is expected to reach at least £2.8bn (the Certain View) which would take Transmission RAV to in excess of £5bn by the end of RIIO-T2.

In addition to the Certain View expenditure, under Ofgem's Uncertainty Mechanisms changes to the allowed revenue are permitted during the price control period to reflect additional investment requirements, when their need or expected timeframe are not known at the outset. These Uncertainty Mechanisms are used to fund further upgrades to the network during the price control period, when there is more certainty around the scope of work required. This investment plays a pivotal role in providing critical national infrastructure and to maintain network reliability for the communities SSEN Transmission serves as it delivers a network for net zero.

Operational delivery

SSEN Transmission has made a strong start in delivering against its regulatory settlement during the first year of the new five-year RIIO-T2 price control period. Building on its strong track record of consistently delivering over 99.99% network reliability – and in line with its RIIO-T2 goal to aim for 100% transmission network reliability for homes and businesses – in 2021/22, SSEN Transmission achieved the full reward of £0.7m through the Energy Not Supplied Incentive. This is the second consecutive year SSEN Transmission has achieved the full Energy Not Supplied Incentive available and the 2021/22 reward will be reflected in revenue in 2023/24.

In addition to exceptional operational performance in the year, SSEN Transmission continues to deliver against its strategic objective to enable the transition to a low-carbon economy as it builds a network for net zero in the North of Scotland. The RIIO-T2 period is expected to deliver significant growth in the capacity of renewables connected to SSEN Transmission's network, from under 7GW at the start of RIIO-T2 to around 14GW by March 2026. This includes growth of around 1GW in 2021/22, which brings the total installed capacity connected to the North of Scotland transmission network to around 9GW, of which just under 8GW is from renewable sources. SSEN Transmission is well on its way to delivering its RIIO-T2 goal to transport the renewable electricity that powers 10m homes, which will be met once the installed capacity of renewables reaches 10GW.

This forecast growth in renewables will be enabled by a series of strategic investments in new and upgraded infrastructure. Excellent progress continues to be made on the Shetland HVDC transmission link, which has now been in construction for over 18 months and will see Shetland connected to the GB transmission system for the first time, enabling the connection of renewables and supporting Shetland's future security of supply. The substation and converter station sites at Kergord (Shetland) and switching station at Noss Head (Caithness) are taking shape, with all main building structures now complete. Cable installation preparatory works have also progressed well, with all land cable ducting now in place and the first phase of subsea boulder clearing successfully completed. Subsea cable installation works will follow from 2022/23, alongside the fit out of substation and converter station buildings, with the project on track for completion and energisation in 2024.



"The future for our business has never been brighter: National Grid's Network Options Assessment has set out the critical need for further network development and the British Energy Security Strategy calls for faster, more strategic network build-out to connect the renewables needed for net zero."

Rob McDonald
Managing Director,
SSEN Transmission

The second phase of the Inveraray to Crossaig overhead line replacement project in Argyll, from Port Ann to Crossaig, is also progressing well, with the replacement line remaining on track for completion by summer 2023.

Excellent progress continues on works to increase incrementally the capacity of the north east and east coast transmission network to 275kV then to 400kV, with new substations at New Deer and Rothienorman now energised at 275kV, to be subsequently upgraded to 400kV in 2023. The 400kV overhead line (OHL) upgrade works between Peterhead, Rothienorman and Blackhillock are also well under way and are due for completion in 2023, with the overall upgrade of the east coast network to 400kV remaining on track for completion in 2026.

At both Alyth and Kinardochy, construction of new substations, including specialist voltage control devices, have commenced with good progress also being made at Peterhead substation and an upgrade to Tealing substation.

To support SSEN Transmission's 1.5°C science-based targets for emissions reductions, including its RIIO-T2 goal to deliver a one third reduction in greenhouse gas emissions, the business remains at the forefront of industry efforts to remove harmful SF6 gases from its infrastructure, working with its supply chain to develop and deliver innovative alternatives. This includes the world's largest installation of GE's g3 gas-insulated substation at New Deer substation and the world's first g3 400kV substation at Kintore.

For financial performance commentary please refer to the Group Financial Review.

Growth opportunities in RIIO-T2

During 2021/22, SSEN Transmission has made excellent progress progressing plans for a number of investments over and above its £2.8bn Certain View. These additional investments, which are being taken forward through Ofgem's Uncertainty Mechanisms, will be key to delivering a pathway for net zero.

In March 2022, Ofgem provisionally approved the Final Needs Case (FNC) for the first of two planned HVDC links connecting Peterhead to demand centres in England. Work on the initial 2GW Peterhead to Drax link, with a combined investment of around £2.1bn, will be progressed jointly by SSEN Transmission and National Grid Electricity Transmission (NGET). Development and early construction activity and expenditure will continue during RIIO-T2, with delivery and energisation in 2029 (RIIO-T3).

Also in March 2022, SSEN Transmission submitted its Initial Needs Case (INC) to Ofgem for the Argyll and Kintyre 275kV Strategy. At an estimated total investment of around £400m, this is required to upgrade the main Argyll transmission network from 132kV, supporting the forecast growth in renewables in the region.

In April 2022, Ofgem published its response to SSEN Transmission's INC for the replacement and upgrade of the Fort Augustus to Skye transmission line, recognising the clear need for the project, paving the way to progress to the FNC stage of the regulatory approvals process. At an estimated total investment of around £400m, the replacement line is required to maintain security of supply and to enable the connection of renewable electricity generation along its route.

Further expenditure to connect new renewable generation, rail electrification and system security is also expected throughout the RIIO-T2 period and beyond when the need for this investment becomes certain. These investments could see the total installed generation capacity increase to around 14GW by the end of RIIO-T2, with up to 13GW of this expected from renewable sources. Subject to regulatory approval, combined, these investments, alongside the Certain View, could bring the total expenditure across the RIIO-T2 period to over £4bn, with SSEN Transmission RAV increasing to between £6.5bn to £7bn by the end of RIIO-T2.

Growth opportunities beyond RIIO-T2

In January 2022, Crown Estate Scotland published the outcome of the ScotWind leasing round, awarding leases with a potential capacity of around 25GW, vastly exceeding the anticipated 10GW of potential capacity expected to be leased. In April 2022, the UK Government published its British Energy Security Strategy (BESS), which included an increased offshore wind ambition from 40GW to 50GW by 2030 and a clear direction for Ofgem to support anticipatory investment in strategic network projects ahead of demand, which will be formalised in a Strategic Policy Statement from BEIS to Ofgem later this year. Enabling ScotWind's ambition and the UK Government's 50GW target will require significant transmission upgrades in both onshore and offshore transmission infrastructure.

In January 2022, National Grid Electricity Transmission (NGESO) published its 2022 Networks Options Assessment (NOA). This provided strong 'proceed' signals recommending several major reinforcements in the North of Scotland to meet forecast future energy scenarios, although these will still require Ofgem approval. The NOA recommended the following investments in SSEN Transmission's network region:

- Two subsea high-voltage direct current (HVDC) links from Peterhead to England;
- A second HVDC link from Spittal in Caithness, connecting to Peterhead; and
- Strategic onshore reinforcements north of Inverness and between Inverness and Peterhead.

In addition to the opportunities outlined above, SSEN Transmission continues to work with stakeholders in Orkney and the Western Isles to develop and take forward proposals to enable mainland transmission connections. Changes to the structure of the forthcoming Contracts for Difference (CfD) auction, with offshore wind now in a separate pot to remote island wind, may increase the competitiveness of remote island wind which, in turn, could support the investment case for the proposed transmission links. The outcome of the next CfD auction is expected in the summer of 2022.

Operating review continued

SSEN Distribution

SSEN Distribution key performance indicators

	March 2022	March 2021
SSEN Distribution		
Distribution adjusted and reported operating profit – £m	351.8	275.8
Regulated Asset Value (RAV) – £m	4,054	3,792
Distribution adjusted investment and capital expenditure – £m	364.8	350.8
Electricity Distributed – TWh	37.6	36.1
Customer minutes lost (SHEPD) average per customer	57	57
Customer minutes lost (SEPD) average per customer	42	44
Customer interruptions (SHEPD) per 100 customers	56	64
Customer interruptions (SEPD) per 100 customers	42	48

SSEN Distribution overview

SSEN Distribution, operating under licence as Scottish Hydro Electric Power Distribution plc (SHEPD) and Southern Electric Power Distribution plc (SEPD), is responsible for safely and reliably maintaining the electricity distribution networks supplying over 3.8m homes and businesses across central southern England and the North of Scotland. SSEN Distribution's networks cover the greatest land mass of any of the UK's Distribution Network Operators over 75,000km² of extremely diverse terrain.

In December 2021, SSEN Distribution published its RIIO-ED2 Final Business Plan for 2023 to 2028. Titled 'Powering Communities to Net Zero' it sets out the £3.99bn of flexibility and network investment required to accelerate net zero in a way that is efficient and affordable.

Operational delivery

SSEN Distribution continues to undertake a major capital investment programme across both its networks, delivering significant improvements for customers and increasing its Regulated Asset Value. In the 12 months to 31 March 2022, the business invested £364.8m, bringing the total invested since the beginning of the RIIO-ED1 price control to around £2.3bn. This is part of a forecast £2.7bn investment throughout the RIIO-ED1 period, supporting future earnings through RAV growth. This includes progressing £41m of strategic investment approved through the Green Recovery programme in 2021.

2021/22 investment has included a multi-million pound upgrade to an essential section of Hampshire's infrastructure in Fareham, completed in January 2022; and a substantial programme of works to boost power supplies to homes and businesses on the Isle of Wight comprising the complete refurbishment of two 132kV transformers along with the replacement of two 33kV circuit breakers. In the North of Scotland, work commenced on a £9.5m project to boost the resilience and reliability of the network around Aultbea and Ullapool, and a £7m investment programme to enhance security of supply across Tayside.

Incentive performance remains a revenue driver and SSEN prioritises improving reliability of network performance and supporting a positive customer experience. Under the RIIO regulatory regime, and the Interruptions Incentive Scheme (IIS), SSEN Distribution is incentivised on its performance against the loss of electricity supply through the recording of Customer Interruptions (CI) and Customer Minutes Lost (CML) which includes both planned and unplanned supply interruptions. These incentives will typically be collected two years after they are earned.

The winter of 2021/22 saw six exceptional weather incidents which had a major impact on SSEN Distribution's network, causing in excess of 2,600 points of damage. In total, 10 Met Office Weather Warnings were in place last winter for both licence areas.



"We are progressing a stakeholder-led plan for RIIO-ED2 that balances investment in net zero with the need to keep costs down for customers. We look forward to the Ofgem's final determinations and hope very much that they match the decarbonisation ambitions set out in the British Energy Security Strategy."

Chris Burchell
Managing Director,
SSEN Distribution

Whilst SSEN Overall Customer Satisfaction (CSAT) is broadly in line with last year at 87%, the incentive reward has been impacted due to the unprecedented storm season. The volume of calls presented during the winter period (October to February) was equivalent to a normal year's worth of calls, resulting in reduced customer satisfaction metrics. As a result, the overall incentive reward under the Broad Measure of Customer Satisfaction reduced in 2021/22 to £2.7m from £4.9m the previous year. It is expected that a best ever score from the Stakeholder Engagement and Customer Vulnerability (SECV) incentive will be achieved, which would result in an increased incentive revenue from £1.6m to £1.9m.

For financial performance commentary please refer to the Group Financial Review.

Growth opportunities in RIIO-ED2

As a provider of critical national infrastructure, SSEN Distribution is playing a vital role in accelerating the transition to net zero. The business is on track to deliver its key ED1 outputs and, in October 2021, became the first DNO to set a 1.5°C-aligned target accredited by the Science Based Target initiative.

In April 2022, the UK Government's British Energy Security Strategy recognised the importance of strategic network investment which is essential to meeting the expected demand growth in RIIO-ED2 and future price control periods. DNOs will unlock billions of pounds in investment in wider economic benefits for a net zero future.

SSEN Distribution now awaits Ofgem's draft determination on its ambitious, stakeholder-led business plan for the RIIO-ED2 period. This will be an acid test of the regulator's

alignment with the British Energy Security Strategy and fundamentally its approach to delivering the necessary strategic investment for networks to be an enabler, rather than a blocker, of net zero. SSEN Distribution continues to engage proactively with Ofgem and government on achieving a fair ED2 outcome that protects current and future consumers, and delivers the outcomes customers want at a pace consistent with a rapid growth environment.

The proposals within SSEN Distribution's Final Business Plan for ED2 are a key part of SSE's Net Zero Acceleration Programme. The plan was co-created with stakeholders and this engagement will continue to ensure that their ambitions are reflected in the process. The Final Business Plan proposes a total base expenditure of £3.99bn representing a 32% increase over an equivalent timeframe in RIIO-ED1, and reflecting additional requirements for customers over the five years to 2028. The proposed baseline spend provides a low-regret foundation enabling all scenarios and optionality, without which DNOs risk becoming a blocker to customer demands for EV and heat pump connections through ED2 and beyond and increasing costs for future generations.

Late 2021 saw much-awaited publications and strategies related to heat decarbonisation. The UK Government confirmed its ambition to upscale the installation of heat pumps to at least 600,000 a year by 2028 and to make its Boiler Upgrade Scheme available for early adopters, while the Scottish Government has set a 2030 target for at least 1m homes to have switched to zero emissions heat. It is anticipated that there will be over 800,000 heat pumps across SSEN Distribution's networks by the end of RIIO-ED2. The Final Business Plan sets out the required investment to ready the network for net zero, consistent with this projection.

The Scottish Government's January 2022 publication, A Network Fit For The Future: Draft Vision for Scotland's Public Electric Vehicle Charging Network, confirmed its desire to enable new models of public electric vehicle chargepoint financing and delivery, focused on public and private partnerships, to support and coordinate investment. In March 2022, the UK Government's EV Infrastructure Strategy set out ambitions for EV chargepoints to be seamlessly integrated into a smart energy system with at least 300,000 public chargepoints installed by 2030. By this date, the 2021 DFES projects that SSEN Distribution's licence areas could support up to 10.8GW of electric vehicle charging capacity. SSEN Distribution has set out investment plans to help provide the increased capacity needed to enable these projections and to ready its network to facilitate 1.3m electric vehicles by 2028.

Operating review continued

SSE Renewables

SSE Renewables key performance indicators

	March 2022	March 2021
SSE Renewables		
Renewables adjusted operating profit – £m	568.1	731.8
Renewables reported operating profit – £m	427.8	856.0
Renewables adjusted investment and capital expenditure before refunds – £m	811.0	294.3
Generation capacity – MW		
Onshore wind capacity (GB) – MW	1,285	1,247
Onshore wind capacity (NI) – MW	122	122
Onshore wind capacity (ROI) – MW	567	567
Total onshore wind capacity – MW	1,974	1,936
Offshore wind capacity (GB) – MW	487	487
Conventional hydro capacity (GB) – MW	1,159	1,159
Pumped storage capacity (GB) – MW	300	300
Total renewable generation capacity (inc. pumped storage) – MW	3,920	3,882
Contracted capacity	2,792	2,792
Generation output – GWh		
Onshore wind output (GB) – GWh	2,502	2,377
Onshore wind output (NI) – GWh	264	282
Onshore wind output (ROI) – GWh	1,196	1,354
Total onshore wind output – GWh	3,962	4,013
Offshore wind output (GB) – GWh	1,430	1,845
Conventional hydro output (GB) – GWh	3,107	3,476
Pumped storage output (GB) – GWh	227	244
Total renewable generation (inc. pumped storage) – GWh	8,726	9,578
Total renewable generation (also inc. constrained off) – GWh	9,423	10,171

Note 1: Capacity and output based on 100% of wholly owned sites and share of joint ventures

Note 2: Contracted capacity includes sites with a CfD, eligible for ROCs, or contracted under REFIT

Note 3: Onshore wind output excludes 469GWh of constrained off generation in 2021/22 and 592GWh in 2020/21; Offshore wind output excludes 228GWh constrained off generation in 2021/22 and 1GWh in 2020/21

Note 4: Onshore wind capacity in GB reflects the commissioning of Gordonbush Extension in August 2021

Note 5: Biomass capacity of 15MW and output of 73GWh in 2021/22 and 71GWh 2020/21 is excluded, with the associated operating profit or loss reported within Distributed Energy

SSE Renewables overview

SSE Renewables comprises the Group's existing operational assets and those under development in onshore wind, offshore wind, flexible hydro electricity, run-of-river hydro electricity and pumped storage. Its operational offshore wind installed capacity is 487MW with its onshore wind and hydro electric installed capacity at 1,936MW and 1,459MW respectively.

Operational delivery

SSE Renewables' hydro assets continue to play an important role in providing cost-effective, low-carbon flexibility to the system, which is providing additional diversified revenue streams. Hydro assets

performed very strongly across the year, with availability at an all-time high between December and March and providing much needed flexible peak capacity to the market. In addition, Foyers pumped hydro station was fully available through periods of very high demand.

Despite natural wind resources being below normal yearly averages, a steady second half of the year – coupled with high plant performance to maximise production – led to a year-end position of onshore wind volumes at 88% of planned volume.

Offshore, Beatrice saw excellent availability in the second half and Greater Gabbard saw improved turbine availability over the



"We are getting on with delivering the flagship wind projects that underpin the Net Zero Acceleration Programme and broadening our pipeline horizons with ventures in exciting new markets. All of this is made possible thanks to a fully-funded capex plan backed by a large, balanced group of businesses."

Stephen Wheeler
Managing Director,
SSE Renewables

12 months. Offshore wind speeds returned to average after low wind speeds in the first half of the year, resulting in improved volumes.

As part of SSE Renewables' continued investment into its asset management capabilities, it has just been awarded certification in the ISO55001 standard for asset management for its operational organisation.

For financial performance commentary please refer to the Group Financial Review.

Construction programme

All three phases of the world's largest offshore wind farm at Dogger Bank (each 1,200MW, SSE share 40%) remain on track. Onshore works are continuing, and offshore construction is now under way with installation of the HVDC export cables for Dogger Bank A. Dogger Bank C reached financial close in December 2021, and in February 2022, SSE Renewables and Equinor each sold a 10% share in this third phase to Eni.

On Seagreen 1 (1,075MW, SSE share 49%) there are currently 21 jackets and turbines installed on what will be the world's deepest, fixed-bottom offshore wind farm once operational. The offshore substation platform is successfully installed and

commencing commissioning works. All onshore cabling works and export cable installation is progressing as planned. SSE currently expects first power in July with commercial operations by mid-April 2023. In April 2022, an incident occurred on a sub-contractor S7000 installation vessel which is contracted to the Seagreen project. The project team is working closely with contractors to manage and mitigate project impacts. Seagreen 1 is eligible to participate in the UK CfD Allocation Round 4 (AR4). Bids are due to be submitted by 15 June 2022 with the results of the auction expected by 8 July 2022.

Construction is progressing well on Viking (443MW) with almost all of the access tracks completed and 83 of 103 bases excavated. Work on the DC substation is continuing with the first two transformers due to be delivered by June 2022. Turbines will be installed in early 2023 and completion is planned for July 2024. Viking is expected to be amongst the highest-yielding onshore wind farms in Europe, producing almost 2TWh annually. It is also eligible to enter AR4.

At Lenalea wind farm (30MW, SSE share 50%) in Ireland, construction is progressing and is to be commissioned in late 2022/early 2023.

In July 2021, Beatrice Offshore Wind Farm Limited, a joint venture owned 40% by SSE Renewables, agreed divestment of its Offshore Transmission Owner assets at an asset value of £437.9m and full asset transfer took place on 5 August 2021.

Gordonbush Extension (38MW), SSE's first merchant onshore wind project, was fully commissioned and handed over to operations following its official opening in August 2021.

In Hydro, investment in works to modify three key stations, Sloy, Glendoe and Errochty, has started and will increase the capability of these stations in providing essential services to the grid. And in April 2022, a £50m investment to upgrade Tummel Bridge power station commenced which will increase the station's potential power output from 34MW to 40MW, with a return to service expected in Autumn 2023.

Growth opportunities – domestic

SSE Renewables' core markets of the UK and Ireland still offer considerable opportunities for growth over the near, medium and long term.

Near term, onshore wind growth can be delivered through SSE Renewables' consented sites at Strathy South (208MW) and Tangy repower (57MW) in Scotland. Yellow River (104MW) in Ireland was provisionally successful in the May 2022 RESS-2 auction in Ireland and will now progress towards a final investment decision. Consent applications have been submitted to the Scottish Government for Bhlaraidh Extension (in excess of 100MW), and Achany Extension (in excess of 80MW).

Offshore, near-term growth is expected to come from the consented Seagreen 1A (500MW, SSE Renewables share 49%), which is an extension to the Seagreen 1 offshore wind site. Seagreen 1A is eligible to participate in AR4. Should a Financial Investment Decision (FID) be reached, it could be operational by 2025/26.

In the medium term, out to the end of the decade, there is a wealth of opportunities. In addition to the UK's increased offshore target of 50GW by 2030, from 40GW noted above, the British Energy Security Strategy set out a raft of measures which will see permitting of offshore wind projects accelerated. SSE Renewables' unrivalled offshore wind pipeline will play a key role in meeting this new target.

SSE Renewables is working towards a consent application submission in Q3 2022 for the up to 4.1GW Berwick Bank wind farm with the aim of securing consent in 2024 and being operational around the end of the decade.

North Falls wind farm (up to 504MW, SSE Renewables share 50%), which is an extension to the Greater Gabbard wind farm off the east coast of England, continues to progress with local consultation under way for a potential grid connection in North Essex. North Falls could also be operational by 2030.

SSE Renewables has added its first floating offshore wind project to its domestic pipeline with the success in Crown Estate Scotland's ScotWind offshore wind seabed

leasing process as part of a consortium with Marubeni Corporation and CIP (Copenhagen Infrastructure Partners). The up to 2.6GW site (SSE Renewables share 40%) in the E1 Zone in the Firth of Forth will be one of the largest floating wind projects in the world and aims to start generating by 2030. This will play an important part in meeting the UK Government's increased floating wind target of 5GW by 2035.

SSE Renewables also aims to contribute additional capacity needed to meet Ireland's offshore wind target of 5GW by 2030. Following the introduction by the Irish Government of the Maritime Area Planning (MAP) Act in December 2021, SSE Renewables will now progress Arklow Bank Wind Park 2 via this new consenting regime. The revised project will proceed with an increased capacity of 800MW. Subject to securing the necessary consents and if successful in the first Offshore Renewable Energy Support Scheme (ORESS) auction, expected at the end of 2022, Arklow Bank Wind Park 2 could be operational by 2028.

A foreshore licence has been secured for site investigations for the 1,000MW Braymore Wind Park project off the north-east coast and an application has been submitted for the 1,200MW Celtic Sea Array off the south-east coast. Celtic Sea Array and Braymore Wind Park will both apply for a Marine Area Consent (akin to a seabed lease) in the Irish Government's next phase, expected in 2023.

Onshore, there continues to be positive progress on SSE Renewables' consented Coire Glas pumped hydro storage project (up to 1,500MW). Coire Glas would double the current amount of electricity storage capacity in Great Britain and create energy storage capacity of 30GWh, equivalent to powering around 3m homes for up to 24 hours. The British Energy Security Strategy identified the importance of long duration storage, and a policy decision in response to the BEIS call for evidence on possible policy interventions, such as cap and floor mechanism to support long duration storage, is expected imminently. Subject to the outcome of these policy decisions, Coire Glas could progress to an FID decision by 2023/24 with the objective of being completed before the end of the decade.

Operating review continued

SSE has ambitions to develop, build and operate >1 GW of 'green' hydrogen in industrial clusters and co-located with wind by 2031. As part of this, SSE Renewables has kickstarted its first electrolysis projects. Currently in the early stages of development, the Gordonbush H2 project will use a portion of the renewable energy from the 100MW-plus Gordonbush onshore wind farm to produce up to 2,000 tonnes of green hydrogen each year, contributing to the new UK 5GW electrolytic hydrogen target. SSE Renewables is also part of Galway Hydrogen Hub (GH2), a consortium proposing to develop an initial flagship demonstrator project at Galway Harbour, for the indigenous production and supply of green hydrogen fuel for public and private vehicles.

Growth opportunities – international

SSE Renewables made important progress in its international expansion plans in April 2022 when it entered into an agreement with Siemens Gamesa Renewable Energy for the acquisition of an onshore wind development platform totalling c.3.9GW across Spain, France, Italy and Greece for a consideration of €580m. The portfolio includes scope for up to 1GW of additional co-located solar development opportunities. The move marks SSE Renewables' entry into Southern Europe and creates a wider opportunity to pursue a balanced range of technologies, eg wind, solar, hydrogen, and storage. As part of the transaction, SSE Renewables will take on a team of around 40 employees with vast local experience in the sector. The transaction is likely to complete by the end of September 2022, subject to receipt of relevant foreign direct investment and regulatory approvals.

In September 2021, SSE Renewables progressed into Japan with the creation of a new joint ownership company, SSE Pacifico (80% stake), which includes the acquisition of an interest in an offshore development platform for US\$208m. The new company will develop the acquired 10GW gross portfolio, comprising a number of early development stage offshore wind projects in Japan. It includes a mix of fixed bottom and floating sites with the most advanced projects expected to be constructed by the end of this decade. SSE Renewables has submitted an application to the Polish government for an Offshore Location License (OLL) for the allocation of development rights for an

SSE Renewables project pipeline

Project	Location	Technology	Capacity (MW)	SSE Share (MW)
Due FID or in Construction				
Dogger Bank A	GB	Offshore wind	1,200	480
Dogger Bank B	GB	Offshore wind	1,200	480
Dogger Bank C	GB	Offshore wind	1,200	480
Seagreen 1	GB	Offshore wind	1,075	527
Viking	GB	Onshore wind	443	443
Lenalea	ROI	Onshore wind	30	15
Consented				
Seagreen 1A ¹	GB	Offshore wind	500	245
Yellow River	ROI	Onshore wind	104	104
Tangy	GB	Onshore wind	57	57
Strathy South	GB	Onshore wind	208	208
Coire Glas	GB	Pumped storage	Up to 1,500	Up to 1,500
Requiring consent				
Berwick Bank ²	GB	Offshore wind	Up to 4,100	Up to 4,100
ScotWind E1 Lease	GB	Offshore wind	2,600	1,040
Arklow Bank ³	ROI	Offshore wind	800	800
North Falls	GB	Offshore wind	504	252
Cloiche	GB	Onshore wind	155	155
Other	–	Onshore wind	c.200	c.200
Future prospects⁴				
Braymore Point	ROI	Offshore wind	1,000	1,000
Celtic Sea Array	ROI	Offshore wind	1,200	1,200
Japanese development projects	Japan	Offshore wind	10,000	8,000
Other GB	GB	Onshore wind	c.250	c.250
Other NI	NI	Onshore wind	c.50	c.50
Other ROI	ROI	Onshore wind	c.250	c.250
Other GB	GB	Hydro	75	75

Note 1: Seeking variation to existing consent.

Note 2: Berwick Bank and Marr Bank offshore wind farms were combined into one wind farm in September 2021, known as Berwick Bank Wind Farm.

Note 3: Entering new Irish Marine Area Planning process with revised capacity proposed.

Note 4: Reflects named development areas where some form of development activity is underway and therefore excludes any future or in-flight auction processes.

Note 5: SSE agreed to acquire 4.9GW Siemens Gamesa Renewable Energy onshore wind and solar platform in April 2022 with projects excluded above ahead of the acquisition completing. Completion is expected by end September 2022.

offshore wind farm in the Baltic Sea, which would be developed in partnership with Acciona Energia. The process is expected to run until Q3 2022.

SSE Renewables also continues to work with Acciona Energia on offshore wind opportunities in Spain. The Spanish Government published its draft offshore wind roadmap in August which set out an ambition to target up to 3GW by 2030.

In the Netherlands, SSE Renewables has submitted bids in the 1.4GW Hollandse Kust (west) offshore wind tender for two separate sites of 750MW each. Ecological innovation and energy systems integration are key assessment criteria.

SSE Renewables has formed a 50/50 strategic partnership with Brookfield for the bid, who have strong offtaker relationships in the Netherlands. SSE Renewables has also recently opened an office in Rotterdam.

SSE Renewables is also assessing other growth options across selected markets in Northern Europe and the United States. Towards the end of the financial year, it opened an office in Boston and is assessing participation in upcoming offshore leasing rounds, for example, in California, which is expected to take place in Autumn 2022.

SSE Thermal

SSE Thermal key performance indicators

	March 2022	March 2021
SSE Thermal		
Thermal adjusted operating profit – £m	306.3	160.5
Thermal reported operating profit – £m	630.1	775.3
Thermal adjusted investment and capital expenditure – £m	129.3	106.5
Generation capacity – MW		
Gas- and oil-fired generation capacity (GB) – MW	3,975	3,992
Gas- and oil-fired generation capacity (ROI) – MW	1,292	1,292
Total thermal generation capacity – MW	5,267	5,284
Generation output – GWh		
Gas- and oil-fired output (GB) – GWh	11,303	15,324
Gas- and oil-fired output (ROI) – GWh	2,962	2,433
Total thermal generation – GWh	14,265	18,008

Note 1: Capacity is wholly owned and share of joint ventures.

Note 2: Output is based on SSE 100% share of wholly owned sites and 100% share of Marchwood PPAs due to the contractual arrangement. In September 2021 SSE's offtake agreement for 100% of output from its Seabank CCGT JV expired, with output following that date only recognised to the extent of its 50% equity share.

Note 3: SSE announced the sale of its stake in Ferrybridge and Skelton Grange multifuel assets on 13 October 2020, the output of these is not included above.

Note 4: Decreased gas- and oil-fired capacity relates to closure of 17MW small diesel plant.

SSE Thermal overview

SSE Thermal owns and operates conventional thermal generation in the UK and Ireland. These assets play a key transitional role in the SSE Group and wider energy system, supporting the Balancing Mechanism on the journey to net zero. While providing much-needed system flexibility to ensure stability and security of supply in the short term, SSE Thermal is actively developing options to progressively decarbonise its fleet.

Operational delivery

SSE Thermal's combined cycle gas turbine (CCGT) fleet has played an important role in the UK, providing flexibility at scale to support a tight and volatile energy market, demonstrating the value it delivers within the SSE Group portfolio, providing balance when wind resource is scarce, and the importance of flexible assets in securing a resilient transition to net zero.

In the GB market, significant periods of scarcity in the year have led to increased forward spark spreads allowing value to be secured by the fleet ahead of delivery. This has been complemented by the fleet's ability to respond to on-the-day market requirements to balance the system, through the Balancing Mechanism. In the Irish market, the system has been tighter than normal, with lower generation capacity available. As a result, SSE Thermal's assets in Ireland have played an important role in keeping the lights on.

With the value of the SSE Thermal portfolio coming from its ability to respond to market conditions, plant availability has been managed responsibly to respond to system balancing needs; an approach that is likely to become more important as the volume of renewable capacity on the system increases. In providing these vital balancing services, strong operational performance is therefore less dependent upon the volume of its output and more on the availability of the plant at times of system stress. Reduced plant availability in the year was predominantly concentrated in the first six months and was driven by a number of factors including unplanned outages to respond to faults and maintenance requirements, slight overrun of planned outages and the phasing of outages towards the first half of the year to respond to system needs.

SSE's UK-based CCGT fleet has secured valuable Capacity Market agreements for winter 2022/23 and for future years out to September 2026, demonstrating the role thermal plant plays in ensuring security of supply. Agreements have also been secured for all of SSE Thermal's fleet in Ireland.

For financial performance commentary please refer to the Group Financial Review.



"The past year has shown the value that SSE Thermal creates for shareholders while providing society with the generation flexibility needed in the transition to net zero. I come into the role of MD already proud of a team that is delivering for the Group, and excited about our future prospects."

Catherine Raw
Managing Director,
SSE Thermal

Operating review continued

The following agreements have been awarded through competitive auctions:

SSE Thermal capacity contract awards

Station	Asset type	Station capacity	SSE share	Capacity obligation
Medway (GB)	CCGT	735MW	100%	To September 2023
Keadby (GB)	CCGT	755MW	100%	To September 2026
Keadby 2 (GB)	CCGT	893MW	100%	16-years commencing October 2022
Peterhead (GB)	CCGT	1,180MW	100%	To September 2026
Seabank (GB)	CCGT	1,234MW	50%	To September 2026
Marchwood (GB)	CCGT	920MW	100%	To September 2026
Slough Multifuel	Energy from Waste	50MW	50%	15-years commencing October 2024
Great Island (Ire)	CCGT	464MW	100%	To September 2026
Rhode (Ire)	Gas/oil peaker	104MW	100%	To September 2026
Tawnaghmore (Ire)	Gas/oil peaker	104MW	100%	To September 2026
Tarbert (Ire)	Oil	620MW	100%	To September 2023

Capacity contracts are based on de-rating factors issued by the delivery body for each contract year, therefore will not directly match SSE's published station capacity. Capacities stated reflect Transmission Entry Capacity.

Marchwood (SSE equity share 50%) tolling arrangement means SSE receives 100% of economic benefit from capacity contract.

Keadby 1 has capacity obligation in 2022/23 and 2025/26 but none in 2023/24 or 2024/25 contract years.

Keadby 2 16 year obligation comprised of a T-1 and a 15 year contract.

Growth opportunities

Delivering lower-carbon flexibility is a key pillar of SSE's Net Zero Acceleration Programme. Developing more efficient alternatives to the existing CCGT fleet will be vital to deliver SSE's goal to cut carbon intensity by 80% by 2030 and achieve its science-based carbon reduction targets, aligned with a 1.5°C global warming scenario. SSE Thermal is developing projects using carbon capture and storage (CCS) and hydrogen; technologies which will be critical to society in the transition to net zero, enabling enhanced renewables deployment by balancing the system.

In 2021/22 SSE Thermal progressed its carbon capture power stations, which it is co-developing with Equinor, through the planning process. In June 2021, SSE Thermal submitted a planning application for Keadby Carbon Capture Power Station to the UK's Planning Inspectorate. In March 2022 SSE Thermal submitted a planning application for Peterhead Carbon Capture Power Station to Scotland's Energy Consents Unit.

In October 2021 the UK Government announced that the East Coast Cluster – comprising the Humber and Teesside regions – and the HyNet Cluster in north-west England would be Track 1 clusters, or the first clusters supported to deploy shared CCS infrastructure by the middle of this decade. The Scottish cluster was identified as a 'reserve' Track 2 cluster and remains in line to progress to deployment as a Track 2 cluster by the end of the decade. The UK Government's commitment to supporting four clusters by

2030, including two by the middle of this decade, was galvanised in its CCUS Investor Roadmap which emphasised that the technology is a necessity not an option to deliver net zero emissions by 2050. Published in April 2022, it also confirmed its intention to engage with industry on the 'Track 2' process this calendar year.

In November 2021, the UK Government launched the second phase of the Cluster Sequencing Competition to identify which projects would be supported to connect to Track 1 clusters; this process was also open to projects seeking a connection into the 'reserve' Scottish Cluster. SSE Thermal submitted applications for Keadby Carbon Capture Power Station, seeking to connect into the East Coast Cluster, and Peterhead Carbon Capture Power Station, seeking to connect into the Scottish Cluster. Successful projects will secure a Dispatchable Power Agreement; a revenue support scheme designed by the UK Government. A decision on which projects will progress into negotiations is expected from July 2022.

Low-carbon hydrogen will be an important facet of a net zero economy. The UK Government's inaugural hydrogen strategy, published in August 2021, highlighted the role it will play in providing flexible energy for power, heat and transport and the need for large hydrogen storage facilities. SSE Thermal is continuing to develop low-carbon hydrogen projects, alongside Equinor, including Keadby Hydrogen Power Station and Aldbrough Hydrogen Storage and sees significant further growth opportunities in this space, in line with the UK's target to deliver 10GW of low-carbon

hydrogen production by 2030. SSE Thermal is also involved in Project Cavendish, an initiative to promote the Isle of Grain as a location for a low-carbon hydrogen economy. This could provide the opportunity to bring low-carbon hydrogen to SSE's Medway site.

Commissioning of Keadby 2, SSE Thermal's 893MW CCGT, started in October 2021 and full commercial operation is targeted for 1 October 2022. Keadby 2 brings Siemens' cutting-edge turbine technology to the UK; this first-of-a-kind turbine will be Europe's most efficient CCGT and will displace older, more carbon intensive plant on the system. It is capable of being upgraded to decarbonise the system further, through hydrogen blending or carbon capture and storage.

Keadby 2 also provides a testing ground for SSE Thermal's new digital strategy to deliver intelligent asset management, building on the digital capabilities already used to manage the SSE Thermal fleet. Using data and technology, the digital strategy aims to enhance asset management and maintenance capabilities.

Gas Storage

Gas Storage key performance indicators

	March 2022	March 2021
Gas Storage		
Gas Storage adjusted operating (loss)/profit – £m	30.7	(5.7)
Gas Storage reported operating profit/(loss) – £m	125.4	2.8
Gas storage adjusted investment and capital expenditure – £m	2.1	1.9

Gas Storage overview

SSE Thermal holds around 40% of the UK's conventional underground gas storage capacity. These assets can play an important role in the transition to net zero, supporting stability and security of gas supply in the short term as well as potential conversion to hydrogen storage for a net zero future.

Operational delivery

In 2021/22 SSE's Gas Storage business has navigated highly volatile gas markets and optimised assets to help ensure security of gas supply for the UK and provide important liquidity to the market. The assets also offer a significant risk management value to the portfolio by offering spot, short-notice flexibility. This helps defend the portfolio from exposures emanating from wind speed or consumer demand variability. Given the increasing focus around gas supply response across Europe, and the need for additional reserve to protect markets against significant geopolitical exposures, SSE anticipates this trend will continue. On that basis Gas Storage assets

are likely to make a substantial contribution to the Group in the next financial year.

For financial performance commentary please refer to the Group Financial Review.

Growth opportunities

SSE Thermal remains committed to working with UK Government departments and Ofgem to ensure the critical role of UK storage in relation to security of supply and stability of gas price is properly valued. It is also looking to play a future role as a source of low-carbon hydrogen storage which will be needed to balance supply and demand in a hydrogen economy.

Plans to develop a potentially world-leading hydrogen storage project at Aldbrough, announced in July 2021 with Equinor, are progressing. Since this announcement, the UK Government has committed to develop business models for hydrogen storage as part of the British Energy Security Strategy and SSE is particularly close to this policy discussion.



Operating review continued

SSE Business Energy

SSE Business Energy key performance indicators

	March 2022	March 2021
SSE Business Energy		
Business Energy adjusted operating (loss)/profit – £m	(21.5)	(24.0)
Business Energy reported operating profit/(loss) – £m	(21.5)	(3.9)
Electricity Sold – GWh	12,645	13,070
Gas Sold – mtherms	218	245
Aged Debt (60 days past due) – £m	79.3	73.8
Bad debt expense – £m	18.5	37.8
Exceptional bad debt (credit)/expense – £m	–	(20.1)
Energy customers' accounts – m	0.47	0.48

SSE Business Energy overview

Business Energy GB retains a solid book and customer base and amongst non-domestic suppliers is ranked for power 4th by meters (market share 11.6%) and 4th by volume (market share 7%); and for gas is ranked 7th by meters (market share 6.5%) and 9th by volume (market share 2.3%). The business markets its products under the SSE Energy Solutions brand alongside SSE Distributed Energy, selling power to over 469,000 non-domestic customers across GB.

Operational delivery

During 2021, Business Energy increased its green customer propositions including the launch of a new and simplified Corporate Power Purchase Agreement product, to make them increasingly accessible to a wider range of businesses. This was followed in July by a commitment to businesses on fixed power contracts that they will receive their electricity from renewable sources. Green credentials associated with this electricity supply are independently verified by EcoAct, an Atos company, and customers are provided with Renewable Energy Guarantees of Origin (REGOs) certification. Business Energy's 'Green Gas plus' tariff, a renewable gas tariff which is also independently certified by EcoAct, performed well through the year since its launch.



"We recognise that market volatility has created challenges for many people. Our customer businesses have worked with energy users across GB and Ireland to provide support through a variety of payment options and additional support mechanisms."

Nikki Flanders
Managing Director,
Energy Customer Solutions

Growth opportunities

The platform SSE Business Energy growth is via the SSE Energy Solutions business-to-business brand, launched in July 2021 in partnership with SSE Distributed Energy. The platform provides a single storefront for a range of SSE customer product offerings to support all business segments on their net zero journey; from renewable power and flexible Corporate Power Purchase Agreement offerings, to customer workplace EV charging solutions and larger scale distributed energy systems. As SSE's electricity generation businesses continue to expand and deliver new technologies, so will SSE Energy Solutions as an important route to market for the Group.



SSE Airtricity

SSE Airtricity key performance indicators

	March 2022	March 2021
SSE Airtricity		
Airtricity adjusted operating profit – £m	60.4	44.0
Airtricity reported operating profit – £m	60.4	50.0
Aged Debt (60 days past due) – £m	7.3	7.9
Bad debt expense – £m	4.6	6.9
Exceptional bad debt (credit)/expense – £m	–	(6.0)
Airtricity Electricity Sold – GWh	5,219	7,595
Airtricity Gas Sold – mtherms	177	219
All Ireland energy market customers (Ire) – m	0.70	0.68

SSE Airtricity overview

SSE Airtricity provides a valuable route to market for SSE's low-carbon energy solutions and green products to customers across the island of Ireland. Airtricity retains a strong market position as Ireland's largest supplier of 100% green energy, supplying approximately 701,000 customers and holding 21.2% market share by load.

Operational delivery

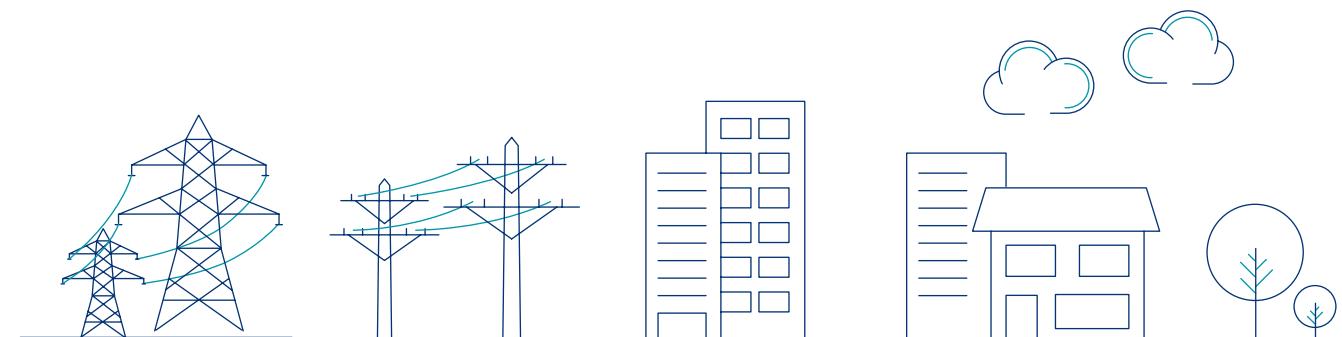
As a responsible business, SSE Airtricity has recognised that current market volatility has created challenges for many households and has taken various measures to support financially vulnerable customers. An all-island customer support fund (€1m) has been established, €1m was donated to a trusted all-island charity partner, and a home energy efficiency upgrade programme has been rolled out for up to 600 homes in fuel poverty. In addition Airtricity's financially vulnerable domestic customers in the Republic of Ireland will be insulated from any further price rises for the remainder of the 2022 calendar year.

For financial performance commentary please refer to the Group Financial Review.

Growth opportunities

A positive public policy environment aimed at improving the thermal efficiency of 0.5m buildings provides the backdrop for the Generation Green Home Upgrade product. This is enabling the rapid rollout of a first of its kind one-stop-shop business model, in partnership with An Post, in the Republic of Ireland market. The growth of this business segment remains a key priority for 2022.

Further areas of strategic focus include building on the success of partnerships with brands such as Volkswagen and ePower delivering electric vehicle charging infrastructure and green end-to-end solutions for customers; and continued innovation and delivery of extended customer offerings to help support decarbonisation.



Operating review continued

SSE Distributed Energy

SSE Distributed Energy key performance indicators

	March 2022	March 2021
SSE Distributed Energy		
SSE Distributed Energy adjusted operating (loss)/profit – £m	(10.9)	(27.0)
SSE Distributed Energy reported operating profit/(loss) – £m	(29.2)	(76.1)
SSE Heat Network Customer Accounts	11,291	10,482
Biomass, heat network and other capacity – MW	33	34
Biomass, heat network and other output – GWh	104	108

SSE Distributed Energy overview

SSE's reporting of its Enterprise segment has been updated following the sale of its Contracting and Rail businesses. The primary retained activity of the former SSE Enterprise businesses is now distributed energy. The business provides solar and battery storage asset development and operation and focuses on distributed generation, EV infrastructure, heat and cooling networks, and smart buildings and places.

The financial results from the Group's out of areas networks business and Neos Networks Limited (formerly SSE Telecoms) joint venture are now reported within SSEN Distribution and Corporate Unallocated respectively. Comparative information has been re-stated to reflect these changes.

Operational delivery

Over the past 12 months SSE has announced significant milestones in its nascent solar and battery storage business including a secured 380MW solar and battery pipeline, with over 1GW more of other sites currently under assessment. The secured pipeline includes a 50MW battery storage asset on a consented site in Wiltshire, where construction gets under way this summer, with full energisation expected in summer 2023. SSE has also acquired a 30MW solar farm at Littleton Pastures in Worcestershire and, once complete in late 2023, this 77-acre site will be capable of powering some 9,400 homes.

Growth opportunities

A key focus will be on battery storage and solar technology. Existing grid connections at legacy coal-fired sites, such as Ferrybridge and Fiddlers Ferry, also puts SSE in a strong position to deploy battery storage at scale and pace.

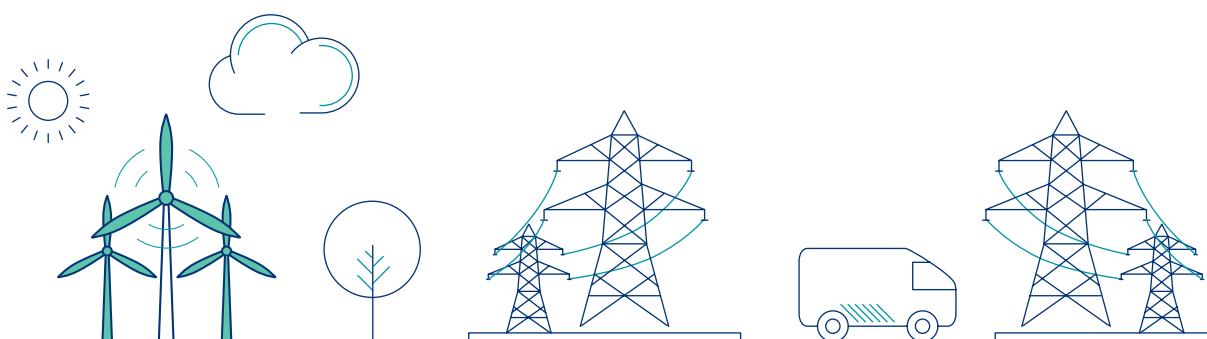
SSE's Distributed Energy team is helping people and places reach their net zero targets by adopting a 'whole system' approach to connect localised and flexible energy assets. These include energy optimisation, heat and cooling networks, electrical networks, smart buildings, and EV charging. Distributed Energy therefore seeks to help provide the platform for a data-driven and sustainable world.

Distributed Energy has ambitions to build a network of EV charging hubs across the UK – with the first of potentially 300 hubs being built in summer 2022 in Glasgow. Innovation also remains a key tool to unlocking net zero; its heat sector division for example, has an exciting partnership under way with National Grid to utilise heat from electricity transformers that would otherwise go to waste.



"This is an exciting time for the business. We've got ambitions to deliver solar and battery storage technology at GW scale, we have a 2GW distributed energy development pipeline, and we are developing strategic grid-connected local energy systems to industrial regeneration areas across the UK."

Neil Kirkby
Managing Director,
SSE Enterprise





Energy Portfolio Management (EPM)

SGN key performance indicators

	March 2022	March 2021
EPM		
EPM adjusted operating profit/(loss) – £m	(16.8)	18.4
EPM reported operating profit/(loss) – £m	2,083.6	608.5

EPM overview

Energy Portfolio Management (EPM) is the energy markets heart of the SSE Group, securing value and managing volatility through risk-managed trading of energy-related commodities for SSE's market-based Business Units.

SSE trades the principal commodities to which its asset portfolios are exposed, as well as the spreads between two or more commodity prices (e.g. spark spreads): power (baseload and other products); gas; and carbon (emissions allowances). Each commodity has different liquidity characteristics, which impacts the quantum of hedging possible. See also SSE's Hedging Position.

Operational delivery

In 2021/22 EPM navigated unprecedented energy market volatility, ensuring the SSE portfolio was hedged in accordance with the Group's approach to hedging and optimised through prompt periods. The value EPM secures for SSE's asset portfolio continues to be reported against individual Business Units. 2021/22 also saw successful delivery of the first year of operation under the UK Emissions Trading Scheme.

For detailed financial performance commentary please refer to the Group Financial Review.

Growth opportunities

Transformation of the EPM Business Unit continues with key external recruits into risk, prompt trading and analytics. Trading has started in France, Belgium and the Netherlands as the business looks to expand into Europe.

"EPM has had a critical role to play in helping SSE navigate market volatility in 2021/22. We have strengthened our offering as a market adviser and asset optimiser for the Group thanks to investment in new forecasting technologies and the capability of our risk, analytics and trading teams."

Gordon Bell

Interim Managing Director,
Energy Portfolio Management

Investment in SGN

(Scotia Gas Networks – discontinued operation)

SGN key performance indicators

	March 2022	March 2021
SGN (Discontinued Operation)		
SSE's 33.3% share – Disposed on 22 March 2022		
SGN adjusted operating profit/(loss) – £m	21.0	173.0
SGN reported operating profit/(loss) – £m	495.4	88.6

SGN overview

As part of its strategic refocusing of the Group, SSE's entire 33.3% financial investment stake in gas distribution operator SGN (Scotia Gas Networks Limited) was sold to a consortium comprising existing SGN shareholder Ontario Teachers' Pension Plan Board and Brookfield Super-Core Infrastructure Partners on 22 March 2022.

Whilst the business had been a good long-term financial investment for SSE since 2005, SSE's focus is now on low-carbon electricity businesses and the role they have in transition to net zero. This disposal marked the completion of SSE's £2bn plus disposals programme announced in June 2020, with a headline consideration amounting to over £2.8bn exceeding that original target.

The adjusted operating profit for the business of £21.0m is retained by the Group for the period to 11 June 2021 when the investment was designated as 'held for sale' and equity accounting ceased. On disposal, the Group recorded an exceptional gain on disposal of £576.5m.

Section 172 and non-financial information statements

Section 172 Statement

SSE has an unwritten social contract with its stakeholders that both informs decision making by the Board and aligns closely with the spirit of Section 172 of the Companies Act 2006 (Section 172). Under this contract, SSE relies on society for public services and infrastructure, human capital, and the implicit right to earn a profit and remunerate shareholders. In return it safely and reliably provides energy, invests in critical national infrastructure needed for net zero, creates jobs and contributes to GDP through fair payment of tax.

This Statement summarises how, over the course of 2021/22, the Board has upheld this contract by promoting the long-term success of the Company for the benefit of SSE's six key stakeholder groups ([see pages 32 to 39](#)). This has been undertaken with regard to the matters set out in Section 172(1)(a) to (f), being:

- (a) The likely consequences of any decision in the long term.
- (b) The interests of the Company's employees.
- (c) The need to foster the Company's business relationships with suppliers, customers and others.
- (d) The impact of the Company's operations on the community and the environment.
- (e) The desirability of the Company maintaining a reputation for high standards of business conduct.
- (f) The need to act fairly between members of the Company.

SSE's approach to the above social contract is exemplified throughout this Annual Report, with specific disclosures of decisions and actions which are supportive of this Section 172 Statement detailed as follows.

Long-term direction

SSE's strategy is to create value for shareholders and society in a sustainable way by developing, building, operating and investing in the electricity infrastructure and businesses needed in the transition to net zero. Four 2030 Goals support this strategy, and provide important interim milestones to net zero in 2050. This longer-term view set by the Board frames its strategy work and the agreement of objectives, which extends to: capex plans; budgets; dividend plans and future resourcing requirements. SSE's Risk Management Framework, including the Groups' Principal Risks, the identification of emerging risks and the Group's Risk Appetite statement, further underpins the Board's long-term approach.

More on the longer-term context

- [Pages 2 to 3](#) **Our purpose and our strategy.** SSE's purpose, vision, strategy, values and 2030 goals as agreed by the Board.
- [Pages 126 to 131](#) **Strategic review and Board focus in 2021/22.** The Board's strategy work including the process which approved the Net Zero Acceleration Programme.
- [Pages 68 to 81](#) **Risk-informed decision making.** The approach to identifying, understanding and mitigating the Group's Principal Risks.

Purpose-led engagement

Constructive two-way dialogue with SSE's key stakeholders maintains understanding of the issues material to each group. Supporting conversations have been conducted within a well-established framework that encourages both Group and complementary Board-level engagement. This is reflective of SSE's operating model based on autonomous Business Units in which decision-making takes place every day. The Board creates the correct conditions for this approach by setting SSE's long-term direction and the overarching decision-making framework and culture. This is in line with the Board's own understanding of stakeholder needs.

More on engagement

- [Page 134](#) **Considered decision-making.** The context set by the Board in which decision-making takes place.
- [Pages 32 to 39 and 135 to 139](#) **Working for and with stakeholders.** Information on: the role of stakeholder engagement; SSE's key stakeholder groups including, employees, shareholders, suppliers, customers and communities; the engagement mechanisms which have been used at Board and below-Board level; the material issues raised; and examples of stakeholder value creation.

Stakeholder-focused decisions

Conversations with key stakeholder groups can result in actions which are specific to an individual group and also see integration into decisions with multi-stakeholder impact. This Strategic Report and the Directors' Report have been prepared with this in mind and illustrative examples of decision-making are provided throughout.

More on decision making

- [Pages 34 to 39](#) **Engagement in action.** Actions taken in response to the views of individual stakeholder groups, of which the Board has received full oversight.
- [Pages 126 to 131 \(strategy\), 150 \(inclusion and diversity ambitions\) and 169 \(Remuneration Policy\)](#) **Board-level principal decisions.** Decisions taken during the year including details of stakeholder considerations.

Environmental impact

SSE recognises the serious threat that climate change poses to the natural world, and therefore to people and the economy. The climate emergency has continued to feature across the Board agenda and SSE commits to open and transparent disclosure to allow proper assessment of its environmental performance.

More on environmental performance

- [Page 130](#) **Overseeing strategic delivery.** Board approval of SSE's Net Zero Transition Plan.
- [Page 132](#) **Sustainability and climate impacts.** Board considerations and outcomes in 2021/22.
- [Pages 164 to 167](#) **SSHEAC Report.** Provides Board assurance of safety, health, environmental and sustainability matters.
- [Pages 42 to 57](#) **Protecting the environment.** Actions agreed to drive climate action, SSE's carbon performance and resource use.

Culture and conduct

SSE's definition of a healthy corporate culture, as approved by the Board, underpins the way in which SSE operates. The Board leads on, and monitors culture, by setting the tone and framework within which agreed values and accepted behaviours can be embraced by employees. This includes an inclusive working environment. Most recently, SSE's Just Transition Strategy evidences the approach to responsible business conduct, by setting out intended actions to address the social implications of delivering net zero.

More on culture and conduct

- [Pages 140 to 141](#) **Focusing on culture.** How the Board promotes high standards of conduct and monitors culture.
- [Pages 58 to 68](#) **SSE's social contribution.** Delivery of wider benefit through responsible business practices.

Non-Financial Information Statement

SSE has reported extensively on its non-financial impacts within its Annual Report for a number of years and welcomes continued increasing focus from regulators, shareholders and other stakeholders. This table outlines how SSE meets the Non-Financial Reporting requirements contained within the Companies Act 2006. Further disclosure can also be found in SSE's [Sustainability Report 2022](#).

Reporting requirement and SSE's material areas of impact	Relevant Group Principal Risks, pages 71 to 81	Relevant Group Policies on sse.com	Policy embedding, due diligence, outcomes and key performance indicators
Environmental matters <ul style="list-style-type: none"> Delivering net zero Managing climate-related issues Carbon performance, metrics and targets Responsible resource use – water and energy use, air emissions 	Climate Change Safety and the Environment	Group Climate Change Policy Group Environment Policy	Our business goals for 2030, pages 18 to 19 Our strategy in action, pages 22 to 28 Protecting the environment, pages 42 to 57 Safety, Sustainability, Health and Environment Advisory Committee Report, pages 164 to 167
Employees <ul style="list-style-type: none"> Health and safety Training and learning Culture and ethics Reward and benefits Employee voice Inclusion and diversity Support during the coronavirus crisis 	People and Culture Safety and the Environment	Group Employment Policy Group Safety and Health Policy	Our business goals for 2030, pages 18 to 19 SSE's social contribution, pages 58 to 57 Focusing on culture, pages 62 and 140 to 141 Supporting and listening to the employee voice, pages 61 and 137 to 139 Safety, Sustainability, Health and Environment Advisory Committee Report, pages 164 to 167
Social matters <ul style="list-style-type: none"> A just transition to net zero Contributing to the economy and supporting local supply chains Sustainable procurement Responsible approach to tax Supporting vulnerable customers Energy affordability Sharing value with communities Support during the coronavirus crisis 	People and Culture Speed of Change Energy Affordability	Group Sustainability Policy Group Taxation Policy Group Procurement Policy	Our business goals for 2030, pages 18 to 19 SSE's social contribution, pages 58 to 57
Human rights, anti-corruption and anti-bribery <ul style="list-style-type: none"> Reinforcing an ethical business culture Speaking up against wrongdoing Prevention of bribery and corruption Approach to human rights and modern slavery 	People and Culture Large Capital Projects Quality	Group Human Rights Policy Group Corruption and Financial Crime Prevention Policy Group Whistleblowing Policy	SSE's social contribution, pages 58 to 59 Focusing on culture, 62 and 140 to 141

Directors' Report

Good governance and a strong corporate culture are the foundations of SSE's purpose, vision and strategy. The Board gives close consideration to the views of all stakeholders in its decision making and understands the importance of clear disclosure of this, and other material issues, in reporting how its work supports the long-term success of the Company.

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Reporting against the UK Corporate Governance Code

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**Audit, risk and internal
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pages 168 to 199 

Chair's introduction

Leading with purpose



The Board's work this year has been defined by dramatic changes in the operating context which informs our deliberations. As set out in my earlier reflections, this has included the evolution of a global pandemic which has touched us all; a sharpened focus on the climate emergency and the net zero transition; and volatility and affordability concerns in energy markets impacted by geopolitical events.

The purpose of this Directors' Report is to explain how we as a Board have assessed SSE's situation, and taken informed decisions to secure a sustainable and leading position on behalf of our key stakeholders; all underpinned by a long-standing and deeply embedded commitment to high standards of corporate governance. The strength of the Board's leadership is assessed through the clarity of the actions we take and transparency surrounding the standards, processes and culture we ultimately set.

Focused on the future

In November 2021, SSE announced its Net Zero Acceleration Programme, representing the optimum growth pathway identified by the Board to capitalise on the opportunities across the value chain in which SSE participates. In all our deliberations, we are focused on long-term success, financial resilience and shareholder value, and ensure thorough debate based on robust inputs which capture all of the available information. We have carefully assimilated the views and long-term priorities of those who invest in SSE, and have provided clarity

around funding, growth, and dividend policy. Across [pages 126 to 129](#), we provide insight into the strategic process followed in the year, alongside the governance which drove challenge and debate across each stage.

In support of strategic progress, we have continued to monitor and review current large capital programmes, and have strengthened development pipelines which represent the foundation of our accelerated investment plans. To ensure the Company has the platform it needs to succeed in the delivery of revised and accelerated ambitions, we have also spent time assessing SSE's capacity and resources for future growth.

To this end, we have refreshed the framework represented by our 2030 Goals, and (as supported by shareholders at our 2021 AGM) published a Net Zero Transition Plan, which together set the parameters within which we intend to deliver our ambition. This includes enhanced 1.5°C aligned science-based targets.

Committee support has been strong and provided in multiple ways. The Remuneration Committee has overseen proposed updates to Remuneration Policy to align with our growth ambitions. The Nomination Committee has championed talent and capability across our most important asset, people. The Audit Committee has monitored the development of our risk and opportunity reporting under the Taskforce on Climate-related Financial Disclosures framework. As indicated last year, the Safety, Sustainability, Health and Environment Advisory Committee has progressed its environmental, social and governance (ESG) role, deepening its focus on performance across ESG indices, and reviewing climate resilience and adaptation plans. The Energy Markets Risk Committee has been active in its review of SSE's exposures in an increasingly volatile energy market. Further information can be found in each of the respective Committee Reports on [pages 145 to 199](#).

"The strength of the Board's leadership is assessed through the clarity of the actions we take and transparency surrounding the standards, processes and culture we ultimately set."

Engaging and reconnecting

One year on from my last report, a welcome change has been the ability to reconnect in person. Throughout the pandemic virtual channels worked well, and continue to be used in the Company, as we responded to employee feedback on the benefits of our 'Flexible First' approach to work enabled by technology. Nonetheless, having joined at a time when face-to-face meetings were not possible, I have thoroughly enjoyed travelling across SSE and engaging with people and operations; a sentiment which is echoed by my fellow Board members.

Site visits deliver an enriched view of the reports we receive on employee sentiment, with candid discussion providing a truer understanding of how to support our people. This two-way dialogue is further enhanced through our Non-Executive Director for Employee Engagement, Dame Sue Bruce, who reports back to the Board and management after each engagement she undertakes. I am pleased to provide information on [pages 137 to 139](#) of how we have listened and acted upon the areas of importance to employees, which takes place within the maturing framework in which we discuss, monitor and review company culture.

We have resumed physical meetings for the Board in 2021/22, as well as for many of our shareholder engagements. The 2022 AGM is set to take place in a hybrid format, and I look forward to meeting with those of you who are able to attend in person and answering questions from those of you who join us virtually.

The Board takes very seriously the views of employees, shareholders and wider stakeholders to ensure we are pursuing actions that are acceptable to those we work with, and for. And as is evidenced across this Annual Report, the network in which we gather relevant insights is extensive. At Board-level, we enhance our understanding of views through work which complements the daily contact our businesses have, with the most significant external engagement in the year, in which the Directors participated, being COP26 in Glasgow.

The Board agenda further includes a stakeholder assessment of our strategy, an annual update on supply chains, confirmation of sustainability priorities and an annual report of key stakeholder work. Specifically, in 2021/22, we considered the development of SSEN Distribution's ED2 business plan, the impact of storms across communities, and the wider issue of energy affordability, to name just a few examples.

Composition and performance

In what has been my first full year as Chair, we've welcomed two new non-Executive Directors to the Board in Dame Elish Angiolini and Debbie Crosbie, who bring added depth and capability to our perspectives and skillset. This has been followed by the appointment of John Bason from 1 June 2022, as the intended successor to the role of Audit Committee Chair. John's financial expertise and wealth of international experience is a strong fit, and I look forward to welcoming him to the Board.

To ensure an orderly transition within the positions of Remuneration Committee Chair and Non-Executive Director for Employee Engagement, we have further agreed a six month extension to Dame Sue Bruce's tenure ending 31 March 2023. At this time, Melanie Smith will take on the position of Remuneration Committee Chair and Dame Elish Angiolini Non-Executive Director for Employee Engagement.

As discussed on [pages 146 to 149](#), these changes stem from the detailed assessment by the Nomination Committee of the Board's needs, and our composition will continue to evolve in light of the fast-moving operating environment and our future-oriented focus.

A balanced Board comprises representation across a suite of diverse characteristics, which is the focus of our standalone Board Diversity Policy. We took time to consider the policy in the year and approved updates to align with our ultimate aim of enduring inclusivity and equality. Whilst good progress has been made within the Board – with gender parity across our current membership – we recognise there is

always more work to do. Notably, within the senior leadership population progress has been slower, and we have therefore continued to probe the barriers to accelerating change. We seek to address sector specific challenges through a new set of ambitions and accompanying workstreams for senior leadership, and within SSE's Just Transition Strategy. Fuller detail of the above, and wider people matters, is set out in the Nomination Committee Report on [pages 145 to 151](#).

This year, in line with the three-yearly cycle, our annual Board evaluation process was externally-facilitated; providing objective findings and areas for continued development and future focus. Both the appointment of Lintstock as evaluator, and the methodology used to assess performance were carefully planned to ensure meaningful outcomes. We were pleased with the conclusion that we continue to operate effectively and welcome the suggested areas for improvement, which we will take forward as actions within our plan of work as set out on [pages 143 to 144](#).

I hope the following report of Board activity is a clear and engaging account of the year, and look forward to reporting further progress in 2022/23, when we will welcome continued engagement surrounding our views and actions to secure long-term success.



Sir John Manzoni
Chair, SSE plc
24 May 2022

Governance at a glance

Highlights from 2021/22

Resetting strategic ambition

Developing and approving SSE's Net Zero Acceleration Programme for all stakeholders.

see pages 126 to 129 

Agreed capital investment

£12.5bn

Ensuring strong succession

Enhancing Board composition through new non-Executive Director appointments.

see pages 146 to 147 

Average non-Executive Director tenure

3.8 years

Assessing Board performance

Conducting an external evaluation to drive continuous improvement.

see pages 143 to 144 

External evaluation spanning

3 months



Reconnecting with our people

Reintroducing physical meetings to enhance virtual engagement approach.

see pages 137 to 139 

Board-employee engagements

43

Progressing inclusion and diversity

Approving a new Board Inclusion and Diversity Policy and maintaining focus on ambitions.

see pages 150 to 151 

Board female representation

50%

Realigning remuneration policy

Engaging with shareholders and investor bodies on the correct remuneration approach.

see pages 136 and 168 to 171 

Related meetings to date

11



UK Corporate Governance Code

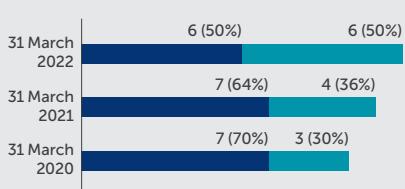
The Board continues to be guided in its approach to corporate governance through application of the FRC's UK Corporate Governance Code 2018 (the Code), a copy of which can be found at www.frc.org.uk.

To allow shareholders to evaluate how the Code's Principles have been applied, the Directors' Report has been structured around the Code's respective sections, with cross references used where supporting information is located in other parts of the Annual Report.

For the year ended 31 March 2022, the Board reports compliance against the Code. Provisions for the duration of the period and upholds the spirit of the Code throughout its work and that of its Committees.

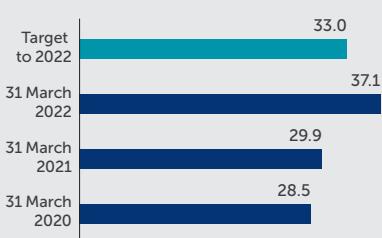
Board composition dashboard as at 31 March 2022

Board gender balance

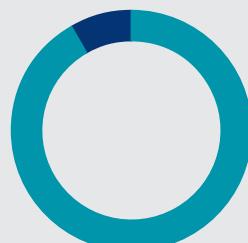


 Male  Female

Rolling three-year female representation (%)



Board ethnicity



 White British: 11  Māori: 1

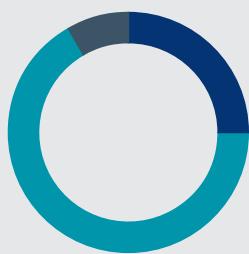
Skills matrix

Non-Executive Director experience

The below matrix captures the skills required to drive SSE's long-term success and support its vision of being a leading energy company in a net zero world. An essential element in addition to skills, is the innate difference in approach and thinking styles, which results from the varied backgrounds and experiences of the non-Executive Directors. This is covered more fully in the individual biographies across [pages 118 to 122](#). The below matrix therefore only represents one element of Board contribution, and is based on the depth of practical expertise which the non-Executive Directors have assimilated outside of their SSE Board role.

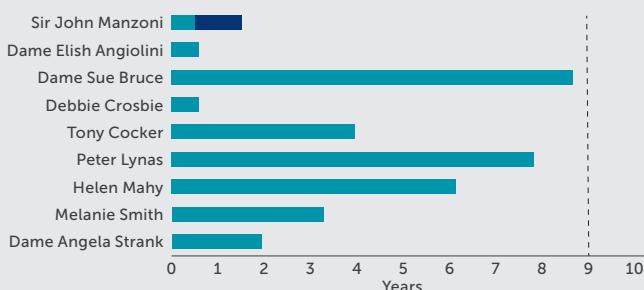
	Sir John Manzoni	Dame Elish Angiolini	Dame Sue Bruce	Tony Cocker	Debbie Crosbie	Peter Lynas	Helen Mahy	Melanie Smith	Dame Angela Strank	Number of non-Executives (/9)
Tenure (years)	1	<1	8	4	<1	7	6	3	2	
Experience of operating context and disruptive trends										
Energy sector, energy regulation and energy markets	✓			✓		✓	✓	✓	✓	4
Government and public policy	✓	✓	✓	✓			✓			5
Clean energy technologies (including renewables) and climate science	✓			✓		✓	✓	✓	✓	4
International business	✓			✓	✓	✓	✓	✓	✓	6
Digital and data	✓			✓	✓	✓	✓	✓	✓	6
Stakeholders and social impact	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
Skills to challenge and set a sustainable strategy										
Large capital project management	✓	✓	✓	✓		✓	✓	✓	✓	7
Financing, economics and capital markets	✓		✓		✓	✓	✓	✓		5
Partnering, M&A and transactions	✓	✓	✓			✓	✓	✓	✓	7
Risk management	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
Consumer insight	✓	✓	✓	✓	✓			✓	✓	7
Responsible leadership of a large organisation										
Corporate governance and leadership	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
Culture, safe working and people development	✓	✓	✓	✓	✓	✓	✓	✓	✓	9

Board independence



- Executive Directors: 3
- Independent non-Executive Directors: 8
- Non-Executive Chair: 1

Chair and non-Executive Director tenure



- Non-Executive Director tenure
- Chair tenure

Board of Directors

Chair



Sir John Manzoni

Chair



Date of appointment

Non-Executive Director since September 2020 and Chair from April 2021

Board tenure

1 year

Career and experience

Sir John has wide-ranging experience across the energy industry and both the private and public sectors. Through an executive career at BP which spanned 24 years, he held a number of senior roles including Chief Executive, Refining and Marketing in which he was a Main Board member. This was followed by President and Chief Executive Officer at Talisman Energy Inc before a move to UK Government where he spent six years as Chief Executive of the Civil Service and Permanent Secretary of the Cabinet Office. He has previously been a non-Executive Director of SABMiller plc and Chair of Leyshon Energy Limited.

Skills and attributes which support strategy and long-term success

- Dynamic and engaging leadership style with diverse perspectives gained across multiple sectors, organisational settings and geographies, which complement the responsibilities of SSE Chair.
- Experienced in the governance of large scale business operations, leading reform and the management of complex projects to drive commercial performance, skills key to the fulfilment of SSE's vision and purpose.
- Strong communicator with insight into the management and development of stakeholder relations aligned with SSE's approach to decision-making.
- Working knowledge of energy regulation, government and policy considerations which underpin the success of a net zero transition.

Key external appointments and changes

- Non-Executive Director of Diageo.
- Chair of the Atomic Weapons Establishment.
- Non-Executive Director of KBR Inc from May 2022.

Executive Directors



Alistair Phillips-Davies

Chief Executive

Date of appointment

Executive Director since January 2002 and Chief Executive from July 2013

Board tenure

20 years

Career and experience

Alistair joined SSE in 1997 and possesses extensive knowledge of the Group having held senior roles across multiple business areas. Prior to joining the Board in 2002 as Energy Supply Director, Alistair was Director of Corporate Finance and Business Development. In 2010, he became Generation and Supply Director, before Deputy Chief Executive in 2012, then Chief Executive in 2013. Alistair is a fellow of the Energy Institute and a former Vice President of Eurelectric. He is a Chartered Accountant.

Skills and attributes which support strategy and long-term success

- Sound executive leadership and a considered approach to strategy which is evidenced through continued delivery under the Group operating model, SSE's growth ambitions and progression of SSE's sustainability plans and associated targets.
- Broad knowledge of the energy markets in Great Britain and Ireland and across Europe, which informs views of long-term direction.
- Detailed understanding of the external context including the climate transition, politics and regulation enabling constructive engagement in these areas.
- Proactive approach to understanding stakeholder priorities including the impact of the coronavirus pandemic and SSE's societal response to the net zero transition.
- Focused on people development, culture and digital enablement in order to develop capabilities for future growth.

Key external appointments and changes

- Member of the Scottish Energy Advisory Board.
- Member of the UK Government's Hydrogen Advisory Council.
- Member of the COP26 Business Leaders group.



Gregor Alexander

Finance Director



Date of appointment

Executive Director and Finance Director since October 2002

Board tenure

19 years

Career and experience

Gregor joined SSE in 1990 and has been Finance Director on the Board since 2002. Prior to Finance Director, Gregor worked in senior finance roles and led specialist teams including as Group Treasurer and Tax Manager. Gregor is Chair of the Scottish and Southern Energy Power Distribution Board. He is a Chartered Accountant and member of the Accounting for Sustainability (A4S) CFO Leadership Network.

Skills and attributes which support strategy and long-term success

- Extensive knowledge of financial markets as leader of SSE's financial strategy, including the approach to sustainable financing and emerging practice in this area.
- Experienced in directing significant corporate projects and major transactions, including SSE's approach to investments, divestments and partnering.
- Oversees appropriate governance in the management of the Group risk environment including those emerging from the evolving energy sector and the transition to net zero.
- Deep appreciation of shareholder views and related ESG matters including the continued commitment to lead on fair tax and fair work as part of SSE's 2030 Goals.
- Practical regulatory insight and Board oversight of SSE's networks businesses.

Key external appointments and changes

- Non-Executive Director of Stagecoach Group plc.
- Stepped down as a Director of Scotia Gas Networks Limited in March 2022.

INDEPENDENT NON-EXECUTIVE DIRECTORS



Martin Pibworth

Chief Commercial Officer



Date of appointment

Executive Director since September 2017 and Chief Commercial Officer from November 2020

Board tenure

4 years

Career and experience

Martin joined SSE in 1998 as an energy trader, which was followed by a series of commercial roles before becoming Managing Director, Energy Portfolio Management, and a member of SSE's then Management Board in 2012. In 2014, he was appointed Managing Director, Wholesale, and a member of SSE's Group Executive Committee. In 2017 he joined the Board as Group Energy Director, a role which was expanded to Group Energy and Commercial Director in November 2020. This role was subsequently re-titled Chief Commercial Officer in March 2022, with no change in underlying responsibility or remit.

Skills and attributes which support strategy and long-term success

- Literacy in complex energy markets which is supported by technical and operational expertise.
- End-to-end experience in large capital projects including joint venture engagement and governance, which has been applied in the development of SSE's diverse and flexible generation portfolio, including the renewables pipeline.
- Commercially minded in seeking future growth within SSE's market-based businesses, and has overseen key capital recycling opportunities and transactions to refine SSE's business mix and secure optimum value from investments.
- Understanding of change management and sources of commercial risk having led on SSE's Brexit transition arrangements, and the impact of coronavirus on energy markets.

Key external appointments and changes

- Member of Energy UK Board.



Tony Cocker

Senior Independent Director



Date of appointment

Non-Executive Director since May 2018 and Senior Independent Director from October 2020

Board tenure

4 years

Career and experience

Tony possesses highly detailed knowledge of the energy sector through a 20-year career with E.ON SE and Powergen plc, with at different times, responsibility for: thermal generation; onshore and offshore wind (including Scroby Sands and the London Array, which was the world's largest offshore wind farm when built); commodity trading and risk management; and retail. Latterly, he held the position of CEO and Chair of E.ON UK plc, comprising the Company's main businesses in the UK. Previous roles include CEO of E.ON Energy Trading SE, which managed E.ON SE's commodity portfolio across Europe, and Managing Director of E.ON UK Energy Wholesale, which comprised E.ON UK's renewable, generation, and trading businesses. He has served on the Board of Energy UK.

Skills and attributes which support strategy and long-term success

- Wide-ranging insight regarding technical and operational matters, including energy infrastructure and assets, commodity markets, energy trading and risk.
- Experience delivering major renewable energy projects.
- Combined energy industry and non-Executive experience enhances Board understanding of trends relevant to SSE's operations and of utilities regulation.
- A balanced sounding board with additive experience in strategic consultancy and energy and utility stakeholder management.

Key

Committee membership

- NC Nomination Committee
- AC Audit Committee
- ER Energy Markets Risk Committee
- SHE Safety, Sustainability, Health and Environment Advisory Committee
- RC Remuneration Committee
- Committee Chair

External appointments

The Board considered and approved the additional external commitments taken on by Sir John Manzoni, Tony Cocker, Peter Lynas and Helen Mahy during the period. In each case, it was agreed that there would be no impact on the time commitment required as Chair and non-Executive Director, nor on the independence and objectivity required to discharge the agreed responsibilities of each role. The resultant position is believed to be consistent with recognised proxy advisor guidelines.

Board of Directors continued

INDEPENDENT NON-EXECUTIVE DIRECTORS



Dame Elish Angiolini QC

Non-Executive Director



Date of appointment

Non-Executive Director since September 2021

Board tenure

Under 1 year

Career and experience

Dame Elish has an extensive public sector legal career, serving as Lord Advocate of Scotland from 2006 to 2011, across two government administrations, having previously been Solicitor General for Scotland. Since then, she has carried out a number of independent public inquiries and reviews for both the UK and Scottish Governments and held positions in academia having served as Principal of St Hugh's College Oxford since 2012. She is also currently a Pro-Vice Chancellor of Oxford University and previous Chancellor of the University of West of Scotland. Dame Elish is Chair of the Discipline Board of the Institute of Chartered Accountants of Scotland (ICAS), Chair of the Board of trustees for the legal action non-governmental group Reprieve and a patron of several charities.

Skills and attributes which support strategy and long-term success

- Possesses significant understanding of Scottish governance and has practical experience of working with the UK and Scottish governments through involvement in independent public reviews, whilst maintaining no political affiliation.
- Strong ambassadorial skills developed through an international network of colleagues and contacts in judicial, governmental, diplomatic, and academic fields.
- Exercises a strong sense of social purpose and adds depth of perspective to Board considerations, reinforcing SSE's approach to wider value creation.

Key external appointments and changes

- Pro-Vice Chancellor of the University of Oxford.
- Principal of St Hugh's College Oxford.
- Chair of the Discipline Board of ICAS.
- Chair of the Sarah Everard Inquiry.
- Chair of Board of Trustees of Reprieve.



Dame Sue Bruce DBE

Non-Executive Director of the Board and for Employee Engagement



Date of appointment

Non-Executive Director since September 2013

Board tenure

8 years

Career and experience

Dame Sue has extensive public sector experience from a career which spanned almost 40 years, holding a variety of roles in local government. These included the positions of Chief Executive at East Dunbartonshire Council and the first female Chief Executive of both Aberdeen City Council and the City of Edinburgh Council. Sue has also held a number of Board and Board Committee positions in organisations across the arts, education and charitable sectors.

Skills and attributes which support strategy and long-term success

- Strategic and operational experience of leading organisations covering large numbers of employees, significant assets, economic development, construction projects and engaging with communities, which provides insight into SSE's approach to its social contract.
- Distinguished in stakeholder engagement with a highly personable style as is evident in the roles of Remuneration Committee Chair and Non-Executive Director for Employee Engagement.
- Expert knowledge of Scottish government and understanding of political affairs.



Debbie Crosbie

Non-Executive Director



Date of appointment

Non-Executive Director since September 2021

Board tenure

Under 1 year

Career and experience

Debbie brings over 25 years of experience in financial services leadership, having recently been appointed as the first female Chief Executive of Nationwide Building Society. Prior to this appointment, Debbie served as CEO of TSB from May 2019 and was previously an Executive Director and Chief Operating Office of Clydesdale Bank, where she led preparations for its successful demerger and subsequent IPO. Debbie worked at National Australia Bank Group Europe for 22 years. Debbie is a fellow of the Chartered Institute of Bankers and a member of the Glasgow Economic Leadership Board and the Strathclyde University Business School Advisory Board.

Skills and attributes which support strategy and long-term success

- Extensive experience of the implementation of strategy including significant corporate transaction work and execution of far-reaching transformation projects, including the changing role of digital and data in the context of a large consumer-facing organisation.
- Understanding of capital allocation and investment appraisal frameworks central to the next phase of SSE's growth.
- Knowledge of operating in a heavily regulated sector requiring a compliance-driven approach and proficiency in risk management and internal controls.

Key external appointments and changes

- Chief Executive of Nationwide Building Society (to commence in 2022).
- Member of the Glasgow Economic Leadership Board.
- Member of the Business School Advisory Board of Strathclyde University.



Peter Lynas

Non-Executive Director



Date of appointment

Non-Executive Director since July 2014

Board tenure

7 years

Career and experience

Peter has over 30 years of business experience spanning all areas of finance. He retired from the role of Group Finance Director of BAE Systems plc in March 2020, prior to which he was Director, Financial Control, Reporting and Treasury. His early career involved roles within GEC Marconi, where he was appointed Finance Director of Marconi Electronic Systems before the completion of the British Aerospace/Marconi merger. He is a Fellow of the Chartered Association of Certified Accountants.



Helen Mahy CBE

Non-Executive Director



Date of appointment

Non-Executive Director since March 2016

Board tenure

6 years

Career and experience

Helen is a former Company Secretary and General Counsel of National Grid plc and an experienced non-Executive Director. Previous non-Executive roles include directorships at Bonheur ASA, Aga Rangemaster plc, Stagecoach Group plc, SVG Capital plc, Chair of MedicX Fund Limited and Deputy Chair and Senior Independent Director of Primary Health Properties PLC. Helen is currently Chair of The Renewables Infrastructure Group Limited, a member of the Parker Review steering committee into the Ethnic Diversity of UK Boards, a patron of the charity Social Mobility Business Partnership, Co-chair of the Employers Social Mobility Alliance and an Equality and Human Rights Commissioner.



Melanie Smith CBE

Non-Executive Director



Date of appointment

Non-Executive Director since January 2019

Board tenure

3 years

Career and experience

Melanie has over 20 years of in-depth strategy experience and is currently CEO of Ocado Retail, the world's largest pureplay online grocer and the UK's fastest growing grocer. Prior to this she was Strategy Director for Marks & Spencer with responsibility for group strategy, M&S Bank and M&S Services. Earlier roles include Global Strategy and Marketing Director at Bupa, Chief Operating Officer at TalkTalk and a Partner in McKinsey's Consumer practice.

Skills and attributes which support strategy and long-term success

- Brings recent and relevant financial experience to the Board and strong direction to the Audit Committee, as Chair of which, he drives focus on the risk and control environment including Group resilience and the ethics and compliance culture.
- International business perspective and an applied understanding of long-term project management and delivery, including investment appraisal, contracting and supply chain experience.
- Up-to-date investor relations experience through his executive career at BAE and pensions insight having been Chair of the trustee Board of a major UK scheme.

Skills and attributes which support strategy and long-term success

- Long-standing energy, regulatory and renewables experience, underpinned by a comprehensive understanding of the listed company context including the applicable legal, compliance, governance and risk frameworks in which SSE's businesses operate.
- Insight into a broad range of investor and stakeholder perspectives and trends from cross-sectoral, international and external Board interests that enable wider discussion and debate.
- A decade of experience overseeing renewables infrastructure investment.
- An advocate of SSE's safety culture, inclusion and diversity, and employee wellbeing; with extensive knowledge of people matters and a focus on sustainability.

Skills and attributes which support strategy and long-term success

- Highly qualified to appraise strategy development and execution, having advised and led both growth and performance transformation in the consumer and retail sectors worldwide.
- Deep commercial and digital experience across multiple goods and services categories, including insurance, telco and energy that furthers Board understanding of the customer.
- Has a people centric style as an executive and organisational leader, and brings knowledge of operational efficiency and change management.

Key external appointments and changes

- Senior Independent Director of First Group plc from June 2021.

Key external appointments and changes

- Chair of The Renewables Infrastructure Group Limited.
- Commissioner for The Equality and Human Rights Commission.
- Non-Executive Director of Gowling WLG (UK) LLP from September 2021.

Key external appointments and changes

- CEO, Ocado Retail Limited.
- Advisory Board member of Manaia.
- Trustee of Sadlers Wells.

Board of Directors continued

INDEPENDENT NON-EXECUTIVE DIRECTORS



Dame Angela Strank DBE

Non-Executive Director



Date of appointment

Non-Executive Director since May 2020

Board tenure

2 years

Career and experience

Dame Angela brings depth of executive experience from a long-standing international career in the energy sector, which included 38 years' service at BP. Prior to retirement in December 2020, she was a member of BP's Executive Management team as BP Group Chief Scientist and Head of Downstream Technology. This followed international business and technical leadership positions spanning technology and digital, innovation, engineering and renewable energy. Angela is a Fellow of the Royal Society, the Royal Academy of Engineers, and the UK Energy Institute. She was awarded a DBE for long-standing services to the energy industry and pioneering STEM careers, especially for women.

Skills and attributes which support strategy and long-term success

- Expert understanding of the current and future role of technology and science within the broader energy industry, including the impact of disruptive trends and resultant transformation.
- Knowledge of leading and collaborating on a large scale and with international outlook, having worked in culturally diverse environments in the Middle East, Europe, the Far East, Africa and America.
- Corporate social responsibility and sustainability experience through active involvement in climate science research, embracing the energy transition, reputation and safety management, pioneering women in STEM careers, and as a champion of inclusion and diversity; chairing the Corporate Sustainability Committee, and Safety, Ethics and Sustainability Committee in two FTSE 100 companies.

Key external appointments and changes

- Non-Executive Director of Rolls Royce plc.
- Non-Executive Director of Mondi plc.
- Stepped down as Non-Executive Director of Severn Trent plc in March 2022.

INDEPENDENT NON- EXECUTIVE DIRECTOR JOINING 1 JUNE 2022



John Bason

Non-Executive Director from 1 June 2022

Will join the Nomination Committee and Audit Committee on appointment.

Date of appointment

Joining 1 June 2022

Career and experience

John brings significant listed company, financial and international experience through a career in global businesses. He has been Finance Director of Associated British Foods plc (ABF) since joining the diverse food, ingredients and retail group in 1999. ABF employs 128,000 people and operates in 53 countries across Europe, Asia, the Americas, Australia and Africa. Prior to this, John was Finance Director of the international distribution and services group Bunzl plc. His non-Executive experience includes Senior Independent Director and Audit Committee Chair of Compass Group PLC. He is currently Chair of the charitable organisation FareShare and non-Executive Director of Bloomsbury Publishing Plc. John is a Chartered Accountant.

Skills and attributes which support strategy and long-term success

- Extensive leadership experience and international perspective, gained from global companies and complex operations, which will be invaluable to SSE's growth and entry into new markets.
- A proven track record in developing financial and commercial strategy, including M&A, corporate transactions and large capital projects, which complements SSE's Net Zero Acceleration Programme, and supports succession planning for the role of Audit Committee Chair.
- Understanding of the listed company context with practical experience of investor relations and ESG strategy, placing upmost importance on the role of sustainability.

COMPANY SECRETARY



Sally Fairbairn

Company Secretary and Director of Investor Relations

Date of appointment

Company Secretary and Director of Investor Relations since December 2014

Career and experience

Sally joined SSE in 1997 as a chartered accountant working in the Corporate Finance team. Through this role, which included responsibility for long-term financial modelling of the SSE Group, she developed knowledge of the SSE's diverse operations and the UK energy industry. In 2007, Sally became Director of Investor Relations and Analysis allowing her to develop extensive experience of the shareholder and financial analyst community, and through associated engagement, has detailed understanding of investor views. Sally was appointed to the joint role of Company Secretary and Director of Investor Relations in December 2014.

Group Executive Committee



Alistair Phillips-Davies

Chief Executive



Gregor Alexander

Finance Director



Martin Pibworth

Chief Commercial Officer



Chris Burchell

MD, SSEN Distribution

Chris has been MD, SSEN Distribution since November 2020, having joined SSE from Arriva where he was MD, UK Trains since 2014. He began his career at Railtrack in 1996 and following a period as an official in the Foreign and Commonwealth Office, joined the Go-Ahead Group, where he was Director of Operations, Thames Trains and Managing Director for the Southern rail franchise.



Rob McDonald

MD, SSEN Transmission

Rob has been MD, SSEN Transmission since April 2019, having joined SSE in 1997 and holding a number of senior roles within the Group Regulation function. Prior to his current position, he was MD, Corporate and Business Services covering Legal, Regulation, Compliance, Safety and Large Capital Projects Services across SSE.



Sam Peacock

Director of Corporate Affairs and Strategy

Sam has been Director of Corporate Affairs and Strategy since April 2020 and leads SSE's teams overseeing government relations, policy development, employee communications, external affairs, corporate brand and project communications. Prior to joining SSE in 2011, Sam directed government affairs at Ofgem and worked at leading communications agency Edelman, as well as in Parliament and in Government.



John Stewart

Director of HR

John has been Director of HR since joining SSE in July 2009. Prior to this he worked in a broad range of senior management roles in the energy and water sectors and has experience of working in both the UK and in the US. He oversees all areas in relation to SSE's people including talent and capability, training and development, employee engagement and inclusion and diversity.



Liz Tanner

General Counsel

Liz is a barrister and has been Group General Counsel since March 2019, having joined SSE in 2002 as part of the acquisition of Neos Networks. Since joining SSE, Liz has held a variety of legal and commercial roles within a number of different SSE Group companies and currently oversees the corporate functions of Legal, Regulation, Compliance, Data Protection and Large Capital Project Services.



Stephen Wheeler

MD, SSE Renewables

Stephen has been MD, SSE Renewables since January 2022 having previously held the roles of MD, SSE Thermal and MD, SSE Ireland. Prior to SSE, he was part of the management team that grew the Airtricity renewable energy platform before SSE acquired it in 2008. Before joining Airtricity, he spent over 10 years working with ABB and Siemens internationally.



Sally Fairbairn

Company Secretary and Director of Investor Relations, Committee Secretary

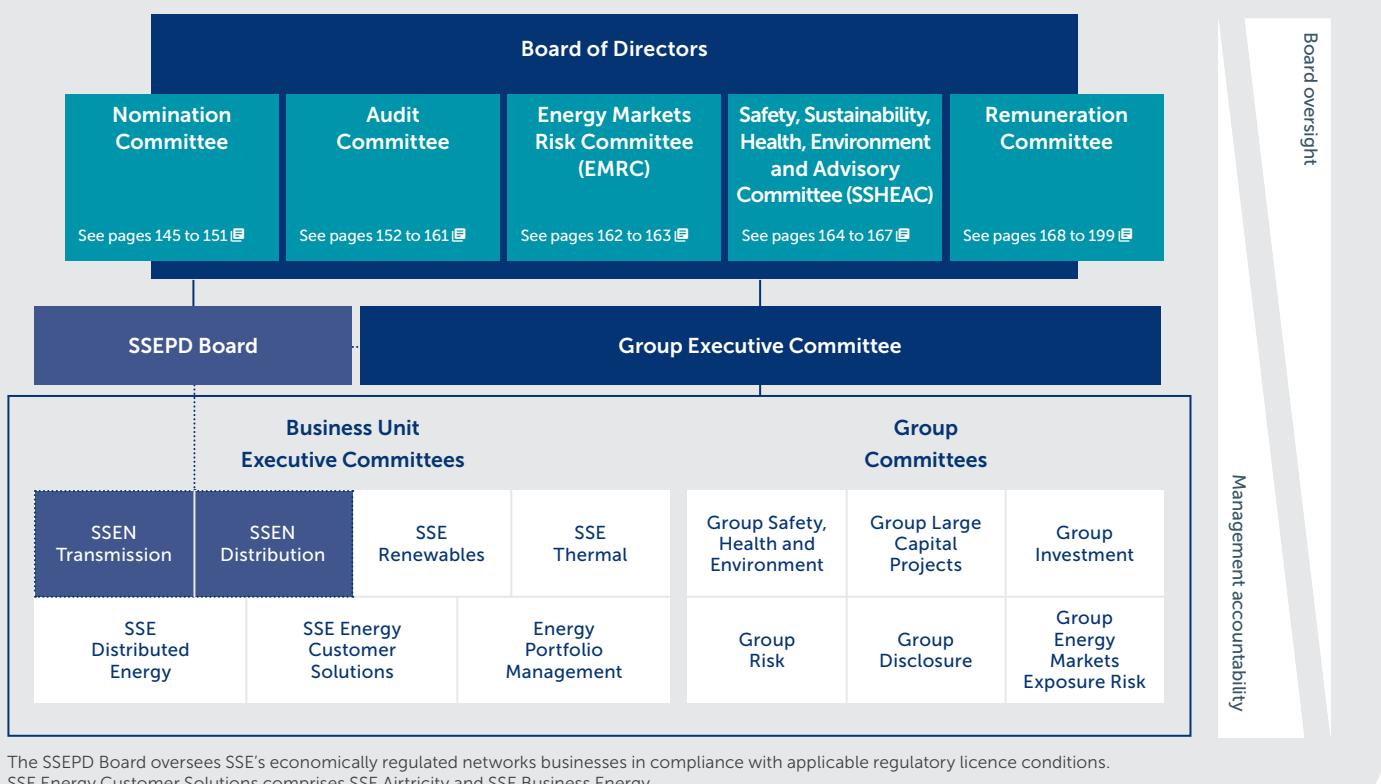
Biographical details of the Executive Directors and Company Secretary and Director of Investor Relations.

More on pages 118, 119 and 122

Board leadership and company purpose

Corporate governance in SSE

SSE's Governance Framework



The role of the Board

The primary role of the Board is to lead SSE in a way that ensures its long-term success, whilst generating value for shareholders and wider stakeholders. This is a broad-ranging duty and is directed by the cornerstones of SSE's purpose and vision. The last material re-definition of these guiding statements was in 2019/20, when the Board agreed closer alignment of SSE's purpose and vision with its strategic transformation around a core of clean electricity infrastructure and its societal role in the net zero transition.

In support of SSE's purpose and vision, the Board sets and monitors SSE's strategy through a continuing programme of work. In 2021/22, this saw the approval and announcement of SSE's Net Zero Acceleration Programme. The process which identified this phase of strategic growth as the optimum pathway for all of SSE's stakeholders is covered on

[pages 126 to 129](#). Confirmation of how SSE's businesses and its associated business model provide the best possible balance to deliver long-term value, is set out on [pages 10 to 17](#).

Once set by the Board, the implementation of strategy is the responsibility of the Group Executive Committee and management across SSE's Business Units. Oversight of performance is achieved through structured operational and financial reporting from the Executive Directors at each Board meeting, in addition to presentations from each Business Unit across the year. These presentations comprise strategic updates and approvals in line with SSE's Governance Framework.

Operational and financial performance for 2021/22 is covered across the Strategic Report on [pages 1 to 111](#).

Corporate governance in SSE

Corporate governance in SSE can be explained as the minimum expectations set by the Board surrounding standards, responsible conduct and controls. SSE's Governance Framework supports this approach by mapping where accountability resides in line with delegated authorities, and in this way, forms part of SSE's System of Internal Control as set out on [page 161](#).

Areas of importance to the Board and SSE's operations influence the features of the Governance Framework, which is illustrated, in part, by the Committees which provide dedicated focus to areas on behalf of the Board and the Group Executive Committee. Clarity surrounding the responsibilities of each Committee is ensured through approved Terms of Reference, as determined by a Committee's reporting line.

Monitoring of delegated matters is supported by formal reporting channels. For Board Committees, this is a personal account from the non-Executive Director who chairs the Committee following each Committee meeting. As set out above, on executive matters, the Chief Executive, Finance Director and Chief Commercial Officer are responsible for providing full updates at each Board meeting. These mechanisms are in addition to sub-Committee minutes, written reports and agreed KPIs to monitor financial and non-financial performance.

Board reserved matters

In order to safeguard the areas material to the delivery of SSE's purpose, vision and strategy, the Board retains a schedule of matters reserved for its decision. This ensures the necessary framework and resources are in place for the Company to meet its stated objectives and covers the below areas.

Strategy and performance

- Approval and review of commercial strategy, business development and long-term strategic options.
- Oversight of performance in light of approved strategy and objectives.
- Review and approval of priorities surrounding SSE's principal sustainability impacts, including climate change.
- Major transactions and any material extension or closure of operations.

Financial management

- Approval of annual operating and capital expenditure budgets.
- Approval of dividend policy and key financial communications.
- Changes to the Group's capital structure.

Risk and control

- Ensuring sound systems of internal control and risk management.

Board meetings in 2021/22

In the period to 31 March 2022, there were six scheduled meetings of the Board with update calls in alternate months to maintain coverage of key business developments, emerging issues and opportunities. Arrangements remain in place should a Board decision or approval be required outside these times.

Across the year, Board meetings were conducted in line with applicable government guidance, with the physical element returning when it was safe to do so. Details of Board meeting activity in 2021/22 can be found on [pages 126 to 133](#).

People and culture

- Approach to people, succession, and inclusion and diversity.
- Agreement and monitoring of a healthy corporate culture including SSE's values and framework of cultural controls.

Governance

- Changes to Board and Board Committee structure, size and composition.
- Approval of shareholder communications.
- Confirmation of stakeholder approach.
- Approval of Board-level corporate governance matters.

Regulation

- Approval of the electricity distribution and transmission price control reviews proposed by Ofgem.

The Schedule of Reserved Matters is one of a collection of documents which make up SSE's Board Charter. The contents of the Board Charter govern the Board's operations and pertinent Group-wide matters and is subject to annual Board review and approval.

The Board Charter contains:

- SSE plc's Articles of Association.*
- Board's Schedule of Reserved Matters.*
- SSE's guide to good business ethics.*
- SSE's Guide to Governance.
- Board Committee Terms of Reference.*
- Non-Audit Services Policy.*
- Procedure for Taking Independent Advice.
- Non-Executive Directors' Shareholding Policy.
- Board Inclusion and Diversity Policy.*
- Responsibilities of key Board roles.*

* Documents available in full on [sse.com](#).

Board operations

The Board, led by the Chair, seeks to nurture a culture in which informed and transparent decision-making takes place. This is supported by clearly defined Board roles and constructive dialogue within and outside of meetings. The division of responsibilities across the Board is explained on [page 142](#).

With one of the key responsibilities of the non-Executive Directors being to challenge and provide counsel, it is deemed appropriate that relationships can be built across different levels of SSE. The Board therefore has unfettered access to senior leadership, their teams and specialist functions. For details of employee engagement and knowledge development in 2021/22 see [pages 137 to 139 and 148](#).

Structured meeting agendas are developed by the Chair, Chief Executive and Company Secretary, around an agreed annual plan of Board business and the current status of projects, strategic workstreams and the overarching operating context. Adequate time is allocated to support effective and constructive discussion, and guidance is available to authors and presenters of Board materials. An electronic meeting portal allows efficient navigation of papers, information and requests.

Prior to every Board meeting, the non-Executive Directors meet without the Executive Directors present. This allows any issues surrounding meeting business to be raised in advance of full Board discussion. Further time is set aside at the end of every meeting to capture any emerging areas for non-Executive focus.

	Board	Nomination Committee	Audit Committee	EMRC	SSHEAC	Remuneration Committee
Number of meetings held	6	6	4	5	4	5
Sir John Manzoni	6/6	6/6		5/5	4/4	5/5
Alistair Phillips-Davies	6/6					
Gregor Alexander	6/6			5/5		
Martin Pibworth ¹	6/6			5/5	1/1	
Tony Cocker	6/6	6/6	4/4	5/5	4/4	
Dame Elish Angiolini ²	4/4	4/4			3/3	3/3
Dame Sue Bruce ³	5/6	6/6				5/5
Debbie Crosbie ⁴	4/4	4/4	1/1	1/1		
Peter Lynas	6/6	6/6	4/4			5/5
Helen Mahy	6/6	6/6	4/4		4/4	
Melanie Smith	6/6	6/6		5/5		4/5
Dame Angela Strank	6/6	6/6			4/4	5/5

¹ Martin Pibworth joined the SSHEAC on 1 January 2022.

² Dame Elish Angiolini joined the Board and Nomination Committee on 1 September 2021, the SSHEAC on 26 October 2021 and Remuneration Committee on 15 November 2021.

³ Dame Sue Bruce was unable to join the 2021 July Board meeting and Melanie Smith was unable to attend the 2021 July Remuneration Committee meeting – both were due to unavoidable personal matters. Full comments on meeting packs were provided in advance to the Company Secretary and Chair.

⁴ Debbie Crosbie joined the Board and Nomination Committee on 1 September 2021 and the EMRC and Audit Committee on 23 February 2022.

Board leadership and company purpose continued

Strategic review and Board focus in 2021/22

The following pages provide an overview of the breadth of Board work across meetings in 2021/22. This profiles both the **review and reset of SSE's long-term strategic ambition** and the **Board's continued oversight of strategic delivery** which, together, represent the suite of strategy-related principal decisions taken in the year.

Resetting strategic ambition

On 17 November 2021, SSE announced a strategic update through its Net Zero Acceleration Programme (the Programme). The Programme was the result of a robust review process conducted by the Board, which considered: SSE's integrated business model of market-based and economically-regulated; the growth opportunities

available across this mix; alongside the full range of strategic and structural alternatives. This included options for disaggregation or 'break-up' of some elements of the SSE Group. Each phase of the review was governed in line with the Board's responsibility for setting SSE's strategy and promoting long-term value for

all stakeholders. Further details of the principal decisions and considerations in 2020/21 which formed the backdrop to work in 2021/22, can be found on [pages 106 to 109](#) of SSE's Annual Report 2021.

Previously agreed strategic objectives

Five-year £7.5bn capex plan to 2025

>£2bn non-core disposal programme to Autumn 2021

Five-year dividend plan to March 2023

Review of strategic situation

APR MAY JUN JUL AUG SEP

Inputs:

- Five-year financial outlook
- 2021/22 budget
- Annual strategy review preview
- Biannual broker session
- Group Principal Risk work

Assessment of strategic options

MAY JUN JUL AUG SEP

Inputs:

- Annual Group Strategy sessions
- Business Unit presentations
- Externally-facilitated sector analysis
- Board deep dives

Incorporating external views and challenge

AUG SEP OCT NOV

Inputs:

- Shareholder Engagement sub-Committee insights
- External advisor analysis and findings

Governing strategic execution

NOV DEC JAN FEB MAR

Inputs:

- Board review of progress
- Re-alignment of supporting governance and frameworks
- Continued stakeholder and shareholder engagement

Net Zero Acceleration Programme

More on pages 4 to 5

AUG SEP OCT NOV

Fully-funded
£12.5bn
capex plan
to 2026

Business Unit capital allocation

■ Renewables
■ Networks
□ Thermal/other



Robust funding structure
~4.5x net debt to EBITDA ratio

Growth enabling dividend plan to 2026

2031 targets including
1.5°C science-based targets

Review of strategic situation

APR MAY

In May 2021, the Board confirmed within SSE's preliminary results statement, that it intended to assess significant and emerging potential capital and investment opportunities, across the coming months, which were not reflected in the previously agreed £7.5bn capital investment plan. This

decision was supported by the agreed capital investment being largely contracted; the strength of execution across the £2bn non-core disposal programme; and preliminary analysis of SSE's short, medium and long-term strategic situation as part of the Board's ongoing strategy review work.

With the existing dividend plan set to March 2023, the Board had further indicated it would provide an update on the approach to shareholder remuneration beyond the current dividend plan by May 2022.

Assessment of strategic options

MAY JUN JUL

Through dedicated sessions across May to July 2021, the Board confirmed SSE's strategic progress, and based on this position, engaged in targeted debate to agree further strategic opportunities for analysis and refinement. The robust quality of the information to support this phase of Board discussion was assured through a broad range of inputs. These included external energy sector analyses and dedicated work from specialist internal teams including Corporate Finance, Energy Economics, Business Unit Leadership and Group Strategy.

An overview of the topics which shaped Board debate across May to July 2021 is set out below.

- Purpose and long-term shape of the Group**

The Board considered and reaffirmed the continued role of SSE's purpose and strategy focused on a core of low-carbon electricity infrastructure against the growing external importance of a net zero transition by 2050. This considered views on decarbonisation of

the power sector, covering: technology, security of supply and energy markets; the current policy and regulatory framework to support the sector transition; the competitive landscape; and Business Unit-specific roles and trends. Further details of the key trends within SSE's external operating context can be found on [pages 28 to 31](#).

- Capital allocation, long term growth opportunities and strategic choices**

Substantive discussion covered net zero-linked growth options to 2050 and the view of risk-adjusted returns across SSE's current markets, pipeline and technologies. This further tested the synergies and optimum balance across the business mix to confirm where maximum value could be created; the overall fit of available long-term strategic trajectories; SSE's capability and competencies; and the strength of the existing platform for overall long-term growth across geographies, including internationally.

- Funding and financial strategy**

Modelling and analysis assessed the sources of funding available to pursue strategic options, retain financial stability and support strong investment grade credit and credit capacity. It also considered funding for each growth opportunity, across a range of valuation scenarios and time-horizons. This further evaluated the ability to retain optionality and seize future opportunities whilst delivering sustained long-term shareholder value.

On an ongoing basis, strategic work is supported through Board participation in deep dives which cover sector specific issues and matters of potential strategic significance. These sessions are facilitated by internal and external subject matter experts. Further details of sessions held in 2021/22 are covered on [page 148](#).

Incorporating external views and challenge

AUG SEP OCT NOV

Wider stakeholder views

Stakeholder views are gathered through an extensive network of strategic engagement across SSE as explained on [pages 32 to 39](#), and within the framework set by the Board described on [page 134](#).

Across the strategic review process, the position of SSE's six key stakeholder groups was incorporated across each of the long-term pathways, with an explanation of how the Programme embodies the optimal outcome for all set out overleaf.

External analysis of SSE's appraisal

In addition to internal debate, the Board engaged external legal and financial advice to test the key elements of the identified strategic options. To preserve objectivity, two independent workstreams were created. One led by financial advisors from SSE's brokers and the other led by an independent financial advisor. The findings of each workstream were presented separately to the Board. The work was concluded over a phased three month period to allow the Board to fully appraise the respective evaluations and reflect on the priorities gathered by an agreed Shareholder Engagement sub-Committee (see [page 128](#)).

The scope of the external analysis across this period covered:

- Total Shareholder Returns of different strategic alternatives.
- Growth optionality and potential across Business Units.
- SSE's investment case and business model valuation.
- Financing, credit profile and the ability to fund growth.
- Dis-synergies and separation costs which were verified by an independent external advisor.
- Disruption to execution of investments critical to net zero.
- Wider impacts on stakeholders.

Board leadership and company purpose continued

Strategic review and Board focus in 2021/22 continued

ENGAGEMENT IN ACTION SHAREHOLDERS AND DEBT PROVIDERS



ENGAGING WITH SHAREHOLDERS ON LONG-TERM PRIORITIES

The Board regularly monitors shareholder views, market sentiment and share price performance through monthly updates from the Executive Directors, the Company Secretary and Director of Investor Relations, and via feedback from shareholder meetings which may have also been attended by any member of the Board. This is supported by the formal and separate collation of market and investor data from SSE's brokers which is presented to the Board at least twice a year.

Full details of the standing programme of shareholder engagement is set out on [pages 135 to 136](#), with shareholder views providing a crucial backdrop to the full range of Board deliberations.

To enhance monitoring of stakeholder feedback and public commentary, the Chair initiated a dedicated Shareholder Engagement sub-Committee. The role of this sub-Committee was to ensure equitable understanding of

shareholders' priorities relating to the long-term shape of SSE, and to deliver an increased speed of feedback to the Board. The sub-Committee met weekly outside of agreed Board meetings, was led by the Chair of the Board, and comprised at least 50% independent membership.

Engagement methods which the sub-Committee oversaw in this period included the offer of meetings to SSE's largest shareholders – representing around 40% of SSE's issued share capital – and proactive monitoring of the normal communication channels which remained open to all shareholders. Some of the key insights which were directly addressed in the Board's considerations are set out opposite.

In addition to its engagement role, the sub-Committee monitored SSE's share register and assessed ongoing disclosure obligations, with support from SSE's Group Disclosure

Committee, reviewing both the internal information position and external commentary across media and analyst notes across the period to November 2021.

To date, the sub-Committee has remained in place, and intends to meet as required to support an enhanced frequency and co-ordination of shareholder soundings on strategic matters following announcement of the Programme. The role and requirement for the sub-Committee will remain under review throughout the initial phase of execution in 2022/23.

Identified shareholder priorities

- Long-term value creation
- Balance and stability of growth options
- Transparency over funding and capital allocation
- Clear investment proposition



Net Zero Acceleration Programme

NOV

In November 2021, the Board was satisfied with its strategic assessment, including the level of scrutiny and challenge which had been applied to confirm the opportunities and risks across the available options. In concluding the Programme was the correct pathway in the next phase of growth for SSE, the Board assessed the following outcomes for long-term success and each of SSE's six key stakeholder groups.

• Sustainable long-term growth

Delivering on growth opportunities across SSE's core electricity infrastructure businesses is the fundamental long-term driver of value. This would be best achieved through balance sheet strength and funding options, derived from a re-balancing of the mix of market-based and economically-regulated businesses through a minority networks stake sale.

• Shareholder value and ESG

SSE's business mix continues to support a clear ESG investor story, with total long-term shareholder returns maximised from earnings and asset value growth across net zero-orientated opportunities. Recognising the importance of shareholder remuneration through dividends, a rebased dividend at an absolute level with attractive growth was deemed as the correct balance to meet the needs of those who invest for sustained annual returns, whilst promoting continued long-term success. The Programme also highlights that a minority networks stake sale will rebalance the expected allocation of capex across SSE's businesses over the longer-term, and retains SSE's ability to harness

the significant growth opportunities to SSE's networks businesses, as investment in national critical infrastructure remains central to the net zero transition.

• People, skills, capability and culture

SSE's greatest asset is the experience and expertise of its employees, and the Programme continues to champion SSE's principles for providing and creating good, green jobs (see also [page 60](#)). The assessment of break-up scenarios concluded substantial dis-synergies, a loss of the shared services and capabilities that SSE's electricity-focused business mix provides, and an impact on culture. Significant disruption would see cost and uncertainty to the business, its people, partners and counterparties, leading to project delays.

- Energy affordability and customers**
The Programme addresses the material issue of energy customer affordability through investment in indigenous, low-carbon power sources and flexible solutions that will help reduce reliance on the imports which are driving the current gas crisis. SSE's customer businesses, meanwhile, remain an important route to market for, and supplier of, low-carbon energy.
- Accelerating the net zero transition**
The Programme would enable the delivery of Government policy objectives aligned to net zero, including: around 20% of the UK's 50GW offshore wind target by 2030; 20% of upcoming UK electricity networks investment; and critical options for the 20GW low-carbon flexibility to ensure security of supply by 2030, all of which are central to decarbonisation of the power sector by 2035.

- Projects society requires for net zero**
Other scenarios, including 'break-up' or separation of some elements of the Group, such as SSE's renewables business, would see loss of scale, reduced capital structure and a weaker credit position; negatively impacting the ability to fund larger scale projects and denying growth options across the value chain, in areas such as carbon capture and storage, hydrogen and distributed energy solutions, amongst other emerging technologies. These projects are critical for society to transition to net zero through enhanced renewables deployment and system balancing.
- Suppliers, contractors and partners**
Well-chosen equity partnering is a key element of SSE's strategy, with a proven ability to spread project risk and financial exposures, manage net debt, secure developer premiums and benefit from third party experience. This provides the

opportunity to accelerate SSE's growth plans and capture further opportunities at home and abroad. By extending the approach to SSE's network businesses through minority stake sales, the Group optimises the investment in, and growth from, market-based and economically regulated businesses whilst fully funding the investment and expecting an investment grade credit rating to be maintained. Meanwhile, the development pipeline will continue to present opportunities for local and national suppliers, support competitive domestic supply chains and support continued engagement on cutting scope 3 activity.

Governing strategic execution

NOV DEC JAN FEB MAR

The Programme sets out quantifiable deliverables to 2026 and is further supported by a set of ambitious targets to 2031. Together these represent strategic outcomes underpinned by core sustainability objectives, including the renewal of SSE's greenhouse gas emission targets to align with a 1.5°C pathway as approved by the Science Based Target initiative. The result is a comprehensive framework against which the Board can monitor and incentivise progress with clear criteria for Business Unit decision-making. In line with this, reporting to the Board has been re-aligned with the agreed ambitions and timelines.

To support execution of the Programme, a number of governance-based decisions have been taken, and workstreams initiated, which are covered in detail across respective sections of the Annual Report. These include:

- Board approval of revised 2030 Goals (see [page 130](#)).
- Board approval of SSE's Net Zero Transition Plan (see [page 130](#)).
- Board support for SSE's sustainable investment criteria and Large Capital Project Framework (see [page 133](#)).
- Board approval of a revised Employee Guide to SSE's Strategy (see [page 138](#)).

- Board oversight of SSE's Just Transition Strategy (see [page 132](#)).
- Nomination Committee review of leadership, talent, succession, inclusion and diversity, and culture (see [pages 145 to 151](#)).
- Remuneration Committee review of SSE's Remuneration Policy including performance-related metrics and targets (see [pages 136 and 168 to 171](#)).

Board leadership and company purpose continued

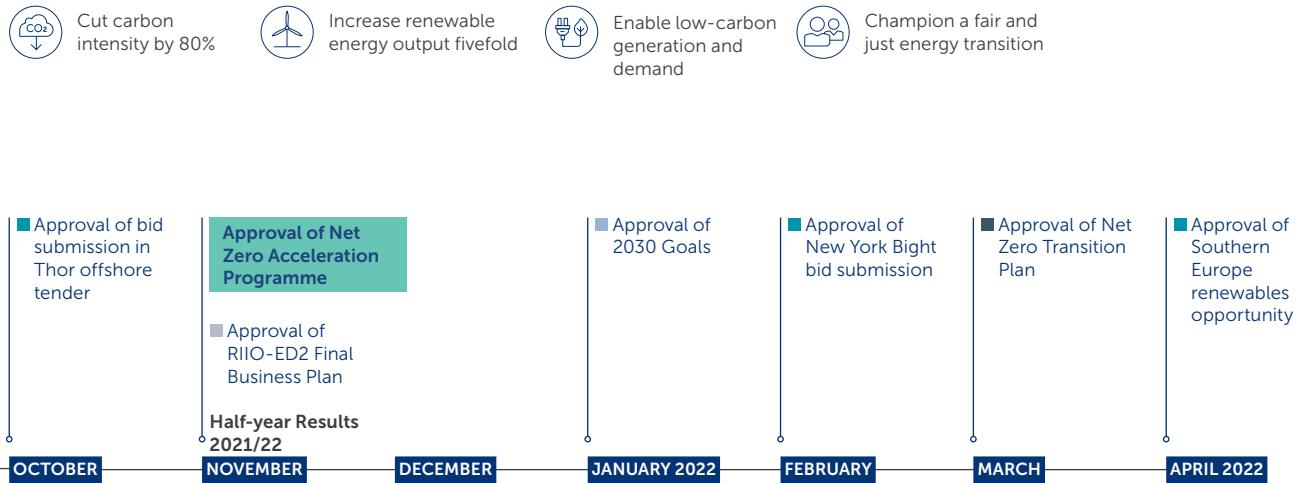
Strategic review and Board focus in 2021/22 continued

Overseeing strategic delivery



	What did the Board consider?	What did the Board discuss and approve?
Seizing renewables growth 	Opportunities to support the growth of SSE Renewables and to maintain a sustained pipeline of development opportunities.	<ul style="list-style-type: none"> Parameters for participation in ScotWind, the Crown Estate Scotland's offshore wind seabed leasing process. The rationale and approach to pursuing international opportunities in Japan, Denmark, North America and Southern Europe. Sale of a 10% equity stake and Final Investment Decision for Dogger Bank C.
Powering communities to net zero 	The correct ambition and strategic outcomes under SSE Distribution's Business Plan for the price control period from 2023 to 2028 (RIIO-ED2).	<ul style="list-style-type: none"> The RIIO-ED2 Final Business Plan and proposal to invest around £4bn, create 850 jobs, and ensure a fair and just transition to net zero, with no proposed increase in distribution costs on customer bills across the price control period as part of the Plan.
Supporting a successful energy transition 	The role of low-carbon technology within SSE's generation portfolio and the GB energy market, together with the emerging policy framework.	<ul style="list-style-type: none"> The submission of the required information to participate in the Government's CCS cluster sequencing process. The policy framework and proposed business models to secure development of low carbon infrastructure in industrial clusters.
Redefining 2030 Goals 	A set of refreshed 2030 business goals against which to monitor strategic progress, with clear and continued linkage to sustainable outcomes, meeting the strategic objective to create value for both shareholders and society.	<ul style="list-style-type: none"> The continued alignment of SSE's business objectives with the UN Sustainable Development Goals. Four new stretching business goals consistent with the ambition of the Net Zero Acceleration Programme.
A Net Zero Transition Plan 	A Net Zero Transition Plan, in line with commitments made in July 2021, to enable SSE's shareholders to vote on its first Net Zero Transition Report in July 2022.	<ul style="list-style-type: none"> The clarity of targets and actions contained in the Net Zero Transition Plan, and governance arrangements to ensure ongoing Board oversight. SSE's explicit stated ambition to achieve net zero emissions for scopes 1 and 2 by 2040, the detail on how it might achieve it and the significance of security of supply considerations.

2030 Goals



What were the material stakeholder considerations?

SSE's six key stakeholder groups

More on pages 32 to 39

- Strategic proposition.** To ensure an acceptable investment case, the opportunities and risks of each project are assessed across a range of criteria, including: fit with strategy; geographic and market economics; policy and societal context; revenue certainty and future return profile.
- Risk and portfolio diversification.** Diversification across geographies and technologies creates optionality, mitigates development risk, and exploits existing in-house capabilities.
- Stakeholder approach.** The methodology used by SSE Distribution to co-create its business plan with stakeholders, supported by evidence of how insights were shaping goals, ambition and allowances across the phases of development.
- Addressing customer needs.** The outputs and performance levels to deliver on stated customer priorities, including customer service, network reliability and inclusive support for those who are vulnerable, whilst ensuring affordability for all.
- Strong strategic fit.** The Government's ambition and policy framework through its cluster sequencing process, provides a clear opportunity for SSE's planned low-carbon thermal projects at Keadby and Peterhead, which continue to leverage SSE's existing capabilities across the energy value chain. The potential to repurpose existing assets in historically carbon-intensive areas remains a strong fit with leading a just transition and delivering socio-economic benefit.
- Full stakeholder benefit.** The ability of SSE's 2030 Goals to deliver value for both shareholders and society; by driving towards net zero at pace, and in a socially just way.
- Embedded in culture.** Employees and Business Units continue to embrace the 2030 Goals as a long-term vision and symbol of SSE's commitment to delivering social value through business operations. The alignment to the UN Global Goals framework influences the way SSE operates and the processes it embeds, including SSE's Sustainable Procurement Code and the sustainable investment criteria for Large Capital Projects.
- Alignment and expectations.** The pathways identified by the International Energy Agency and the UK Government for when the power sector generally should reach net zero, and the influence this will have on stakeholders seeking clarity surrounding how SSE intends to move towards achieving its net zero ambitions in both 2035 and 2040.
- Creating lasting value.** A key commitment in the approach to ScotWind was the delivery of local economic and social benefit through supply chain, education and community investment, in addition to supporting high carbon activities transition across to the offshore wind sector.
- Synergistic partnering.** SSE's approach to partnering looks at combining complementary skills, this includes matching SSE's development experience with local knowledge of business and culture.
- Delivering for net zero.** The level of strategic investment required to enable a smart, flexible and net zero energy system which meets local needs and delivers long-term societal benefit. This included the increased capacity required to connect low carbon technologies such as electric vehicles and heat pumps across the transport and heat sectors.
- A deliberate energy mix.** Flexible thermal generation remains critical in the transition to net zero in an energy system which increasingly comprises renewable sources. A balanced and secure energy system that delivers for all end users requires diversity, and firm generation can provide this by addressing the intermittency of wind output.
- Clear tracking of progress.** Shareholders engage constructively on SSE's 2030 Goals, citing the importance of quantifiable criteria and meaningful linkage including when considering remuneration metrics. A key consideration was therefore how to strengthen their impact in line with the next phase of SSE's growth.
- Societal backdrop and context.** The energy affordability crisis and the importance of explaining how the transition to net zero can make a value for money contribution to long-term energy affordability.

Board leadership and company purpose continued

Governing SSE for long-term success

Supporting the work on long-term strategic direction, agenda focus areas have comprised the matters required to ensure effective performance and governance of SSE. These topics are diverse and draw on the schedule of reserved matters, SSE's culture and values and the immediate operating context.

Strategy and performance

Safety, health and environment (SHE)

- Considered the application of SSE's safety value in developing the correct coronavirus protocols, support, and advice to ensure a safe working environment for all employees.
- Reviewed key indicators of SHE performance and initiatives to maintain focus on SHE culture, including a reset of SSE's 2022+ vision 'Home Safe'.
- Identified learnings from the operating context, including the front-line challenges of working in storms and the importance of continued focus on wellbeing and mental health.

SSE's Business Units

- Monitored Business Unit performance and strategic ambition through presentations from business leadership teams, and standing updates from the Executive Directors (see [pages 124 to 125](#)).
- Appraised the digital priorities proposed by each Business Unit and SSE's Group Services to ensure continued development of future capability and delivery of service for SSE's customers.
- Monitored business compliance performance in line with applicable legislative and regulatory frameworks and received updates on relevant inquiries.
- Reviewed network performance and SSEN's operational response during extreme weather events, including faults, engineering response, stakeholder communication and community support.

Operating context

- Received regular updates on commodity markets and counterparty positions; reviewing SSE's exposures and the continued governance discharged by the EMRC.
- Interrogated SSE's engagement plans as part of its role as Principal Partner of COP26, including its work with KPMG on the Hindsight is 2050 Vision report.
- Monitored developments in policy and the political landscape considering the impact on SSE's operations, long-term strategy and its key stakeholder groups; approving advocacy priorities that address energy market flexibility, security and affordability, and provide a resilient pathway to developing, building and connecting the infrastructure needed for net zero.
- Received a dedicated update on weather, covering: the observed events of 2021/22; the latest short-term forecast; climate change attribution studies; and analysis of warming scenarios, against the backdrop of SSE's asset performance and strategic plans.
- Reviewed the CMA's final determinations in SSEN Transmission's appeal against certain elements of Ofgem's RIIO-T2 price control settlement.

Sustainability

- Approved priorities to support sustainable business operations and decision-making across SSE including: accelerating SSE's science-based greenhouse gas emission targets; publication of a Net Zero Transition Plan; and the revision of SSE's 2030 Goals (see [pages 130 to 131](#)).
- Approved the focus and work undertaken to support a just transition to net zero, concentrating initially on the experience of working people transitioning from high to low carbon careers.
- Reviewed SSE's approach to reducing the risk of human rights abuse in its business and supply chain, approving SSE's Modern Slavery Statement, and continuous improvement plan co-developed with independent experts Stronger Together.
- Reviewed, clarified and monitored the governance pathways for all identified environmental, social and governance (ESG) topics assessed by ESG ratings providers.

SSE's key stakeholders

[More on page 134](#)

Financial management

Financial performance

- Monitored the financial performance of each Business Unit, and the Group, judging variance against budget and reviewing the latest financial forecast against analyst consensus and market guidance, approving updated EPS guidance as required.
- Approved and recommended half and full-year dividends of 25.5p and 60.2p respectively for 2021/22.

Capital investment

- Assessed capital expenditure and investment against strategic plans using revised project reporting and delivery indicators.
- Approved revised parameters for project investment case analysis.

Financial planning and funding

- Approved the 2022/23 budget which reflected strategic growth, large capital project plans and job creation; and reviewed the long-term financial model following updates to assumptions and outputs, in line with progress delivered and changes in SSE's external operating context.
- Reviewed net debt and Audit Committee funding work and oversaw the annual ratings review process in support of maintaining a strong balance sheet and investment grade credit ratings.
- Confirmed the funding and management of SSE's pension schemes.

Risk and internal control

Coronavirus resilience

- Evaluated SSE's resilience to the coronavirus pandemic across people, business operations and financial position, assessing the command structure which supported agile response plans.
- Endorsed lessons learned and testing of high consequence crisis management scenarios against business continuity plans.

Risks, viability and internal controls

- Reviewed and approved the methodology and findings of the Group Principal Risk and emerging risk assessment supporting SSE's Risk Appetite and risk disclosures (see [pages 68 to 81](#)).
- Confirmed the output of the assessment which forms the basis of SSE's Viability Statement (see [pages 70 and 156](#)).
- Confirmed the ongoing effectiveness of SSE's System of Internal Control (see [page 161](#)).
- Evaluated the external cyber security context alongside SSE's cyber risk appetite, security culture and strategy.
- Affirmed SSE's data privacy programme through review of GDPR metrics, controls and risk management maturity.

Large capital projects

- Reviewed the outcome of, and contributed to, an independent review of SSE's Large Capital Projects Governance Framework to support the continued safe and timely execution of approved project plans, sustainable outcomes and delivery of shareholder value.

Governance

Shareholder communications

- Approved the contents of 2021/22 trading statements, Half-year Results, the Annual Report and Accounts, and supporting regulatory announcements; considering feedback from the Audit Committee on significant judgements, fair, balanced and understandable, and the going concern basis of preparation to ensure integrity of reporting.
- Approved the notice and business of the Annual General Meeting 2022 including resolutions relating to SSE's Remuneration Policy and Net Zero Transition Report, endorsing a hybrid meeting to support shareholder participation.

Board and Board Committees

- Monitored Nomination Committee work on Board composition, succession planning and wider capability, approving, subject to ongoing shareholder approval: the appointment of Dame Elish Angiolini, Debbie Crosbie and John Bason as new non-Executive Directors; the re-appointment of Melanie Smith and Helen Mahy for a further three-year period; and the extension of Dame Sue Bruce's tenure to 31 March 2023.
- Approved updates to Board Committee membership and the succession plan for Non-Executive Director for Employee Engagement and Remuneration Committee Chair.
- Approved the enhanced role of the SSHEAC surrounding sustainability governance (see [page 166](#)).
- Approved updates to SSE's Board Inclusion and Diversity Policy (see [pages 150 to 151](#)).
- Reviewed the findings of the external evaluation of Board performance (see [pages 143 to 144](#)).

External developments

- Reviewed current and future governance developments and supported SSE's consultation responses on audit and corporate governance reform and listing rule updates surrounding inclusion and diversity reporting.

People and culture

Wider workforce remuneration

- Received updates from the Non-Executive Director for Employee Engagement and Chief Commercial Officer on constructive dialogue with trade unions on the approach to employee pay.

Ways of working

- Supported the strategy for future ways of working including locational flexibility to match employees' needs, and communications to maintain engagement and culture.

Doing the right thing

- Approved updates to SSE's employee resource 'Doing the Right Thing; SSE's guide to good business ethics' to reflect flexible working practices, the role of people leaders in embedding ethical behaviour, and to simplify messaging surrounding support channels including speak up and aftercare protocols.
- Reviewed employee sentiment on willingness to report unethical behaviour, engagement in whistleblowing arrangements, incident trends including the impact of remote working on case numbers, and future focus areas; assessing and confirming the continued effectiveness of SSE's whistleblowing arrangements.

Employee views and engagement

[More on pages 137 to 139](#)

Focusing on culture

[More on pages 140 to 141](#)

Climate on the Board's agenda

SSE's purpose, vision and strategy are fully aligned with net zero; supporting the delivery of low-carbon infrastructure and the energy solutions required for an orderly net zero transition. The physical and transitional risks and opportunities to SSE, associated with climate change, is therefore not a singular agenda item. Climate is a topic embedded across all areas of Board work.

Long-term considerations, including those trends within the operating context that have the potential to influence strategic direction, and affect the views and needs of stakeholders, are all couched in the possible pathways to net zero.

This includes changes in policy frameworks and energy regulation; how commodity markets may react within a changing energy mix; the impact of climate change on weather; the role of innovation and technology within SSE's asset base and in changes to customer behaviour; and investor views of SSE's investments and business model.

In turn, the framework set by the Board based on its view of these climate-related issues, includes strategic targets, business goals, the approved budget, net zero consistent investment criteria, risk-based parameters including SSE's Risk Appetite, and SSE's approach to stakeholder engagement.

These represent just a few of the areas which are evidenced across [pages 126 to 133](#).

Board leadership and company purpose continued

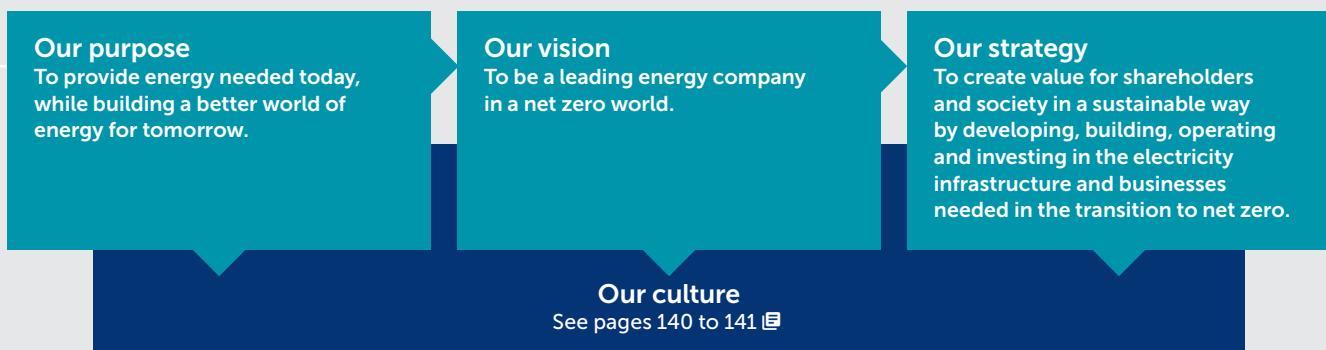
Considered decision-making

Decision-making context

The Board has an ultimate duty to lead by example and set the correct tone to ensure decisions within SSE are taken in a responsible and fair way. SSE's Governance

Framework represents the backdrop for this, with the Board confirming ambitions, key parameters and expectations to drive long-term success. These include SSE's

purpose, vision, strategy and culture and the approach to reflecting stakeholder views within long-term plans and day-to-day operations.



Engaging with stakeholders

The Board sets the framework within which stakeholder relations are developed and maintained, establishing why SSE interacts with its stakeholders and how views should be considered at both a Business Unit and Group level. The identification of SSE's key stakeholder groups and the purpose of stakeholder engagement are therefore Board-approved principles, which are explained on [pages 32 to 33](#).

To ensure meaningful reflection of stakeholder views across SSE's operations and actions, breadth and depth of stakeholder engagement is required. The Board is supported in the scale of this activity by a network of mature executive and business-led stakeholder contacts, with oversight and understanding of views achieved through both direct engagement and reporting of below-Board

activity. This allows the timely recognition of emerging stakeholder issues, with Board engagement complementing the expectation that senior leadership and SSE's Business Units take demonstrable account of stakeholder opinion in their decisions and longer-term objectives.

Addressing stakeholder priorities

Reflective of SSE's approach, the response to stakeholder priorities across business plans and within Board work is represented across the Annual Report. In the context of the Board-level principal decisions on [pages 126 to 131, 150 and 169](#), insight is provided surrounding the material stakeholder factors which shaped deliberations. Totemic issues with multi-stakeholder impact, such as the climate emergency, coronavirus pandemic, energy affordability and security of supply remain a backdrop to all Board work.

Looking ahead, the delivery of SSE's Net Zero Acceleration Programme will provide a focal point for stakeholder engagement across 2022/23, and will be supplemented by the following Board-identified priorities.

- Advocacy on energy system design to future proof a net zero transition that supports customers' needs.
- Two-way dialogue with employees on their role within SSE and net zero, and support for SSE's IN, ON and UP inclusion and diversity strategy.
- Active engagement with all stakeholders on SSE's view of a fair and just transition.
- Diversity of opinion and challenge on SSE's long-term strategic direction and approach to environmental, social and governance matters, through external soundings.

Working for stakeholders

[More on pages 32 to 39](#)

Shareholder and debt providers

Gathering views

The Board engages with equity and debt investors to help inform strategic decision making, communicate SSE's sustainable business plans, and report on environmental, social and governance (ESG) and financial performance. Engagement by the executive team is led by the Chief Executive and Finance Director with participation from the Chief Commercial Officer and other members of the Group Executive Committee, and focuses on financial and business performance in executing SSE's strategy. Engagement by the Chair leads on corporate governance, strategy development and people, with support from the non-Executive Directors.

Open and regular dialogue remains the foundation to the Board's approach, with managed communication channels in place for all to use (see [page 355](#)). In addition, the Board, executive management and the Investor Relations team proactively engage with investors through an annual programme of activity, and ongoing communication with analysts, proxy advisors, ESG ratings agencies and financial ratings agencies helps improve disclosure and allow stakeholders to better assess SSE's performance.

Institutional investors

Collectively, in 2021/22, the Board engaged directly with institutional investors representing over 40% of issued share capital. The programme of engagement – which encompassed 153 one-to-one sessions with investors – was mainly focused across three periods: the Full-year Results Roadshow; the period ahead of the Net Zero Acceleration Programme; and the Half-year Results and Strategy Roadshow thereafter. In addition to dedicated engagement surrounding long-term strategic direction (see [page 128](#)), specific feedback was sought on the proposed Remuneration Policy, and following appointment as Chair, Sir John Manzoni proactively engaged with many of SSE's largest shareholders to establish a first-hand understanding of priorities and views on corporate governance.

Supplementing one-to-one engagement, the Executive Directors attended 15 industry conferences, mainly virtual, and held 23 group meetings which were attended by a number of shareholders and prospective investors.

Retail shareholders

To allow management of an individual's shareholding, SSE's investor website provides a source of equivalent information, housing all regulatory news announcements and published financial and non-financial reports. The Investor Relations team and the Company

Secretariat, with support from SSE's Registrar, engage directly with retail shareholders in response to private shareholding queries.

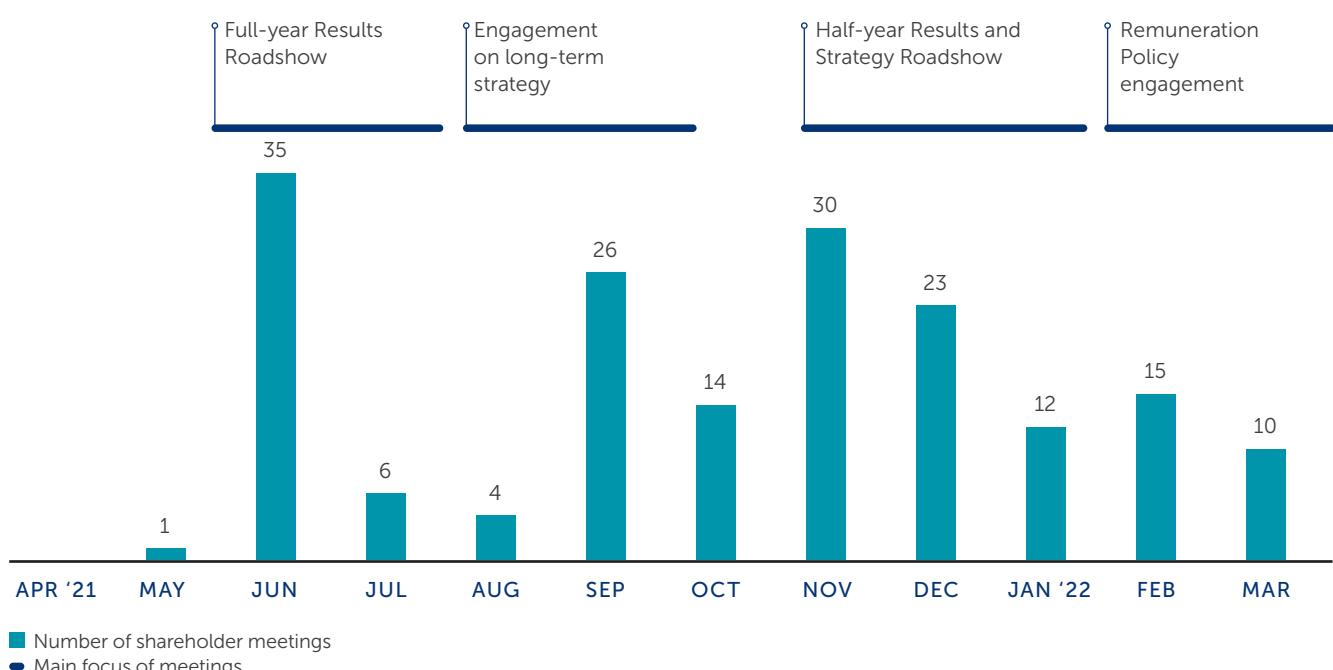
Annual General Meeting (AGM)

The Board encourages shareholders to participate in the AGM, and through shareholder approval, has introduced the necessary measures to hold a hybrid meeting in 2022. These arrangements allow full remote participation, with details of the business of the meeting and how to attend both in person and virtually set out in the separately issued Notice of AGM 2022. With all Directors available to respond to enquiries, questions are invited to be submitted both on the day and in advance. Answers to questions and the results of the meeting are published on [sse.com](#) as soon as practicable after the event. In 2021, all resolutions were passed with in excess of 94.87% votes cast in favour.

Debt investors

Engagement with solicited credit ratings agencies, being Standard & Poors' and Moody's, takes place throughout the course of the year, with increased dialogue ahead of the annual ratings review process and in line with Company related news flows. Regular dialogue is also maintained between key relationship banks, debt investors and SSE's Treasury team and the Finance Director.

CYCLE OF SHAREHOLDER ACTIVITY 2021/22



Board leadership and company purpose continued

Considered decision-making continued

Sharing and interpreting feedback

The Board receives monthly updates on investor and financial market sentiment, providing insight into recent share price movements; a briefing on recent sell-side analyst commentary; and key monthly movements in the share register. This is covered through written reports and verbal feedback from meetings which have taken place.

The feedback provided by shareholders during and after Half and Full-year Results Roadshows is communicated directly to the full Board in a biannual shareholder feedback paper including updates from SSE's brokers.

The Board, through the SSHEAC, receives a full annual review of SSE's performance in investor-led ESG reviews and ratings. Key matters raised by shareholders during the period, considered across Board deliberations are set out on [page 35](#).

ENGAGEMENT IN ACTION SHAREHOLDERS AND DEBT PROVIDERS



SHAPING REMUNERATION POLICY

SSE's Remuneration Policy is subject to a three-yearly binding vote from shareholders, with it last approved at the 2019 AGM.

In February 2022, the Chair of the Remuneration Committee wrote to SSE's top 30 shareholders on the Register, as well as several advisory agencies. This set out that the Remuneration Committee was seeking to use the upcoming review cycle to further strengthen and align its approach to executive pay with SSE's purpose and long-term strategy, as directly supported by the Net Zero Acceleration Programme. The letter resulted in a number of written responses as well as virtual meetings

where views on the policy proposals were shared and discussed.

Shareholder responses were considered at the Remuneration Committee meeting at the end of March, and with agreement of the Committee, a further letter was sent to shareholders at the end of April. This reported the feedback which had been received to date and provided a summary of its response to the common themes raised.

Following approval at the Remuneration Committee meeting in May, this engagement with shareholders contributed to: a change to the proposed split of performance measures for the Performance Share

Plan – with more being financial than originally proposed; and a focus on the importance of stretching targets, with a suitable mix of quantitative and qualitative measures.

Furthermore, the engagement allowed the Remuneration Committee Chair to reassure shareholders that the proposed change to Policy wording does not represent a change in the current approach to pay, but provides greater flexibility for the future, with Executive Directors' salaries increasing by 3% with effect from 1 April 2022 in line with the negotiated pay increase for all employees.



Supporting and listening to the employee voice

How the Board engages

The two-way dialogue between the Board and employees is facilitated by a combination of engagement methods, including face-to-face discussions at meetings, during site visits and through attendance at employee events. During the coronavirus pandemic, where in-person meetings were not possible, engagement was enabled through virtual platforms to ensure continued contact with the employee voice.

These tools complemented the established annual all-employee survey and the Board's review of findings, and remain in place.

Across 2021/22, as coronavirus restrictions began to lift and when it was deemed safe to do so, the Board took the opportunity to reconnect in person, continuing to build on what had been achieved during periods of lockdown in maintaining engagement with employees.

The adoption of a diverse range of listening channels has been based on the principle that everyone in SSE should have a voice, and is consistent with employee feedback surrounding the benefit of multiple platforms through which to raise areas of interest or concern. In turn, it supports the Board in gathering a fair and representative view of the issues which are important to employees, and builds an appreciation of how these may differ by business area, role and geography.

Board listening approach

Engagement settings

All-employee setting

Offers a Board perspective which can otherwise be missed from business-led communications, and provides the Board with insight of employee opinion on life at SSE.

People leaders

Provides the opportunity to replay key messages which have been heard through listening channels, and supports and challenges management actions and response.

Senior leadership

Creates a platform for two-way interaction between senior leaders and the Board through which the Board can offer views and personal external perspectives.

Engagement methods

Director-employee sessions

Provides employees with Board accessibility and direct two-way interaction, supporting detailed discussion of specific topics.

Focus groups

Allows interaction with diverse geographies and cross-sections of employees, and being smaller in size, provides the opportunity to seek out added context surrounding employee sentiment through true conversation. The impact can be fast and influence decisions which may affect employees.

All-employee surveys

Exists as a long-standing tool with a mature strategy that attracts a strong response rate. The results are viewed as representative of the majority of employee voices, and the question set and findings shape the cultural agenda, ensuring that employee sentiment is considered in all key decision making.

Site visits by non-Executive Directors

Allows non-Executive Directors to travel across parts of SSE and feel the operational environment, enhancing understanding of employees' experience of their working environment. Site visits can be followed by informal roundtables to allow deeper two-way dialogue on matters of importance.

Blogs and written communications

Reinforces matters of importance and embeds the tone through the Board's written reflections.

Non-Executive Director for Employee Engagement

[More on page 139](#)

Engagement highlights

Board-led virtual engagement sessions

12

Total employee attendance at Board calls

22,068

Largest audience size

4,369

Non-Executive Director for Employee Engagement sessions

10

Sites visited

21

All-employee survey engagement score 2020/21

82%

Board leadership and company purpose continued

Supporting and listening to the employee voice continued

Board response in 2021/22

SSE has continued to use technology together with in person meetings to allow large scale conversations to continue across Great Britain and Ireland. Discussions have been broad ranging and responsive to the changing status of the pandemic throughout the year, with focus on the specific topics outlined below.

Key themes 2021/22	Active Board engagement
Strategy, net zero and climate change	<p>Why the Board engaged The Board acts in response to all-employee survey and call feedback, which cited a want to engage further with senior leaders on SSE's strategy and the drive to net zero.</p> <ul style="list-style-type: none"> All-employee Climate Academy virtual calls, were hosted by the Chief Executive and the Chief Commercial Director. These were a key component of supporting COP26 activity and a direct result of employees' desire to understand SSE's net zero strategy in broader terms. The Chief Executive hosted employee engagement sessions with external experts including Chris Stark, Chief Executive of the Climate Change Committee and John Sauven, Executive Director of Greenpeace. In line with SSE's Net Zero Acceleration Programme, the Board approved an updated Employee Guide to Strategy, which was supported by the Chief Executive and Finance Director hosting a virtual people leaders session on SSE's growth ambitions. The Non-Executive Director for Employee Engagement attended a COP26 employee event hosted by SSE Distributed Energy, meeting with employees and many of SSE's Climate Pledge Team Captains who were advocating all-employee net zero commitments. The Chair of the SSHEAC judged SSE's graduate sustainability awards. The Non-Executive Director for Employee Engagement attended SSE Thermal Town Halls where employees discussed all-employee survey findings alongside the important role of the business in supporting SSE achieve its net zero ambitions.
Inclusion and diversity	<p>Why the Board engaged The Board champions SSE's inclusion and diversity approach, and seeks broad insight surrounding the effectiveness of plans and initiatives in order to continually further progress.</p> <ul style="list-style-type: none"> The Executive Directors and Melanie Smith hosted an all-employee call discussing inclusion and diversity and how SSE is taking actions to support progress. The Non-Executive Director for Employee Engagement met virtually with the heads of the 'Belonging in SSE' employee-led groups, which provide representation to, and champion discussion of: Menopause; Health and Wellbeing; Disability; Neurodiversity and Chronic Health; Black and Ethnic Minority; and Armed Forces. Priority areas which topped both the agenda and discussion were mental health and 'making the uncomfortable comfortable'. The Chair of the SSHEAC visited the Tealing Transmission Substation Upgrade to discuss inclusion and diversity and opportunities across technical roles, meeting with female engineers and gathering reflections of working for SSE and in a construction environment. The Chair and the Senior Independent Director met with Transmission and Distribution colleagues following a site visit and took time to understand their views on inclusion and diversity across SSE.
Great place to work and ways of working	<p>Why the Board engaged The Board seeks views of employee needs in order to drive culture and meet expectations surrounding working practices; areas which were in sharp focus across the coronavirus pandemic.</p> <ul style="list-style-type: none"> The Non-Executive Director for Employee Engagement presented virtually on the outcomes of the all-employee survey to people leaders, identifying clear accountabilities specific to that group. The Non-Executive Director of Employee Engagement met with colleagues in Airtricity, Ireland, to discuss the outcomes and action plans in response to the all-employee survey and understand sentiment around ways of working and returning to the office. An additional targeted survey was issued to all employees during the year to gather feedback and cultural trends on ways of working, which informed the Board's view of the flexible practices required to support employees and ensure inclusivity.
Frontline operations	<p>Why the Board engaged The Board wants to ensure operational roles feel connected with SSE's engagement approach by listening directly to employees in the field.</p> <ul style="list-style-type: none"> During the coronavirus pandemic a number of staff continued to maintain frontline operations due to the nature of their roles. In December 2021, the Chair and Chief Executive visited those working in the Perth Control Room, whilst they were dealing with the impact of Storm Arwen. Non-Executive Director site visits took place at the Alyth Transmission construction site, the Tealing Transmission Substation upgrade and the New Forest Depot with key takeaways being the care taken by frontline staff to preserve the local environment and wildlife whilst carrying out operations.

Non-Executive Director for Employee Engagement

The Nomination Committee oversees the recommended appointment of the Non-Executive Director for Employee Engagement, a role which Dame Sue Bruce has held since its inception in 2018. In the Nomination Committee's considerations, recognition was given to Dame Sue's depth of experience, active listening skills and empathetic approach. It was further

recognised that as Remuneration Committee Chair, relevant employee perspectives could be understood in the context of wider remuneration policy and the approach to reward.

The creation of the role remains a natural and progressive step in the evolution of SSE's employee voice strategy, providing an enhanced and more interactive understanding of employee sentiment.

Each year, the programme of work for the Non-Executive Director for Employee Engagement is structured and supported in collaboration with SSE's Group HR Employee Engagement Manager. The success of the role is measured in action, whereby the employee voice is consistently represented in meetings attended by the Non-Executive Director for Employee Engagement, allowing the views and opinions of colleagues to feature and contribute to discussions and decisions being made.

ENGAGEMENT IN ACTION EMPLOYEES



NON-EXECUTIVE DIRECTOR FOR EMPLOYEE ENGAGEMENT

I have been hugely grateful of the opportunity to re-connect with colleagues in person after the unique challenges which coronavirus presented across 2020/21. Recognising that virtual platforms provided an inclusive means of 'travelling' to different locations, we have retained a hybrid approach to engagement, delivering a more rounded and flexible means of keeping in touch with employee sentiment.

Work across the year has continued to support constructive engagement on employee survey results and business-led action plans – which saw a session with Airtricity colleagues in Ireland and a virtual employee-wide call; alongside new thought provoking sessions with the leads of Belonging in SSE Groups, which will be a biannual occurrence going forward. The essence of engaging, listening and sharing lived experiences cannot be captured through measured survey responses alone, and direct insights from colleagues is an invaluable way of deepening Board understanding of how our people feel.

Our dialogue remains two way and questions are always invited on Board-led developments. With SSE's strategy dependant on the collective skills of its diverse workforce I was able to share Board views in the lead up to COP26, meeting with Distributed Energy team members in Perth and attending virtual Thermal Town Hall sessions. A consistent observation is the personal commitment to SSE's purpose, and colleagues should continue to recognise the contribution they make to SSE's net zero ambitions.

From my constructive engagements, notable priorities which have been identified to support future work, and which have been reported to the Board, are:

- A continued pledge to support colleague wellbeing, with a particular focus on mental health for frontline workers.
- Confidence in levels of employee support as society continues to adapt to the evolving coronavirus pandemic.
- Focus on the value of SSE's 'Flexible First' working approach as a core enabler of employee engagement.
- A retained central focus on safety.

Meetings with trade union FTOs and JNCC colleagues, at least twice each year, have also continued, building on the foundations of a well-established relationship and supporting the formal industrial relations activities led by the executive team. This relationship is underpinned by openness, inclusivity and transparency whilst respecting our respective roles, allowing diverse views to be heard by the Board, in a pro-active and timely way. The collaborative role of Group HR ensures that responsive

business-led action can be channelled directly to senior leaders and informs the overall engagement approach.

I would like to reiterate the Board's pride in the continued achievements of our employees, and the strength of culture which is evident across our engagements.

Dame Sue Bruce
Non-Executive Director for Employee Engagement



"During our call Sue was inspirational and courageous, speaking very openly about the challenges she has faced. At SSE we encourage personal stories in striving to make the uncomfortable comfortable. Board engagement on this supports an inclusive workplace where diversity is valued and everyone can thrive."

Vikki Mohammed
Neurodiversity and Chronic Health, Belonging in SSE Lead

Board leadership and company purpose continued

Focusing on culture

Aligning with purpose, vision and strategy

Company culture has internal and external influence; guiding interactions within SSE and directing decisions with stakeholder impact. This context is reflected within the Board-approved definition of a healthy corporate culture, which supports purpose, vision, strategy and long-term success, by setting a baseline against which cultural guidance can be developed and cultural indicators tested.

A **healthy corporate culture** is one in which SSE has a purpose, values and strategy that are respected by its stakeholders, and an operating environment that is inclusive, diverse and engaging; that encourages employees to make a positive difference for stakeholders; in which values guide decisions and actions; and in which attitudes and behaviours are consistent with high standards of conduct and doing the right thing.

Setting the tone

A healthy corporate culture is a shared deliverable, which starts with the Board setting the correct tone. This is supported through approval of SSE's values, and their translation into accepted attitudes and

behaviours within SSE's Group Policies and an employee guide 'Doing the Right Thing'; SSE's guide to good business ethics, all of which are supported by mandatory training for everyone in SSE.

Leading by example is through the Board's own conduct and communication to employees of key Board activity. Senior leaders across SSE have the same responsibility to lead, embed and oversee cultural standards.

Culture is embedded at Board-level by:

- SSE's Governance Framework and practices (see [pages 124 to 125](#)).
- Board decision-making (see [pages 126 to 133](#)).
- People matters, appointments and succession planning (see [Nomination Committee Report](#)).
- SSE's risk, controls and compliance approach (see [Audit Committee and EMRC Reports](#) and [page 68](#)).
- Focus on safety, sustainability, health and the environment (see [SSHEAC Report](#)).
- Attitudes towards reward and remuneration (see [Remuneration Committee Report](#)).

Monitoring and measuring

The Board uses multiple sources to assess the strength of culture and understand how it manifests across employee sentiment,

observed behaviours and trends. These can be described as a combination of the below reported metrics, standing reports and listening channels.

- Feedback from Board-employee engagement.
- Non-Executive Director for Employee Engagement insights.
- Employee survey results.
- Twice yearly Cultural Dashboard review.
- Monthly people updates from the Chief Executive covering key developments and employee sentiment.
- Monthly compliance reporting from the Finance Director.
- Monthly safety and employee wellbeing data.
- Whistleblowing performance reports.
- SSE's Principal Risk 'People and Culture'.

The Cultural Dashboard remains a health check, comprising data from Group HR and Group Compliance. A key section, which is illustrated opposite, aligns measured employee survey feedback with people metrics and KPIs under cultural strands. This allows the Board to consider where there are deviations between what is being heard and underlying behaviours. There were no areas of concern raised in 2021/22, with the Board retaining oversight of ongoing culture-related workstreams through its wider agenda.



Measuring cultural strands through our Cultural Dashboard

Our culture is determined by the way we...

Attract and retain people	Work together	Look after each other	See ourselves	Make decisions	Manage performance	Lead from the top
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Reflected in the core themes of employee feedback...



Supported by key people metrics and KPIs...

Employee turnover 9.5%	83% of employees able to work flexibly	254 Safe Days	5 Climate Academy sessions attended by 4,000+ colleagues	90% Certification across mandatory eLearning courses	Sustaining Key Skills interventions attended by 10,036 delegates	40 Board-led employee engagements, including 10 Non-Executive Director for Employee Engagement sessions
3,195 vacancies filled	7 "Belonging in SSE" groups supporting over 6,000 colleagues	6.3 Sick days per head	>90% improved understanding of climate	47 employee contacts on Speak Up platforms		

Continually improved by cultural action plans and Board support in 2021/22...

Provided increased and direct support to talent development and SSE's IN, ON, UP approach (see pages 149 to 150).	In response to employee opinion, approved a 'Flexible First' hybrid working approach.	Site visits on safety and wellbeing continue to be conducted by the SSHEAC (see page 167).	Approval of the Net Zero Acceleration Programme and Refreshed 2030 Goals (see page 130).	Approved an enhanced and more accessible version of 'Doing the Right Thing' (see page 133).	Agreed that the revised Leadership Blueprint should remain cognisant of SSE's culture and inclusive to all future leaders (see page 149).	Board's approach to leading by example (see opposite).
Oversight of top leaver reasons; SSE's employer brand; and activity which communicates SSE's proposition to external candidates.	Engaged directly on the topic of inclusion and diversity with employees (see page 138).	Reviewed safety, health and wellbeing performance at the start of every Board meeting.	Directly supported employee communications on strategy (see page 138).	Reviewed SSE's whistleblowing performance (see page 133).	Continues to oversee a leadership review which confirmed a strong, collaborative organisational environment in which there is trust and a want to support one another.	Board presence across SSE's full engagement approach (see pages 137 to 139).

See also culture on the Board agenda, [page 133](#)

Promoting, monitoring and maintaining a healthy business culture, [page 62](#)

Division of responsibilities

Division of responsibilities

Defining Board responsibilities

Through the Board Charter, the Board approves the clear division of responsibilities between the Chair and Chief Executive, in addition to defined role profiles for the Senior Independent Director, Non-Executive Director for Employee Engagement and non-Executive Directors. This is reflected in the below overview of key executive and non-Executive accountabilities, which support the integrity of the Board's operations.

Executive

Chief Executive

- Proposing and directing the delivery of strategy as agreed by the Board through leadership of the Group Executive Committee.
- Ensuring SSE's decisions and actions are sustainable in the long-term, through appropriate management, implementation and progress of sustainability interventions which support SSE's strategy and address material impacts including climate change.
- Communicating and providing feedback on the implementation of Board-agreed policies, and their impact on behaviours and culture, ensuring SSE operates in a way that is consistent with its values.
- Responsibility for the overall Group of businesses and leading the functions of: HR; Corporate Affairs and Strategy; and Sustainability.
- Engaging with SSE's six key stakeholder groups and leading on related activity at EU, International and UK level.

Finance Director

- Deputising for the Chief Executive.
- Proposing policy and actions to support sound financial management and leading on M&A transactions.
- Leading the functions of: Finance; Procurement and Logistics; Group Risk and Audit; IT and Cyber Security; Investor Relations and Company Secretarial; and the General Counsel areas of responsibility.
- Overseeing and reporting on SSE's networks businesses.
- Overseeing SSE's relationships with the investment community.
- Engaging with SSE's six key stakeholder groups and leading on related activity in Scotland.

Chief Commercial Officer

- Supporting the work of the Chief Executive and Finance Director.
- Leading SSE Renewables, SSE Thermal, Energy Portfolio Management, SSE Energy Customer Solutions and SSE Distributed Energy at Board level.
- Driving growth and commercial market risk activities for all of SSE's non-networks businesses at Group level.
- Leads executive relations with trade unions.
- Engaging with SSE's six key stakeholder groups and leading on related activity in Ireland and Northern Ireland.

Company Secretary

- Compliance with Board procedures and supporting the Chair.
- Ensuring the Board has high quality information, adequate time and the appropriate resources.
- Advising and keeping the Board updated on corporate governance developments.
- Considering Board effectiveness in conjunction with the Chair.
- Facilitating the Directors' induction programmes and assisting with professional development.
- Providing advice, services and support to all Directors when required.

Non-Executive

Chair

- Leading the effective operation and governance of the Board.
- Ensuring SSE's decisions are sustainable in the long-term, and the Group's approach to sustainability, including climate change, is addressed through strategic, operational and risk considerations.
- Setting agendas which support balanced decision-making.
- Demonstrating objective judgement and applying sufficient challenge to projects and proposals.
- Ensuring effective Board relationships and a culture that supports constructive debate.
- Communicating with major shareholders and key stakeholders to ensure the Board understands and considers their views.
- Overseeing the annual Board evaluation and identifying any actions required.
- Leading initiatives to assess SSE's culture and ensuring the Board sets the correct tone.

Senior Independent Director¹

- Providing a sounding board for the Chair.
- Leading the Chair's performance evaluation.
- Serving as an intermediary to other Directors when necessary.
- Being available to all stakeholders if they have any concerns requiring resolution.

Independent non-Executive Directors

- Scrutinising, measuring and reviewing the performance of management.
- Constructively challenging and assisting in the development of strategy.
- Providing independent insight and support based on relevant experience.
- Reviewing Group financial information and ensuring the System of Internal Control and Risk Management Framework are appropriate and effective.
- Reviewing succession plans for the Board and key members of senior management.
- Monitoring actions to support inclusion and diversity.
- Engaging with key stakeholders and feeding back insights as to their views, including employees in relation to culture.
- Setting executive remuneration policy.
- Serving on or chairing various Committees of the Board.

Non-Executive Director for Employee Engagement¹

- Developing, implementing and feeding-back on employee engagement initiatives; providing an employee voice in the Boardroom.
- Representing the Board in discussions with employees and communicating Board decisions on specific matters.
- Engaging with officers of trade unions and internal trade unions representatives on key strategic issues affecting the workforce.

¹ The responsibilities of Senior Independent Director and Non-Executive Director for Employee Engagement apply in addition to those of non-Executive Director.

Assessing Board performance

2021/22 Independent Board performance review process

The Board monitors and improves performance by reflecting on the continuing effectiveness of its activities, the quality of its decisions and by considering the individual and collective contribution made by each Board member.

In line with recognised best practice, the 2021/22 Board and Board Committee performance reviews were externally facilitated by Lintstock Ltd (Lintstock). Besides the provision of the Board and Board Committee reviews, there was no other contractual connection between SSE or the individual directors and Lintstock. The contents of this section of the Directors' Report was reviewed by Lintstock in advance of publication, who agreed with its accuracy.



Composition, succession and evaluation continued

Assessing Board performance continued

2021/22 Independent Board performance review findings

The findings of the independent Board performance review were highly positive, with the Board characterised as confident in its level of oversight. Areas which scored particularly well, by the Board and Lintstock relative to an external benchmark, included: the clarity and development of strategy; monitoring of culture; the effectiveness of risk management surrounding the coronavirus pandemic; the strength and oversight of stakeholder relations; and Board support through training.

The findings further affirmed a strong Board composition, with discussions cognisant of the attributes which would be desirable in future appointments, alongside due consideration as to how these should be balanced and prioritised within succession plans.

Whilst the findings were positive and confirmed the Board to be operating effectively, there remained as with all balanced process, opportunities for improvement and refinement.

Opportunities for refinement	Commentary and actions
Optimising oversight of strategic execution	<p>In light of SSE's refreshed strategy, the review suggested the Board could consider the format of current strategic reporting to ensure clear alignment with growth ambitions and monitoring of progress.</p> <p>Supporting action agreed by the Board:</p> <ul style="list-style-type: none"> The Board reviewed proposals for monitoring progress on strategic execution at its March 2022 meeting, and agreed updates to further optimise Board oversight, centred on the preparation and presentation of certain strategic reports on a quarterly basis.
Alignment on people issues	<p>People matters were identified as a particular area of Board interest and the review concluded that alignment of expectations and aspirations, together with greater visibility of ongoing activities and progress, would provide a more effective platform for debate.</p> <p>Supporting action agreed by the Board:</p> <ul style="list-style-type: none"> Inclusion and diversity progress, targets and reporting was considered at the Nomination Committee meeting in May 2022 (see page 150). The output of this discussion included refreshed diversity ambitions, providing a revised framework for constructive challenge and monitoring. The Board confirmed continued Nomination Committee oversight of the ongoing leadership development review, to ensure SSE is attracting the right skills and level of capacity to achieve its strategic plans (see page 149). It was agreed to enhance Board knowledge of SSE's leadership teams with continued and increased face-to-face engagement.
Leveraging external voices	<p>The findings supported the view that the management team was highly expert and proficient in the suite of technical matters which fall under its remit. There was however an opportunity for the Board to complement this, through the use of third-party or external expertise on particular topics.</p> <p>Supporting action agreed by the Board:</p> <ul style="list-style-type: none"> The use of Board deep dive sessions on certain subjects to begin from May 2022. Finding ways to leverage the expertise on the Board on specific matters, such as technology.

Board Committees

The evaluation of Board Committee performance found that each Committee remained effective in providing Board support. Specific findings and the agreement of actions was overseen by each Committee Chair, with consideration of the overall findings of the Board performance review.

Progress will continue to be monitored by each Committee, with details set out in the Reports across [pages 145 to 199](#).

Individual Director performance

Individual Director performance and contribution was assessed through one-to-one meetings with the Chair. These sessions allowed reflection on personal development and discussion of matters relevant to Boardroom culture and process. The findings, in combination with individual skills (see [page 117](#)), the time commitment, and independence assessments (see [page 148](#)) confirmed that each Director continues to contribute positively.

Chair performance

The performance of the Chair was evaluated by the Senior Independent Director based on: feedback which was proactively gathered as part of the Board performance review; a thorough discussion with the non-Executive Directors; and individual input from non-Executive and Executive Directors and selected senior

managers. The output confirmed that Sir John Manzoni had made a strong start to the role, following a smooth transition from his predecessor. He was confirmed to lead the Board with positive energy and focus, and his dedication to the role was evident. Over the past year, he provided strong challenge on strategy, contributing positively to the ambition SSE has articulated, and engaged constructively with investors on strategy and environmental, social and governance matters.

He has developed and maintains highly effective relationships with all Directors, supporting and driving a committed and inclusive culture that encourages constructive debate and diversity of views. His positive and open tone further supports the effective operation of meetings. It was confirmed that he devotes sufficient time to the role, and in all respects meets the requirements of the Code.

Progress against 2020/21 actions

Progress against the actions agreed through the 2020/21 internal evaluation process can be found on the following pages:

Continued Board engagement on strategy

(see [pages 126 to 131](#))

Restart site visits and in-person employee engagement

(see [pages 137 to 139](#))

Maintain topical deep dives and teach-ins

(see [page 148](#))

Nomination Committee Report



Role of the Committee

The Nomination Committee provides dedicated focus to the following people-led matters.

- **Board leadership.** Identifies the skills, knowledge and experience required for the effective leadership and long-term success of SSE, managing the balance of Board competencies through succession planning, knowledge development and targeted recruitment.
- **Board Committees.** Monitors the size, structure and composition of the Board's Committees to ensure the necessary support now, and going forward, in line with succession plans.
- **Talent pipeline.** Monitors the senior leadership pipeline and initiatives to develop internal capability, engaging in leadership programmes and updates on external recruitment.
- **Inclusion and diversity.** Under the Board's Policy, considers the perspectives and attributes across the Board and senior leadership, confirming ambitions and work to drive progress, reviewing overall support for Group-wide inclusion and diversity strategy.

The Committee's Terms of Reference are available on sse.com.

Dear Shareholder,

The Nomination Committee champions SSE's long-term success through its dedicated focus on people matters. Across the Board and management, this centres on effective and inclusive leadership, with confirmation that SSE has the breadth of capability and perspectives to drive measured decision-making and company culture. The Committee focuses on succession planning for the Board itself, and the Group Executive Committee and senior management, as well as reviewing supporting talent pipelines. Our focus group-wide, is on attracting, retaining and developing the diverse talent needed for SSE to deliver on its long-term plans.

I am pleased to confirm the successful appointment of three new non-Executive Directors to the Board, with Dame Elish Angiolini and Debbie Crosbie joining us in September 2021, and John Bason due to join us in June 2022. As explained on [pages 146 to 147](#), these changes result from two separate search processes, and defined candidate specifications, that align with SSE's strategic ambitions. The Committee, and Board, believe the unique and diverse experiences brought by Dame Elish, Debbie and John will provide additional rigour and challenge, thereby enhancing our discussions going forward.

Board Committee membership was reviewed in September 2021 when Dame Elish and Debbie joined, and we have confirmed that John will join the Nomination Committee and the Audit Committee, for which he is the intended Chair designate, upon appointment. Details of Committee membership refreshment are on [page 149](#).

Dame Sue Bruce will achieve 9 years of Board tenure in September 2022, and the Board has agreed our recommendation that her term be extended until 31 March 2023. This is to provide continuity as SSE seeks to introduce a new Remuneration Policy which will be voted on at the Annual General Meeting in July, and across the new pay policy which we have agreed with our trade unions. To ensure a smooth handover in key Board roles, the Board has further agreed that effective 1 April 2023 Melanie Smith will take over as Chair of the Remuneration Committee, and Dame Elish Angiolini as the Non-Executive Director for Employee Engagement.

SSE's Net Zero Acceleration Programme provides a clear backdrop against which to assess the competencies SSE will need in the long term. We have reviewed the Board skills matrix, which can be found on [page 117](#), in this context, and spent time on senior leadership development through enhanced updates from Group HR. This has included oversight of an externally-led leadership development review and meeting with potential future leaders. We will continue to review Board and executive skills and capacity in light of future plans.

A diverse and inclusive workplace remains a priority for the Board and Nomination Committee, and underpins discussion at every level. As at 31 March 2022, the Board is 50% female and the Board Inclusion and Diversity Policy has been updated to reflect this as an enduring aim. As this position remains sensitive to both changes in the composition and size of the Board, we will continue to assess the impact of proposals in relation to membership and succession. When John Bason joins the Board in June 2022, female representation will be 46%.

To assist our future work, we note the recommendation from the FTSE Women Leaders Review centred on increasing female representation within key Board roles, and although we are currently in line with the Parker Review recommendation on ethnic diversity, we continue to consider opportunities for further progress.

At senior leadership level, whilst diversity has improved, there is a desire to accelerate the pace of change. We have therefore set revised ambitions, and actions, which we will track the initial effectiveness of across 2022/23. Details of these ambitions and our inclusion and diversity work is set out on [pages 150 to 151](#).

I am pleased to present this report and welcome engagement on our people-led agenda.

A handwritten signature in black ink, appearing to read "John Manzoni".

Sir John Manzoni
Nomination Committee Chair
24 May 2022

Composition, succession and evaluation continued

Nomination Committee Report continued

Key activities in 2021/22

- Reviewed Board composition and succession.
- Recommended new non-Executive Director appointments.
- Supported a revised Board Inclusion and Diversity Policy.
- Reset diversity ambitions for senior leadership.

Membership and attendance

The membership of the Committee comprises the non-Executive Directors and the Chair of the Board, who is also Chair of the Committee. The Company Secretary is Secretary, and where appropriate, the Executive Directors are invited to attend meetings. Biographical details of the Committee members can be found on [pages 118 to 122](#). The Committee met six times in 2021/22 with meeting attendance on [page 125](#).

Board leadership

Composition and succession

The composition of the Board is informed by the Committee's plans for orderly succession across key Board and Committee roles. This is supported by regular assessment of the skills, experience and diversity the Board needs in line with agreed strategy and changes in SSE's operating context. The backdrop to these discussions comprises the spectrum of Board work set out across the Directors' Report, and the counterparts of the Board composition dashboard and skills matrix on [pages 116 to 117](#).

Following agreement through the prior year's evaluation, in September 2021, the Committee engaged in a refreshed assessment of Board skills. This was aligned to SSE's strategic situation and coupled with a view of non-Executive Director tenure, including analysis of where collective and individual capabilities reside. As an evolution of existing process, it was used to test the scope of in-flight workstreams, and confirm both optionality and coverage for Board roles across the short, medium and longer-term. Identified priorities were fed into the continuum of work on Board composition, which saw the Committee support three non-Executive Director appointments in the period to 24 May 2022.

In the 2021 Annual Report, it was confirmed that Spencer Stuart had been engaged to support a prospective non-Executive Director search process following the departure of Crawford Gillies. This

Committee evaluation

The annual review of Committee performance was considered through the formal external Board evaluation conducted by Lintstock (see [pages 143 to 144](#)). The output of the evaluation was considered at the Board in March, with follow-up actions agreed by the Committee for progression across 2022/23. The Board confirmed the effective operation of the Committee in discharging its responsibilities.

Evaluation confirmed

- The quality of information to support the Committee in discharging its responsibilities was rated positively.
- Non-Executive Director succession planning is supported by proactive process and clear oversight of Board capability.
- Inclusion and diversity is positioned high on the agenda and remains a clear priority in conjunction with the Board and Group HR.

Actions for 2022/23

- Board composition.** In line with the refreshed view of Board skills, continue to review succession plans and the evolution of the Board to support SSE's long-term strategic ambitions.
- Executive succession and talent pipeline.** Continue focus on talent and capability across senior leadership, reviewing Group HR reports on high-potential candidates and internal and external talent pools.
- Inclusion and diversity.** Drive further progress surrounding inclusion and diversity across senior leadership roles, reviewing initiatives, plans and ambitions.

concluded with the appointment of Dame Elish Angiolini and Debbie Crosbie with effect from 1 September 2021, both of whom joined the Nomination Committee from the same date. In May 2022, following a process supported by Korn Ferry, it was announced that John Bason would join the Board with effect from 1 June 2022. As the intended Audit Committee Chair designate, he will join the Audit Committee and become a member of the Nomination Committee from this time. Details of the supporting process for each is set out on [page 147](#).

An updated title for the Group Energy and Commercial Director was further recommended to the Board in March 2022, with Martin Pibworth becoming Chief Commercial Officer from 1 April 2022. This saw no change in underlying executive responsibility and brings clearer alignment between Martin's title and directorate role.

Time commitment

The expected time commitment of the Chair and non-Executive Directors is agreed and set out in writing in a Letter of Appointment. This is issued following confirmation of an individual's capacity to take on the role, based on an assessment of existing external commitments and demands on time. Any changes, such as additional external appointments which

could impair the ability to meet the above, can only be accepted following approval of the Board. The acceptance of an external appointment by an Executive Director is further subject to Board consent. Approved changes across 2021/22 are set out on [page 119](#).

Director re-appointment

All non-Executive Directors undertake a fixed term of three years subject to annual re-election by shareholders. The fixed term can be extended and consistent with best practice, does not exceed nine years unless defined circumstances are deemed to exist.

Extensions recommended in the period were: a further three-year extension to the tenure of Melanie Smith and Helen Mahy representing a second and third term in each case; and a time-limited extension to Dame Sue Bruce's tenure to 31 March 2023. This is to provide continuity as SSE seeks to introduce a new Remuneration Policy, and to allow an orderly transition in the key roles of Remuneration Committee Chair and Non-Executive Director for Employee Engagement (see [page 149](#)).

In each case, the decision was supported by the continuing independence, experience and contribution that each Director brings to both Board and Committee work (see [pages 144 and 148](#)).

Non-Executive Director recruitment process

Stage 1. Objective criteria

The Committee agreed the appointment of a search firm who would be best placed to deliver a comprehensive candidate list through access to diverse search pools. Objective criteria were set to inform the development of a detailed role specification.

Search 1

Rationale for appointment. Preserve Board diversity and breadth of capability with a focus on the Scottish operating context.

Criteria to inform role specification

- Experience of Scottish politics and business environments.
- Depth of understanding across national and local government.
- Commercial insight.

Culture, inclusion and diversity (applicable to both Search 1 and Search 2)

Complementing technical ability, role specifications reflected attributes to support SSE's culture and were assured for the use of inclusive language. Both firms engaged – Spencer Stuart and Korn Ferry¹ – were, and continue to be, signatories to the enhanced voluntary code of conduct for executive search firms. Candidate pools further comprised corporate and non-corporate backgrounds with a key requirement being longlists that encompassed diversity of gender, ethnicity, lived experience and skills, where it was possible to identify relevant characteristics.

- 1 Spencer Stuart has no further connection with SSE. Korn Ferry provided its executive search service independent of other leadership development and reward consultancy support for which it is engaged by SSE.

Stage 2. Longlist review

Candidate longlists were compiled by the search firm and reviewed by a sub-group of the Committee. Considering the role specification, individuals were identified for contact surrounding scope and interest in the Board position.

Longlist diversity (Search 1)



No ethnic minorities identified

Longlist diversity (Search 2)

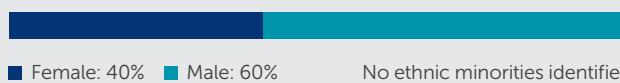


3 ethnic minorities represented

Stage 3. Shortlist meetings

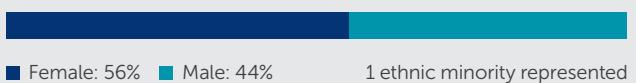
Following confirmation of interested individuals, a shortlist was agreed to meet face-to-face or virtually with Committee members. Based on feedback from these meetings, and strength of fit with the agreed role specification, preferred candidates were invited to meet the full complement of Board members.

Shortlist diversity (Search 1)



No ethnic minorities identified

Shortlist diversity (Search 2)



1 ethnic minority represented

Stage 4. Candidate selection

Appointment recommendations, which remain subject to shareholder approval, were made to the Board based on the below assessments. This included confirmation that each individual would be deemed independent on appointment and had capacity to take on the role.

Search 1

Recommendation. The Committee agreed that Dame Elish Angiolini and Debbie Crosbie would bring strong and diverse capabilities from their respective distinguished careers; Dame Elish a legal professional and expert in policy and Debbie a business leader skilled in operations, technology and IT. Each possessed detailed understanding of SSE's stakeholder context within Scotland, a proven ability to professionally challenge, and working styles which would complement SSE's Board and people culture.

Link to strategy. Bolsters support, and challenge, for SSE's domestic growth plans and stakeholder-centric investment strategy.

Full biographical details can be found on [pages 118 to 122](#). The skills and diversity of current Board members is set out on [pages 116 to 117](#).

Search 2

Recommendation. John Bason was identified as a sound fit, with a recognised executive and non-executive career in global complex businesses – in the roles of Finance Director and Audit Committee Chair – overseeing successful growth and international joint venture structures. This was complemented by a clear understanding of the listed company context.

Link to strategy. Contributes to experience of international operations and growth under SSE's Net Zero Acceleration Programme, with strong awareness of finance and risk matters.

Composition, succession and evaluation continued

Nomination Committee Report continued

Conflicts of interest and independence

Each Director has a duty to disclose any actual or potential conflict of interest situations, as defined by law, for consideration and approval if appropriate by the Board. This requirement is supported by an annual conflicts authorisation process, where the Committee reviews SSE's Conflicts of Interest Register and seeks confirmation from each Director of any changes or updates to their position.

This process informs the simultaneous assessment of a non-Executive Director's independence, as following the absence of any conflict, the Committee reflects upon the outcome of each individual Director's performance evaluation (see [page 144](#)) and the circumstances set out in the Code which could compromise an individual's position.

Following review in 2021/22, and to the exclusion of the interested Director in each case, the Committee recommended and Board confirmed: updates to the Conflicts of Interest Register; the continuing independence and objective judgement of each non-Executive Director; and the overall independence of the Board in line with the recommendations of the Code.

Additional safeguards to support Director independence are:

- Meetings between the Chair and the non-Executive Directors, individually and collectively, without the Executive Directors present (see [page 125](#)).
- Separate and clearly defined roles for the Chair, as head of the Board, and the Chief Executive, as head of executive management (see [page 142](#)). This division of responsibility is supported by a degree of contact outside of Board meetings to ensure an effective ongoing dialogue and channel for the timely escalation of external or internal developments.

Knowledge and training

Any Director can request further information to support their individual duties or collective Board role. The arrangements are overseen by the Company Secretary and can be internally or externally facilitated, with sessions typically originating from technical Board discussions, an identified training opportunity or area of general interest relating to SSE. 2021/22 sessions included:

- The role of CCS.
- An externally delivered session on energy markets dynamics and commodity pricing.

- A teach-in on international growth markets in the USA and Europe.
- A session on electrification of vehicles with Distributed Energy.
- A teach-in on SSE's cyber context from the Chief Information Office.

Through SSE's mandatory training programme, all Directors are requested to refresh their understanding of current obligations and recent developments in areas pertinent to their role. These modules address, among other matters: Directors' duties; competition law; anti-money laundering and financial sanctions; GDPR; and inclusion and diversity.

To remain abreast of, and connected to, broader societal trends, expectations and issues, the Directors are encouraged to participate in seminars and events hosted by external organisations. Discussion with peers, other sectors and individuals in different professional and personal situations develops broader perspectives and insights, which can translate into different thinking styles and new debate within Board discussions.

Director induction

Following appointment, all Directors receive a comprehensive and tailored induction programme. This is designed through discussion with the Chair and the Company Secretary and considers existing expertise and any prospective Board or Board Committee roles.

The agreed plan for Dame Elish Angiolini and Debbie Crosbie comprised over 20 interactive sessions with both internal functions and external advisors over an initial period of six months. This was structured to ensure that information material to the non-Executive Director role was delivered in the early stages of the programme. These formal briefings, which provide an initial opportunity to meet senior leadership, are supported by operational site visits to provide on-the-ground understanding of SSE's diverse business areas and working environments. Site visits are discussed further on [pages 137 to 139](#).

An appropriate induction programme for John Bason will be agreed upon joining the Board.

Dame Elish Angiolini and Debbie Crosbie induction programme

Areas covered	Sessions provided by
SSE's purpose, strategic priorities and balanced business operations.	Chief Executive Group Strategy MD of each Business Unit
Financial position, performance, investment and funding, including credit ratings and external assurance.	Finance Director Senior Finance leaders External Auditor
Energy sector and trends, energy markets, net zero, sustainability and stakeholder engagement.	Chief Commercial Officer Chief Sustainability Officer Group Corporate Affairs
Corporate governance, Board operations and shareholder and investment community perspectives.	Company Secretary and Director of Investor Relations SSE's brokers
Legal and regulatory views of the operating context and SSE's risk profile.	General Counsel SSE's Legal Advisors Director of Regulation Group Chief Information Officer
Safety, health and the environment, people and culture.	Director of HR Group Safety, Health and Environment Manager

COP26: a significant Board opportunity

As a Scottish headquartered company, the hosting of COP26 in Glasgow provided a once-in-a-lifetime experience for both the Board and employees of SSE. Maximising the development and learning opportunity provided by the large number of varied events and diverse stakeholders, was an explicit objective of SSE's Principal Partner status. To ensure SSE's Directors (non-Executive and Executive), alongside employees, would experience the process of multilateral climate negotiations; the important role of non-state actors within that process; and hear first-hand, the direct experiences of climate vulnerable nations and indigenous peoples, members of the Board in attendance in both the Blue and Green Zones of the climate conference participated in over 100 different events. These covered topics ranging from power systems innovation, the electrification of heat to human rights and a just transition.

In line with the recommended extension in Dame Sue Bruce's tenure, in May 2022, the Committee put forward the succession plan for the positions of Remuneration Committee Chair and the Non-Executive Director for Employee Engagement, which saw the Board approve the respective appointments of Melanie Smith and Dame Elish Angiolini to these positions from 1 April 2023.

Supporting these recommendations, was the Committee's view that Melanie's depth of strategy experience, approach to proactive engagement and focus on people development, are qualities complementary to the position of Remuneration Committee Chair; bringing a measured approach to setting relevant and stretching targets, with fair outcomes that are acceptable to all stakeholders. Melanie has further served on the Remuneration Committee since January 2020.

For the Non-Executive Director for Employee Engagement, Dame Elish brings rich experience in assimilating and interpreting views across a multitude of settings, and is skilled in concluding and communicating any required course of action. This speaks to the core purpose of having a dedicated employee-Board link and a desire to operate in an empathetic and thoughtful way.

Talent capability and development

Succession for senior leadership roles and strategy to support talent development by building capability for the future, is overseen by the Committee with support from Group HR.

On succession, at least annually, the Committee reviews the existing internal pipeline of candidates for immediate and medium to longer term movement into key leadership and functional roles. This is subject to routine challenge to ensure understanding of the breadth of internal potential and experience represented by external talent pools. In 2021/22, enhanced detail was provided on the Business Unit approach to strengthening leadership teams, and the Committee and Board remained updated on the processes resulting in the appointment of Stephen Wheeler as MD, SSE Renewables from 1 January 2022 and Catherine Raw as MD, SSE Thermal from 21 April 2022.

On talent and capability, updates are provided on: critical skills investment; people development; and performance improvement, which are centred on an agreed set of leadership capabilities and competencies required for SSE's long-term growth. In the context of SSE's Net Zero Acceleration Programme, emphasis has been placed on commercial expertise, project delivery, digital, data, and the international context, with these endorsed as key areas for benchmarking and developing through SSE's structured training interventions.

Members of the Committee engage in core talent programmes providing exposure to the talent pool and allowing reciprocal sharing of experiences, with diversity across training cohorts monitored in the approach to encouraging and progressing difference.

Additional engagement with future leaders is facilitated through presentations at Board meetings, business-led sessions and conferences which the Directors are invited to attend. The open two-way dialogue between the Board and all levels of the organisation is seen as a key tool for observing and informally coaching emerging talent.

As agreed in 2020/21, to support increased constructive discussion and measurement of SSE's position, a stepped plan of work comprising a refresh of SSE's Leadership Blueprint; agreement of an enterprise leadership profile; and an externally-led leadership development review, have been subject to Committee oversight and reflection. The outputs remain an area of focus to agree strengths and shape future talent work.

Board Committees

Board Committee composition is designed around the following principles:

- to ensure alignment between skillset and specific Committee responsibilities;
- to prevent undue reliance on the capacity of any Director; and
- to comply with recognised guidance including the Code.

Changes are recommended following directorate appointments and succession, or in response to formal review. In 2021/22, the Board approved recommendations resulting in the below changes.

- Dame Elish Angiolini joined the SSHEAC on 26 October 2021 and Remuneration Committee on 15 November 2021.
- Debbie Crosbie joined the Audit Committee and EMRC on 23 February 2022.
- Martin Pibworth replaced Jim Smith, outgoing MD, SSE Renewables, on the SSHEAC on 1 January 2022.

Composition, succession and evaluation continued

Nomination Committee Report continued

Inclusion and diversity

SSE's Group-wide inclusion and diversity strategy is explained across [pages 64 to 65](#), with the role of the Committee being to confirm the acceptability of plans, targets and progress, and to consider insights and findings from the initiatives which are in place.

The Board's Policy

The Board operates under a standalone inclusion and diversity policy which is available to view in full on [sse.com](#). Its objective is to set a Board-led culture which is inclusive to all views, perspectives and experiences, and which embraces and encourages diversity as a norm. Across Board membership, the Policy drives balance and alignment with SSE's purpose, strategy and values, through

agreed principles and targets which reflect the measures the Board will take when considering its own membership and approach.

Through review in 2021/22, the Committee recommended a number of updates to the Policy which are reflected opposite.

Senior leadership ambitions

The Committee is focussed on increasing the diversity of SSE's senior leadership population and pipelines, as championed by external initiatives such as the FTSE Women Leaders Review and Parker Review. To identify the levers for progress, close work has taken place with the Executive Directors and Group HR to develop targeted action, including revised and stretching ambitions. This represented

a Board-level principal decision in the period and is discussed further below.

Supporting wider initiatives

Comprehensive updates have continued to cover the evolution of SSE's Group-wide inclusion and diversity approach, and the factors influencing the choice of targeted initiatives alongside the extent to which they have been embedded across SSE. Diversity scorecards detail the split of diversity criteria including gender, ethnicity and disability within recruitment processes for apprentices through to senior leaders, and also across the overall employee, new entrant and leaver populations. Full details of the underlying strategic approach and progress, are set out on [pages 64 to 65](#), and within SSE's standalone Inclusion and Diversity Report 2022 which can be found on [sse.com](#).

BOARD-LEVEL PRINCIPAL DECISION SUPPORTING STRETCHING AND SELF-LED AMBITIONS



What did the Nomination Committee consider?

Priorities to create the environment, which will support SSE as a diverse and inclusive organisation, and realise progress across the senior leadership and talent population.

What did the Nomination Committee discuss?

- Gender diversity progress across senior leadership and management populations in 2021/22, which had been subject to quarterly Group Executive Committee review.
- The impact of attrition rates and internal vacancies to create opportunities for internal moves and hiring for difference.
- Business Unit reporting of progress including agreed diversity priorities, and short and long-list diversity requirements.
- Training to support success by going beyond policies and process, and through coaching people and challenging mindset.
- Improvements in disclosure and data across the senior pool, to better understand SSE's position and monitor change.

What did the Nomination Committee approve?

New ambitions to monitor and report progress.

- Increase the proportion of women within the **Group Executive Committee and its direct reports to 40% by 2025**.
- Increase female representation in **SSE's wider Leadership Group**, which covers around 900 employees, **to 40% by 2030**.
- Increase **overall female representation across SSE to 33% by 2030**.

What were the material stakeholder considerations?

- Employee perspectives.** The Board considered external feedback from candidates, external partners and directly from the employee voice on the inclusivity of SSE's approach and employer proposition (see [page 138](#)) in order to understand material issues and assess if they were being addressed.
- Societal expectations.** As a large organisation that directly employs around 11,000 people and that serves communities and customers, reflecting wider societal expectations across the internal inclusion and diversity agenda supports sustainable and respectful business operations.
- Driving real change.** Impacted by a historically low baseline, diversity progress across the energy sector has been slower than other industries but change is taking place. Credible ambitions, clear focus and transparent actions, are key to creating the balance which is required and to change sector bias surrounding the accessibility of roles.

Link to 2030 Business Goal



Champion a fair and just energy transition

The Board's Inclusion and Diversity Policy

Linkage to strategy

People are at the heart of the transformational change needed to achieve net zero, and SSE believes innovative solutions to climate change require diverse perspectives, different experiences and new skills. The principles of equality, fairness, inclusion and diversity must be at the heart of everything it does.

Policy principles

Implementation and progress

- Identify Board and Committee needs and the balance of diversity characteristics.
- Adopt a formal and inclusive Board recruitment process.
- Engage recruitment firms which are signatories to the enhanced code of conduct and discuss ambitions for diverse candidate lists.
- Recruit on an objective and shared understanding of merit.
- Nurture an inclusive Board and Committee culture.
- Oversee work to develop a diverse talent pipeline.
- Be aware of stakeholder expectations and challenge targets in wider strategy.

See pages 146 to 147 

See pages 146 to 147 

See pages 140 to 141 

See page 144 

See page 150 

Policy targets (from 1 April 2022)

Implementation and progress

- An ultimate goal of enduring gender parity, whereby the Board commits to female representation of not less than 40%, with the aim to maintain as close to 50% male and female representation as possible on a rolling basis.
- Consider female representation across the roles of Chair, Senior Independent Director, Chief Executive and Finance Director.
- The Board should have at least one Director from an ethnic minority background.

The Board has met its previous target of at least 33% female membership to be maintained on average over a 3 year period and, at 24 May 2022, gender diversity is 50% female and 50% male. When John Bason joins female representation will be 46%.

The Board supports female representation across key Board roles as demonstrated within Committee Chair positions and the Non-Executive Director for Employee Engagement. Targeting the positions of Chair, Senior Independent Director and Executive Directors will be considered in succession planning and when a vacancy arises.

The Board's membership is in line with this target and the Committee continues to proactively monitor furthering progress.

Audit, risk and internal control

Audit Committee Report



Dear Shareholder,

On behalf of the Board, I am pleased to present the Audit Committee Report. This report is intended to provide shareholders with an understanding of the work we have done to provide assurance on the integrity of the Annual Report and Financial Statements for the year ended 31 March 2022. Much of the work of the Committee is necessarily targeted around the key areas of financial reporting, external audit, internal audit, internal control and risk management, all of which is underpinned by a robust governance framework.

During the year, the Committee discussed the proposed disclosures and assurance programme to enable the Group to report against the Taskforce for Climate-related Financial Disclosures recommendations as described on pages 42 to 55 [\[1\]](#). Given the increased focus and scrutiny on climate from investors, we reviewed climate risk considerations to ensure they were reported on throughout the Annual Report and Financial Statements on a consistent basis. For the first time this year, a climate consideration section is included with the Auditors' Opinion on page 339 [\[2\]](#).

During the year, the Committee considered the BEIS consultation on 'Restoring Trust in Audit and Corporate Governance' and assisted the Board in formulating a position on the key issues for inclusion in SSE's consultation response.

At each meeting, we received an update on the audit and governance reform agenda, in addition to the project to further

strengthen the internal control framework and its effectiveness. As part of this project, we undertook a benchmarking exercise against current controls with support from an external adviser. The output of this exercise was used to develop a comprehensive roadmap and implementation plan which the Committee regularly oversees. The Committee will continue to review preparations for anticipated reform during the year ahead.

Cyber security remains a major focus area for the Committee. The Director of IT and the Chief Information Security Officer are regularly invited to meetings to give an assessment of cyber risk and update on progress made in protecting the Group against evolving threats.

As part of the Committee's work to support the refinement of an integrated assurance model across the Group, the Committee reviewed a draft of an Audit and Assurance Policy which is in the process of being developed for internal and external publication.

The year ahead will no doubt continue to bring challenges and opportunities, but the Net Zero Acceleration Programme gives us a clear sense of direction and the work of the Committee will remain fully aligned with the strategic direction of SSE.

I hope that you find this report informative and take assurance from the work undertaken by the Committee during the year.

Peter Lynas
Chair of the Audit Committee
24 May 2022

Role of the Committee

Financial reporting

- Review the integrity of the interim and annual Financial Statements.
- Review the appropriateness of accounting policies and practices.
- Review the significant financial judgements and estimates considered in relation to the Financial Statements, including how each was addressed.
- Review the content of the Annual Report and Accounts and advise the Board on whether taken as a whole, it is fair, balanced and understandable.

External audit

- Review and monitor the objectivity and independence of the External Auditor, and oversee the policy on the provision of Non-Audit Services.
- Review and monitor the effectiveness of the external audit process and the ongoing relationship with the External Auditor.
- Review and make recommendations to the Board on the tendering of the external audit contract, and the appointment, remuneration and terms of engagement of the External Auditor.

Internal audit

- Review and approve the Internal Audit Plan and monitor its implementation.
- Review and monitor the effectiveness of the Internal Audit function, including the adequacy of the overall Internal Audit resource.

Internal control and risk management

- Review and monitor the effectiveness of the management of risk and overall System of Internal Control.
- Review the framework and analysis to support both the Going Concern and the long-term Viability Statement.

The Committee's Terms of Reference are available on sse.com [\[3\]](#).

Key activities in 2021/22

The Committee has a structured forward looking planner to reflect the Group's annual financial reporting cycle. The planner informs the business considered at each meeting and is regularly reviewed and updated to reflect areas identified for additional focus. The practice of effective governance and quality reporting underpin all aspects of the work of the Committee. The key areas of focus in the year included:

- Assessing the impact of climate change on accounting assumptions and disclosure, including the reporting of TCFD recommendations.
- Overseeing a project to enhance the internal control framework for financial reporting influenced by the audit and governance reform.
- Developing the approach to integrated assurance across the Group.
- Assessing the Company's readiness and future areas of focus required to address areas of anticipated audit and corporate governance change.

Committee membership

The composition of the Committee is compliant with the Code and currently comprises four independent non-Executive Directors as Committee members. Debbie Crosbie became a member of the Audit Committee on 23 February 2022 and brings broad financial and commercial experience to the Committee. Peter Lynas has chaired the Committee since 2014 and is considered by the Board to have recent and relevant financial experience. He was Group Finance Director of BAE Systems plc until 31 March 2020 and is a Fellow of the Chartered Association of Certified Accountants. The Board considers the Audit Committee as a whole has competence relevant to the sector, with two members having had significant executive roles in the energy sector, and all members possessing an appropriate level of experience in corporate financial matters. Biographical details of the Audit Committee members can be found on [pages 118 to 122](#) and details of meeting attendance are set out on [page 125](#).

Committee evaluation

The actions identified from the evaluation of the Audit Committee in 2020/21 as reported on last year were monitored through to completion. The evaluation of the Audit Committee during 2021/22 was externally facilitated by Lintstock and was based around a bespoke questionnaire and interviews with members of the Committee. The output of the evaluation was considered at the Board in March and follow-up actions were agreed at the Committee meeting in May 2022. The Board confirmed the effective operation of the Audit Committee in discharging its responsibilities.

Evaluation confirmed

- Meetings are chaired effectively, dedicating sufficient time to key issues, and giving all members the opportunity to contribute.
- The quality of information to support the Committee in discharging its responsibilities was rated positively.
- The oversight of new developments such as TCFD and internal control over financial reporting received strong coverage.

Actions to progress during 2022/23

- Ensuring a smooth transition of Audit Committee Chair.
- Supporting developments to enhance the approach to risk management.

Meetings

The Committee met on four occasions during the year and has met once since the end of the financial year. Before each meeting, the Committee Chair meets with the Finance Director and External Auditor to ensure there is a shared understanding of the key issues to be discussed. Committee meetings are held in advance of Board meetings to facilitate an effective and timely reporting process. The Committee Chair provides a report to the Board following each meeting.

Meetings are routinely attended by: the Chair of the Board; the Finance Director; the Director of Group Risk and Audit; Partners from the External Auditor; and the Deputy Company Secretary (who is Secretary to the Committee). Senior finance and business managers are invited to attend certain meetings to enable the Committee to gain a deeper level of insight on particular items of business. The Committee meets with the External Auditor privately at least twice each year in line with the financial reporting calendar and also with the Director of Group Risk and Audit. These engagements provide an additional opportunity for open dialogue and feedback without management being present.

In addition to the scheduled meetings, the Committee Chair meets separately with the Finance Director, Director of Group Risk and Audit, External Auditor and Committee Secretary to ensure the work of the Committee is focused on key and emerging issues.

Fair, balanced and understandable assurance framework

The assurance framework used in the preparation of the 2022 Annual Report and Accounts to assist the Directors in the discharge of their requirement to state that, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy is as follows:

- a verification process dealing with the factual content;
- comprehensive reviews undertaken independently by senior management to consider messaging and balance;
- comprehensive reviews undertaken by the Company's Brokers to ensure consistency and balance;
- reporting by the External Auditor of any material inconsistencies; and
- comprehensive review by the Directors and the senior management team.

The Committee and Board received confirmation from management that the assurance framework had been adhered to for the preparation of the 2022 Annual Report.

Audit, risk and internal control continued

Audit Committee Report continued

Key activities during the financial reporting cycle



Others focus areas

Internal control and risk management

- Received an update on the work undertaken by Group Compliance, including resource and progress with the compliance review programme and resulting actions.
- Received an update on the project to enhance the accessibility and coverage of the Group Financial Policies Manual.
- Approved the initial design and scope of a project to develop a SOX-lite framework in line with expected regulatory developments in this area.
- Received an update on the cultural aspects of the risk management and internal control framework within SSE Renewables.
- Received an update on Cyber Risk and Information Security audit actions and approved a reporting framework for further updates covering Information and Operational Technology.

Governance

- Reviewed a roadmap of all the governance related activity carried out during the year to support the work of the Committee.
- Considered the status of audit reform and other related governance developments likely to have an impact on the work of the Committee.

Internal audit

- Received an update on the work undertaken by Internal Audit, including progress with the 2021/22 Internal Audit Plan, significant findings and audit actions.

Others focus areas

External audit

- Received an update on progress with the audit plan and approved refinements to the audit strategy for 2021/22.
- Reviewed the independence and objectivity of the External Auditor, including the fees for the provision of external audit services.

Internal audit

- Received an update on the work undertaken by Internal Audit, including audit resource, progress with the 2021/22 Internal Audit Plan, significant findings and audit actions, in addition to areas of focus included in the three-year Internal Audit Plan.

Internal control and risk management

- Reviewed Treasury operations, including the funding plan, liquidity, going concern, hedging and credit ratings and approved a range of treasury related transactions.
- Received an update on progress with the Group Risk programme covering the assessment of Principal Risks and assurance frameworks to assess the effectiveness of the System of Internal Control.
- Received an update on anti-financial crime governance and fraud.
- Received an update on progress with the project to further strengthen the financial control framework.
- Received an update on Cyber Risk and Information Security across the Group including Operational Technology.

Governance

- Approved the Committee business planner and areas of focus for 2022.



Others focus areas

External audit

- Reviewed the independence and objectivity of the External Auditor, including the level of non-audit fees.

Internal audit

- Received an update on the work undertaken by Internal Audit, including progress with the 2021/22 Internal Audit Plan, significant findings and audit actions.

Internal control and risk management

- Received an update on the work undertaken by Group Compliance, including resource and progress with the compliance review programme and resulting actions.
- Received an update on Group-level fraud risks, corruption and anti-financial crime governance.
- Considered scenarios aligned to the Group's Principal Risks to stress test the viability assessment.
- Received an update on progress with the project to further strengthen the financial control framework.
- Reviewed the proposed disclosure plan and assurance for TCFD.
- Reviewed Treasury operations, including the funding plan, liquidity and approved a range of treasury related transactions.

Governance

- Received an update on governance covering the Committee's Terms of Reference and Non-Audit Services Policy; the approach to the evaluation of the External Auditor, audit process and Internal Audit; and the reporting themes for the 2022 Audit Committee Report.
- Received a report on the qualifying companies in the Group required to publish reports on their payment practices, policies and payments, and sought assurances, where necessary, that further improvement plans were in place.

Others focus areas

Financial reporting

- Reviewed the TCFD disclosures.
- Reviewed a report on the Group's tax position covering adjusted underlying tax rate, areas of potential tax exposure and provisioning and Fair Tax Mark accreditation.

External audit

- Reviewed the effectiveness of the External Auditor and audit process.
- Reviewed the independence and objectivity of the External Auditor, including the level of non-audit fees.

Internal audit

- Received an update on delivery of the 2021/22 Internal Audit Plan, progress with the 2022/23 Internal Audit Plan and approved the three-year Internal Audit Plan.
- Reviewed and confirmed the effectiveness of the Internal Audit function.

Internal control and risk management

- Reviewed the effectiveness of the System of Internal Control.
- Reviewed Treasury operations, including the funding plan, liquidity, going concern, hedging and credit ratings and approved a range of treasury related transactions.
- Reviewed the analysis to support the Viability Statement.
- Received an update on progress with the project to further strengthen the financial control framework.
- Received an update on Cyber Risk and Information Security across the Group including Operational Technology.

Governance

- Approved the narrative of the 2021/22 Audit Committee Report and Principal Risk related disclosures.
- Received a report on the disclosure of information to the External Auditor.

Audit, risk and internal control continued

Audit Committee Report continued

Financial reporting

The Annual Report and Accounts seek to provide the information necessary to enable an assessment of SSE's position and performance, business model and strategy. In preparing the Financial Statements for 2022 there are several areas requiring the exercise of judgement or a high degree of estimation.

Throughout the year, the Finance team worked closely with the External Auditor to ensure SSE provides the required level of disclosure, including the appropriateness of alternative performance measures (APMs) and their consistency with IFRS financial information. This section outlines the significant areas of judgement that have been considered by the Committee – through discussion and detailed reporting by both management and the External Auditor – to ensure appropriate rigour has been applied. Other key accounting judgements and areas of estimation uncertainty applied in the preparation of the Financial Statements for 2022 are provided in notes 4.2 and 4.3.

The Independent Auditor's Report on [pages 336 to 346](#) sets out the audit approach and highlights the other key audit matters that EY drew to the attention of the Audit Committee. These areas of audit focus include: going concern; decommissioning provisions; provisions and claims; customer debtor recoverability; Supplier of Last Resort; carrying value of tangible and intangible assets; taxation judgements; exceptional items and APMs; recoverability of £100m Ovo loan note; ROCs recycle price; contingent consideration; and segmental reporting.

Significant financial judgements and estimates

In the process of applying the Group's accounting policies, management necessarily makes judgements and estimates that have a significant effect on the amounts recognised in the Financial Statements. In consultation with the External Auditor, the Committee reviewed the significant financial judgement areas and identified five specific areas for 2021/22, an increase of one significant financial judgement areas from the prior year. Accounting for the SSE disposal programme, an area of accounting judgement and estimation uncertainty reported on last year, was no longer considered by the Committee to be a significant financial judgement at the year-end. Due to recent market volatility, management has recognised a provision for expected credit loss in relation to the recoverability of £100m loan note due from Ovo Energy Limited following the disposal of SSE Energy Services on 15 January 2020. The assessment of the value of the loan in now considered by the Committee to be a significant financial judgement. In addition, the impact of climate change and the transition to net zero has been included as a significant financial judgement this year.

The Group's most significant financial judgement areas, some of which are also areas of estimation uncertainty, are explained below. For each of these areas the Committee considered the key facts and judgements outlined by management, and requested the External Auditor to provide a professional view on whether the judgements are appropriate. The Committee specifically discussed with the External Auditor how management's judgement and assertions were challenged and how professional scepticism was demonstrated during their audit of these areas. This also included the adequacy of the disclosures within the Financial Statements.

Going Concern and Viability Statement

The Committee reviewed the information to support the assessment and disclosure of the Going Concern Statement prior to Board approval (see A6.3 Accompanying Information to the Financial Statements). Given the cash surplus of £1.0bn at 31 March 2022; the undrawn committed borrowing facilities of £1.5bn maintained by the Group; the current commercial paper market conditions, with £507m outstanding at 31 March 2022; and the assumption the Group will be able to refinance maturing debt, the Directors have concluded that both the Group and SSE plc as Parent Company have sufficient headroom to continue as a going concern. In coming to this conclusion, the Directors have considered sensitivities on future cashflow projections resulting from the Group's credit rating; the success of the Group's disposal programme through 2020/21 and 2021/22; and the successful issuance of £2.5bn of medium to long-term debt and hybrid equity during the financial year 2020/21, along with £1.2bn of long-term debt and hybrid equity since the March 2022 financial year end. In the very unlikely event of not being able to access the revolving credit facility or otherwise refinance as may be required, the Group's options include deferring uncommitted capex and implementing further cost reductions. The Financial Statements are therefore prepared on a going concern basis.

The Committee agreed the parameters and reviewed the supporting report for the Board's assessment of the prospects of the Company which is covered in the Viability Statement on [page 70](#). In doing so, the Committee considered the Net Zero Acceleration Programme which includes a fully funded capital investment programme to 2026 and as such, the viability period has been extended to four years.

Significant financial judgements and estimates for the year ended 31 March 2022

Retirement benefit obligations (Estimation Uncertainty)

The assumptions in relation to the cost of providing post-retirement benefits during the period are based on the Group's best estimates and are set after consultation with qualified actuaries. While these assumptions are believed to be appropriate, a change in these assumptions would impact the level of the retirement benefit obligation recorded and the cost to the Group of administering the schemes.

How those were addressed by the Audit Committee

The assets and liabilities of the Group's defined benefit retirement schemes are regularly reviewed. Advice is taken from independent actuaries on the IAS 19R valuation of the schemes. The Committee was updated on the schemes' valuation and considered the findings of the External Auditor in relation to the scheme's key assumptions relative to market practice. Following this review, the Committee supported the judgements made. Further detail of the calculation basis and key assumptions used, the resulting movements in obligations and the sensitivity of key assumptions to the obligation is disclosed at note 23.

Significant financial judgements and estimates for the year ended 31 March 2022

How those were addressed by the Audit Committee

Impairment testing and valuation of certain non-current assets (Financial judgement and estimation uncertainty)

The Group reviews the carrying amounts of its goodwill, other intangible assets and specific property, plant, equipment and investment assets to determine whether any impairment or reversal of impairment of the carrying value of those assets requires to be recorded. The specific assets under review in the year ended 31 March 2022 are intangible development assets and specific property, plant and equipment assets related to gas storage and thermal power generation. In addition, the Group performed an impairment review over the carrying value of its investment in Neos Networks Limited. In conducting its reviews, the Group makes judgements and estimates in considering both the level of cash generating unit (CGU) at which common assets such as goodwill are assessed against, as well as the estimates and assumptions behind the calculation of recoverable amount of the respective assets or CGUs. Changes to the estimates and assumptions arising from factors such as regulation and legislation changes (including climate change related regulation), power, gas, carbon and other commodity prices, volatility of gas prices, plant running regimes and load factors, discount rates and other inputs could impact the assessed recoverable value of assets and CGUs and consequently impact the Group's income statement and balance sheet.

An annual valuation/impairment exercise is carried out and the basis and outcome of this review is presented to the Committee by management and includes a description of the assumptions applied in deriving the recoverable values. The Committee reviewed and challenged the assumptions and projections presented in the management paper and considered the detailed reporting from, and findings by, the External Auditor. Further detail of the calculation basis and key assumptions used in the impairment review, the resulting impairment charges and reversals, and the sensitivity of this assessment to key assumptions is disclosed at note 15. Detail on the accounting policies applied is included in the Accompanying Information section A1. Following this review, the Committee supported the recommendation to recognise an impairment reversal in the financial year of £331.6m in relation to thermal assets (Peterhead, Keady, Medway, Marchwood and Great Island) and £97.3m in relation to gas storage assets. In addition, the Committee supported the recommendation to recognise an impairment of £106.9m in relation to its remaining interest in Neos Networks Limited.

Revenue recognition – customers unbilled supply of energy (Estimation uncertainty)

Revenue from energy supply activities undertaken by the Business Energy and Airtricity businesses includes an estimate of the value of electricity or gas supplied to customers between the date of the last meter reading and the year end. This estimation comprises both billed revenue (disclosed as trade receivables) and unbilled revenue (disclosed as accrued income) and is calculated based on applying the tariffs and contract rates applicable to customers against estimated customer consumption and taking account of various factors including usage patterns, weather trends and externally notified aggregated volumes supplied to customers from national settlements bodies. A change in the assumptions underpinning the calculation would have an impact on the amount of revenue recognised in any given period.

This estimation is subject to a process which compares calculated unbilled volumes to a theoretical 'perfect billing' benchmark measure of unbilled volumes (in GWh and millions of therms) derived from historical weather-adjusted consumption patterns and aggregated metering data used in industry reconciliation processes. Furthermore, actual meter readings and billings continue to be compared to unbilled estimates between the balance sheet date and the finalisation of the Financial Statements. The Committee reviewed the practical process issues and assumptions applied in determining the estimation uncertainty and considered the findings of the External Auditor. Following this review, the Committee supported the estimate for revenue recognition from energy supply activities. Further details of the sensitivity associated with this judgement is disclosed at note 18.

Impact of climate change and transition to net zero (Financial judgement and estimation uncertainty)

To fulfil SSE's strategy, its Net Zero Acceleration Programme which is a clearly articulated response to climate change, will drive SSE's capital investment and financial activity in both the short and medium term. With Audit Committee oversight, in 2021/22 SSE enhanced the governance and elevated its response to the recommendations from the Task Force on Climate-related Financial Disclosures (TCFD) which involve, among other requirements, financial impact assessment of the Group's identified climate-related risks and opportunities, which are disclosed on [pages 42 to 55](#), and the impact of climate change on the Group's accounting policies and financial valuations.

The process which the Group adopted in relation to identification and quantification of its climate-related risks and opportunities is explained at [Page 49](#) along with the governance processes established to oversee and approve the associated reporting. The Audit Committee reviewed the approach adopted by the TCFD Steering Group in relation to this matter and was also briefed by the External Auditor, EY, on the audit requirements associated with the adoption of the TCFD including the need for consistency of disclosure throughout the Annual Report and the technical basis for those disclosures. Following presentation of the proposed disclosures and the report of the external auditor on SSE's approach to the adoption project, the Committee approved the basis of reporting and the related financial judgement disclosures included throughout the financial statements for the year ended 31 March 2022.

Disposal programme and valuation of other receivables (Financial judgement and estimation uncertainty)

With the disposal of its investment in SGN in March 2022, the Group's strategic disposal programme came to an end. There had been significant judgement around certain of the accounting issues associated with the disposal during the year, including the timing of the investment being 'held for sale' and the treatment of the investment as a discontinued operation. At March 2022, the most significant financial judgement associated with the disposal programme was the recoverability of the Group's £100m loan note due from Ovo Energy Limited following the disposal of SSE Energy Services on 15 January 2020. The loan carries interest at 13.25% and is presented cumulative of accrued interest payments, discounted at 13.25%. Due to recent market volatility, the Group's assessment of the value of the loan note is now considered a more significant financial judgement. While the carrying value is considered to be appropriate, changes in economic conditions could lead to a change in the level of expected credit loss incurred by the Group.

The Audit Committee considered the accounting judgements associated with the disposal programme throughout the year and reviewed the accounting for the gains and losses recognised and other judgements associated with consideration elements, timing and presentation. The Committee also considered the steps applied by management in making its assessment of the significant financial judgements associated with the Ovo loan note. Management has assessed the recoverability of the loan based on publicly available financial information, the established SSE methodology for considering relevant credit default spreads, knowledge of the business and made direct enquiries to Ovo Energy Limited management. The External Auditor explained the work carried out to corroborate and challenge the position taken by management on all judgmental matters and the audit work carried out to validate the accounting associated with the disposals in the year.

Audit, risk and internal control continued

Audit Committee Report continued

External audit

External Auditor

Following a competitive tender process, EY were appointed by shareholders as SSE's External Auditor for the financial year commencing 1 April 2019. EY were re-appointed by shareholders at the 2021 AGM and have continued to serve as SSE's External Auditor. Hywel Ball is the Senior Advisory Partner and Annie Graham is the Lead Audit Partner with responsibility for signing the SSE plc Audit Opinion on behalf of EY. Annie Graham leads the engagement team and has been in post since EY were appointed and will be required to rotate after five years.

EY presented the strategy and scope of the audit for the forthcoming financial year at the meeting of the Committee held in September 2021, highlighting key areas of audit focus (included within the Auditor's Report on [page 336](#)). EY reported against their audit scope at subsequent Committee meetings, providing an opportunity for the Committee to monitor progress and raise questions, and challenge both EY and

management. EY shared an independent perspective on certain aspects of the Group's financial control and IT systems arising from its work, and reported findings to the Committee in February 2022.

During the course of the year, EY shared insights and feedback with management, and held debriefs to refine the planned audit approach for the financial year ended 31 March 2022.

External Auditor and audit process effectiveness

An important part of the Committee's work consists of overseeing the Group's relationship with the External Auditor to ensure the independence, quality, rigour and challenge of the external audit process is maintained. The Committee reviews the effectiveness of the audit throughout the year taking into account:

- the detailed audit strategy for the year and coverage of the highlighted risks, scope, and level of fees for the audit;
- the quality, knowledge and expertise of the engagement team;

- insight around the key accounting and audit judgements and the competence with which the External Auditor has applied constructive challenge and professional scepticism in dealing with management; and
- the outcome of the review of effectiveness of the External Auditor and audit process discussed below.

Independence and objectivity

In addition to the annual review of effectiveness, the Committee considered the independence and objectivity of the External Auditor through: a combination of assurances provided by the External Auditor on the safeguards in place to maintain independence; oversight of the Non-Audit Services Policy and fees paid; and oversight of SSE's policy on employing former auditors. The External Auditor confirmed that all its partners and staff complied with their ethics and independence policies and procedures including that none of its employees working on the audit hold any shares in SSE plc.

Effectiveness of External Audit

Feedback to inform the review of the effectiveness of External Audit

External Audit

Assurance from EY covering independence (relationships, services and related threats and safeguards) and the matters raised in the FRC's Annual Quality Review inspection reports and remedial actions (if any) taken by the audit firm.

Management

Assess output from survey of those subject to the external audit process.
Assurance on the disclosure process for the provision of information to the auditors has been adhered to.

External Auditor

Assess delivery of the audit strategy and Independent Auditors' Report.
Assess output from survey of Audit Partners on the external audit process.
Assurance on the operation of audit quality process at audit firm.

Audit Committee

Assess output from annual Audit Committee evaluation.
Assess output from survey of Audit Committee members, regular attendees and Group Finance.

Outcome

Following consideration of all elements of the audit effectiveness review process, in addition to taking account of the engagement and communication between the Audit Committee, management and External Auditor, the Committee confirmed it was satisfied that the external audit process provided by EY had been delivered effectively. The Committee concluded that EY had demonstrated a depth of knowledge, as well as an appreciation of complex issues, whilst providing constructive, independent and objective challenge to management. The Committee requested that debrief sessions be held between the External Auditor and finance management team to consider any areas to enhance the audit process control environment going forward.

Non-Audit Services Policy

The Committee oversees the Non-Audit Services Policy which governs the process for approving certain Non-Audit Services provided by the External Auditor. The Policy was reviewed by the Committee during the year to ensure that it remained fit for purpose and aligned to the FRC's whitelist of Permitted Audit-Related and Non-Audit Services. In addition, SSE is required to cap the level of non-audit fees paid to its External Auditor at 70% of the average audit fees paid in the previous three consecutive financial years. Services provided by the External Auditor are split into two categories for the purposes of approval:

- **Audit-Related Services.** These services are largely carried out by members of the audit engagement team. The work

involved is closely related to the work performed in the audit and the threats to auditor independence are 'clearly insignificant'. Such engagements are routinely pre-approved by the Audit Committee as part of their approval of the total annual audit fee. Before engaging in any work of this type, approval is required from the Finance Director.

- **Non-Audit Services.** These are services other than 'Audit-Related Services' for which the External Auditor is an appropriate provider. The threats to independence arising from such services are not necessarily 'clearly insignificant' and the Committee and External Auditor must consider the threats to independence and whether any safeguards should be applied. In

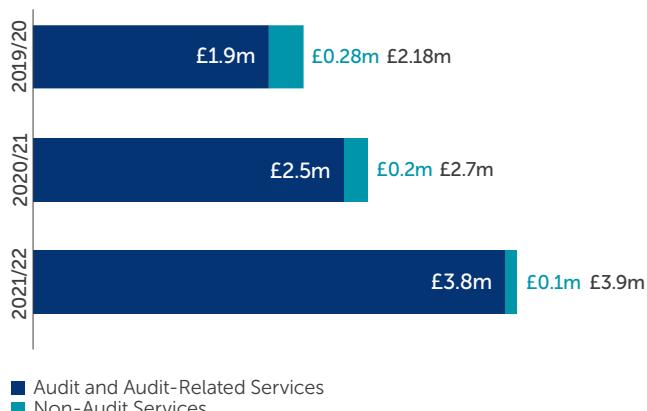
the absence of any apparent threat to auditor independence, approval for the provision of any Non-Audit Service must be obtained from the Audit Committee. The Audit Committee has pre-approved the use of the External Auditor for whitelist Non-Audit Services subject to the following limits: The Finance Director up to £50,000 and Audit Committee Chair up to £100,000.

External Auditor fees

The Committee considered the audit fee proposal for the year to 31 March 2022 at its meetings in September 2021 and agreed the fee at its meeting in November 2021. The factors driving the increase in the level of fees over the last three years were discussed with the External Auditor. The impact of increasing regulatory requirements, changes in the business and composition of the Group and the level of complexity requiring an increased proportion of specialist resource were amongst some of the factors taken into consideration by the Committee when agreeing fair commercial arrangements with the External Auditor. The Committee keeps under review the services provided by the External Auditor by reviewing a fee report at each meeting.

Non-Audit Services amounted to £0.1m and principally related to regulatory accounts and returns required by Ofgem and comfort letters in connection with funding and debt issuance. The Committee was satisfied that the work was best handled by the External Auditor because of its knowledge of the Group and the services provided did not give rise to threats to independence. All Non-Audit Services were approved in accordance with the Non-Audit Services Policy and adhere to the FRC Ethical Standard. Fees paid to EY during the year are made in note 6 to the Financial Statements.

EXTERNAL AUDITOR FEES



Re-appointment of the External Auditor

The external audit contract will be put out to tender at least every 10 years and will be conducted by no later than 2029 in line with prevailing best practice. The Committee confirms ongoing compliance with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

The Committee concluded that it is satisfied with the objectivity and independence of the External Auditor, and that the effectiveness of the external audit process delivered by EY was robust. The Committee proposed to the Board that it seek shareholder approval for the re-appointment of EY for the financial year ending 31 March 2023.

Audit, risk and internal control continued

Audit Committee Report continued

Internal audit

Role of Internal Audit

Internal Audit plays an important role in helping the organisation deliver its vision and objectives by providing independent and objective assurance to management, the Committee and Board on the effectiveness of SSE's risk management activities, internal controls and corporate governance framework. Internal Audit, led by the Director of Group Risk and Audit, reports to the Committee and functionally to the Finance Director. The purpose, scope and authority of Internal Audit is defined within its charter which is approved annually by the Committee.

In fulfilling its role, Internal Audit seeks to add value by encouraging continual improvement in the effectiveness of business planning, operations and systems, promoting wherever possible enhancements to internal control processes, and seeking to embed 'best practice' throughout the SSE Group.

At each Committee meeting, an update on Internal Audit is provided covering an overview of the work undertaken in the period, actions arising from audits conducted, the tracking of remedial actions, and progress against the Internal Audit Plan. The Committee routinely meets independently with the Director of Group Risk and Audit to discuss the results of the audits performed and any additional insights obtained on the risk management and control environment across the organisation.

Internal Audit Plan

The Internal Audit Plan is structured to align with SSE's operating model, risk profile, control environment and assurance arrangements. The Internal Audit Plan is split between a one-year plan and a three-year strategy setting out the broader areas of Internal Audit focus, together with the vision and resource for the function. External providers may be engaged to support delivery of the Internal Audit plan where specific skills and expertise require to be co-sourced. An integrated assurance mapping and planning process is undertaken to ensure that Internal Audit work is appropriately aligned to, and coordinated with, the activities of other relevant assurance providers across the Group. The Plan includes audits of key transformational programmes, financial control and areas relating to responsible behaviour and non-financial risk.

Internal Audit effectiveness

The Committee keeps under review and assesses the independence and effectiveness of Internal Audit by adopting the process outlined below.

The assessment considered Internal Audit's positioning within the organisation and the quality of its planning and operational procedures. The assessment incorporated a survey of Internal Audit's stakeholders across the Group, along with a review of outputs from a number of recent internal audits. During the year, a review of the Internal Audit function was carried out by

the Director of Group Risk and Audit who joined SSE in early 2020. The Committee received an update with an overview of the strategic objectives for the function and supported the objective to strengthen the skills and experience of the team.

Internal control and risk management

Internal control

The Board has delegated to the Committee responsibility for reviewing the effectiveness of SSE's System of Internal Control. This covers all material controls including financial and compliance controls, in addition to the financial reporting process. Internal control and risk management in relation to SSE's energy market related exposures are overseen by the Energy Markets Risk Committee and further information can be found on [pages 162 to 163](#).

During the year, the Committee received an update at each meeting from the project team established to assess and strengthen the financial reporting control environment in anticipation of a SOX style framework being introduced in the UK. The timing of the implementation legislation remains unclear, however, management has continued to monitor regulatory developments and provide regular updates to the Committee.

To assist the Committee's review of the System of Internal Control, the different elements are evaluated by relevant key stakeholders.

Effectiveness of Internal Audit

Feedback to inform the review of the effectiveness of Internal Audit

Internal Audit

Assess delivery of the Internal Audit Plan.
Assess audit resource and expertise.

Management

Assess output from survey of Group Executive Committee and other key members of senior management.

External

Assess feedback provided from the External Auditor.
Assess progress against the actions identified during the previous evaluation.

Audit Committee

Views from members of the Audit Committee.

Outcome

Following consideration of all elements of the review, the Committee recognised the progress made during the year and confirmed it was satisfied with the overall performance of the Internal Audit function. The key areas of focus for 2022/23 include: recalibrating the Internal Audit function to adopt leading practices through digital, technology and data analytics; implementation of a people based strategy that can support talent, career development and succession; and an enhanced approach to identification, management and mitigation of risk.

These evaluations are assessed by the Finance Director and a letter is provided to the 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 of the effectiveness of the System of Internal Control, the Committee considers the assurance evaluations undertaken annually by the Managing Directors of each of SSE's seven Business Units. These assurance evaluations consider each framework of the system of internal control from a Business Unit perspective and include any planned improvements to enhance controls. These improvements are tracked, with updates reported to the executive-level Group Risk Committee on a regular basis.

Risk management

The Group's Risk Management Framework is designed to manage rather than eliminate the risk of failure to achieve business objectives. It can only therefore provide reasonable and not absolute assurance against material misstatement or loss. In addition to the ongoing review of emerging risks, the Board carried out a robust assessment of the Principal Risks facing the Group, being those that have the potential to threaten its business model, future performance, solvency or liquidity. Further details of the Group Principal Risks are set out on [pages 71 to 81](#).

Internal control and risk management effectiveness

Following the Committee's review and recommendation, the Board agreed that SSE's System of Internal Control (including risk management) continues to be effective. This was in accordance with the requirements of the FRC Guidance on Risk Management, Internal Control and related Financial and Business Reporting. Taking into account continuous improvement actions, the Board also confirms that no significant failings or weaknesses have been identified during the financial year. Processes are in place to ensure that necessary action is taken and progress is monitored where areas for improvement have been identified.

System of Internal Control

The elements that make up the System of Internal Control are:

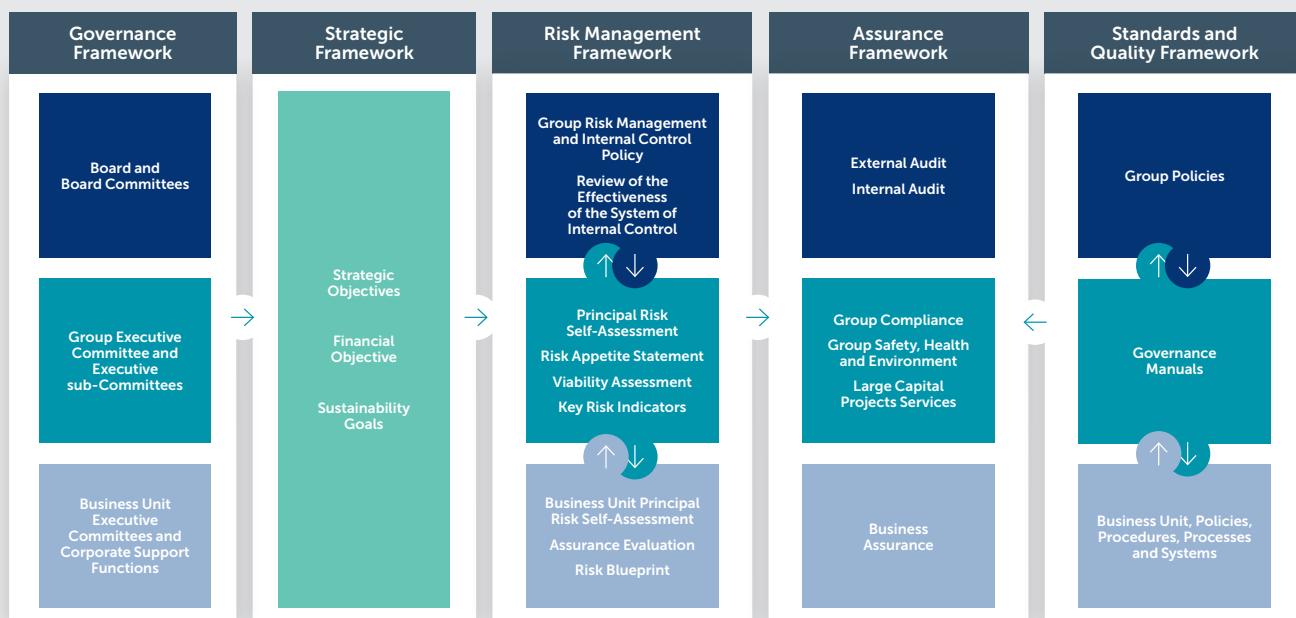
- **Governance Framework.** Designed to ensure focus on the key components of high quality and effective decision making – clarity, accountability, transparency and efficiency. For further details please see [page 124](#) of the Directors' Report.
- **Strategic Framework.** This includes Group's strategic objectives, financial objective and sustainability goals and forms the basis for all activity within the Risk Management Framework.

For further details please see [pages 2 to 5](#) of the Strategic Report.

- **Risk Management Framework.** This framework supports each Business Unit in managing its risks and helps to ensure that the Board can meet its obligations. The framework is underpinned by the fundamental principle that everyone at SSE is responsible for the management of risk.
- **Assurance Framework.** An integrated programme of audit and assurance activity that is independent of the day to

day operations of the Business Units and corporate functions. It is made up of Internal Audit, Group Compliance, Large Capital Projects Services and Group Safety, Health and Environment.

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



Audit, risk and internal control continued

Energy Markets Risk Committee Report



Role of the Committee

The Committee oversees SSE's energy markets risk exposures by:

- monitoring and supervising SSE's hedging approach;
- assessing any potential emerging energy market issues and risks; and
- reviewing SSE's internal control and risk management in this area.

In doing so, it assists the Board in the effective discharge of its responsibilities in relation to risk management and internal control in this area.

The Committee's Terms of Reference are available on sse.com.

SSE approach to hedging

SSE has an established approach to hedging through which it generally seeks to reduce its broad exposure to commodity price variation in relation to electricity generation and supply at least 12 months in advance of delivery. As market conditions change, SSE may be required to vary its hedging approach to take account of any resultant new or additional exposures. SSE will continue to provide a summary of its current hedging approach, including details of any changes in the period, within its Half and Full-year Results Statements. Details of SSE's latest hedging approach and hedging position are set out on [pages 88 to 89](#).

Dear Shareholder,

This report aims to give insight into how the Energy Markets Risk Committee (EMRC) operates, provide an outline of our activities, and to summarise the role we have played in overseeing SSE's energy markets risk exposures and ensuring the effectiveness of related risk management, controls and processes, for the year ending 31 March 2022.

Our main responsibility is to oversee governance arrangements, which provide transparency surrounding SSE's approach to managing commodity price exposures. Reports of these exposures are reviewed and discussed at each EMRC meeting. When required, actions are recommended to the Board for approval, including any changes to SSE's hedging approach.

Recently, we have overseen SSE Renewables' continued assessment of its approach to hedging, including:

- Further refinement, where appropriate, of the use of equivalent gas and carbon trades as a replacement for power trades along the forward curve. This aims to both optimise the hedge prices achieved and reduce the exposure of SSE's wind assets to volatile spot power market outcomes, while still providing a hedge for most of the anticipated energy and carbon commodity price exposure.
- Ongoing assessment of market conditions to optimise hedging outcomes. This has included an increase in SSE Renewables' position against its target hedge volume for financial year 2024/25, in response to continued high prices and observed volatility in energy markets.

I would like to highlight that during the year, despite the historically high and volatile prices seen on energy markets, SSE was served well by its measured hedging approach and successfully managed any increasing credit and collateral requirements. As a committee, we will continue to monitor and oversee these exposures, and should circumstances lead to any change in approach being required, these will be fully discussed, challenged and appropriately reported in

SSE's Half and Full-year Results statements. For further details of SSE's latest hedging approach and hedging position see [pages 88 to 89](#).

To enhance the internal control and risk management approach in relation to energy markets, a Group Energy Markets Exposure Risk Committee was established in 2021/22, to provide a forum for SSE's senior management to discuss and consider energy market risks and exposures monthly. This forum reports to the Group Executive Committee and minutes of meetings are provided to the EMRC for review and comment.

Across the period, we continued to monitor the coronavirus pandemic receiving regular updates on its economic consequences and energy market related impacts. This included reports and minutes from the Group-level Demand Management Committee, which was set up to monitor the impact of the coronavirus pandemic on SSE Business Energy's and SSE Airtricity's customer demand profile.

For the year ahead, the main priority for the EMRC is to continue its oversight role in relation to SSE's energy markets risks and exposures. Given the ever-changing external environment, we will provide particular focus to the impact, management, and mitigation of relevant macroeconomic and geopolitical events. This will include the impact of a prolonged or an escalated conflict between Ukraine and Russia and its influence on energy market prices and volatility.

I hope you find this report informative and reflective of the activities undertaken by the EMRC during 2021/22.

Tony Cocker

Tony Cocker
Chair of the EMRC
24 May 2022

Key activities in 2021/22

- Continued to monitor the impact of the coronavirus pandemic; developments in international commodity markets; and the impact of the geopolitical tension and then Russia's invasion of Ukraine.
- Reviewed and received updates on energy markets which experienced historically high and volatile prices.

Membership and attendance

The EMRC comprises three non-Executive Directors, the Chair of the Board and two Executive Directors. Full details of membership and meeting attendance are set out on [page 125](#). The Chief Executive and the Managing Director, Energy Portfolio Management also routinely attend meetings, with an Assistant Company Secretary acting as Secretary to the EMRC. To assist the EMRC in carrying out its responsibilities, relevant senior managers can be invited to attend to present certain items of business and provide additional levels of insight.

The EMRC membership is approved by the Board following recommendation of the Nomination Committee. In line with new appointments to the SSE Board, the EMRC membership was reviewed during the year with Debbie Crosbie becoming a member from the February 2022 meeting. This change continues to enhance the skills

and expertise across the EMRC's membership, ensuring it is able to effectively discharge its duties. Upon joining, Debbie Crosbie was provided with a committee induction by senior managers which covered the key focus areas of the EMRC.

The composition of the EMRC allows for the utilisation of the relevant experience held by the non-Executive Directors. As EMRC Chair, Tony Cocker brings extensive knowledge from his career in the energy industry, Debbie Crosbie, Melanie Smith and Sir John Manzoni, provide invaluable insights and a wealth of knowledge from various senior roles in the private and public sectors. Biographical information of the EMRC members' backgrounds and experience is contained on [pages 118 to 122](#).

Meetings and focus areas in 2021/22

The EMRC held four scheduled meetings in 2021/22, and one additional meeting to receive a report on the market volatility seen in Winter 2021. After each meeting, the Committee Chair reports to the Board on its work. Meeting agendas are informed by a forward plan of business, which is designed to ensure the EMRC carries out its responsibilities in line with its Terms of Reference. In addition, and outside of the cycle of scheduled meetings, the EMRC Chair meets with the Chief Commercial Officer, Managing Director, Energy Portfolio Management, and the Committee Secretary to ensure that key and emerging issues are brought to the EMRC's attention in a timely manner.

Committee evaluation

The annual review of Committee performance for 2021/22 was considered through the formal external Board evaluation conducted by Lintstock (see [pages 143 to 144](#)). The evaluation rated the performance of the EMRC and the Chair highly. It also indicated that the EMRC is operating effectively, and continues to provide appropriate challenge and oversight of the areas within its remit. The evaluation also identified that to continue to adapt to the focus of the demands of the business and environment in which the EMRC operates, the agenda and business planner should continue to be kept under review to ensure material issues and developments were being discussed at each EMRC meeting.

The EMRC continues to develop and regularly review its forward plan of business, to capture any emerging issues and risks to SSE arising from energy markets.

Details of the key focus areas and action taken in the year are set out below.

Key EMRC focus areas in 2021/22

Overseeing SSE's hedging approach	<ul style="list-style-type: none">As part of a quarterly report on Energy Markets Risk, monitored:<ul style="list-style-type: none">hedging arrangements;risk control metrics;Energy Portfolio Management's counterparty credit risk exposures; andthe liquidity of energy markets.Reviewed and endorsed the hedging approach and position on 31 March 2022 included in the Full-Year Preliminary Results Statement and Annual Report 2022.
Energy Markets Risks	<ul style="list-style-type: none">Received reports on emerging energy market issues and risks (for example in relation to volatile gas markets due to the tension, and then ongoing conflict, between Russia and Ukraine) and recommended relevant changes to risk management arrangements, in line with SSE's hedging approach, to the Board.Considered a report on key energy market risks, risk appetites and risk management controls and governance.Received reports on reviews of GB and ROI energy markets.Received and reviewed a report on the long term price forecasts for gas, carbon and power.
Internal Control and Risk Management relating to Energy Market Exposures	<ul style="list-style-type: none">Considered a report on the key risks and controls arising from operations within Energy Portfolio Management.Reviewed the Energy Portfolio Management MD Letter of Assurance.Received an in-depth review of risk control metrics provided internally.Received quarterly reports from Internal Audit and details of resulting action plans related to the Energy Portfolio Management business.Reviewed minutes from the Group-level Demand Management Committee, which provided updates on activities as a result of alterations to customer demand profile due to the coronavirus pandemic.Reviewed minutes from the Group Energy Markets Exposure Risk Committee which provides executive-level oversight of SSE's energy market exposures and their associated management.
Governance and other	<ul style="list-style-type: none">Considered the output of the EMRC performance evaluation.Approved the narrative of the EMRC Report 2022.Regularly reviewed the forward business planner.

Audit, risk and internal control continued

Safety, Sustainability, Health and Environment Advisory Committee Report



Role of the Committee

- Supports and advises the Board on matters relating to safety, sustainability, health and the environment.
- Provides a leadership forum for non-Executive Directors to work with senior management and shape policy, targets and strategy to improve safety, sustainability, health and environmental performance.
- Reviews the implementation of SSE's Group Policies relating to: safety and health; the environment; climate change; and sustainability.
- Reviews the effectiveness of SSE's strategy, initiatives, training and targets in relation to safety, occupational health and wellbeing of employees and contractors, sustainability and the environment.
- Monitors the level of resource, competence and commitment applied to the management of safety, health, the environment, and sustainability issues to ensure a culture of continuous improvement across SSE.
- Maintains access to a range of both internal and external stakeholder perspectives to better achieve the creation of shared value for society.
- Supports SSE's commitment to being a sustainable company that makes a positive contribution to the communities in which it operates.

The Committee's Terms of Reference are available on sse.com.

Dear Shareholder,

I am pleased to present the Safety, Sustainability, Health and Environment Advisory Committee (SSHEAC) Report for the year ended 31 March 2022; a period in which we expanded our responsibilities to assist the Board in its oversight of sustainability governance and assurance on a range of environmental, social and governance (ESG) topics. The purpose of this Report is to explain the work of the SSHEAC during the year, alongside the progress that has been made in relation to safety, sustainability, health and wellbeing, and the environment. A more in-depth review of these areas, together with a range of other ESG reporting can be found on [pages 40 to 67](#) and in SSE's Sustainability Report 2022 which is available on sse.com.

Our Safety Family licence, 'If it's not safe, we don't do it' and genuine drive to take care of ourselves and each other has helped many navigate their way through the coronavirus pandemic. Now, as we move into a 'new normal', we have spent time reviewing our SHE strategy for the next five years. There was evidence that SSE's SHE engagement programmes continue to drive improved SHE performance, and 'We all get home safe' provides a measurable goal to aim for. Moving forward, the engagement and activity across the organisation will therefore build on the progress made with added focus around the SHE strategy aim of 'making it easier to do the right thing'.

We're proud to provide our people with the tools and flexibility they need to balance work and life. As coronavirus restrictions have eased, we have seen our colleagues returning to offices and we have also been able to resume the programme of physical site visits. Across this transition, we have been exploring technology to establish how we can better support our employees. Apart from investing significantly in the platforms for agile working, extensive digital resources have been developed to support the wellbeing of our colleagues. The Company has reviewed mental health and wellbeing programmes, trained some of our colleagues as Mental Health First Aiders and supported the 'Time to Change' initiative – a commitment to change how we think and act about mental health at SSE.

SSE was proud to be a Principal Partner of COP26 in Glasgow and the event was powered by 100% renewable energy generated by SSE's Griffin Wind Farm in Perthshire. SSE also became the first company to publish a Just Transition Strategy in November 2020, this will help to guide our decision-making and influence greater fairness for those impacted by the decline of high-carbon economic activity and increase the opportunities of climate action. This was followed in September 2021 by a report focused on moving from just transition principles to action. In November 2021, SSE announced an ambitious £12.5bn capital investment plan which will accelerate progress towards net zero over the five years to 2026, the majority of which will go to low-carbon infrastructure.

To support ongoing engagement with shareholders on climate-related issues, the Board has proposed a resolution, within the business of the Annual General Meeting 2022, that will allow shareholders to vote on SSE's first Net Zero Transition Report. The Report is based on our Net Zero Transition Plan which was published in March 2022. The aim of the Plan is to provide SSE's stakeholders with clarity around the actions SSE intends to take towards achieving its net zero ambitions in both 2040 and 2050. The Net Zero Transition Plan is available on sse.com.

On behalf of the SSHEAC, I would like to thank all employees and those that work with SSE for their sustained effort, hard work and commitment. I would also like to welcome Dame Elish Angiolini and Martin Pibworth who were appointed as new members of the Committee in the year.

I hope you find the following report a useful explanation of our work and of SHE performance during the year.

Helen Mahy CBE
Chair of the SSHEAC
24 May 2022

Key activities in 2021/22

- Resumed physical site visits.
- Reviewed wellbeing support.
- Reformed the Committee.
- Reviewed SHE strategy.

Membership and attendance

The membership of the SSHEAC comprises four non-Executive Directors; the Chair of the Board; the Chief Commercial Officer; the Chief Sustainability Officer; the Managing Director, SSEN Distribution; the Managing Director, SSE Distributed Energy; and the Director of Group Safety, Health and Environment. An Assistant Company Secretary is Secretary to the Committee and the Chief Executive routinely attends meetings. The Committee invites operational managers and specialists to attend certain meetings to gain a deeper level of insight on particular items of business. Biographical details of the non-Executive members can be found on [pages 118 to 122](#) and details of non-Executive meeting attendance are set out on [page 125](#). During the year, a number of changes to the Board and executive membership of the Committee were considered by the Nomination Committee and subsequently agreed by the Board. The detail of these changes are set out on [page 149](#).

Meetings and focus areas in 2021/22

The SSHEAC met four times in 2021/22. Working closely with the Group Safety, Health and Environment Committee (which reports to the Group Executive Committee), the SSHEAC has an annual work plan to: review SHE performance at Group-level and in each of SSE's seven business areas; consider in-depth reviews of certain key topics such as contractor, asset and process safety; and review a range of SHE governance and assurance requirements. Other matters which the SSHEAC has focused on during the year include: SHE strategy; SHE targets; SHE engagement; the environment, including natural environment; occupational health and wellbeing; a review of the SHE Risk Matrix; fatigue management; and legislative and regulatory developments.

Committee evaluation

The actions identified from the evaluation of the SSHEAC in 2020/21 as reported on last year were monitored through to completion. A detailed review of the SSHEAC's remit was completed and its Terms of Reference updated accordingly. More information about the process can be found in this Report under Reform of the SSHEAC.

The annual review of Committee performance for 2021/22 was considered through the formal external Board evaluation conducted by Lintstock (see [pages 143 to 144](#)). The output of the evaluation was considered at the Board in March, with follow-up actions agreed by the Committee for progression across 2022/23. The Board confirmed the effective operation of the Committee in discharging its responsibilities.

Evaluation themes

- Good coverage of the key aspects of safety and environmental issues. The revised scope of the Committee enhanced oversight of ESG matters with a range of sustainability topics now being reviewed.
- The SSE safety language was described as outstanding, and the Safety Conference in November 2021 demonstrated how well safety messages have been embedded.
- The SSHEAC's contribution have supported and encouraged the ambition and direction of travel on safety, health and environmental matters.

Actions for 2022/23

- **Site visits.** The continuation of site visits is a top priority.
- **Agenda.** Develop an overall framework for the Committee's agenda, to promote a more holistic oversight of safety, health and wellbeing, the environment and sustainability.
- **Deep dives.** Consider focused sessions on The Construction (Design and Management) Regulation, Task Force on Climate-Related Financial Disclosures, carbon reductions plans and biodiversity.

To discharge its new responsibilities the SSHEAC also considered:

- A climate adaptation and resilience review developed collaboratively by Group Sustainability, SSE's Weather and Thermal Environment teams, that looked at the effects of climate change on SSE's businesses and outlined the actions taken so far to support the consistency of climate adaptation reporting for the SSE Group.
- An ESG performance review that summarised SSE's 2020/21 environmental, social and governance performance, as assessed by external ratings agencies and investor-led initiatives.
- Prior to sign-off, the plan for SSE's Sustainability Report 2022 that reports on SSE's economic, social and environmental impacts.

To ensure people across SSE continue to work safely, the Committee monitored the approach taken by the Company to pro-actively manage the evolving coronavirus position, and a range of processes, procedures and guidance were followed and widely communicated. At an early stage, SSE introduced coronavirus testing when needed for its critical workers and has worked closely with trade union partners throughout to extend flexible working practices, particularly for those with caring responsibilities. The priority remains continuing to take care of, and supporting employees.

In 2021/22, SSE launched its Flexible First employee guidelines which have been shaped by employee feedback. The guidelines are designed to harness the benefits of flexibility, balanced with the need to connect and work together in the most effective way. The SSHEAC acknowledges the well documented link between the pandemic and the impact on mental health, and the importance of making the return to work a pragmatic and positive journey.

Response to coronavirus

SSE's over-riding priority through the coronavirus pandemic has been to provide the safe and reliable supply of electricity, at local, regional and national level, on which the people and organisations whose work is critical to the coronavirus response depends.

Audit, risk and internal control continued

Safety, Sustainability, Health and Environment Advisory Committee Report continued

Reform of the SSHEAC

The output from the 2020/21 performance evaluation of the Board and its Committees identified a need to evolve the scope and coverage of the SSHEAC, to assist the Board in its oversight of sustainability governance and assurance on a range of ESG topics. In support of this, the Board agreed a series of recommendations at its meeting in May 2021 to enhance the role of the renamed Safety, Sustainability, Health and Environment Advisory Committee. The key recommendations that were approved by the Board and which have impacted the work of Committee are summarised below.

- **Responsibilities.** The responsibilities of the Committee were expanded to cover: (a.) a review of SSE's comparative ESG ratings performance; (b.) approval of the Sustainability Report; (c.) a review of the physical risks of climate change on SSE's activities with a focus on climate adaptation and resilience; and (d.) increased oversight of SSE's policy, practice and performance surrounding environmental impacts, including waste, air emissions, biodiversity and water consumption.
- **Committee name.** The SHEAC was renamed the Safety, Sustainability, Health and Environment Advisory Committee (SSHEAC) to reflect its enhanced role.
- **Meetings.** A review of the length, frequency and timing of Committee meetings was carried out.

SHE Strategy

During the year, the SSHEAC reviewed SSE's SHE strategy for the next 5 years. A 'hybrid' SHE Conference to engage key local influencers and a wider community on SSE's SHE strategy took place on 30 November 2021. An employee survey showed that colleagues feel committed to the goals of the previous 50by20 SHE Strategy which had been successful in delivering improvements in SHE performance. The SHE Goals, Safety Family and Enduring Goals were key features of the 50by20 Strategy and understood and recognised across the organisation. These features have therefore been maintained as part of the updated SHE strategy.

As part of the SHE Strategy development activity, feedback from engaging with colleagues, peer benchmarking and a review of the learning outcomes from past incidents, further led to exploring the concept of 'how to make it easy for people to do the right thing'. In this context, the following focus areas were set out: (a.) strengthening of controls and assurance; (b.) enablers to help people do the right

thing; and (c.) drive progress with the 8 Enduring Goals. The five Golden Safety Rules have also been integrated into the SHE strategy.

SHE performance

Safety

SSE uses the concept of 'Safe Days' as a way to monitor and track its safety progress and performance. On a 'Safe Day', there are no minor, serious or major, SSE or contractor, safety or environmental incidents or any incident with high potential for harm to people or the environment. During 2021/22, 254 Safe Days were achieved, compared to 271 in the previous year. In addition to Safe Days, SSE continues to measure safety performance using the rolling Total Recordable Injury Rate (TRIR) for employees and contractors. This measure is used for benchmarking and trend analysis, and in 2021/22 it increased to 0.17 per 100,000 hours worked, compared to 0.15 in the previous year. This increase reflects a significant surge in construction associated with SSE's record capex and increased activity following the recovery from coronavirus.

Focus on ensuring everyone gets home safe remains central to SSE and the work of the SSHEAC. In March 2022, the Committee therefore set a TRIR target of 0.15 for 2022/23 and re-iterated the need to keep focus on having no life changing injuries or major SHE incidents. This will continue to be monitored, alongside a measure of environmental permit breaches against key Business Units' milestones to provide a framework in which to assess SHE performance in a rounder way. At the end of April 2022, the longer-term trend on TRIR had tracked back to the 0.15 level.

Health and wellbeing

Health and wellbeing is at the core of SSE's Safety Family. It reinforces very directly how we can take care of ourselves and each other.

To strengthen the occupational support SSE offers; it recruited a new Head of Health and Wellbeing during the year. A supporting review of occupational benefits concluded that there is a very good range of support with the ability for some services to be used more and/or expanded upon. Building on the good foundation that is already in place and using all-employee survey findings, SSE is looking to integrate the following into the health and wellbeing support model: (a.) making it easy to do the right thing; (b.) making the uncomfortable, comfortable; and (c.) service and support.

A range of resources are available to employees to help them take care of themselves and others, including Employee Assistance and Back to Health programmes supported by Nuffield Health. A wellbeing app provides home workout videos and tailored programmes and the 'Mental Health Toolkit', that is being developed, is designed to support managers by providing information on various concerns all related to mental health. SSE's priority for 2022/23 will be to continue to support employees to adapt to new working conditions and look after their mental and physical health.

Environment

To achieve its core purpose to provide energy today while building a better world of energy for tomorrow, SSE's strategy seeks to simultaneously create value for both shareholders and society. The framework it uses to achieve this objective is the United Nations Sustainable Development Goals. SSE's Environment strategy sits firmly within the sustainability hierarchy within the UN Global Goal framework. Operationally, SSE focuses on three priority pillars: (a.) environmental management and governance; (b.) responsible resource use; and (c.) natural environment.

In 2021/22, the number of environmental incidents as a result of SSE's activities totalled 60, compared to 44 in the previous year. Of these, there were no major environmental incidents. SSE's environmental permit breaches increased to 7 in 2021/22 from 4 the previous year. The majority of environmental incidents were minor and most permit breaches were self-reported to the relevant environmental agencies. All incidents were dealt with quickly when identified. During the year, SSE's carbon footprint benefited by having reduced travel, with most colleagues using the Flexible First approach to work combining office and home working, and utilising technology.

Sustainability

Significant progress was made across the most material areas of sustainability in 2021/22, with the SSHEAC reviewing SSE's performance in each environmental and social category identified by ESG-focussed investors and ratings agencies, approving areas for development and improvement in the next financial year. In terms of SSE's approach to the disclosure of its sustainability impacts, the aim is to bring about continuous improvement in both the quality of information disclosed and across stakeholder engagement. SSE's Sustainability Report aims to demonstrate the way SSE creates value for shareholders and society

in a sustainable way and provides detailed information on the policies, practices, performance and governance of a range of economic, social and environmental matters. The SSHEAC has responsibility for approving the Sustainability Report which is available at sse.com/sustainability. Complementary information can also be found on [pages 40 to 67](#).

Site visits

Easing of coronavirus restrictions allowed for the programme of SSHEAC site visits to resume in 2021/22. Instead of all members participating in the same site visit, it was agreed to broaden the coverage through two members of the SSHEAC teaming up and focusing on a particular area during September 2021. Site visits included: Slough Heat and Power; Keadby 1 and 2; Walton Park; Solent Park; and the Viking Windfarm construction site on Shetland, followed by a visit to the Transmission HVDC convertor station site and to Lerwick Power Station. A large part of the meeting held in October 2021, which had been organised outside of the schedule of Committee meetings, was dedicated to receiving feedback and agreeing next steps in the process of continuous improvement. Overall, it was agreed that the safety site visits were powerful in providing members of the SSHEAC with a breadth and depth of knowledge across a range of projects and operational activity.

A structured approach to site visits ensures that feedback is collected and acted upon. This is facilitated by a dedicated feedback template which is completed by members of the Committee following completion of an engagement. The SSHEAC has agreed the site visit programme for 2022 which will be reported on next year.



Site visit to Keadby 1 – our Safety Language in action

The below represents feedback provided by the members of the SSHEAC on a visit to Keadby 1 in September 2021.

If it's not safe, we don't do it

- The site is currently operating under a number of operational access restrictions which is being monitored closely. The leadership team provided a clear account of how operational teams were engaged on the approach, to ensure effective management of this risk.

- Weeds in the HV compound had been identified by the on-site team and work to address had been planned.

Plan, scan and adapt

- The Gated process for outages was presented, and judged as being very effective in ensuring that the work being done was well planned and appropriate.
- Work coordination between Keadby 1 and Keadby 2 was in place, with weekly integration meetings and an embedded Keadby 1 team member in the Keadby 2 team.

What would make it easy (or easier) for people to do the right thing?

- The on-site team were comfortable with the steps being taken to address coronavirus.
- Supervision was highlighted as an important area. The benefit of the empowering supervisor training was noted, alongside ensuring adequate time was allocated for supervisory activities.

We take care of ourselves and each other

- The local SHE community group operates effectively with the 45 people on site engaged. This includes representatives from Engineering, Operations and Maintenance teams.

We see it, sort it and report it

- The contractor workshop was a well set up area and work being done was highly organised.
- Coronavirus restrictions in the permit office were well managed.

Overall impression

Keadby 1 is moving towards the end of its operations and the site are managing the transition well, in addition to preparatory work for the operation of Keadby 2.

Remuneration Committee Chair's statement



Role of the Committee

The Remuneration Committee is responsible for the following:

- The Remuneration of SSE's most senior Executives and also Chair of the Board. The Committee also reviews but does not decide the remuneration of SSE's employees. This ensures that the decisions on executive pay take full account of pay across the Company.
- The Directors' Remuneration Report and for ensuring that, at least every three years, shareholders are asked to approve a new Directors' Remuneration Policy at the Annual General Meeting. The Terms of Reference of the Committee which are reviewed annually and are available on sse.com.

The Committee bases its activities with four principles and objectives in mind. 1.) the Company's culture and values; 2.) the link between the remuneration framework with the Company's purpose and strategy 3.) ensuring the remuneration framework is designed to promote the long-term success of the Company and 4.) ensuring the performance-related elements of pay are transparent, stretching and consistently applied as well as linked to the successful delivery of strategy.

An Assistant Company Secretary is secretary to the Committee and the Chief Executive and the Company Secretary and Director of Investor Relations are invited to attend all meetings. The Committee ensures, however, that no individual is ever present when their own remuneration is under discussion or decisions are made. The Committee also takes independent external advice on remuneration and corporate governance and appoints its own professional advisers for this purpose.

Performance and delivery in a year of volatility

Dear Shareholder,

This Directors' Remuneration Report sets out simply and transparently how SSE pays its Directors (both Executive and non-Executive); the decisions made on their pay in 2021/22; and how much they received in relation to the financial year ended 31 March 2022.

Delivering on strategy

In November 2021 SSE set out its strategic Net Zero Acceleration Programme for sustainable, long-term growth aligned to a 1.5°C global warming pathway. As detailed earlier in this Annual Report, good progress against the programme – with its £12.5bn capital expenditure plan to 2026 and new medium-term business goals to 2031 – has been made in the intervening months. SSE has been investing around £7m a day in low-carbon infrastructure at home and has started to export its developer expertise abroad, creating tangible value for stakeholders.

In addition, throughout 2021/22, SSE has delivered solid operational performance. Highlights include strong earnings performance despite unfavourable weather for renewable generation, the conclusion of the disposals and re-structuring programme with £2.8bn of proceeds, improvements in employee engagement despite the pandemic, a positive reaction to our involvement with COP26 where SSE was a Principal Partner and strong Total Shareholder Returns. Our employees have once again contributed amazingly throughout the year and a special payment has been made of £500 or €600 to employees in recognition of their excellent contribution.

2021/22 AIP outcomes

The Annual Incentive Plan (AIP) is determined against a broad range of financial, operational, strategic, and personal performance targets collectively designed to reflect business performance each year. The measures used for 2021/22 were chosen to support our strategic delivery and longer-term goals.

Performance in the year has been strong across a range of metrics which resulted in an assessment of the 2021/22 award being up to 83% of the maximum. The Committee considered the results in the context of other performance indicators and the wider stakeholder experience and determined that the result was fair and reasonable so did not apply any discretion. As a reminder, the Committee has used downward discretion three times in the previous five years. A detailed AIP scorecard can be seen on [pages 186 to 189](#).

2021/22 PSP outcomes

The Performance Share Plan (PSP) awards granted in 2019 are due to vest following the 2021/22 financial year, subject to financial, operational, and value-creation performance measures over the three-year period. These have been objectively assessed, resulting in an outturn of 66% of maximum. The Committee confirmed that the formulaic outcome for these awards is appropriate and no discretion was applied. More details on the performance measures used, the targets set, and the performance outturn is set out on [pages 189 to 190](#).

Linking policy to purpose

Our current Directors' Remuneration Policy was approved by shareholders at the 2019 AGM, with over 99% support. The policy is built on our core reward principles which endure. They are:

1. Sustainability, reinforcing SSE's commitment to being a responsible employer
2. Simplicity, maximising transparency and avoiding unnecessary complexity
3. Stewardship, encouraging good decision-making for the long term
4. Stakeholders, reflecting SSE's strategic goal of creating value for shareholders and society.

The policy expires at the AGM and the Remuneration Committee is seeking to use the three-yearly review cycle to strengthen and align the approach to pay with SSE's purpose and long-term strategy as set out by the Net Zero Acceleration Programme. The changes to the Policy will play a key role in the successful execution of SSE's strategy, including the stated investment and growth plans to create the conditions for SSE to succeed, the Remuneration Committee took the view that changes to pay were necessary at this time for four main reasons.

- Sustainability is central to SSE's purpose and strategy. Operational excellence will be key to successful delivery of the Net Zero Acceleration Programme. Hence, we propose to include sustainability measures in the Performance Share Plan (PSP), to reflect the long-term nature of these targets, whilst also retaining an

"in-year" focus on progress by including a smaller element within the Annual Incentive Plan (AIP). This increases the emphasis on sustainability overall, as well as focusing it more to the longer term. We also plan to introduce operational measures into the AIP and strategic measures into the PSP.

- Our total remuneration arrangements currently place insufficient emphasis on long-term performance-related pay and a market correction is required. This applies to both the level of awards under the Performance Share Plan and SSE's share ownership requirements which are both below market. The performance share awards are key to ensuring that we are paying fairly and competitively in exchange for delivery and higher levels of performance. We are not proposing to make increases to basic salaries above the norm for all SSE employees.
- SSE's overall approach to executive remuneration is in line with SSE's historic policy positioning because of long standing pensions arrangements in place for incumbent executives. The Board is keen to structure the policy to ensure that it can attract world-class talent for whom existing historic pension arrangements will not exist. This is particularly important as SSE becomes more international and recruits from new geographies.
- Our Executive Directors are key to the success of the Net Zero Acceleration Programme, and we shall be asking more of them than ever before as we move into a new phase of accelerated growth for SSE.

As Chair of the Remuneration Committee, I consulted extensively with our largest shareholders and other interested parties. The engagement process began in February to allow as much time as possible to listen to the views of our shareholders. I am extremely grateful to everyone who was generous with their time and shared their views on the proposals. Most shareholders were supportive of the changes. All the feedback we received from investors was considered by the Remuneration Committee. As a result, we have adapted the proposals in a number of ways. We changed the proposal to reduce the weighting of financial and share-based measures under the PSP in light of the feedback. EPS and relative TSR still account for 70% of the award. Dividend Per Share remains a crucial KPI but we shall reward instead achievement against specific strategic and sustainability goals. Some shareholders asked us to link incentives to return on capital or return on equity. The Committee debated this at length and, at this stage, take the view that stretching targets could not readily be set for ROCE given the range of returns across SSE's businesses. The key inputs of ROCE are, however, linked to incentives. The new strategic and operational measures are also more robust. The Remuneration Committee expects of course that it will be required to use its judgement, as it currently does, when assessing the extent to which targets have been met.

Details of the Policy changes can be found in full on [page 172](#), but in summary the key changes are set out overleaf.

Remuneration Committee Chair's statement continued

Element of pay	Change in approach	Rationale
Fixed pay	The current policy limits SSE to paying total remuneration levels below the median. No material changes are proposed to base salaries, benefits nor pensions for incumbent Executive Directors (other than pension allowance for the Chief Commercial Officer which will now reduce to the employee-aligned level of 15% of salary at the end of 2022 rather than April 2023).	The overall policy objective is to set a competitive, but not excessive, total remuneration position against our chosen benchmarks. There is no plan to make any market adjustments to the basic salaries of the current Executive Directors. The change is intended to 'future proof' our Policy.
Annual Incentive Plan	No changes to levels. The award will continue to be delivered as 67% in cash and 33% in deferred shares, but the last award of career shares will be made in 2022 on the basis that a more conventional post-cessation shareholding will be introduced (see below).	The Policy will provide greater flexibility to reward operational excellence which will be central to the success of SSE's Net Zero Acceleration Programme and hence we plan to place a heavy weighting on it (see below).
Performance Share Plan awards	Increase headroom and the 2022 awards by 50% of salary to 250% of salary for the Chief Executive and 225% of salary for the Finance Director and Chief Commercial Officer. Changes to the measures and raising the standards of performance targets.	The increase in the level of awards is proposed to put more emphasis on long-term pay and performance and to reflect the increase in the standard of achievement required to reach 'stretch' levels of performance and reward (see below). The increases also improve SSE's market competitiveness now and for the future albeit that award levels remain at or below median of the peer group. We debated whether to delay the increase in the award levels and after careful consideration decided not to. The reasons for this are: 1.) the successful delivery of SSE's Net Zero Acceleration Programme is more important than ever to alleviate continuing energy pricing pressures on consumers 2.) the performance targets set in line with the Net Zero Acceleration Programme are tougher than hitherto (see below) and 3.) our proposed new Policy is expressly designed to place greater emphasis on longer-term goals and reward long-term performance. The Chief Executive's maximum total pay will be 93% of the market median if shareholders approve the change.
Share ownership	The shareholding requirement will increase to 250% of salary for the Chief Executive and 225% of salary for other Executive Directors. All will be required to continue to hold shares for two years after cessation of employment.	This change aligns the in service and post-employment service holdings to the new annual PSP award levels and with current market practice. Career shares already awarded and future awards under the new PSP awards from 2022 will count towards the post-employment share ownership requirement.
Malus and clawback	Updated to include: <ul style="list-style-type: none"> • Corporate failure • Material risk failure • Material detriment to stakeholders or to the Company's market reputation • Unreasonable failure to protect stakeholders' interests 	The additional triggers reflect developments in market practice since the last policy review. The same triggers will apply in the case of both malus and clawback.

Policy implementation

The Committee reviewed Executive Directors' base salaries and concluded that in light of continued strong performance and leadership throughout the year, an increase of 3% was appropriate. This is in line with the negotiated increase for collectively-bargained employees and the broader pot for all other employees with effect from 1 April 2022.

The structure and quantum of the AIP remains unchanged. However, as noted above, we have considered the importance of operational excellence as central to the success of the Net Zero Acceleration Programme and have therefore reweighted the AIP measures to support this objective.

For 2022/23 the proposed measures and weightings are:

- EPS growth – 30%
- Cash flow (defined as net debt to EBITDA) – 20%
- Operational measures – 30%
- Sustainability – 10%
- Individual/strategic objectives – 10%

Measures will be both quantitative and qualitative. The operational measures include seven core areas which are Renewables, Distribution, Transmission, Thermal, Customer, People, and Other Growth and Transactions. The sustainability measures, which will also appear in the longer-term plan, will be linked to SSE's relative sustainability as assessed against four external ESG ratings agencies using their own benchmarks. Individual strategic measures will include progress being made towards inclusion and diversity targets.

The PSP award levels, subject to shareholder approval, will be 250% for the Chief Executive and 225% for the Finance Director and Chief Commercial Officer. Reflecting the higher award levels, the Committee has set tougher target ranges.

The proposed measures and weightings are:

- Relative TSR – 50%
- EPS growth – 20%
- Strategic measures – 15%
- Sustainability – 15%

The Remuneration Committee will also adjust any total pay outcomes downwards (to zero if necessary), for example, if they are deemed by the Committee to be disproportionate or out of line when we take into account the interests of our stakeholders or where there has been a mismatch between financial and non-financial performance over the relevant period.

More details of the performance measures, weightings and targets are set out on [pages 196 to 198](#).

Summary

The Committee believes that the changes to policy, and the performance measures and targets for 2022/23 incentives, will sharpen our focus on delivering the Net Zero Acceleration Programme and support the retention and recruitment of the high calibre talent in a very competitive market.

Looking ahead, we will continue to apply our core principles in terms of transparency in both decision-making and reporting and do so in a way that is fully cognisant of the perspectives of SSE's stakeholder groups. In line with that, I welcome any feedback or comments on this Report or on remuneration matters more generally and can be reached via Sally Fairbairn at sally.fairbairn@sse.com.



Dame Sue Bruce DBE
Chair of the Remuneration Committee
24 May 2022

Directors' Remuneration Policy

Introduction

SSE's Directors' Remuneration Policy (the "Policy") is set out as follows. The Policy is subject to a binding shareholder vote at SSE's AGM on 21 July 2022 and, if approved, will apply from this date. It is intended that the Policy will apply for a period of up to three years and will need to be re-approved at the 2025 AGM at the latest.

The Policy was reviewed and approved by the Remuneration Committee. As part of the process, the views of our larger shareholders and other shareholder advisory bodies were sought. In addition, the thoughts of other Board members, management and external advisers were considered. The members of the Committee then made decisions independently without inappropriate influence. No person participates in decisions relating to their personal remuneration.

Principles

The Committee believes it is essential that our overall remuneration policy is strongly aligned to SSE's purpose and strategy. It aims to ensure this by focusing on our core principles which are: Sustainable, Simple, Stewardship, Stakeholder-focused. In addition, we have reviewed our policy in line with the UK Corporate Governance Code which encourages a description of how the policy addresses the following:

Clarity

- Our directors' remuneration policy is designed to be sustainable and simple and to support and reward diligent and effective stewardship that is vital to the delivery of SSE's core purpose of providing energy needed today while building a better world of energy for tomorrow, and our strategy of creating value for shareholders and all stakeholders.
- The Policy updates the previous Policy, with minimal structural changes so is already embedded into the business and is well understood by participants and shareholders alike.
- The Policy clearly sets out the terms under which it can be operated including appropriate limits in terms of quantum, the measures which can be used and discretions which could be applied if appropriate.
- Transparency in approach has been a cornerstone of our Policy. Detailed disclosure of the relevant performance assessments and outcomes is provided for shareholders to consider.

Risk

- Appropriate limits are stipulated in the Policy and within the respective plan rules.
- The Committee also has appropriate discretions to override formulaic outturns under the assessment of the variable incentive plans.
- The Committee undertakes an annual risk review of the Policy and its operation. Identified risks are considered with appropriate mitigation strategies or tolerance levels agreed.
- Regular interaction with the Audit Committee and the SSHEA Committee ensures relevant risk factors are considered when setting or assessing performance targets.
- Clawback and malus provisions are in place across all incentive plans and the 'triggers' have been reviewed and strengthened.

Proportionality

- Variable incentive pay outcomes are clearly dependent on delivering the strategy.
- Performance is assessed on a broad basis, including a combination of financial, operational and sustainability which ensures there is no undue focus on a single metric which may be at the detriment of other stakeholders.
- The Committee also has the discretion – which it has used – to override formulaic outcomes if they are deemed inappropriate in light of the wider performance of the Company and considering the experience of stakeholders.

Simplicity

- Our pay arrangements include a market standard annual incentive and long-term share plan, each of which is explained in detail in our Policy.
- No complex or artificial structures are required to operate the plans.
- We explain our approach to pay clearly and simply.

Predictability

- The possible reward outcomes can be easily quantified, and these are reviewed by the Committee.
- The graphical illustrations provided in the Policy, clearly show the potential scenarios of performance and pay outcomes which would result.
- Performance is reviewed regularly so there are no surprises when performance is assessed at the end of the period.

Alignment to culture

- At the heart of the Policy is a focus on the long-term sustainability of the business.
- This reflects the whole business culture which is aligned to effective stewardship which creates value for all stakeholders.
- Our incentive plans and, in particular the approach to measuring performance reflect our values which means doing the right thing, promoting fairness at work and paying our fair share.

Changes from current policy

The key changes between this Policy and the policy which was approved by shareholders at SSE's 2019 AGM are as follows:

- Base pay – change is proposed to the market posture against the comparators and reference points used when setting salaries.
- Pension – updated to reflect the acceleration of the pension alignment for the Chief Commercial Officer and includes a maximum limit for any new Executive Director which is aligned to the wider workforce.
- Annual Incentive Plan – replacement of the career shares facility by a more market-standard post-shareholding requirement and scope to use operational performance measures as well as financial and strategic measures.
- Performance Share Plan – provides for additional headroom for annual awards of up to 250% of salary for the Chief Executive and 225% of salary for other Executive Directors in return for tougher performance targets.
- Share ownership – an increase in the shareholding expectation to 250% of salary for the Chief Executive and 225% for other Executive Directors which will apply during employment and for two years post cessation of employment.
- Malus and clawback –the list of triggers has been extended and strengthened and the same triggers apply to both.

Any other changes in wording or presentation are considered to be immaterial to the operation of the Policy.

Policy Table

Base Salary

Purpose and link to strategy	The base salary supports the retention and recruitment of Executive Directors of the calibre required to develop the Company's strategy, deliver efficient operations and investments, and engage effectively with the Company's key stakeholders. It is intended to reflect the role and its responsibilities, business and individual performance measured against SSE's strategy and core purpose of providing the energy people need in a reliable and sustainable way, and to have an awareness of competitive market pressures.
Operation	<p>The Committee sets base salary taking into account:</p> <ul style="list-style-type: none">• the individual's skills, experience and performance;• salary levels at other UK listed companies of a similar size and complexity and other energy businesses;• remuneration of different groups of employees and wider internal pay arrangements; and• the overall policy objective is to set a competitive, but not excessive, total remuneration position against our chosen benchmarks. <p>Base salary is normally reviewed annually with changes effective from 1 April. It may be reviewed more frequently or at different times of the year if the Committee determines this is appropriate.</p>
Maximum opportunity	Salary increases will normally be capped at the typical level of increases awarded to other employees in the Company. However, increases may be above this level in certain circumstances, including but not limited to: <ul style="list-style-type: none">• where a new Executive Director has been appointed to the Board at an initially lower base salary with the intention that larger salary increases would be awarded for an initial period of time as the Executive Director gains experience;• where there has been a significant increase in the scope and responsibility of an Executive Director's role or where they have been promoted; and• where a larger increase is considered necessary to reflect significant changes in market practice.
Performance measures	When setting and reviewing salaries annually, the Remuneration Committee considers Executive Directors' performance to ensure that SSE fulfils its core purpose of providing energy needed today and striving for a better world of energy for tomorrow. They should also assess delivery on SSE's strategic focus of creating value for shareholders and society from developing, operating and owning energy and related infrastructure and services in a sustainable way.

Directors' Remuneration Policy continued

Pension

Purpose and link to strategy	<p>Pension planning is an important part of SSE's remuneration strategy because it is consistent with the long-term goals of the business.</p> <p>The approach to pension supports the Company's ability to retain experienced Executive Directors and develop talent internally.</p>
Operation	<p>The current Chief Executive and Finance Director participate in either the Southern Electric Pension Scheme or the Scottish Hydro-Electric Pension Scheme, the same schemes which any employee recruited at that time participates in. These schemes are funded final salary (subject to the cap on future increases in pensionable pay described below) pension schemes. Where an Executive Director is subject to the scheme-specific salary cap (which mirrors the provisions of the previous HMRC cap arrangements) the Company provides top-up unfunded arrangements ("UURBS") up to the maximum benefit outlined below.</p> <p>The current Chief Commercial Officer receives a cash allowance in lieu of accruing future pension benefits. This allowance predates his appointment as an Executive Director and is in line with other former defined benefit scheme members who have opted out. The Committee will operate alternative pension provisions for new appointments to the Board, in line with arrangements for SSE employees. The pension allowance is in the process of being aligned with those for other employees with a similar service profile. From 1 April 2022, his pension allowance will be 20% of salary, reducing to 15% on 1 January 2023.</p>
Maximum opportunity	<p>For existing Executive Directors, the pension arrangements provide for a maximum pension of two-thirds of final salary, normally at age 60. From 1 April 2017, future pensionable pay increases will be capped at RPI + 1% (regardless of the level of any actual increases in salaries).</p> <p>For new appointments, employer's pension contributions are capped in line with arrangements for all new SSE employees (which is currently 12% of base salary).</p>
Performance measures	Not applicable.

Benefits

Purpose and link to strategy	To provide a market-competitive level of benefits for Executive Directors.
Operation	<p>The objective is to provide the appropriate level of benefits taking into account market practice at similarly sized companies and the level of benefits provided for other employees in the Company.</p> <p>Core benefits currently include car allowance, private medical insurance and health screening.</p> <p>Executive Directors are eligible to participate in the Company's all-employee share plans on the same terms as UK colleagues. The Company currently operates the Share Incentive Plan and the Sharesave Scheme.</p> <p>In the event that an Executive Director was required to relocate to undertake their role, the Committee may provide additional reasonable benefits to reflect the relevant circumstances.</p> <p>The Committee may introduce or remove particular benefits if it is considered appropriate to do so.</p> <p>Travel and business-related expenses incurred which may be treated as taxable benefits will be reimbursed in accordance with the Company's expenses policy.</p>
Maximum opportunity	When determining the level of benefits the Committee will consider the factors outlined in the "Operation" section. The cost will depend on the cost to the Company of providing individual items and the individual's circumstances and there is no maximum benefit level.
Performance measures	Not applicable.

Annual Incentive Plan (AIP)

Purpose and link to strategy	<p>In line with the need to achieve a suitable balance of fixed and variable remuneration, the purpose of the AIP is to reward Executive Directors' performance during the year, based upon achievement of performance targets. The performance targets are linked to SSE's strategy and core purpose.</p> <p>Compulsory deferral into SSE shares provides alignment between Executive Directors' interests and the long-term interests of shareholders.</p>
Operation	<p>The Committee determines the level of incentive at its absolute discretion taking into account performance in each of the measures, the underlying performance of the business and Executive Directors' management of, and performance in, all of the business issues that arise during the year.</p> <p>Performance is typically assessed over a financial year. Below threshold performance, no payment is made. Where performance reaches or exceeds the maximum, 100% of bonus for this element is payable.</p> <p>The award will normally be delivered:</p> <ul style="list-style-type: none"> • 67% in cash; and • 33% in deferred shares. <p>The Committee may determine that a different balance of cash and deferred shares may be awarded. Deferred shares will normally vest three years from the award date (unless the Committee determines an alternative vesting period is appropriate) subject to continued employment with accrual of dividends over that period. Until vesting, the awards may accrue additional dividend shares. Dividend equivalents may be determined by the Committee on a cumulative basis and may assume reinvestment of dividends in the Company's shares.</p> <p>In certain circumstances as set out in the plan rules the Committee may at its discretion apply malus to outstanding awards under the AIP or unvested deferred share awards prior to the relevant vesting or payment date, and/or claw back the cash or share portion of awards under the AIP for up to three years after the cash payment date of the relevant award.</p>
Maximum opportunity	Maximum annual incentive opportunity is equal to 150% of base salary for the Chief Executive and 130% of base salary for the Finance Director and Chief Commercial Officer.
Performance measures	<p>The annual incentive is normally based on a mix of financial, operational, strategic and stakeholder measures reflecting the key values and priorities of the business. A minimum of 50% of the annual incentive will be based on financial performance metrics. The Committee determines the exact metrics each year depending on the key strategic objectives for the forthcoming year and ensures that they are appropriately stretching in the context of the business plan. The measures for the current year are set out on page 197.</p> <p>The Committee may review the detailed targets and weightings of measures year on year, as well as the appropriate threshold levels of vesting and performance.</p> <p>Around 50% of the incentive is paid if target levels of performance are delivered with the full incentive being paid for delivering stretching levels of performance.</p> <p>The part of the AIP that is deferred in the form of deferred shares or a career share award is not subject to any further performance conditions.</p>

Directors' Remuneration Policy continued

Performance Share Plan (PSP)

Purpose and link to strategy	The purpose of the PSP is to reward Executive Directors, over a three-year performance period and a further two-year holding period, for their part in delivering the sustained success of SSE and to ensure that their interests are aligned with those of the shareholders who invest in the Company.
Operation	<p>Shares are awarded which normally vest based on performance over a period of three years. Awards granted to Executive Directors will be subject to an additional two-year post-vesting holding period during which time the Executive must retain the post-tax number of shares vesting under the award.</p> <p>No vestings is possible for below threshold performance. The percentage of shares that vest at threshold takes account of the toughness of the target and varies accordingly. All the shares vest if the maximum performance standard is reached or exceeded.</p> <p>The Committee shall determine the extent to which the performance conditions have been met. No shares shall vest unless the Committee is satisfied with the underlying financial performance of the Company. Awards do not vest until after the end of the performance period.</p> <p>Until vesting, PSP awards may accrue additional dividend shares. Dividend equivalents may be determined by the Committee on a cumulative basis and may assume reinvestment of dividends in the Company's shares.</p> <p>In certain circumstances set out in the PSP rules the Committee may at its discretion apply malus to outstanding awards prior to vesting and/or claw back vested awards for up to three years after the vesting date of the relevant award.</p> <p>The Committee may adjust and amend awards in accordance with the PSP rules.</p>
Maximum opportunity	The maximum annual value of award that can be granted under the PSP is up to 250% of base salary for the Chief Executive and up to 225% of base salary for other Executive Directors. See also the share ownership policy requirement.
Performance measures	<p>The Committee determines targets each year to ensure that they are stretching and represent value creation for shareholders while remaining realistically achievable for management.</p> <p>Awards vest based on a range of measures which may include total shareholder return, financial, operational, strategic or stakeholder-based measures. A minimum of 70% of the award will be based on financial and total shareholder return measures. The Committee will review the most appropriate measures, detailed targets and weightings of measures year on year, as well as the appropriate threshold levels of vesting and performance.</p>

Share Ownership Policy

Purpose and link to strategy	A key element of SSE's remuneration policy is to align the interests of Executive Directors with those of shareholders who invest in the Company.
Operation	<p>Shareholding is normally built up via shares vesting through the PSP, deferred shares from the AIP and all employee share schemes and Executive Directors may also choose to buy shares.</p> <p>The requirement to retain shares continues after employment, and Executive Directors are required to hold their in-employment shareholding for a further two years following cessation of employment.</p>
Maximum opportunity	Executive Directors are expected to maintain a shareholding. This is linked to the level of the annual award under the PSP. The requirement will be met through career shares unless awards under the PSP exceed 200% of salary. Where PSP levels exceed 200% of salary the holding requirement will be 250% of base salary in the case of the Chief Executive and 225% in the case of other Executive Directors built up within a reasonable timescale.
Performance measures	Not applicable.

Chair and Non-Executive Directors' Fees

Purpose and link to strategy	Fees are set at a level which provides reward for undertaking the role and are sufficient to attract and retain individuals with the calibre and experience to contribute effectively at Board level.
Operation	<p>The Committee is responsible for determining fees for the Chair. The Board is responsible for determining fees for other non-Executive Directors.</p> <p>Fees are reviewed at appropriate intervals against companies of a similar size and complexity. Fees are set in a way that is consistent with the wider remuneration policy.</p> <p>The fee structure may be made up of:</p> <ul style="list-style-type: none">• a basic Board fee or Chair fee;• an additional fee for any committee chairship or membership; and• an additional fee for further responsibilities e.g. Senior Independent Director, non-Executive Director for Employee Engagement or periods of increased activity.
	<p>Non-Executive Directors do not participate in the Annual Incentive Plan, Deferred Bonus Scheme or any of the share schemes, or contribute to any group pension scheme.</p> <p>Non-Executive Directors do not currently receive any benefits. Benefits may, however, be provided in the future for non-Executive Directors if in the view of the Board this was considered appropriate and they may also be provided in the future for the Chair if in the view of the Committee this was considered appropriate.</p> <p>Reasonable travelling and other expenses for costs incurred in the course of the non-Executive Directors undertaking their duties are reimbursed (including any tax due on the expenses).</p> <p>It is also expected that all non-Executive Directors should build up a minimum of 2,000 shares in the Company.</p>
Maximum opportunity	The aggregate level of non-Executive Director fees shall not exceed the maximum limit set out in the Articles of Association.
Performance measures	There are no direct performance measures relating to Chair and non-Executive Director fees, although the performance of the Board is subject to annual evaluation, including an evaluation of individual members.

Performance measures and targets

The Committee sets a range of performance measures linked to Executive Directors' remuneration that are simple, transparent and balanced. They all have a clear link to strategic objectives and support value creation for shareholders. Performance targets will be stretching and maximum performance will only be attained for true out-performance. The longer-term financial targets set for the awards under the Performance Share Plan will be reviewed and set in the light of the relevant business plan. Where possible, targets will be disclosed prospectively unless commercial sensitivity precludes this, in which case they may be disclosed at an appropriate time retrospectively.

Committee discretion

All incentive awards are subject to the terms of the relevant plan rules under which awards are made. The Committee may adjust or amend awards in accordance with the provisions of the relevant plan rules. This includes, but is not limited to, the following discretions:

- In the event of a variation of the Company's share capital or reserves, or a demerger, special dividend, rights issue or other event, the number of shares subject to an Award and/or any performance condition attached to Awards, may be adjusted.
- The Committee may adjust PSP performance conditions for subsisting awards as it considers appropriate to take account of any factors which are relevant in the opinion of the Committee, for example to reflect modifications of accounting standards.
- In the event of a voluntary winding-up of the Company, the Committee may allow some or all of the outstanding PSP awards to vest (and be deemed exercised) on the date the resolution for the winding-up is passed.

The Committee may make minor changes to this Policy (for example for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation or corporate governance requirements or guidance) without seeking shareholder approval for that amendment.

Directors' Remuneration Policy continued

Legacy commitments

The Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretion available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out in this report where the terms of the payment were agreed:

- (i) before 17 July 2014 (the date the Company's first shareholder approved Directors' Remuneration Policy came into effect),
- (ii) before this Policy came into effect provided that the terms of the payment were consistent with the shareholder-approved Directors' Remuneration Policy in force at the time they were agreed or,
- (iii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company.

As well as remuneration payments and payments for loss of office under the Directors' Remuneration Policy which was approved by shareholders on 17 July 2014, this includes commitments relating to the defined benefit pension arrangements which were made before 27 June 2012. "Payments" includes the Committee sanctioning awards of variable remuneration and an award over shares is "agreed" at the time the award is granted. Any payments made outside of the Directors' Remuneration Policy pursuant to legacy commitments will be disclosed in full in the relevant year's Annual Report.

Directors' service contracts and non-Executive Directors' letters of appointment

Current Executive Directors have service contracts terminable by the Company immediately without notice upon breach by the individual or by the Company giving to the individual 12 months' notice or, at its discretion, payment in lieu of salary only during that notice. The payment in lieu of notice may be made in staged payments and may either reduce or cease completely where the departing Executive Director gains new employment. The Executive Director may terminate the contract by giving the Company 12 months' notice. Contracts for new Executive Directors will be limited to 12 months' notice by both parties (or payment in lieu of notice in respect of the Company). The service contracts are available to view at the Company's registered office.

The non-Executive Directors have letters of appointment, and are appointed for fixed terms of three years, subject to retirement and re-appointment at AGMs. Non-Executive Directors on termination are not entitled to any payment in lieu of notice or any compensation for loss of office.

The letters of appointment are available for shareholders to view on www.sse.com.

Loss of office policy

The Committee takes a number of factors into account when determining leaving arrangements for Executive Directors:

- The Committee must satisfy any contractual obligations provided they are consistent with the Policy or have been entered into on a date on or before 27 June 2012 in accordance with relevant legislation.
- The treatment of outstanding share awards is governed by the relevant share plan rules, as set out below.
- The Committee may determine that the Executive Director should receive reasonable outplacement support and legal advice at the expense of the Company and any payments required by statute.
- The Company may at its discretion terminate any Executive Director's contract by providing notice or payment in lieu of notice (as set out above).

AIP

The Executive Director may, at the discretion of the Committee, remain eligible to receive an AIP award for the financial year in which they ceased employment if the Committee has decided that good leaver terms should apply. Any such AIP award will be determined by the Committee taking into account time in employment and performance. If an AIP award is received in such cases it may not be subject to deferral into deferred shares provided the post-employment share ownership policy has already been fulfilled or will be by other means.

Deferred and career shares

If an Executive Director's employment terminates in circumstances such as death, injury, disability, ill-health (as agreed by the Committee) or other circumstances that the Committee deems appropriate, unvested deferred and career shares shall vest in full at the time of termination of employment.

If an Executive Director leaves the business in other circumstances their deferred shares and unvested career shares shall lapse. Vested career shares shall not lapse.

Vested awards in the form of career shares awarded under previous Directors' Remuneration Policies shall, except in the case of death or change of control, be released two years after the date of cessation of employment, irrespective of the reason for such cessation.

Performance share plan

If an Executive Director's employment terminates in circumstances such as death, injury, disability, ill-health (as agreed by the Committee) or other circumstances that the Committee deems appropriate, PSP shares may continue to vest. The PSP shares will normally be reduced to reflect the time elapsed in the three-year performance period when the Executive Director's employment ends and will normally remain subject to performance at the end of the performance period.

The Committee may determine, in exceptional circumstances, that PSP shares may be released at the time of cessation of employment. In this circumstance, it will determine the level of vesting taking into account the extent to which the performance conditions have been met at the time (subject to modification if the Committee considers that the performance condition would be met to a greater or lesser extent at the end of the original performance period) and the period the Executive Director has been in employment.

The Committee has the discretion to disapply time pro-rating or alter the time pro-rating fraction if it considers that the Executive Director's contribution to the business of the Company would not otherwise be properly recognised. In this circumstance, the vesting of PSP shares would remain subject to performance until the end of the performance period.

If the Executive Director's employment ends for any other reason, unvested PSP share awards will lapse. Vested PSP shares which are subject to a mandatory holding period will not lapse as a result of cessation of employment for any reason.

Pension

When an Executive (including Executive Directors) who participate in the defined benefit pension scheme retire through ill-health they are entitled to an unreduced pension based on service to expected retirement.

In the event of any reorganisation or redundancy, Executives who are aged 50 or more with at least five years of service will be provided with an unreduced accrued pension. If an Executive has not reached age 50 at the time of this event their pension will be paid from age 50.

From age 55 Executives are entitled to leave the Company and receive a pension, reduced for early payment, unless the Company gives consent and funds the pension being paid on an unreduced basis.

Dependent upon the circumstances surrounding the departure of the Executive Director and the financial health of the Company at the time, the Committee's policy is to give consideration to a cash commutation of the UURBS pension at the time of leaving. Any cash commutation would limit SSE's liability, taking into account valuations provided by independent actuarial advisors, and would be undertaken on what was judged by the Committee to be on a cost neutral basis to SSE.

The following is information relating to the pension of Gregor Alexander as a participant in the HMRC-approved Scottish Hydro-Electric Pension Scheme the terms of which also apply to the UURBS arrangement.

- (i) Dependents' pensions on death are half of the member's pension entitlements, together with a capital sum equal to four times pensionable pay. On death in retirement, the Executive Director's spouse will receive a pension equal to half of that payable to the Director. In addition, on death within the first five years of retirement, a lump sum is payable equal to the balance outstanding of the first five years' pension payments
- (ii) Post retirement increases are expected to be in line with RPI.

The following is information relating to the pension of Alistair Phillips-Davies, as a participant in the HMRC approved Southern Electric Group of the Electricity Supply Pension Scheme, the terms of which also apply to the UURBS arrangement.

- (i) Dependents' pensions on death are four-ninths of the member's pensionable pay, together with a capital sum equal to four times pensionable pay. If death occurs after attaining the age of 55 an additional lump sum between three to five times notional pension is payable dependent upon age and length of service.
- (ii) On death in retirement, the Director's spouse will receive a pension equal to two-thirds of that payable to the Director. In addition, on death within the first five years of retirement, a lump sum is payable equal to the balance outstanding of the first five years' pension payments.
- (iii) Post retirement increases are expected to be in line with RPI (guaranteed up to the level of 5% per annum and discretionary above that level).

Other arrangements

If buyout awards are made on recruitment, the treatment on leaving would be determined at the time of the award.

For all-employee share plans, such as the Sharesave Scheme and the Share Incentive Plan, leavers will be treated in accordance with the HMRC approved plan rules.

Change of control

On a change of control, Executive Directors' awards will be treated in accordance with the rules of the applicable plan(s). In summary, in the event of a change of control of the Company, performance in the PSP will be measured to that date subject to modification if the Committee considers that the performance conditions would be met to a greater or lesser extent at the end of the original performance period. Awards will normally be scaled down to reflect the period up to the change of control, but the Committee has discretion to disapply or alter the pro-rating fraction if it considers that participants' contribution to the creation of shareholder value during the performance period would not otherwise be properly recognised.

Directors' Remuneration Policy continued

Any outstanding unvested deferred or career shares from the AIP will vest automatically, and any vested shares subject to a holding period will be released.

Recovery provisions

The Committee believes that it is right that it should have the ability to recover pay in circumstances where that pay is later proved to have been unfairly earned. The PSP and AIP have recovery provisions under malus and clawback.

Malus is the ability to reduce or cancel unvested deferred AIP and PSP share awards. Clawback is the ability to take back value delivered through the cash element of AIP or vested AIP awards at any point: up to three years post-payment of cash under the AIP; and up to three years post-vesting of PSP shares. They would apply under the following circumstances at any point between the grant date and vesting date:

- Material misstatement or restatement of accounts
- Misconduct which results in a materially adverse financial effect
- Serious reputational damage including material environmental or safety issue, or material operational or business failing
- Factual error in calculating payment/vesting
- Serious misconduct
- Corporate failure
- Material risk failure
- Material detriment to stakeholders or to company's market reputation
- Unreasonable failure to protect stakeholders' interests

Recruitment policy

The Committee will seek to align the remuneration package offered with its Directors' Remuneration Policy outlined on [page 172](#). The overriding objective in determining a total remuneration package for a new recruit would be to make decisions which are in the best interests of the Company, its shareholders and other stakeholders.

Base salary would be set taking into account the individual's skills and experience and performance, salary levels at other similar sized UK companies and other energy businesses, remuneration of different groups of employees, and the wider internal pay arrangements.

The Committee will determine appropriate pension provision for any new Executive Director. When determining pension arrangements for new external appointments the Committee will limit contributions to those in line with employees generally, currently 12% of salary.

Variable incentive levels will be in line with those set out in the policy table, with the maximum being no more than the current Chief Executive (AIP 150% of salary, PSP 250% of salary). Whilst it would generally be intended to set consistent performance measures across the executive team, depending on the timing and circumstances of a new appointment, it may be necessary to set alternative measures for the initial awards. PSP awards may be granted shortly following an appointment, subject to the Company not being in a closed period.

The Committee may make awards on appointing an Executive Director to "buy out" remuneration arrangements forfeited on leaving a previous employer. In doing so the Committee will take account of relevant factors including any performance conditions attached to these awards, the form in which they were granted (e.g. cash or shares) and the time over which they would have vested. Generally buy-out awards will be made on a comparable basis to those forfeited. To facilitate these awards, the Committee may make awards under Company incentive plans and other available structures.

The Committee may make awards under SSE's incentive plans and under the Listing Rules exemption in LR9.4.2 which allows Companies to make grants to a Director to facilitate, in unusual circumstances, the recruitment or retention of that Director. The use of the latter shall be limited to the granting of buy-out awards or share awards within the limits described above.

Shareholders' views

The Committee Chair, on behalf of the Committee, consulted with SSE's largest shareholders in developing the new Policy, as well as representatives from The Investment Association. This included a number of meetings which allowed a discussion of the proposals in the context of SSE's business strategy and the environment in which it operates. The feedback received was extremely helpful in informing the Committee's decisions. The Committee adopted its proposals following input from shareholders. The weighting of financial and non-financial measures in the PSP is one example. The balance of quantitative and qualitative measures and targets is another.

More generally, the Committee Chair, on behalf of the Committee, periodically undertakes consultation with a number of institutional shareholders regarding a broad range of remuneration issues. The Committee finds such consultation meetings a valuable opportunity to receive feedback on the work of the Committee and the key issues that it is considering. The feedback received is extremely helpful in informing the Committee's decisions.

In addition, the Committee also monitors the views of other stakeholders and broader developments in executive remuneration generally.

Remuneration engagement across the Company

The Committee appreciates the importance of an appropriate relationship between the remuneration levels of the Executive Directors, senior executives, managers and other employees within the Company although comparison metrics are not used to determine pay policy. Remuneration at all levels in SSE is designed to support its remuneration principles, long-term business strategy and core purpose of providing the energy people need in a reliable and sustainable way. It is also designed to be consistent with and support the Company's core values of Safety, Service, Efficiency, Sustainability, Excellence and Teamwork. The structure of reward necessarily differs based on scope and responsibility of role, level of seniority and location.

The table in the At a Glance Section ([page 182](#)) illustrates how the core elements of executive pay align with the wider workforce.

In summary,

- The senior management population also participate in annual and long-term incentive arrangements. In line with Executive Directors' arrangements, incentives for senior management have an emphasis on share awards and the performance metrics support those used at Board level.
- All employees have the opportunity to be share owners through the Share Incentive Plan and the Sharesave Plan and those participating are able to express their views in the same way as other shareholders.
- Pension planning is an important part of SSE's reward strategy for all employees because it is consistent with the long-term goals and horizons of the business, an approach it has been practising for a number of years. The terms of the funded final salary pension schemes apply equally to all members.
- As part of its Employee Engagement Survey SSE invites all employees to provide a view on the benefits and pay that it provides.

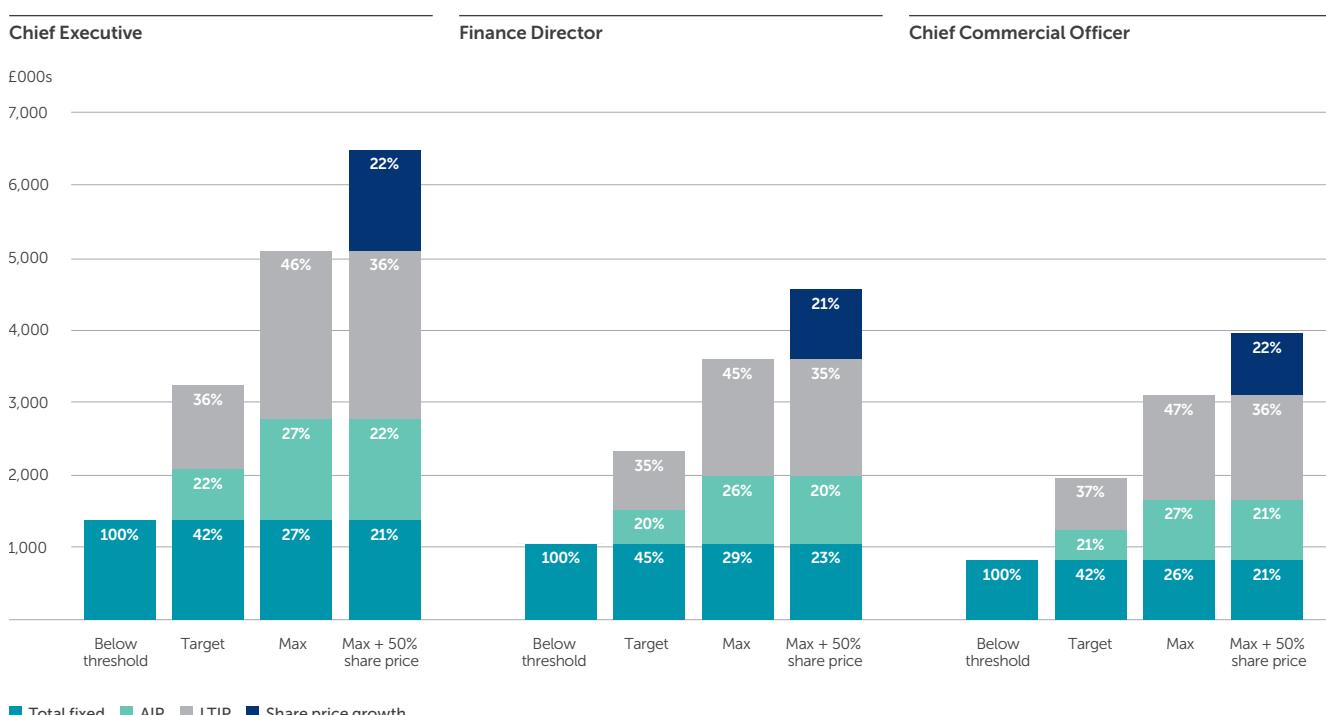
The Remuneration Committee is responsible for the remuneration of SSE's most senior Executives and the Chair of the Board and reviews the remuneration arrangements for all employees across the Group.

The Chair of the Remuneration Committee meets at least annually with SSE's recognised Trade Unions to discuss SSE's position on executive remuneration. They met in May and discussed aspects of policy explained in this report. Feedback from this meeting was shared with the Remuneration Committee.

Illustration of the Directors' Remuneration Policy for 2022/23

The charts below indicate a forward-looking potential single figure of remuneration value for 2022/23 at below threshold, target and maximum for each of the Executive Directors. With the increase in base salaries in 2022 and the proposed increase to PSP quantum the scenarios below have increased from the previous year.

Single total figure of remuneration – an illustration of the application of our policy



Remuneration at a glance

Directors' Remuneration Policy in 2022/23

The illustration below shows how SSE intends to operate its Directors' Remuneration Policy in 2022/23.

	Element	Max	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Fixed pay	Salary	Set with reference to pay increases for the wider employee base		Salary paid				
	Benefits	Market competitive		Benefits paid				
	Pension	Final salary and top up/pension allowance		Pension accrual/allowance paid				
Variable pay – at risk	Annual Incentive Plan (AIP)	CEO 150% of salary. FD and CCO 130% of salary 67% cash/33% deferred shares	Performance period	AIP cash paid AIP deferred share awards granted	Vesting period		Awards vest	
	Performance Share Plan (PSP)	CEO 250% of salary. FD and CCO 225% of salary 2-year holding period	PSP awards granted	Performance/vesting period		PSP awards vests	Holding period	Holding period ends
Additional governance	Share ownership requirement	250% of salary for CEO and 225% of salary for FD and CCO		Share ownership requirement				
	Recovery and withholding	All incentives		Malus and clawback: Material misstatement or restatement of accounts; Misconduct which results in a materially adverse financial effect; Serious reputational damage including material environmental or safety issue, or material operational or business failing; Factual error in calculating payment/vesting; Serious misconduct; Corporate failure; Material risk failure; Material detriment to stakeholders or to company's market reputation; Unreasonable failure to protect stakeholders' interests				
	Post-employment	Career shares		Holding requirement for career shares until two years after cessation of employment				

Strategic performance

Executive Directors' remuneration is strongly linked to strategic performance. Some of SSE's strategic performance measures are detailed below, with an indication of how they link to remuneration. SSE has delivered against its dividend target and performed well against a range of financial and non-financial measures. Full details can be seen on [pages 186 to 189](#).

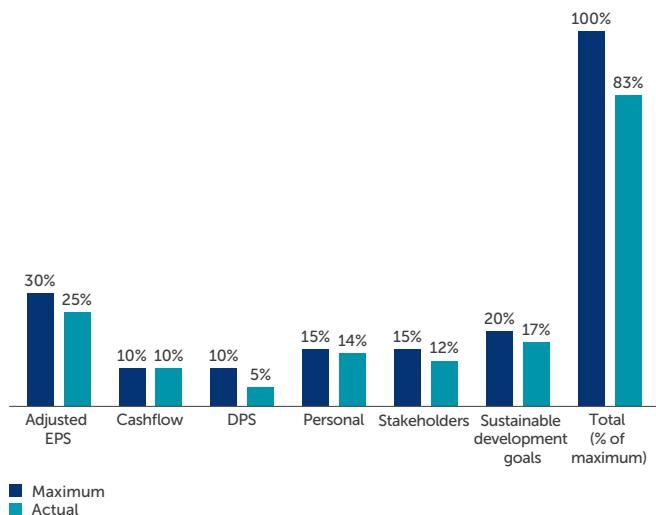
ADJUSTED EARNINGS PER SHARE	TOTAL SHAREHOLDER RETURN (FTSE 100)	EMPLOYEE ENGAGEMENT	CARBON INTENSITY OF ELECTRICITY GENERATED
95.4p AIP and PSP	Rank 13 of 95 PSP (66.6%)	82% Engagement index score AIP (Stakeholders)	258gCO₂e/kWh* gCO ₂ e per kWh. AIP (Sustainable Development Goals)
DIVIDENDS PER SHARE	TOTAL SHAREHOLDER RETURN (MSCI)	TOTAL RECORDABLE INJURY RATE	TOTAL RENEWABLE GENERATION OUTPUT*
85.7p AIP and PSP	Rank 6 of 23 PSP (66.6%)	0.17 per 100,000 hours worked AIP (Stakeholders)	9.5TWh** GWh. AIP (Sustainable Development Goals)

* The 2030 Goal for 2021/22 measured progress based on electricity generation GHG emissions only. SSE's new science-based target for GHG emissions intensity, set in November 2021, is based on all scope 1 GHG emissions. Progress on [page 54](#) is provided against this updated target, therefore figures differ slightly.

** Includes pumped storage, biomass and constrained off wind in GB.

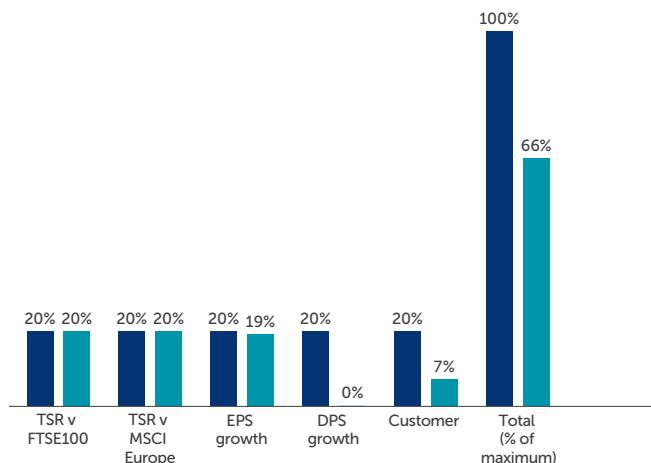
Incentive Plan Performance in 2021/22

ANNUAL INCENTIVE PLAN



■ Maximum
■ Actual

PERFORMANCE SHARE PLAN



How Pay Links to Wider SSE Workforce

	Base Salary	Benefits	Pension	Short-Term Incentive	Long-Term Incentive
Executive Directors	Base salary is typically set with reference to the market and wider workforce considerations.	A range of voluntary benefits in line with the wider workforce plus contractual car and private medical benefits.	All employees are a member of the SHEPS or SEPS defined benefit pension scheme, or the Pension+ defined contribution scheme unless they have opted or cashed out.	Annual Incentive Plan linked directly to business performance – 50% financial, 50% non-financial. 33% of the total award is deferred into shares for three years.	The Performance Share Plan is a share award with performance linked to strategic performance measures.
Group Executive Committee	Annual increases are typically in line with or less than the wider employee population.		The arrangements are diverse and the employer cost typically ranges from 3% to 38% of salary when both defined contribution and defined benefits schemes are taken into account.	Annual Incentive Plan considering performance of the Group (directly linked to the above), the business area and the individual. 25% of the total award is deferred as shares for three years.	The Leadership Share Plan is also linked to strategic performance measures over the longer-term and those with direct impact on strategic output are eligible.
Senior Management					
Wider Workforce	Base salary levels are subject to negotiation with recognised trade unions and/or are set in line with market requirements.	A range of voluntary benefits are available to all employees, such as a cycle to work scheme, a holiday purchase scheme, health benefits, and enhanced maternity, paternity and adoption leave.		Depending on role, a proportion of employees will participate in the Annual Incentive Plan (as above). 100% of the award is paid in cash.	All employees may participate in the Share Incentive Plan (SSE matches three shares for every three bought) and the Sharesave (SAYE) plan.

Annual report on remuneration

1. Single total figure of remuneration (audited)

The table below shows the single total figure of remuneration for each Executive Director for the financial year ending 31 March 2022 relative to the previous year.

	Alistair Phillips-Davies		Gregor Alexander		Martin Pibworth		Total	
	2021/22 £000s	2020/21 £000s	2021/22 £000s	2020/21 £000s	2021/22 £000s	2020/21 £000s	2021/22 £000s	2020/21 £000s
Fixed Pay	Base Salary ¹	924	915	714	707	636	571	2,274
	Benefits ²	26	25	23	22	18	18	67
	Pension ³	413	458	303	344	159	171	875
Total Fixed Pay		1,363	1,398	1,040	1,073	813	760	3,216
Variable Pay	AIP ⁴	1,150	947	771	634	678	512	2,599
	PSP ⁵	1,972	700	1,334	473	998	354	4,304
	Total Variable Pay	3,122	1,647	2,105	1,107	1,676	866	6,903
Total⁶		4,485	3,045	3,145	2,180	2,489	1,626	10,119
								6,851

- 1 SSE offers all employees a range of voluntary benefits some of which operate under a salary sacrifice arrangement. The salaries shown above are reported before any such adjustments are made.
- 2 Benefits relate to company car, Share Incentive Plan company contributions and medical benefits. These benefits are non-pensionable.
- 3 The pension values for Alistair Phillips-Davies and Gregor Alexander represent the increase in capital value of pension accrued over one-year times a multiple of 20 (net of CPI and Directors' contributions) in line with statutory reporting requirements.
- 4 The AIP figures above show the value of the award including the portion deferred as shares.
- 5 The PSP figures for 2020/21 have been readjusted in line with statutory reporting requirements, following last year's report to show the actual value upon vesting. The estimated value shown in the table for 2021/22 is based on the average share price in the three months to 31 March 2022 of £16.165, as required by the reporting regulations. The award remains subject to service until May 2022 and so the prior year comparative will be restated in next year's report to show the actual value on vesting, as is required by the regulations. There was no share price appreciation.
- 6 Directors have not received any other items in the nature of remuneration other than as disclosed in the table.

Rationale for 2021/22 single total figure of remuneration

There has been a year-on-year increase of 48% in the single total figure of remuneration. For the Executive Directors, remuneration has increased between 44% and 53%. This change is attributable to an increase in base salary aligned to the wider workforce, and an increase in AIP/PSP outcomes following a year of strong financial, operational and strategic performance. The PSP, in particular, has performed well. The share price has also increased by 27% in the year to 31 March 2022 and TSR, over the three years to the end of March 2022, has increased by over 66%.

The Remuneration Committee is satisfied that the total single figure of remuneration for each Executive Director is appropriate.

Base salary

In line with the average base salary increase for the wider employee population, Executive Directors' salaries were increased on 1 April 2021 by 1% from £914,776 to £923,924 for the Chief Executive, from £707,047 to £714,117 for the Finance Director and from £630,000 to £636,300 for the Chief Commercial Officer.

Benefits

Benefits are provided at an appropriate level taking into account market practice at similarly sized companies and the level of benefits provided for other employees in the Company. Core benefits include car allowance, private medical insurance and health screening. The Executive Directors also participate in the Company's all-employee share schemes on the same terms as other employees.

Pension

The Chief Executive and Finance Director are members of the Southern Electric Pension Scheme and the Scottish Hydro Electric Pension Scheme respectively, and their plan membership predates their Board appointments. They participate in the same defined benefit pension arrangements that were available to all employees recruited at that time. The schemes were closed in 1999 and the service costs range from 32.5% to 37.5% of salary. These are both funded final salary pension schemes and the terms of these schemes apply equally to all members. The Executive Directors' service contracts provide for a possible maximum pension of two thirds final salary from the age of 60.

In relation to Executive Directors who are subject to the scheme-specific salary cap (which mirrors the provisions of the previous HMRC cap arrangements) the Company provides top-up (unfunded) arrangements which are designed to provide an equivalent pension on retirement from the age of 60 to that which they would have earned had they not been subject to the salary cap. From 1 April 2017 pensionable earnings increases were capped at RPI +1%. These are legacy arrangements and would not be used for any new external appointments.

The Chief Executive and Finance Director, in common with all other employees who joined at the same time (25 and 31 years ago respectively), have the following pension provisions relating to leaving the Company:

- for retirement through ill-health an unreduced pension based on service to expected retirement is paid;
- in the event of any reorganisation or redundancy an unreduced accrued pension is paid to a member who is aged 50 or above, with at least five years' service or, for a member who has not yet reached that age, it will be payable with effect from 50;
- and from the age of 55, a scheme member is entitled to leave the Company and receive a pension, reduced for early payment, unless the Company gives consent and funds this pension on an unreduced basis.

Dependent on the circumstances surrounding the departure of the Executive Director and financial health of the Company at the time, the Committee's policy is to give consideration to a cash commutation of the unfunded unapproved retirement benefit (UURB) pension at the time of leaving. Any cash commutation will limit SSE's liability, taking into account valuations provided by independent actuarial advisors, and will be calculated on what was judged to be a cost neutral basis to SSE.

The Chief Commercial Officer, who has been with SSE since 1998, was already in receipt of a pension allowance of 30% of salary prior to his appointment as an Executive Director. While the arrangement was consistent with the approach used for all other members who have elected to receive a cash allowance in lieu of accruing future pension benefits, the Committee agreed that his future pension arrangements would be aligned with the level of contributions available to the wider workforce at 15% of salary on a phased basis over five years. Following confirmation of his expanded role from 1 November 2020, it was agreed that the phased reduction would be accelerated by two years. As part of the revised directors' remuneration policy, this change has again been accelerated. This means that his pension allowance will be in line with the employer contribution for the majority of SSE's employees taking into account length of service of 15% of salary from 1 January 2023.

The table below details pension accrued for each of the Executive Directors as at 31 March 2022 and 2021.

	Accrued pension as at 31 March 2022 £000s	Accrued pension as at 31 March 2021 £000s
Alistair Phillips-Davies	513	489
Gregor Alexander	461	443
Martin Pibworth ¹	0	0

1 Martin Pibworth received an allowance in lieu of a pension contribution of 25% of salary.

Annual report on remuneration continued

Annual Incentive Plan and Performance Share Plan

In setting targets and assessing performance, the following process is used for both the AIP and PSP:



2021/22 Annual Incentive Plan

1. Set performance measures aligned with strategy

AIP requires broad performance across a number of financial metrics (Adjusted EPS, DPS Growth and Cashflow) and strategic metrics (Personal, Stakeholders and Sustainable Development Goals). The performance measures and their weightings are shown below.

Financial (50%)			Personal (15%)	Stakeholders (15%)			Sustainable Development Goals (20%)			
Adjusted EPS (30%)	Cashflow (10%)	DPS (10%)	Individual Objectives (15%)	Customers (5%)	Employees (5%)	Suppliers (5%)	Carbon Intensity (5%)	Renewable Output (5%)	Elective Vehicle Infrastructure (5%)	Fair Tax & Living Wage (5%)

2. Set stretching performance targets

The financial performance targets were set at the start of the financial year taking into account internal financial plans, external consensus where it exists and the expected impact of identified opportunities and threats to the business in the context of wider economic conditions. The performance target range is set on a realistic basis but requires true outperformance for Executive Directors to achieve the maximum. The Remuneration Committee has a history of setting challenging targets, evidenced by the average AIP payout of 54% since 2012 as shown on [page 193](#).

3. Assess performance

The table below shows how performance measures are linked to strategy and how performance was ultimately delivered.

AIP	Performance measure							Sustainable development goals	Total
	Adjusted EPS	Cashflow	DPS	Personal	Stakeholders				
Link to strategy	Simple Stewardship Stakeholders	Simple Sustainable Stakeholders	Simple Sustainable Stakeholders	Simple Sustainable Stewardship Stakeholders	Simple Sustainable Stewardship Stakeholders		Simple Sustainable Stewardship Stakeholders		
Rationale	Underlying measure of financial performance	Net debt/EBITDA	Return on investment through payment of dividends	To reflect those activities which go beyond the responsibilities of the role	Customers, employees and suppliers		Contribution to the four UN SDGs for 2030		
Weighting	30%	10%	10%	15%	15%		20%		
Threshold	85.8p	5.0	85.7p						
Max	99.4p	4.5	93.8p						
Outcome	95.4p	4.3	85.7p				See next section		
Performance	82%	100%	50%	92%	78%		86%		
Outturn (% of max incentive)	25%	10%	5%	14%	12%		17%		83%

The Committee generally sets non-financial measures and targets that are specific, measurable, attainable, relevant and timely ('SMART' objectives) but also recognises that important measures and targets in support of the Company's vision, purpose and strategy may require some subjective assessment, and this is done by the Committee following the input from the wider Board and other Board Committees as appropriate. The Committee is committed to providing as much retrospective detail of the measures as possible, setting out clearly the decision-making process and the levels of attainment achieved, but mindful that any information which could be considered commercially sensitive cannot be disclosed.

The tables below and on the following pages provide detail on each of the non-financial measures and the assessment of performance against each one.

High-level measure	Detailed measure	Factors to be assessed	Summary performance	Assessment	Outcome (% of max)
Personal 15%	Chief Executive	Culture and the SSESET, Financial, People Development, Succession, Stakeholder Management, Strategy and Growth	Strong year for the Executive Directors Positive activity around net zero strategy, COP26 and on the Net Zero Acceleration Plan, continued strong progress made on disposals and good underlying business performance during the ongoing pandemic despite a difficult year with the weather. International acquisitions made during the year and more in the pipeline.	✓✓✓	91%
	Finance Director				90%
	Chief Commercial Officer				89%

x= Below expectation ✓= Met expectation ✓✓= Exceeded expectation ✓✓✓= Far exceeded expectation

High-level measure	Detailed measure	Factors to be assessed	Summary performance	Assessment	Outcome (% of max)
Stakeholders 15%	Customers 2.5%	Business Energy – A range of measures including customer complaints and satisfaction. Gateway for threshold performance at median performance of Citizens Advice league table.	Currently sitting at 6th out of 17 suppliers in Citizen's Advice Non-Domestic League Table.	✓✓✓	60%
	2.5%	Electricity Networks – A range of measures including customer interruptions and customer minutes lost.	Margin between performance in the North v South. Improvement plan in place for the South. In overall DNO Customer Performance league table SHEPD sat 8/14 and SEPD at 14/14. Dealt with unprecedented level of storms handling a typical year's worth of calls in 5 months.	x	40%
	2.5%	Safety – Total Recordable Injury Rate (TRIR) and Accident Frequency Rate (AFR) for direct employees. TRIR target of <0.15.	Similar strong results to last year at this year-to-date with TRIR up slightly (0.09 v 0.08) and AFR the same at 0.04. Overall TRIR slightly up at year end with significant increase in hours worked.	✓✓✓	90%
	2.5%	Engagement – A range of measures including employee engagement survey score, employee uptake of share plans and retention rate. Board and leadership engagement with employees.	Very strong set of results for 2021 with key Sustainable Engagement Index indicator ahead of sector norm and at 82%, 8% up from 2019. Connection to Strategy up 18% at 85%. Strong employee survey and verbatim feedback around flexible working and company's COVID response.	✓✓✓	95%
	2.5%	Inclusion and diversity – progress made closing SSE's median UK gender pay gap and progress made against SSE's Inclusion Strategy including progress on Return on Inclusion.	Return on Inclusion champion status retained with improved index score from 75.5 to 83.3. Inclusive hiring measures up in all categories (open advertising, flexible working, diverse panels and gender diverse shortlist). Increased female representation in talent programmes averaging at 40%. Positive increases in diversity questions in GPTW survey. Increase in number of female leavers year-on-year currently being looked into, GPG median down slightly and more women receiving performance bonus.	✓✓✓	85%
Suppliers 2.5%		Safety – Total Recordable Injury Rate (TRIR) and Accident Frequency Rate (AFR) for contractors.	TRIR the same as last year at 0.32 and AFR (0.14 v 0.19) improved significantly.	✓✓✓	95%

x= Below expectation ✓= Met expectation ✓✓= Exceeded expectation ✓✓✓= Far exceeded expectation

Annual report on remuneration continued

High-level measure	Detailed measure	Factors to be assessed	Summary performance	Assessment	Outcome (% of max)
Contribution to the UN Sustainable Development Goals 20% (see the Sustainability Report)	Climate action (5%): Take urgent action to combat climate change and its impacts	Reduce the carbon intensity of electricity generated by 60% by 2030, compared to 2017/18 levels, to around 120gCO ₂ e/kWh.	The carbon intensity of electricity generated increased by 1.2% in 2021/22. Planned and unplanned outages in Thermal Generation and extremely low wind and rain in North of Scotland led to a reduction in overall output. Correspondingly GHG emissions from electricity generation fell by 19%. Keadby 2, expected to be the most efficient CCGT station in Europe, on track to be online by end 2021. Keadby 3 progressing well through planning. SSE set updated science-based carbon targets in November 2021, aligned to a 1.5°C pathway. As a result, this goal has been increased to a reduction of 80% (from 60%) from 2022/23 onwards.	✓✓	90%
	Affordable and clean energy (5%): Affordable, reliable and sustainable energy for all	Develop and build by 2030 more renewable energy to contribute renewable output of 30TWh a year.	Renewable generation output (inc. biomass, pumped storage and constrained off wind in GB) fell in the year due to unfavourable weather conditions. However, excellent progress was made on key offshore projects, including reaching financial close on Dogger Bank C and construction progressing well at Seagreen and Dogger Bank A and B. SSE Renewables, along with partners, also won rights to develop what will become one of the world's largest floating offshore wind farms in the January ScotWind leasing round.	✓✓✓	90%
	Industry, innovation and infrastructure (5%): Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation	Build electricity network flexibility and infrastructure that helps accommodate 10 million electric vehicles in GB by 2030.	SSEN Distribution published its RIIO-ED2 business plan with key goal to facilitate connection of 1.3m EVs by 2028. It has progressed a number of key projects to support low-carbon technology solutions, including several ongoing strategic initiatives and partnerships in this area. 30% of SSE's car fleet now fully electric with emissions down by 21%. Employee EV salary sacrifice car scheme launched so that every employee will have access to a fully electric car.	✓✓✓	85%
	Decent work and economic growth (5%): Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	Be the leading company in the UK and Ireland championing Fair Tax and a real Living Wage.	SSE maintained its Fair Tax Mark accreditation for the eighth consecutive year and published its Talking Tax 2021 report. Living wage increased in line with real Living Wage rate increase and from April now has Living Hours accreditation. Work has begun to roll the new accreditation out in its supply chain. Goal in this area has been reviewed in 21/22, broadening it to encompass a just transition.	✓✓✓	80%

x= Below expectation

✓= Met expectation

✓✓= Exceeded expectation

✓✓✓= Far exceeded expectation

4. Take account of wider environment

The Remuneration Committee believes that the range of measures used in the AIP ensures that performance is assessed using a balanced approach, without undue focus on a single metric which could be achieved at the expense of wider initiatives. AIP outturns for the wider employee population were also taken into account by the Committee.

AIP earned for each of the Executive Directors is shown in the table below. The total award is made up of 67% cash and 33% which is deferred into shares and vests after three years.

5. Apply discretion if required

The Committee considers the outcomes in the light of SSE's performance in the round and pay principles. While mindful of current cost of living pressures the Committee felt that the reward was reflective of performance and decided that no further discretion was required.

	Maximum (% of salary)	AIP earned ¹	AIP cash	AIP deferred
Alistair Phillips-Davies	150%	1,150,285	770,691	379,594
Gregor Alexander	130%	770,532	516,256	254,276
Martin Pibworth	130%	678,296	454,458	223,838

1 Both the cash and deferred element are subject to clawback provisions.

2019 – 2022 Performance Share Plan

1. Set performance measures aligned with strategy

PSP performance measures are designed to encourage sustainable value creation, consistent with effective stewardship, encouraging good decision-making for the long term. The measures and their weightings are shown below:

Value Creation (40%)		Financial (40%)		Operational (20%)	
Total Shareholder Return relative to FTSE 100 (20%)	Total Shareholder Return relative to MSCI Europe Index (20%)	Adjusted EPS growth (20%)	DPS growth (20%)	Customer: Distribution (10%)	Customer: Business Energy (10%)

2. Set stretching performance targets

The performance target ranges for PSP are set each year to ensure they are stretching and represent value creation for shareholders.

3. Assess performance

The vesting of shares under the PSP is subject to the performance measures and targets shown in the table below which also details the actual outturn for the 2019 PSP award vesting this year.

PSP	Performance measure						Total
	TSR v FTSE 100	TSR v MSCI Europe	EPS growth	DPS growth	Customer (Distribution)	Customer (Business Energy)	
Link to strategy	Simple Stewardship Stakeholders	Simple Stewardship Stakeholders	Simple Stewardship Stakeholders	Simple Sustainable Stakeholders	Simple Stewardship Stakeholders	Simple Stewardship Stakeholders	
Rationale	Relative measure of performance	Relative measure of performance	Underlying measure of financial performance	Return on investment through payment of dividends	Meeting customers needs is at core of our business	Meeting customers needs is at core of our business	
Weighting	20%	20%	20%	20%	10%	10%	
Threshold	50th percentile	50th percentile	RPI	RPI	Median ranking	Median ranking	
Max	75th percentile	75th percentile	RPI +10%	RPI +5%	Rank 1	Rank 1	
Outcome	Rank 13 of 95 (above 75th percentile)	Rank 6 of 23 (above 75th percentile)	RPI + 8.1%	Below RPI	Below median	Average 4 of 16	
Performance	100%	100%	93%	0	0%	73%	
Outturn (% of max)	20%	20%	19%	0	0%	7%	66%

Annual report on remuneration continued

4. Take account of wider environment

SSE's TSR has performed at the maximum level relative to both the FTSE 100 and the MSCI European Utilities Index, and performance in relation to Business Energy customer service ranking is also above median. EPS growth over the performance period has been close to the level for maximum vesting. While SSE's dividend commitment has been met over the three-year period, threshold performance at RPI has not been achieved following the resetting of the dividend policy in 2019.

While the PSP applies to Executive Directors only, the Committee is mindful of the outturns of the long-term incentive arrangement (Leadership Share Plan – LSP) which applies to senior managers. On average, the LSP award has paid out at a higher level than the PSP outturn.

5. Apply discretion if required

The Committee believes that the formulaic outcome is a fair reflection of wider performance over this three-year period, in particular the value created for shareholders and taking account of shareholders' interests.

The table below shows the maximum number of shares available, the dividends accrued over the three-year performance period, the total number of shares vesting based on the performance outturn and the estimated value of these shares.

	Awards available (% of salary)	Awards available (number of shares)	Additional awards in respect of accrued dividends	Total number of shares vesting	Estimated value of awards vesting ¹
Alistair Phillips-Davies	200%	153,763	31,056	121,981	1,971,815
Gregor Alexander	175%	103,991	21,002	82,495	1,333,538
Martin Pibworth	175%	77,828	15,718	61,740	998,033

1 The estimated value of the awards vesting has been calculated on the same basis as the PSP value in the single figure table on page 184.

Other remuneration disclosures

Fees paid to the Chair and the other non-Executive Directors during 2021/22 were as follows:

Non-Executive Directors	Fees £000s	
	2021/22	2020/21
Dame Sue Bruce	101	100
Tony Cocker ¹	105	95
Crawford Gillies ²	0	45
Richard Gillingwater CBE ³	0	400
Peter Lynas	91	90
Helen Mahy CBE	87	86
Sir John Manzoni ⁴	400	42
Melanie Smith	73	72
Dame Angela Strank ⁵	73	66
The Rt Hon Elish Angiolini QC ⁶	42	0
Debbie Crosbie ⁷	42	0
Total	1,014	996

1 Tony Cocker became Senior Independent Director on 1 October 2020.

2 Crawford Gillies left the Board on 30 September 2020.

3 Richard Gillingwater CBE left the Board on 31 March 2021.

4 Sir John Manzoni joined the Board as a non-Executive Director on 1 September 2020.

5 Dame Angela Strank joined the Board as a non-Executive Director on 1 May 2020.

6 The Rt Hon Elish Angiolini joined the Board as a non-Executive Director on 1 September 2021.

7 Debbie Crosbie joined the Board as a non-Executive Director on 1 September 2021.

Share interests and share awards (audited)

Directors' share interests

The table below shows the share interests of the Executive and non-Executive Directors at 31 March 2022.

Director	*Shareholding requirement as a % of salary (Actual/% met)	Shares owned outright at 31 March 2022	Number of shares		Number of options		Shares owned outright at 31 March 2021
			Interests in shares, awarded without performance conditions at 31 March 2022 (DBS Awards)	Interests in shares, awarded subject to performance conditions at 31 March 2022 (PSP Awards)	Interests in share options, awarded without performance conditions at 31 March 2022	Interests in share options, awarded subject to performance conditions at 31 March 2022	
Gregor Alexander	608% (200% – met)	248,434	26,326	275,349	1,967	–	220,782
Elish Angiolini		2,000					
Sue Bruce		2,484	–	–	–	–	2,484
Tony Cocker		5,000	–	–	–	–	5,000
Debbie Crosbie		2,000					
Peter Lynas		5,000	–	–	–	–	5,000
Helen Mahy		3,310	–	–	–	–	2,027
John Manzoni		2,437					2,311
Alistair Phillips-Davies	556% (200% – met)	293,747	39,302	407,138	1,997	–	253,462
Martin Pibworth	268% (200% – met)	97,525	20,524	217,855	2,662	–	78,557
Melanie Smith		2,100	–	–	–	–	2,000
Angela Strank		1,669	–	–	–	–	388

* Shareholding requirement:
Executive Directors – 200% of salary.
Non-Executive Directors – minimum 2,000 shares.

Price used to calculate shareholding requirement as % of salary as at 31/03/22 £17.4850.

Directors' Long-term Incentive Plan interests

Deferred Bonus awards granted in 2021 and PSP awards granted in 2021

The tables below shows the deferred bonus awards and PSP awards granted to Executive Directors in 2021.

Deferred bonus awards granted 2021

Recipient	Date of Grant	Shares Granted	Market Value on date of award	Face Value
Gregor Alexander	06/07/2021	13,832	£15.2400	£210,799.68
Alistair Phillips-Davies	06/07/2021	20,650	£15.2400	£314,706.00
Martin Pibworth	06/07/2021	11,174	£15.2400	£170,291.76
				£695,797.44

PSP awards granted 2020

Recipient	Date of Grant	Shares Granted	Market Value on date of award	Face Value
Gregor Alexander	06/07/2021	82,597	£15.2400	£1,258,778.28
				£1,258,778.28
Alistair Phillips-Davies	06/07/2021	122,131	£15.2400	£1,861,276.44
				£1,861,276.44
Martin Pibworth	06/07/2021	73,597	£15.2400	£1,121,618.28
				£1,121,618.28

Annual report on remuneration continued

Directors' Long-term Incentive Plan interests

The table below details the Executive Directors' Long-term Incentive Plan interests.

			Normal Exercise Period (or Vesting Date)	No. of shares under award as at 1 April 2021	Option Exercise Price	Additional shares awarded during the year incl. dividend shares	No. of shares lapsed during the year incl. dividend shares	No. of shares realised during the year incl. dividend shares	No. of shares under award at 31 March 2022
	Share plan	Date of Award							
Gregor Alexander	DBP 2016 ²	28/06/2018	28/06/2021	16,640				16,640 ⁴	
	DBP 2016 ²	28/06/2019	28/06/2022	0				0	
	DBP 2016 ²	26/06/2020	26/06/2023	12,494					12,494
	DBP 2016 ²	06/07/2021	06/07/2024			13,832 ³			13,832
	PSP ¹	28/06/2018	28/06/2021	89,466			79,913	31,076 ⁴	
	PSP ¹	28/06/2019	28/06/2022	103,991				103,991	
	PSP ¹	26/06/2020	26/06/2023	88,761				88,761	
	PSP ¹	06/07/2021	06/07/2024 01/10/22			82,597 ³			82,597
	Sharesave	12/07/2019	- 31/03/23 01/10/23	1,837	901p				1,837
	Sharesave	21/07/2020	- 31/03/24	130	1,107p				130
Alistair Phillips-Davies	DBP 2016 ²	28/06/2018	28/06/2021	24,841			24,841 ⁴		
	DBP 2016 ²	28/06/2019	28/06/2022	0				0	
	DBP 2016 ²	26/06/2020	26/06/2023	18,652				18,652	
	DBP 2016 ²	06/07/2021	06/07/2024			20,650 ³			20,650
	PSP ¹	28/06/2018	28/06/2021	132,287			118,16 ²	45,951 ⁴	
	PSP ¹	28/06/2019	28/06/2022	153,763				153,763	
	PSP ¹	26/06/2020	26/06/2023	131,244				131,244	
	PSP ¹	06/07/2021	06/07/2022 01/10/22			122,131 ³			122,131
	Sharesave	12/07/2019	- 31/03/23	1,997	901p				1,997
	Sharesave	12/07/2019	- 31/03/25	1,664	901p				1,664
Martin Pibworth	DBP 2006 ²	28/06/2018	28/06/2021	10,398			10,398 ⁴		
	DBP 2016 ²	28/06/2019	28/06/2022	0				0	
	DBP 2016 ²	26/06/2020	26/06/2023	9,350				9,350	
	DBP 2016 ²	06/07/2021	06/07/2024			11,174 ³			11,174
	PSP ¹	28/06/2018	28/06/2021	66,957			59,807	23,258 ⁴	
	PSP ¹	28/06/2019	28/06/2022	77,828				77,828	
	PSP ¹	26/06/2020	26/06/2023	66,430				66,430	
	PSP ¹	06/07/2021	06/07/2024 01/10/22			73,597 ³			73,597
	Sharesave	12/07/2019	- 31/03/23 01/10/24	998	901p				998
	Sharesave	12/07/2019	- 31/03/25	1,664	901p				1,664

Shares which are released under the DBP 2016 and PSP Awards attract additional shares in respect of the notional reinvestment of dividends. In addition to the shares released under these schemes, as indicated in the table above, the following shares were realised arising from such notional reinvestment of dividends:

Gregor Alexander received 10,027 shares, Alistair Phillips-Davies received 14,885 shares and Martin Pibworth received 7,006 shares.

1 The performance conditions applicable to awards under the PSP are described on page 189. The 2018 awards under the PSP vested at 28%.

2 25% of annual bonus payable to Executive Directors and Senior Managers is satisfied as a conditional award of shares under the DBP 2016. Vesting of shares under the DBP 2016 is dependent on continued service over a three-year period. In view of the linkage to annual bonus.

3 The market value of a share on the date on which these awards were made was 1,513p.

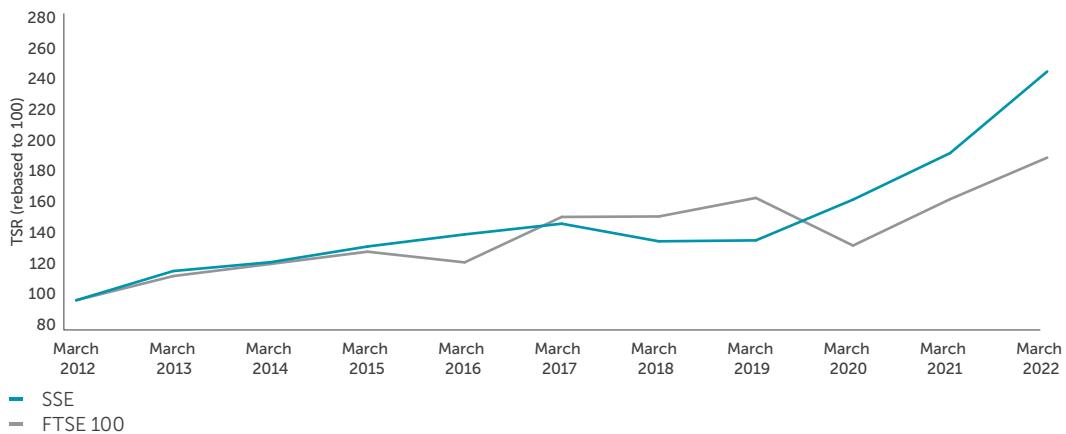
4 The market value of a share on the date on which these awards were realised was 1,522,2599p.

The closing market price of shares at 31 March 2022 was 1,74850p and the range for the year was 1,455p to 1,749p. Awards granted during the year were granted under the PSP. The aggregate amount of gains made by the Directors on the exercise of share options and realisation of awards during the year was £2,506,172 (2021 - £2,392,187).

2. Historical remuneration disclosures

Change in Chief Executive total remuneration

The graph below shows SSE TSR performance over the last ten years relative to FTSE 100 performance.



The table below shows the Chief Executive's annual remuneration over the same period.

Directors	Single total figure of remuneration ¹ (£'000)	Annual variable element award ² (% of maximum)	Long-term incentive vesting ³ (% of maximum)	Application of discretion
2021/22 (Alistair Phillips-Davies)	4,485	83	66	
2020/21 (Alistair Phillips-Davies)	3,045	69	28	Downward discretion applied to AIP
2019/20 (Alistair Phillips-Davies)	2,418	59	27	
2018/19 (Alistair Phillips-Davies)	1,639	0	26	Downward discretion applied to AIP
2017/18 (Alistair Phillips-Davies)	2,693	78	30	
2016/17 (Alistair Phillips-Davies)	2,917	72	46	Downward discretion applied to AIP
2015/16 (Alistair Phillips-Davies)	1,696	54	0	
2014/15 (Alistair Phillips-Davies)	2,311	64	0	
2013/14 (Alistair Phillips-Davies and Ian Marchant) ⁴	2,546	63	22	
2012/13 (Ian Marchant)	2,241	0	53	Chief Executive waived AIP

1 The single total figure of remuneration is calculated on the same basis as the 'single total figure of remuneration' table on [page 184](#).

2 The annual variable element award (AIP) is the figure shown on [page 186](#) and reflected in the 'single total figure of remuneration table' on [page 184](#).

3 The long-term incentive (PSP) vesting is the figure shown on [page 189](#), and reflected in the 'single total figure of remuneration table' on [page 184](#).

4 For 2013/14, an aggregate number has been applied by combining pro-rata values for each CEO based upon their time in role.

Alignment of Directors' Remuneration Policy with pay across the wider employee population

In setting Executive Directors' pay, a number of factors are taken into account including importantly, relativity to the wider workforce. For a number of years, a Chief Executive pay ratio has been disclosed voluntarily. In 2018/19, the methodology was revised to meet the new reporting requirements. The methodology used is a hybrid approach combining Gender Pay Gap data (as disclosed in the [Sustainability Report](#)) with additional elements of pay which are important components of SSE employees' pay such as overtime, employer's contribution to pension and excluding salary sacrifice arrangements. This is believed to allow the most appropriate and consistent comparison.

As shown in the table below, the pay ratio has increased from 71:1 at median in 2020/21 to 102:1 in 2021/22. While the median remuneration for all employees has increased by 3.5%, the Chief Executive's remuneration has increased by 47%. This is due mainly to increased variable pay for the Chief Executive following a strong performance year and a 27% increase in the share price during the year and an increase in SSE's TSR over the three-year period of over 66%.

SSE's is committed to being a responsible employer, and the remuneration policy is designed with fairness in mind – fairness to Executive Directors in recognition of the extent of their responsibilities and, fairness relative to the rest of the SSE team. More information on SSE's responsible employer ethos can be found within the [Sustainability Report](#) which includes information on the commitment to being a real Living Wage employer, and other initiatives which help to ensure value is created and retained for employees and the organisation.

Annual report on remuneration continued

Year	Calculation Methodology	25th percentile		Median		75th percentile		Total employee earnings (m)
		Total Remuneration	Ratio	Total Remuneration	Ratio	Total Remuneration	Ratio	
2021/22	C	£33,046	136:1	£43,793	102:1	£61,195	73:1	591.0
2020/21	C	£32,268	93:1	£42,295	71:1	£59,454	51:1	£543.1
2019/20	C	£29,234	83:1	£40,908	59:1	£54,863	44:1	£510.0
2018/19	C	£28,611	57:1	£39,010	41:1	£54,066	30:1	£495.3

Annual percentage change in remuneration of the Directors

Each year, when the Remuneration Committee is considering salary increases, incentive awards and benefits for Executive Directors, it is mindful of the treatment of the wider workforce. The table below shows how the Chief Executive's change in remuneration in 2021/22 compares to that of the wider workforce.

	Non-Executive Directors					Executive Directors			
	Dame Sue Bruce	Tony Cocker	Peter Lynnas	Helen Mahey CBE	Melanie Smith	Energy and Commercial Director	Finance Director	Chief Executive	All Employees
2021/22									
Base Salary/Fee	1.0%	10.5%	1.1%	1.2%	1.4%	11.4%	1.0%	1.0%	5.9%
Benefits ¹						0.0%	4.5%	4.0%	3.2%
Bonus						32.4%	21.6%	21.4%	50.5%
2020/21									
Base Salary/Fee	2.0%	13.1%	2.3%	2.4%	2.9%	10.9%	2.8%	2.8%	6.2%
Benefits ¹						5.9%	0.0%	0.0%	8.0%
Bonus						29.6%	21.9%	20.2%	10.3%

1 All employee benefits include car benefits, Share Incentive Plan Company contributions and medical benefits in alignment with the benefits reported for the Executive Directors in the single total figure of remuneration on [page 184](#).

Non-Executive Directors do not earn benefits or bonus.

Four Non-Executive Directors(Sir John Manzoni, Dame Angela Strank, The Rt Hon Elish Angiolini and Debbie Crosbie) are excluded from this table as they have not been in post for a full two years to make a viable comparison.

Relative importance of the spend on pay

The table below indicates how the earnings of Executive Directors compare with SSE's other financial dispersals. The movement in Executive Directors' earnings in 2022 is explained on [page 184](#).

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Executive Directors' earnings ¹	5.3	3.6	5.1	6.8	10.1
Dividends to shareholders	926.1	973.0	948.5	836.4	862.3
Adjusted investment, capital and acquisition expenditure	1,503.0	1,422.9	1,371.9	912.0	2,073.7
Total UK taxes paid (profits, property, environment and employment taxes) ²	484.1	403.7	421.6	379.0	335.3
Staff costs ³	665.6	653.5	684.7	700.4	688.7

1 Calculated on the same basis as the 'single total figure of remuneration' table on [page 184](#).

2 Includes corporation tax, employers' National Insurance contributions and business rates.

3 Staff costs for all employees, as per note 8.1 of the accounts, excluding Executive Directors.

For every £1 spent on Executive Directors' earnings by SSE in 2021/22, £33 was paid in tax, £68 was spent on employee costs and £205 was spent on capital and investment expenditure. In addition, £123 was made in dividend payments to shareholders for every £1 spent on Executive Directors' earnings.

3. Governance

External appointments

Executive Directors are able to accept a non-Executive appointment outside the Company with the consent of the Board, as such appointments can enhance their experience and value to the Company. Any fees received are retained by the Director. Gregor Alexander was a non-Executive Director of Stagecoach Group plc during 2021 and received £53,000 in fees.

Payments for loss of office and payments to past Directors

There were no payments for loss of office or to former Directors during the year.

Advice to the Remuneration Committee

The Chief Executive, the Director of Human Resources and Head of Reward advised the Committee on certain remuneration matters for the Executive Directors and senior executives although they were not present for any discussions related to their own remuneration.

The Director of Human Resources and Head of Reward advised on HR strategy and the application of HR policies across the wider organisation.

FIT Remuneration Consultants LLP (FIT) provided a range of information to the Committee which included market data drawn from published surveys, governance developments and their application to the Company, advice on remuneration disclosures and regulations and comparator group pay. FIT received fees of £96,569 in relation to their work for the Committee, calculated on a time and materials basis. FIT are founding members of, and adhere to, the Remuneration Consultants' Group Code of Conduct. The Code defines the roles of consultants, including the requirement to have due regard to the organisation's strategy, financial situation, pay philosophy, the Board's statutory duties and the views of investors and other stakeholders. The Committee reviews the advisers' performance annually to determine that it is satisfied with the quality, relevance, objectivity and independence of advice being provided. FIT provides no other services and has no other connection to the Company or individual Directors.

Freshfields LLP also provided advice on legal matters, such as share plan rules, during the year.

Evaluation

Through the internal Board evaluation process which was carried out during the year, it was confirmed that the Remuneration Committee continued to operate effectively. Details of the wider annual evaluation process are set out on [pages 143 to 144](#).

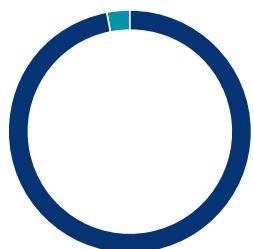
Risk assessment

The Remuneration Committee carries out a remuneration risk assessment on an annual basis to identify and evaluate the risks inherent in our Directors' Remuneration Policy. Important risk mitigators identified included the broad balance of clear financial and non-financial performance measures, targets which are set in line with SSE's business plans and an overall approach to pay design which rewards the delivery of strong, yet sustainable, performance. The review of the Directors' Remuneration Policy during the year has also involved the systematic assessment of a variety of risks including strategic, operational, behavioural, talent and governance.

Shareholder voting in 2021

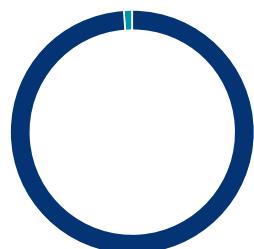
On 22 July 2021, shareholders approved the Annual report on remuneration for the year ended 31 March 2021 and the result is shown below. Also shown below is the result of shareholder voting on the current Directors' Remuneration Policy which was approved at the AGM on 18 July 2019.

ANNUAL REPORT ON REMUNERATION – SHAREHOLDING VOTING IN 2021



Total votes cast: 653,714,954
Votes withheld: 4,066,190

DIRECTORS' REMUNERATION POLICY – SHAREHOLDER VOTING IN 2019



Total votes cast: 680,814,523
Votes withheld: 8,425,369

Annual report on remuneration continued

Remuneration Committee

The Terms of Reference for the Committee were reviewed during 2021/22 and are available on the Company's website (sse.com). In summary, the Committee determines and agrees with the Board, the Company's framework and policy for executive remuneration including setting remuneration for all Executive Directors, the Company Chair, the Group Executive Committee and Company Secretary. During the year, a minor amendment was made relating to the approval of incentive design across the wider Company.

The members of the Committee and the meetings attended are set out on [page 125](#). The following agenda items were considered:

Meeting date	Agenda items
May 2021	Market and governance update, Executive Directors' pensions, base salary and fee review, AIP and PSP year-end performance, all employee remuneration, 2021 Directors' Remuneration Report, review of executive share plan leavers, 2021-23 Remuneration Committee Plan.
August 2021	Leadership Share Plan target update, Directors' Remuneration Policy planning.
November 2021	Market and governance update, AIP and PSP mid-year performance update, Directors' Remuneration Policy discussion, 2021-23 Remuneration Committee plan.
December 2021	Remuneration Policy – follow-up discussion
March 2022	Shareholder consultation feedback, incentive measures design, market and governance update, AIP and PSP performance update, Executive Directors' salaries and the Chair's fee, below-Board remuneration, 2021 Directors' Remuneration Report, Remuneration Committee terms of reference review, 2021-23 Remuneration Committee plan, Remuneration Committee evaluation.

4. Implementation of the Directors' Remuneration Policy for 2022/23

The table below sets out how the Remuneration Committee intends to operate the remuneration policy for the year ending 31 March 2023:

Element of pay	Implementation for 2022/23	Comment
Base salary	Salaries will be increased by 3% with effect from 1 April 2022.	The increase is in line with the negotiated settlement for collectively bargained employees and the general pay pot for all other employees. Although the new Policy gives SSE some flexibility in respect of market positioning there are no plans to make any market adjustments to the base salaries of the current executive directors.
Benefits	No changes proposed.	
Pension	No changes proposed.	The phased alignment of the Chief Commercial Officer's cash allowance in lieu of pension will be accelerated and reduced to 15% of salary at the end of 2022.
Annual Incentive Plan (no change to quantum)	The performance measures and weightings (in brackets) are as follows: Adjusted EPS (30%) Cash flow as measured by Net Debt/EBITDA (20%) Operational (30%) Personal/team (10%) Sustainability (10%)	The weighting and the definition of cash flow have been changed to increase the focus on cash flow. The operational and sustainability measures are new. Measures will be assessed on both a quantitative and qualitative basis. A portion (33%) of any bonus earned will continue to be deferred into shares which vest after three years. From 2022, the new post-employment share ownership supersedes the requirement to retain all deferred shares from the AIP for two years after employment. The targets for the 2022/23 Annual Incentive Plan will be disclosed in next year's Directors' Remuneration Report provided they are not, for any reason, commercially sensitive. Full details of the measures are shown below. The operational metric combines a mix of qualitative and quantitative goals. The sustainability goals measure SSE's relative performance.
Performance Share Plan (increase in maximum of 50% of salary to align with tougher targets)	The face value of the awards Chief Executive: 250% of salary Finance Director and Chief Commercial Officer: 225% of salary The performance measures and weightings (in brackets) are as follows: Relative TSR (50%) Adjusted EPS (20%) Sustainability (15%) Strategic (15%)	In response to the feedback from investors, the weighting of financial/share-based measures and non-financial measures moves to 70% and 30% respectively. The weighting of relative TSR has also been increased from 40% to 50% of the total award and the weighting of adjusted EPS growth is 20%. Performance standards have been increased in response to the higher quantum potential. Any vested shares from the Performance Share Awards made in 2022 and beyond are subject to the new post-employment share ownership policy. Full details of the performance measures are shown below. The strategic and sustainability measures are qualitative.

AIP – the measures for 2022/23

Adjusted Earnings Per Share and cash flow remain key measures for the AIP. The definition of cash flow has been updated and the weighting has been increased in the light of the Net Zero Acceleration Programme (NZAP). Targets will be set annually in light of NZAP and disclosed in next year's Directors' Remuneration Report.

Performance measure	Adjusted EPS	Cash flow	Personal/Individual*	Operational**	Sustainability
Weighting	30%	20%	10%	30%	10%
Description	Underlying measure of financial performance and a strategic KPI.	Net debt divided by EBITDA.	Rewards actions which go beyond the normal responsibilities of the role. May be individual or team based.	Measures and targets are set in priority areas including people (safety and inclusion and diversity), renewables, distribution, transmission, thermal, customers and other growth and transactions.	SSE's performance will be rated by four external ratings agencies – MSCI, V.E, Sustainalytics and S&P Global. Performance at the median will be deemed the threshold and performance at the upper quintile or above, the maximum.

* Examples of the personal goals include the active engagement in and cascading of SSE's Inclusion & Diversity development programmes and the implementation of SSE's cultural action plan as measured by the Great Place To Work (GPTW) assessment using WTW's methodology and other agreed engagement scorecard metrics.

** Examples of the operational goals include: **People:** Health & Safety performance as measured by Total Recordable Incident Rate (TRIR); recruitment plans and inclusion and diversity as measured by time to hire, filling of vacancies and the percentage increase in gender diversity across SSE. **Renewables:** cost per MW hour, plant availability, progress on renewables pipeline. **Distribution:** progress against ED2 business plan; incentive income against agreed target. **Transmission:** contract awards achieved against agreed plan; delivery of outputs and approval of projects that maintain a trajectory of RAV greater than £6bn by 2026. **Thermal:** plant availability; balancing market performance. **Customer:** finish above median in the Citizen's Advice non-domestic supplier league table. **Other Growth & Transactions:** progress building pipeline across business areas including solar, storage, hydrogen, and other priority business development areas; progress made on financial sell down of T & D businesses.

The personal and operational goals will be assessed using a scoring framework as follows:

Score	Illustrative performance assessment	Illustrative outturn as % of maximum
1	Below threshold	Zero
2	Threshold performance	20%
3	Majority of goals at target	40%
4	Substantial majority of goals at or above target	70%
5	All goals at or above target	100%

The Remuneration Committee can decide to award an outturn between levels if warranted.

Annual report on remuneration continued

The measures for awards under the Performance Share Plan for 2022

Relative Total Shareholder Return (TSR) and EPS account for 50% and 20% respectively of the total and the new sustainability and strategic measures 30% of the total award as follows:

Performance measure	Total Shareholder Return relative to the FTSE 100	Total Shareholder Return relative to the MSCI European Utilities	Adjusted Earnings per Share	Strategic	Sustainability
Weighting	20%	30%	20%	15%	15%
Threshold performance	50th percentile (20% outturn)	50th percentile (20% outturn)	Compound annual growth of 4% (20% outturn)	See below	See below
Maximum performance	80th percentile (100% outturn)	80th percentile (100% outturn)	Compound annual growth of 11% (100% outturn)	See below	See below

The TSR performance targets have been strengthened with 20% of that element vesting for median performance (previously 25%) and full vesting of that element only achieved at 80th percentile ranking (increased from 75th percentile).

The growth targets for EPS have been set based on SSE's current plan for the next three years. The top end of range exceeds the Board's expectations, is stretching and will result in EPS of 130.5p. The Committee will assess the growth targets for future awards under the PSP to ensure that they remain challenging and linked to the business plan.

Strategic measures and targets for the 2022 PSP award

The measures and targets for this element are linked to the Remuneration Committee's assessment of SSE's performance over the three years to 31 March 2025 in the three main areas of the implementation of the NZAP strategy.

Strategic area in NZAP	Measures and targets
Renewables	>10GW pipeline of net installed capacity potential by FY26. 2GW to be built by FY26.
Networks growth	Transmission and Distribution to exceed NZAP RAV growth targets.
Energy businesses	Low carbon thermal installed capacity to meet 0.9GW by FY26. DE installed capacity to reach 0.6GW by FY26.

Sustainability measures and targets for the 2022 PSP award

SSE's UN SDG 2030 Goal	Measure and Targets
SDG 13 Climate Action: Reduce scope 1 carbon intensity by 80% by 2030, compared to 2017/18 levels, to 61g CO2e/kWh.	Scope 1 carbon intensity reduction to 61g CO2e/kWh
SDG 7 Affordable and Clean Energy: Build a renewable energy portfolio that generates at least 50TWh of renewable electricity a year by 2030.	Renewables output TWh tracked to 2025/26. Renewables output TWh by 2030/31.
SDG 9 Industry, Innovation and Infrastructure: Enable at least 20GW of renewable generation and facilitate around 2 million EVs and 1 million heat pumps on SSEN's electricity networks by 2030.	GW renewable generation capacity connected to SSEN's electricity transmission network by 2026. Low-carbon technologies connected to SSEN's local electricity distribution networks by 2028.
SDG 8 Decent Work and Economic Growth: Be a global leader for the just transition to net zero, with a guarantee of fair work and commitment to paying fair tax and sharing economic value.	Achieve performance in the top 10% of rankings on average for progress on Just Transition, including in the World Benchmarking Alliance (WBA) and others as they emerge.

Performance against the strategic and sustainability measures and targets will be assessed using the same scoring framework shown above in respect of the personal and operational measures and targets for the AIP.

Chair's and non-Executive Directors' fees

For 2022/23 Sir John Manzoni's fee of £400,000 was increased by 3%, in line with the wider employee population, to £412,000.

Last year, non-Executive Directors' fees were increased by 1% in line with the wider employee population. For 2022/23, it was agreed that fees are increased by 3% which is also in line with the wider employee population.

Chair and non-Executive Director fee levels for 2022/23 are shown in the table below. Non-Executive Directors receive a base fee plus an additional fee for chairing a Committee or for performing the role of Non-Executive Director for Employee Engagement.

Fee	2022/23
Chair	£412,000
Base fee	£74,867
Senior Independent Director	£18,717
Audit Committee Chair	£18,717
Remuneration Committee Chair	£18,717
SHEAC Chair	£14,965
Energy Markets Risk Committee Chair	£14,965
Non-Executive Director for Employee Engagement	£10,689

Dame Sue Bruce DBE

Chair of the Remuneration Committee

24 May 2022

Other statutory information

The Directors submit their Annual Report and Accounts for SSE plc, together with the consolidated Financial Statements of the SSE Group of companies, for the year ended 31 March 2022.

The Strategic Report is set out on [pages 1 to 111](#) and the Directors' Report is set out on [pages 112 to 203](#). The Strategic Report and the Directors' Report together constitute the management report as required under Rule 4.1.8R of the Disclosure Guidance and Transparency Rules.

As permitted by section 414C (11) of Companies Act 2006 the below matters have been disclosed in the Strategic Report:

	Page reference
An indication of likely future developments in the business of the Company	pages 1 to 111
Particulars of important events affecting the Company since the financial year end	page 289
Greenhouse gas emissions	page 54
Energy consumption	page 57
Energy efficiency action	page 57
Employee engagement and involvement	page 34 and 60 to 63
Engagement with suppliers, customers and others in a business relationship with the Company	pages 36,39 and 58 to 67
A summary of the principal risks facing the Company	pages 71 to 81

Information required to be disclosed under Listing Rule 9.8.4R is contained on the pages detailed below.

	Page reference
Statement of amount of interest capitalised by the Group during the financial year	pages 247 to 248
Details of any long-term incentive schemes	pages 168 to 199

Results and dividends

The Group's results and performance highlights for the year are set out on [pages 20 to 21 and 82 to 94](#). An interim dividend of 25.5 pence per Ordinary Share was paid on 10 March 2022. The Directors propose a final dividend of 60.2p per Ordinary Share. Subject to approval at the AGM 2022, the final dividend will be paid on 22 September 2022 to shareholders on the Register of Members at close of business on 29 July 2022.

Board of Directors

Director appointment and retirement

The Company's Directors who served during the financial year ending 31 March 2022 are provided on [pages 118 to 122](#).

The rules governing the appointment and retirement of Directors are set out in the Company's Articles of Association, the UK Corporate Governance Code, the Companies Act 2006 and other related legislation.

Indemnification of Directors and insurance

The Directors have the benefit of an indemnity provision contained in the Company's Articles of Association. In addition, the Directors have been granted a qualifying third-party indemnity provision which was in force throughout the financial year and remains in force. Also, throughout the financial year, the Company purchased and maintained Directors' and Officers' liability insurance in respect of itself and for its Directors and Officers.

Political donations and expenditure

SSE operates on a politically neutral basis and does not make any donations to political parties, political organisations, or independent election candidates. During the year, no political expenditure was incurred, and no political donations were made by the Group.

Accounting policies, financial instruments, and risk

Details of the Group's accounting policies, together with details of financial instruments and risk, are provided in note 24 to the Financial Statements and Notes A6 to A8 of the Accompanying Information.

Research and development

SSE is involved in a range of innovative projects and programmes which are designed to progressively transform the energy system. A number of these projects and programmes are referred to in the Strategic Report in [pages 1 to 111](#).

Employment of disabled people

SSE has a range of employment policies which clearly detail the standards, processes, expectations and responsibilities of its people and the organisation. These policies were in place for the duration of the year, and are designed to ensure that everyone, including those with existing or new disabilities and people of all backgrounds, are dealt with in an inclusive and fair way from the recruiting process on through their career at SSE. This include access to appropriate training, development opportunities and job progression. Further details of this approach can be found on [pages 60 to 65](#).

Shares

Share capital

The Company has a single share class which is divided into Ordinary Shares of 50 pence each. The issued share capital of the Company as of 31 March 2022, together with details of any changes during the year, is set out in note 22 to the Financial Statements.

As of 31 March 2022, the issued share capital of the Company consisted of 1,073,136,776 Ordinary Shares. This figure includes 5,474,759 ordinary shares which are held in treasury (representing 0.51% of the Company's issued share capital), with these shares voting and dividend rights automatically suspended.

The Company was authorised at the AGM 2021 to allot shares or grant rights over shares up to an aggregate nominal amount equal to £173,851,098 (representing 347,702,196 Ordinary Shares of 50 pence each excluding Treasury Shares), representing one-third of its issued share capital. A renewal of this authority will be proposed at the AGM 2022.

The Company was authorised at the AGM 2021 to allot up to an aggregate nominal amount of £26,077,664 (representing 52,155,328 Ordinary Shares of 50 pence each and 5% of issued share capital) for cash without first offering them to existing shareholders in proportion to their holding. A renewal of this authority will be proposed at the AGM 2022.

Transfer of Ordinary Shares

There are no restrictions on the transfer of Ordinary Shares in the Company other than certain restrictions which may from time-to-time be imposed by law. The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and/or voting rights.

Substantial shareholdings

At 31 March 2022, the following percentage interests in the Ordinary Share capital of the Company, had been notified under Rule 5 of the Disclosure Guidance and Transparency Rules, ('DTR 5'). The Company is not aware of any changes in the interests disclosed under DTR 5 between 31 March 2022 and 24 May 2022.

Shareholder	Voting rights attached to shares*		Voting rights through financial instruments*		Total of both in %	Nature of holding
BlackRock, Inc.	70,784,883	6.64%	21,521,537	2.01%	8.65%	Indirect, Securities Lending, ADR, CFD
The Capital Group Companies, Inc.	50,981,817	4.90%	–	–	4.90%	Indirect, ADR
Invesco Limited	45,775,918	4.69%	–	–	4.69%	Indirect
Caisse de dépôt et placement du Québec	41,492,159	3.98%	–	–	3.98%	Direct

* At date of disclosure by relevant entity.

Authority to purchase shares

At the AGM 2021, the Company obtained shareholder approval to purchase up to 104,310,659 of its own Ordinary Shares (representing 10% of its issued share capital) up until the earlier of the conclusion of the AGM 2022 and close of business on 30 September 2022.

The Company did not undertake any share repurchase programmes during the financial year ending 31 March 2022.

During the financial year, and up until 31 March 2022, the Company used 584,806 of the treasury shares acquired under the 2016/17 share repurchase programme to satisfy the requirements of the all-employee Sharesave scheme.

The Directors will, again, seek renewal of their authority to purchase in the market the Company's own shares at the AGM 2022.

Voting

Each Ordinary Share of the Company carries one vote at general meetings of the Company. Any Ordinary Shares held in treasury have no voting rights.

Other statutory information continued

A shareholder entitled to attend, speak and vote at a general meeting may exercise their right to vote in person, by proxy, or in relation to corporate members, by corporate representatives. To be valid, notification of the appointment of a proxy must be received not less than 48 hours before the general meeting at which the person named in the proxy notice proposes to vote. The Directors may in their discretion determine that in calculating the 48-hour period, no account be taken of any part of a day which is not a working day.

Employees who participate in the Share Incentive Plan whose shares remain in the schemes' trust give directions to the trustees to vote on their behalf by way of a Form of Direction. SSE also has a Share Plan Account service with Computershare available to employees with shares arising from a SAYE option maturity, which are voted through the nominee.

Annual General Meeting (AGM)

The AGM of the Company will be held at the Perth Concert Hall, Mill Street, Perth PH1 5HZ on Thursday 21 July 2022 at 12.30pm. Following the necessary approvals being granted at the AGM 2022, shareholders will also be able to attend virtually via the use of an electronic platform and ask questions and vote in real time. Details of the full arrangements for the AGM, resolutions to be proposed, how to vote and ask questions are set out in the Notice of Annual General Meeting 2022 which accompanies this report for shareholders receiving hard copy documents, and which is available at sse.com for those who elected to receive documents electronically.

Articles of Association changes

The Company's latest Articles of Association were adopted at the 2022 AGM. Any amendments to the Articles of Association can only be made by a special resolution at a general meeting of shareholders.

Change of control

The Company is party to several agreements that take effect, alter or terminate upon a change of control of the Company following a takeover. At 31 March 2022, change of control provisions were included in agreements for committed credit facilities, EIB debt, US Private Placements, Senior Bonds and Hybrid instruments. The Company is not aware of any other agreements with change of control provisions that are significant in terms of their potential impact to the business.

Disclosure of information to the auditor

Each of the Directors who held office at the date of approval of this Directors' Report confirms that, so far as each Director is aware, there is no relevant audit information of which the Company's Auditors are unaware and each Director has taken all the steps that ought to have been taken in his or her duty as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

Related party transactions

Related party transactions are set out in Note A5 of the Accompanying Information.

The Directors' Report set out on [pages 112 to 203](#) has been approved by the Board of Directors in accordance with the Companies Act 2006.

By order of the Board

Sally Fairbairn
Company Secretary
24 May 2022

Statement of Directors' responsibilities in respect of the annual report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with UK-adopted international accounting standards ("IFRS"), and have elected to prepare the parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including Financial Reporting Standard 101, "Reduced Disclosure Framework".

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and accounting estimates that are reasonable, relevant and reliable;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs (and in respect of the parent Company financial statements, FRS 101) is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group and Company financial position and financial performance;
- in respect of the Group financial statements, state whether UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- in respect of the parent Company financial statements, state whether applicable UK Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with UK-adopted international accounting standards give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the annual report, including the strategic report, includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.



Alistair Phillips-Davies
Chief Executive
24 May 2022



Gregor Alexander
Finance Director

Alternative Performance Measures

When assessing, discussing and measuring the Group's financial performance, management refer to measures used for internal performance management. These measures are not defined or specified under International Financial Reporting Standards (IFRS) and as such are considered to be Alternative Performance Measures ("APMs").

By their nature, APMs are not uniformly applied by all preparers including other participants in the Group's industry. Accordingly, APMs used by the Group may not be comparable to other companies within the Group's industry.

Purpose

APMs are used by management to aid comparison and assess historical performance against internal performance benchmarks and across reporting periods. These measures provide an ongoing and consistent basis to assess performance by excluding items that are materially non-recurring, uncontrollable or exceptional. These measures can be classified in terms of their key financial characteristics:

- **Profit measures** allow management to assess and benchmark underlying business performance during the year. They are primarily used by operational management to measure operating profit contribution and are also used by the Board to assess performance against business plan. The Group has six profit measures, of which adjusted operating profit and adjusted profit before tax are the main focus of management through the financial year and adjusted earnings per share is the main focus of management on an annual basis. In order to derive adjusted earnings per share, the Group has defined adjusted operating profit, adjusted net finance costs, and adjusted current tax charge as components of the adjusted earnings per share calculation. Adjusted EBITDA is used by management as a proxy for cash derived from ordinary operations of the Group.
- **Capital measures** allow management to track and assess the progress of the Group's significant ongoing investment in capital assets and projects against their investment cases, including the expected timing of their operational deployment and also to provide a measure of progress against the Group's strategic Net Zero Acceleration Programme objectives.
- **Debt measures** allow management to record and monitor both operating cash generation and the Group's ongoing financing and liquidity position.

Changes to APMs in the year

The Group has defined a new capital APM in the year of 'Adjusted investment, capital and acquisition expenditure'. The APM is comprised of the existing 'Adjusted investment and capital expenditure' metric, but also includes cash consideration paid for business combination acquisitions. During the year the Group completed the acquisition of a controlling 80% stake in its Japanese offshore renewable development platform, SSE Pacifico (see note 12) and announced the expected acquisition, in financial year ended 31 March 2023, of a European onshore renewable energy development platform from Siemens Gamesa Renewable Energy ("SGRE"). As the Group expands internationally it is expected that there will be further acquisitions to enhance the Group's development portfolio. These acquisition costs are included in this new APM to better represent the Group's overall investments associated with its Net Zero Acceleration Programme.

As referred above, during the year the Group acquired a controlling 80% stake in SSE Pacifico (see note 12). As a result, the Group has now updated its APMs to clarify how non-controlling interests will be presented in future periods where there are expected to be material non-controlling interests. The Group believes that removing the non-controlling interest share from all of its profit, capital and debt measures on a consistent basis is the most simple, understandable and reflective presentation of the Group's interest in these businesses. There is no significant impact on adjusted metrics in the year ending 31 March 2022.

On 14 October 2021, the Group disposed of its Gas Production business (see note 12.2), but retained 60% of the decommissioning provision of the business. The Group has amended its adjusted profit measures to remove the effect of prospective revaluation adjustments to the decommissioning provision as it is not considered to be part of the Group's core continuing operations.

The following section explains the key APMs applied by the Group and referred to in these statements:

Profit measures

Group APM	Purpose	Closest equivalent IFRS measure	Adjustments to reconcile to primary financial statements
Adjusted EBITDA (earnings before interest, tax, depreciation and amortisation)	Profit measure	Operating profit	<ul style="list-style-type: none"> • Movement on operating and joint venture financing derivatives ('certain re-measurements') • Exceptional items • Adjustments to retained Gas Production decommissioning provision • Share of joint ventures and associates' interest and tax • Depreciation and amortisation before exceptional charges (including depreciation and amortisation expense on fair value uplifts) • Share of joint venture and associates' depreciation and amortisation • Non-controlling share of operating profit • Non-controlling share of depreciation and amortisation • Release of deferred income
Adjusted operating profit	Profit measure	Operating profit	<ul style="list-style-type: none"> • Movement on operating and joint venture financing derivatives ('certain re-measurements') • Exceptional items • Adjustments to retained Gas Production decommissioning provision • Depreciation and amortisation expense on fair value uplifts • Share of joint ventures and associates' interest and tax • Non-controlling share of operating profit

Group APM	Purpose	Closest equivalent IFRS measure	Adjustments to reconcile to primary financial statements
Adjusted Profit Before Tax	Profit measure	Profit before tax	<ul style="list-style-type: none"> Movement on operating and financing derivatives ('certain re-measurements') Exceptional items Adjustments to retained Gas Production decommissioning provision Non-controlling share of profit before tax Depreciation and amortisation expense on fair value uplifts Interest on net pension assets/liabilities (IAS 19) Share of non-recurring joint venture refinancing costs Share of joint ventures and associates' tax
Adjusted Net Finance Costs	Profit measure	Net finance costs	<ul style="list-style-type: none"> Exceptional items Movement on financing derivatives Share of joint ventures and associates' interest Share of non-recurring joint venture refinancing costs Non-controlling share of financing costs Interest on net pension assets/liabilities (IAS 19)
Adjusted Current Tax Charge	Profit measure	Tax charge	<ul style="list-style-type: none"> Share of joint ventures and associates' tax Non-controlling share of current tax Deferred tax including share of joint ventures, associates and non-controlling interests Tax on exceptional items and certain re-measurements Reclassification of tax liabilities
Adjusted Earnings Per Share	Profit measure	Earnings per share	<ul style="list-style-type: none"> Exceptional items Adjustments to retained Gas Production decommissioning provision Movements on operating and financing derivatives ('certain re-measurements') Depreciation and amortisation expense on fair value uplifts Interest on net pension assets/liabilities (IAS 19) Share of non-recurring joint venture refinancing costs Deferred tax including share of joint ventures, associates and non-controlling interests

Rationale for adjustments to profit measure

1 Movement on operating and financing derivatives ('certain re-measurements')

This adjustment can be designated between operating and financing derivatives.

Operating derivatives are contracts where the Group's Energy Portfolio Management ('EPM') function enters into forward commitments or options to buy or sell electricity, gas and other commodities to meet the future demand requirements of the Group's Business Energy and Airtricity operating units, or to optimise the value of the production from SSE Renewables and Thermal generation assets. Certain of these contracts (predominately purchase contracts) are determined to be derivative financial instruments under IFRS 9 and as such are required to be recorded at their fair value. Changes in the fair value of those commodity contracts designated as IFRS 9 financial instruments are reflected in the income statement (as part of 'certain re-measurements'). The Group shows the change in the fair value of these forward contracts separately as this mark-to-market movement is not relevant to the underlying performance of its operating segments due to the volatility that can arise on revaluation. The Group will recognise the underlying value of these contracts as the relevant commodity is delivered, which will predominantly be within the subsequent 12 to 24 months. Conversely, commodity contracts that are not recorded as financial instruments under IFRS 9 (predominately sales contracts) are accounted for as 'own use' contracts and are consequently not recorded until the commodity is delivered and the contract is settled. In addition, gas inventory purchased by the Group's Gas Storage business for secondary trading opportunities is also held at fair value with gains and losses on re-measurement recognised as part of 'certain re-measurements'.

Financing derivatives include all fair value and cash flow interest rate hedges, non-hedge accounted (mark-to-market) interest rate derivatives, cash flow foreign exchange hedges and non-hedge accounted foreign exchange contracts entered into by the Group to manage its banking and liquidity requirements as well as risk management relating to interest rate and foreign exchange exposures. Changes in the fair value of those financing derivatives are reflected in the income statement (as part of 'certain re-measurements'). The Group shows the change in the fair value of these forward contracts separately as this mark-to-market movement is not relevant to the underlying performance of its operating segments.

The re-measurements arising from operating and financing derivatives, and the tax effects thereof, are disclosed separately to aid understanding of the underlying performance of the Group.

Alternative Performance Measures continued

Rationale for adjustments to profit measure continued

2 Exceptional Items

Exceptional charges or credits, and the tax effects thereof, are considered unusual by nature or scale and of such significance that separate disclosure is required for the underlying performance of the Group to be properly understood. Further explanation for the classification of an item as exceptional is included in note 3.2.

3 Adjustments to retained Gas Production decommissioning provision

On 14 October 2021, the Group disposed of its Gas Production business but retained a 60% share of the decommissioning obligation of the business. Gas Production was presented as a discontinued operation prior to disposal as the transaction constituted the exit of all activity in that industry. Future adjustments to the decommissioning obligation will be accounted for through the Group's consolidated income statement. The adjustment is removed from the Group's adjusted profit measures as the revaluation of the provision is not considered to be part of the Group's core continuing operations.

4 Share of joint ventures and associates' interest and tax

This adjustment can be split between the Group's share of interest and the Group's share of tax arising from its investments in equity accounted joint ventures and associates.

The Group is required to report profit before interest and tax ('operating profit') including its share of the profit after tax of its equity accounted joint ventures and associates. However, for internal performance management purposes and for consistency of treatment, SSE reports its adjusted operating profit measures before its share of the interest and/or tax on joint ventures and associates.

5 Share of joint ventures and associates' depreciation and amortisation

For management purposes, the Group considers EBITDA (earnings before interest, tax, depreciation and amortisation) based on a sum-of-the-parts derived metric which includes a share of the EBITDA from equity accounted investments. While this is not equal to adjusted cash generated from operating activities, it is considered useful by management in assessing a proxy for such a measure, given the complexity of the Group structure and the range of investment structures utilised. For the purpose of calculating the 'Net Debt to EBITDA' metric referred at [page 90](#), 'adjusted EBITDA' is further refined to remove the proportion of adjusted EBITDA from equity-accounted joint ventures relating to off-balance sheet debt (see note 5.1(v)).

6 Depreciation and amortisation expense on fair value uplifts

The Group's strategy includes the realisation of value and recycling of proceeds from divestments of stakes in its early stage offshore and international SSE Renewables developments. In addition, for strategic purposes the Group may also decide to bring in equity partners to other businesses and assets. Where SSE's interest in such vehicles changes from full to joint control, and the subsequent arrangement is classified as an equity accounted joint venture, SSE will recognise a fair value uplift on the remeasurement of its retained equity investment. Those uplifts will be treated as exceptional (and non-cash) gains in the year of the relevant transactions completing. These uplifts create assets which are subsequently depreciated or amortised over the remaining life of the underlying assets or contracts in those businesses with the charge being included in the Group's adjusted depreciation and amortisation expense. The Group's adjusted operating profit, adjusted profit before tax and adjusted earnings per share have therefore been adjusted to exclude this additional depreciation and amortisation expense from the fair value uplift given the charges derived from significant one-off gains which are treated as exceptional when initially recognised.

7 Release of deferred income

The Group deducts the amortisation of deferred income in the year from its adjusted EBITDA metric as it principally relates to customer contributions towards the build of depreciating assets. As the metric adds back depreciation, the amortisation credit is also deducted.

8 Non-recurring joint venture refinancing costs

The Group's joint venture investment, Beatrice Offshore Winds Limited ('BOWL'), completed a refinancing of its debt in the year ended 31 March 2020, which resulted in transaction costs from the original debt of £27.2m being expensed to the income statement of the joint venture. In addition, £3.5m of costs related to the repayment of the original instrument were incurred. The Group's 40% share of the £30.7m expense was £12.3m, which was adjusted from the Group's adjusted profit before tax and the Group's adjusted finance costs in the year ended 31 March 2020 as refinancing of this scale is non-recurring, considered to be specific to this instance and therefore not representative of normal operations.

9 Interest on net pension assets/liabilities (IAS 19 "Employee Benefits")

The Group's interest charges relating to defined benefit pension schemes are derived from the net assets/liabilities of the schemes as valued under IAS 19. This will mean that the charge recognised in any given year will be dependent on the impact of actuarial assumptions such as inflation and discount rates. The Group excludes these from its adjusted profit measures due to the non-cash nature of these charges or credits.

10 Deferred tax

The Group adjusts for deferred tax when arriving at adjusted profit after tax, adjusted earnings per share and its adjusted effective rate of tax. Deferred tax arises as a result of differences in accounting and tax bases that give rise to potential future accounting credits or charges. As the Group remains committed to its ongoing capital programme, the liabilities associated are not expected to reverse and accordingly the Group excludes these from its adjusted profit measures.

11 Results attributable to non-controlling interest holders

The Group's structure includes non-wholly owned but controlled subsidiaries which are consolidated within the financial statements of the Group under IFRS. There is no impact to current or future years but in future the Group will remove the share of profit attributable to holders of non-controlling equity stakes in these businesses from all of its profit measures, to report to all metrics based on the share of profits items attributable to the ordinary equity holders of the Group. The adjustment will be applied consistently to all of the Group's adjusted profit measures, including removing proportionate non-controlling share of operating profit and depreciation and amortisation from the Group's adjusted EBITDA metric; removing the non-controlling share of operating profit from the Group's adjusted operating profit metric; removing the non-controlling share of net finance costs from the Group's adjusted net finance costs metric; and removing the non-controlling interest share of current tax from the Group's adjusted current tax metric.

March 2022

Continuing operations	Reported £m	Movement on derivatives £m	Exceptional items £m	Adjustments to Gas Production decommissioning provision £m	Depreciation on FV uplifts £m	Joint venture interest and tax £m	Interest on net pension asset £m	Deferred tax £m	Adjusted £m
Operating profit	3,755.4	(2,097.8)	(301.8)	13.1	20.6	147.3	—	—	1,536.8
Net finance costs	(273.2)	(21.0)	(3.2)	—	—	(67.8)	(7.6)	—	(372.8)
Profit before taxation	3,482.2	(2,118.8)	(305.0)	13.1	20.6	79.5	(7.6)	—	1,164.0
Taxation	(882.8)	408.0	323.7	—	—	(79.5)	—	123.5	(107.1)
Profit after taxation	2,599.4	(1,710.8)	18.7	13.1	20.6	—	(7.6)	123.5	1,056.9
Attributable to other equity holders	(50.7)	—	—	—	—	—	—	—	(50.7)
Profit attributable to ordinary shareholders	2,548.7	(1,710.8)	18.7	13.1	20.6	—	(7.6)	123.5	1,006.2
Number of shares for EPS	1,055.0								1,055.0
Earnings per share	241.6								95.4
EBITDA									
Adjusted operating profit from continuing operations	1,536.8		146.6		(17.6)	(20.6)	612.0		2,257.2

Alternative Performance Measures continued

Rationale for adjustments to profit measure continued

March 2021 (restated*)

Continuing operations	Reported £m	Movement on derivatives £m	Exceptional items £m	Gas Production decommissioning provision £m	Adjustments to retained gas production decommissioning provision £m	Depreciation on FV uplifts £m	Joint venture interest and tax £m	Interest on net pension asset £m	Deferred tax £m	Adjusted £m
Operating profit	2,654.9	(597.8)	(848.9)	–	20.6	104.7	–	–	–	1,333.5
Net finance costs	(236.9)	(55.6)	(1.4)	–	–	(82.4)	(8.3)	–	–	(384.6)
Profit before taxation	2,418.0	(653.4)	(850.3)	–	20.6	22.3	(8.3)	–	–	948.9
Taxation	(224.3)	125.9	(3.1)	–	–	(22.3)	–	37.9	–	(85.9)
Profit after taxation	2,193.7	(527.5)	(853.4)	–	20.6	–	(8.3)	37.9	–	863.0
Attributable to other equity holders	(46.6)	–	–	–	–	–	–	–	–	(46.6)
Profit attributable to ordinary shareholders	2,147.1	(527.5)	(853.4)	–	20.6	–	(8.3)	37.9	–	816.4
Number of shares for EPS	1,040.9									1,040.9
Earnings per share	206.3									78.4
EBITDA		Adjusted operating profit from continuing operations £m	Share of joint venture and associates' depreciation and amortisation £m	Release of deferred income £m	Depreciation on FV uplifts £m	Depreciation, impairment and amortisation before exceptional charges £m		Adjusted EBITDA £m		
Adjusted operating profit from continuing operations	1,333.5	143.9	(17.7)	(20.6)	556.2	1,995.3				

* The comparative Alternative Performance Measures have been restated. See note 1.2.

March 2020 (restated*)

	Reported £m	Movement on derivatives £m	Exceptional items £m	Adjustments to Gas Production decommissioning provision £m	Depreciation on FV uplifts £m	Joint venture interest and tax £m	Interest on net pension asset £m	Share of non- recurring joint venture financing costs £m	Deferred tax £m	Adjusted £m
Continuing operations										
Operating profit	882.6	40.0	212.1	–	20.6	130.8	–	–	–	1,286.1
Net finance costs	(385.2)	83.0	(2.4)	–	–	(98.9)	(6.6)	12.3	–	(397.8)
Profit before taxation	497.4	123.0	209.7	–	20.6	31.9	(6.6)	12.3	–	888.3
Taxation	(121.5)	–	(2.3)	–	–	(31.9)	–	–	67.4	(88.3)
Profit after taxation	375.9	123.0	207.4	–	20.6	–	(6.6)	12.3	67.4	800.0
Attributable to other equity holders	(46.5)	–	–	–	–	–	–	–	–	(46.5)
Profit attributable to ordinary shareholders	329.4	123.0	207.4	–	20.6	–	(6.6)	12.3	67.4	753.5
Number of shares for EPS	1,032.5									1,032.5
Earnings per share	31.9									73.0
EBITDA										
Adjusted operating profit from continuing operations	1,286.1		151.4		(14.7)		(20.6)		530.1	1,932.3

* The comparative Alternative Performance Measures have been restated. See note 1.2.

Debt measure

Group APM	Purpose	Closest equivalent IFRS measure	Adjustments to reconcile to primary financial statements
Adjusted Net Debt and Hybrid Capital	Debt measure	Unadjusted net debt	<ul style="list-style-type: none"> • Hybrid equity • Outstanding liquid funds • Lease obligations • Non-controlling share of borrowings and cash

Rationale for adjustments to debt measure

12 Hybrid equity

The characteristics of certain hybrid capital securities mean they qualify for recognition as equity rather than debt under IFRS. Consequently, their coupon payments are presented within dividends rather than within finance costs. As a result, the coupon payments are not included in SSE's adjusted profit before tax measure. In order to present total funding provided from sources other than ordinary shareholders, SSE presents its adjusted net debt measure inclusive of hybrid capital to better reflect the Group's funding position.

13 Outstanding liquid funds

Outstanding liquid funds are SSE cash balances held by counterparties as collateral at the year end. SSE includes these as cash until they are utilised for the purposes of calculating adjusted net debt. Loans with a maturity of less than three months are also included in this adjustment. The Group includes this adjustment in order to better reflect the immediate cash resources to which it has access, which in turn better reflects the Group's funding position.

Alternative Performance Measures continued

Rationale for adjustments to debt measure continued

14 Lease obligations

SSE's reported loans and borrowings include lease liabilities on contracts under the scope of IFRS 16, which are not directly related to the Treasury managed external debt financing of the Group. The Group excludes these liabilities from its adjusted net debt and hybrid capital measure to better reflect the Group's underlying funding position with its primary sources of capital.

15 Debt and cash attributable to non-controlling holders

The Group's structure includes non-wholly owned but controlled subsidiaries which are consolidated within the financial statements of the Group under IFRS. There is no impact to current or prior years but in future the Group will remove the share of debt and cash in these subsidiaries proportionately attributable to the non-controlling interest holders from its adjusted net debt and hybrid capital metric to present net debt attributable to ordinary equity holders of the Group.

	March 2022 £m	March 2021 £m	March 2020 £m
Unadjusted net debt	(8,015.4)	(7,810.4)	(10,007.8)
Outstanding liquid funds	74.7	(37.1)	256.4
Lease obligations	393.5	421.0	455.2
Adjusted Net Debt	(7,547.2)	(7,426.5)	(9,296.2)
Hybrid equity	(1,051.0)	(1,472.4)	(1,169.7)
Adjusted Net Debt and Hybrid Capital	(8,598.2)	(8,898.9)	(10,465.9)

Capital measures

Group APM	Purpose	Closest equivalent IFRS measure	Adjustments to reconcile to primary financial statements
Adjusted Investment and Capital Expenditure	Capital measure	Capital additions to intangible assets and property, plant and equipment	<ul style="list-style-type: none"> Customer funded additions Allowances and certificates Additions acquired through business combinations Disposed or impaired additions Joint ventures and associate additions funding Non-controlling share of capital expenditure Refinancing proceeds/refunds
Adjusted Investment, Capital and Acquisition Expenditure	Capital measure	Capital additions to intangible assets and property, plant and equipment	<ul style="list-style-type: none"> Customer funded additions Allowances and certificates Additions acquired through business combinations Disposed or impaired additions Joint ventures and associates' additions funding Non-controlling share of capital expenditure Refinancing proceeds/refunds Acquisition cash consideration

Adjustments to capital measure

16 Customer funded additions

Customer funded additions represents additions to electricity and other networks funded by customer contributions. Given these are directly funded by customers, these have been excluded to better reflect the Group's underlying investment position.

17 Allowances and certificates

Allowances and certificates consist of purchased carbon emissions allowances and generated or purchased renewable obligations certificates (ROCs) and are not included in the Group's 'capital expenditure and investment' APM to better reflect the Group's investment in enduring operational assets.

18 Additions acquired through business combinations

Where the Group acquires an early stage development company, which is classified as the acquisition of an asset, or group of assets and not a business, the acquisition is treated as an addition to intangible assets or property, plant and equipment and is included within 'adjusted investment and capital expenditure'. Where the Group acquires an established business requiring a fair value assessment in line with the principles of IFRS 3 'Business Combinations', the fair value of consolidated tangible or intangible assets are excluded from the Group's 'adjusted investment and capital expenditure', as they are not direct capital expenditure by the Group. However, these are included in the Group's new 'adjusted investment, capital and acquisition expenditure' metric, see 24 below.

19 Additions subsequently disposed/impaired

In the current year there were capex additions of £13.9m related to the Gas Production business, which was disposed on 14 October 2021. In the prior year the Group funded £19.7m of capex additions in relation to the Seagreen windfarm prior to part disposal. On 3 June 2020, the Group disposed of a 51% stake in Seagreen 1, therefore the capex incurred prior to that date has been excluded from the Group's net adjusted investment and capital expenditure metric. In the year ended 31 March 2020, there were additions of £44.6m in the Group's Gas Production segment which were subsequently impaired following the annual impairment assessment. This adjustment also includes any subsequently derecognised development expenditure.

20 Joint ventures and associates' additions funding

Joint ventures and associates' additions included in the Group's capital measures represent the direct loan or equity funding provided by the Group to joint venture and associate arrangements in relation to capital expenditure projects. This has been included to better reflect the Group's use of directly funded equity accounted vehicles to grow the Group's asset base. Asset additions funded by project finance raised within the Group's joint ventures and associates is not included in this adjustment.

21 Non-controlling share of capital expenditure

The Group's structure includes non-wholly owned but controlled subsidiaries which are consolidated within the financial statements of the Group under IFRS. In future, the Group will remove the share of capital additions attributable proportionately to these equity holders from its "adjusted investment and capital expenditure" and "adjusted investment, capital and acquisition expenditure" metrics. This is consistent with the adjustments noted elsewhere related to these non-controlling interests. This has no impact on the current or prior year metrics.

22 Refinancing proceeds/refunds

The Group's model for developing large scale capital projects within joint ventures and associates involves project finance being raised within those entities. Where the Group funds early stage capex which is then subsequently reimbursed to SSE following the receipt of project finance within the vehicle, the refinance proceeds are included in the Group's net adjusted investment and capital expenditure metric. This is consistent with the inclusion of the initial investment in the metric as explained at 18, above. In the year ended 31 March 2021, the Group received reimbursed capex of £246.1m in relation to Seagreen windfarm and £182.5m in relation to Doggerbank windfarm. These receipts have been deducted from the Group's adjusted investment and capital expenditure metric.

23 Lease additions

Additions of right of use assets under the Group's IFRS 16 compliant policies for lease contracts are excluded from the Group's adjusted capital measures as they do not represent directly funded capital investment. This is consistent with the treatment of lease obligations explained at 14, above.

24 Acquisition cash consideration in relation to business combinations

The Group has outlined a significant investment programme which will partly be achieved through the acquisition of businesses with development opportunities for the Group. The cash consideration paid for these entities is included within the Group's new adjusted investment, capital and acquisition expenditure metric as it provides stakeholders an accurate basis of cash investment into the Group's total development pipeline and is consistent with the reporting of the Group's Net Zero Acceleration Programme.

	March 2022 £m	March 2021 £m	March 2020 £m
Capital additions to intangible assets	921.0	701.3	973.6
Capital additions to property, plant & equipment	1,398.8	1,102.5	1,097.6
Capital additions to intangible assets and property, plant & equipment	2,319.8	1,803.8	2,071.2
Customer funded additions	(91.3)	(61.8)	(110.7)
Allowances and certificates	(544.5)	(509.0)	(652.7)
Additions through business combinations	(197.8)	–	(26.4)
Additions subsequently disposed/impaired	(13.9)	(19.7)	(44.6)
Joint ventures and associates' additions	682.5	172.7	167.1
Refinancing proceeds/refunds	(136.7)	(428.6)	–
Lease asset additions	(85.7)	(45.4)	(46.5)
Adjusted Investment and Capital expenditure	1,932.4	912.0	1,357.4
Acquisition cash consideration	141.3	–	–
Adjusted Investment, Capital and Acquisition Expenditure	2,073.7	912.0	1,357.4

Alternative Performance Measures continued

Impact of discontinued operations on the Group's APMs

The following metrics have been adjusted in all periods presented to exclude the contribution of the Group's investment in Scotia Gas Networks Limited ("SGN") which was disposed on 22 March 2022 (see note 12) and Group's Gas Production operations which were disposed on 14 October 2021:

- Adjusted EBITDA;
- Adjusted operating profit;
- Adjusted net finance costs;
- Adjusted profit before tax;
- Adjusted current tax charge; and
- Adjusted earnings per share.

'Adjusted net debt and hybrid capital'; 'adjusted investment and capital expenditure'; and 'adjusted investment, capital and acquisition expenditure' have not been adjusted as the Group continues to fund the discontinued operations until the date of disposal.

The following table summarises the impact of excluding discontinued operations from the APMs of the continuing activities of the Group in current and prior years:

	March 2022 £m	March 2021 (restated*) £m	March 2020 (restated*) £m
Adjusted EBITDA of SSE Group (including discontinued operations)	2,390.7	2,262.9	2,281.0
Less: SSE Energy Services profit	—	—	(32.7)
Less: Gas Production profit	(101.4)	(33.0)	(56.9)
Less: SGN profit	(32.1)	(234.6)	(259.1)
Adjusted EBITDA of continuing operations [APM]	2,257.2	1,995.3	1,932.3
Adjusted operating profit of SSE Group (including discontinued operations)	1,659.2	1,539.5	1,546.9
Less: SSE Energy Services profit	—	—	(32.7)
Less: Gas Production profit	(101.4)	(33.0)	(25.8)
Less: SGN profit	(21.0)	(173.0)	(202.3)
Adjusted operating profit of continuing operations [APM]	1,536.8	1,333.5	1,286.1
Adjusted net finance costs of SSE Group (including discontinued operations)	377.6	443.9	471.6
Less: Gas Production	(0.1)	(2.3)	(6.6)
Less: SGN	(4.7)	(57.0)	(67.2)
Adjusted net finance costs of continuing operations [APM]	372.8	384.6	397.8
Adjusted profit before tax of SSE Group (including discontinued operations)	1,281.6	1,095.6	1,075.3
Less: SSE Energy Services	—	—	(32.7)
Less: Gas Production	(101.3)	(30.7)	(19.2)
Less: SGN	(16.3)	(116.0)	(135.1)
Adjusted profit before tax of continuing operations [APM]	1,164.0	948.9	888.3
Adjusted current tax of SSE Group (including discontinued operations)	109.4	107.8	110.3
Less: SSE Energy Services current tax credit	—	—	3.9
Less: SGN current tax charge	(2.3)	(21.9)	(25.9)
Adjusted current tax of continuing operations [APM]	107.1	85.9	88.3
Adjusted earnings per share of SSE Group (including discontinued operations)	106.2	90.5	89.0
Less: SSE Energy Services earnings per share	—	—	(3.6)
Less: Gas Production earnings per share	(9.6)	(3.0)	(1.8)
Less: SGN earnings per share	(1.2)	(9.1)	(10.6)
Adjusted earnings per share of continuing operations [APM]	95.4	78.4	73.0

* The comparative Alternative Performance Measures have been restated. See note 1.2.

The remaining APMs presented by the Group are unchanged in all periods presented by the discontinued operations.

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Consolidated income statement For the year ended 31 March 2022

	Note	2022			2021		
		Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements (note 7) £m	Total £m	Before exceptional items and certain re-measurements (restated*) £m	Exceptional items and certain re-measurements (note 7) (restated*) £m	Total (restated*) £m
Continuing operations							
Revenue	5	8,608.2	–	8,608.2	6,826.4	–	6,826.4
Cost of sales	6	(6,310.8)	2,097.8	(4,213.0)	(4,732.7)	598.6	(4,134.1)
Gross profit		2,297.4	2,097.8	4,395.2	2,093.7	598.6	2,692.3
Operating costs	6	(1,118.5)	297.5	(821.0)	(1,198.4)	(127.1)	(1,325.5)
Other operating income	6	67.1	4.3	71.4	268.7	976.0	1,244.7
Operating profit before joint ventures and associates		1,246.0	2,399.6	3,645.6	1,164.0	1,447.5	2,611.5
Joint ventures and associates:							
Share of operating profit		257.1	–	257.1	149.0	–	149.0
Share of interest		(67.8)	–	(67.8)	(82.4)	–	(82.4)
Share of movement on derivatives		–	–	–	–	(0.8)	(0.8)
Share of tax		(46.3)	(33.2)	(79.5)	(22.4)	–	(22.4)
Share of profit on joint ventures and associates	16	143.0	(33.2)	109.8	44.2	(0.8)	43.4
Operating profit from continuing operations	5	1,389.0	2,366.4	3,755.4	1,208.2	1,446.7	2,654.9
Finance income	9	79.0	24.2	103.2	78.2	57.0	135.2
Finance costs	9	(376.4)	–	(376.4)	(372.1)	–	(372.1)
Profit before taxation		1,091.6	2,390.6	3,482.2	914.3	1,503.7	2,418.0
Taxation	10	(151.1)	(731.7)	(882.8)	(101.5)	(122.8)	(224.3)
Profit for the year from continuing operations		940.5	1,658.9	2,599.4	812.8	1,380.9	2,193.7
Discontinued operations							
Profit from discontinued operation, net of tax	12	116.3	366.4	482.7	127.5	1.6	129.1
Profit for the year		1,056.8	2,025.3	3,082.1	940.3	1,382.5	2,322.8
Attributable to:							
Ordinary shareholders of the parent	11	1,006.1	2,025.3	3,031.4	893.7	1,382.5	2,276.2
Other equity holders		50.7	–	50.7	46.6	–	46.6
Earnings/(loss) per share							
Basic (pence)	11			287.3			218.7
Diluted (pence)	11			286.8			218.3
Earnings per share – continuing operations							
Basic (pence)	11			241.6			206.3
Diluted (pence)	11			241.1			206.0

* The comparative Consolidated Income Statement has been restated. See note 1.2.

The accompanying notes are an integral part of these financial statements.

Consolidated statement of comprehensive income For the year ended 31 March 2022

	2022 £m	2021 £m (restated*)
Profit for the year		
Continuing operations	2,599.4	2,193.7
Discontinued operations	482.7	129.1
	3,082.1	2,322.8
Other comprehensive income:		
Items that will be reclassified subsequently to profit or loss:		
Net gains/(losses) on cash flow hedges	22.9	(44.7)
Transferred to assets and liabilities on cash flow hedges	11.2	(5.1)
Taxation on cashflow hedges	(4.4)	8.5
	29.7	(41.3)
Share of other comprehensive gain of joint ventures and associates, net of taxation	181.4	25.0
Exchange difference on translation of foreign operations	(3.2)	(43.3)
Gain on net investment hedge	9.4	37.3
	217.3	(22.3)
Items that will not be reclassified to profit or loss:		
Actuarial gain/(loss) on retirement benefit schemes, net of taxation	124.7	(12.8)
Share of other comprehensive (loss)/income of joint ventures and associates, net of taxation	(1.7)	(23.3)
Gains on revaluation of investments in equity instruments, net of taxation	–	1.1
	123.0	(35.0)
Other comprehensive gain/(loss), net of taxation	340.3	(57.3)
Total comprehensive income for the year	3,422.4	2,265.5
Total comprehensive income for the year arises from:		
Continuing operations	2,912.8	2,155.0
Discontinued operations		
Items that will be reclassified subsequently to profit or loss:		
Share of other comprehensive gain of joint venture and associates, net of taxation	28.6	4.7
Items that will not be reclassified to the profit or loss:		
Share of other comprehensive loss of joint ventures, net of taxation	(1.7)	(23.3)
Other comprehensive gain/(loss) from discontinued operations	26.9	(18.6)
Profit from discontinued operations	482.7	129.1
Total comprehensive income from discontinued operations	509.6	110.5
Total comprehensive income for the year	3,422.4	2,265.5
Attributable to:		
Ordinary shareholders of the parent	3,371.7	2,218.9
Other equity holders	50.7	46.6
	3,422.4	2,265.5

* The comparative Consolidated Statement of Other Comprehensive Income has been restated. See note 1.2.

The accompanying notes are an integral part of this interim statement.

Consolidated balance sheet

As at 31 March 2022

	Note	2022 £m	2021 £m
Assets			
Property, plant and equipment	14	14,618.7	13,254.3
Goodwill and other intangible assets	13	1,127.8	841.3
Equity investments in joint ventures and associates	16	1,239.5	1,643.5
Loans to joint ventures and associates	16	736.9	554.3
Other investments	16	8.7	3.6
Other receivables	18	136.4	115.9
Derivative financial assets	24	371.7	114.7
Retirement benefit assets	23	584.9	543.1
Non-current assets		18,824.6	17,070.7
Intangible assets	13	459.3	374.9
Inventories	17	266.6	234.9
Trade and other receivables	18	2,211.0	1,488.2
Current tax asset	10	8.8	12.7
Cash and cash equivalents	21	1,049.3	1,600.2
Derivative financial assets	24	2,941.8	470.9
Assets held for sale	12	—	339.1
Current assets		6,936.8	4,520.9
Total assets		25,761.4	21,591.6
Liabilities			
Loans and other borrowings	21	1,190.8	937.6
Trade and other payables	19	2,672.6	1,987.3
Current tax liabilities	10	—	12.8
Provisions	20	93.3	79.3
Derivative financial liabilities	24	701.5	238.7
Liabilities held for sale	12	—	253.5
Current liabilities		4,658.2	3,509.2
Loans and other borrowings	21	7,873.9	8,473.0
Deferred tax liabilities	10	1,645.6	774.3
Trade and other payables	19	842.4	722.5
Provisions	20	1,017.9	793.3
Retirement benefit obligations	23	—	186.1
Derivative financial liabilities	24	549.6	452.1
Non-current liabilities		11,929.4	11,401.3
Total liabilities		16,587.6	14,910.5
Net assets		9,173.8	6,681.1
Equity:			
Share capital	22	536.5	524.5
Share premium		835.1	847.1
Capital redemption reserve		49.2	49.2
Hedge reserve		77.5	(133.6)
Translation reserve		6.6	0.4
Retained earnings		6,577.3	3,921.1
Equity attributable to ordinary shareholders		8,082.2	5,208.7
Hybrid equity	22	1,051.0	1,472.4
Attributable to non-controlling interests		40.6	—
Total equity		9,173.8	6,681.1

The accompanying notes are an integral part of the financial statements.

These financial statements were approved by the Board of Directors on 24 May 2022 and signed on their behalf by:

Gregor Alexander,
Finance Director

Sir John Manzoni,
Chairman

SSE plc
Registered No: SC117119

Consolidated statement of changes in equity

For the year ended 31 March 2022

	Share capital £m	Share premium £m	Capital redemption reserve £m	Hedge reserve £m	Translation reserve £m	Retained earnings £m	Total attributable to ordinary shareholders £m	Hybrid equity £m	Total equity before non- controlling interest £m	Non- controlling interest £m	Total equity £m
At 1 April 2021	524.5	847.1	49.2	(133.6)	0.4	3,921.1	5,208.7	1,472.4	6,681.1	–	6,681.1
Profit for the year	–	–	–	–	–	3,031.4	3,031.4	50.7	3,082.1	–	3,082.1
Other comprehensive income	–	–	–	211.1	6.2	123.0	340.3	–	340.3	–	340.3
Total comprehensive income for the year	–	–	–	211.1	6.2	3,154.4	3,371.7	50.7	3,422.4	–	3,422.4
Dividends to shareholders	–	–	–	–	–	(862.3)	(862.3)	–	(862.3)	–	(862.3)
Scrip dividend related share issue	12.0	(12.0)	–	–	–	355.7	355.7	–	355.7	–	355.7
Issue of shares	–	–	–	–	–	6.3	6.3	–	6.3	–	6.3
Distributions to Hybrid equity holders	–	–	–	–	–	–	–	(50.7)	(50.7)	–	(50.7)
Redemption of hybrid equity	–	–	–	–	–	(4.6)	(4.6)	(421.4)	(426.0)	–	(426.0)
Credit in respect of employee share awards	–	–	–	–	–	20.8	20.8	–	20.8	–	20.8
Investment in own shares	–	–	–	–	–	(14.1)	(14.1)	–	(14.1)	–	(14.1)
Acquisition of subsidiary	–	–	–	–	–	–	–	–	–	40.6	40.6
At 31 March 2022	536.5	835.1	49.2	77.5	6.6	6,577.3	8,082.2	1,051.0	9,133.2	40.6	9,173.8

	Share capital £m	Share premium £m	Capital redemption reserve £m	Hedge reserve £m	Translation reserve £m	Retained earnings £m	Total attributable to ordinary shareholders £m	Hybrid equity £m	Total equity £m
At 1 April 2020	523.1	875.6	49.2	(111.1)	6.4	2,407.2	3,750.4	1,169.7	4,920.1
Profit for the year	–	–	–	–	–	2,276.2	2,276.2	46.6	2,322.8
Other comprehensive loss	–	–	–	(16.3)	(6.0)	(35.0)	(57.3)	–	(57.3)
Total comprehensive income for the year	–	–	–	(16.3)	(6.0)	2,241.2	2,218.9	46.6	2,265.5
Dividends to shareholders	–	–	–	–	–	(836.4)	(836.4)	–	(836.4)
Scrip dividend related share issue	1.4	(1.4)	–	–	–	39.0	39.0	–	39.0
Distributions to Hybrid equity holders	–	–	–	–	–	–	–	(46.6)	(46.6)
Issue of Hybrid equity	–	–	–	–	–	–	–	1,051.0	1,051.0
Redemption of Hybrid equity	–	–	–	–	–	(1.7)	(1.7)	(748.3)	(750.0)
Credit in respect of employee share awards	–	–	–	–	–	19.7	19.7	–	19.7
Investment in own shares (i)	–	(27.1)	–	–	–	24.6	(2.5)	–	(2.5)
Adjustment in relation to historic remeasurement of financial instruments, net of tax (ii)	–	–	–	(6.2)	–	27.5	21.3	–	21.3
At 31 March 2021	524.5	847.1	49.2	(133.6)	0.4	3,921.1	5,208.7	1,472.4	6,681.1

(i) Investment in own shares is the purchase of own shares less the settlement of treasury shares for share save schemes. This includes a reclassification between share premium and retained earnings of £27.1m for previous treasury share issuances to employees.

(ii) Following review of the recognition of certain derivative financial instruments at inception, a revision to the Retained Earnings, Loans and Borrowings and the Hedge Reserve was recorded during the year. This revision arose through review of the Group's contractual exposure on certain swap arrangements, as well as mark-to-market charges on inception previously recognised through the Income Statement. The cumulative effect on opening reserves on 1 April 2020 was an increase of £21.3m, and the single largest line item impacted was Loans and Borrowings which decreased by £58.8m. It has been assessed that the cumulative effect of this revision does not materially impact the financial statements for the year ended 31 March 2020.

Consolidated cash flow statement For the year ended 31 March 2022

	Note	2022 £m	2021 £m (restated*)
Operating profit – continuing operations		3,755.4	2,654.9
Operating profit – discontinued operations	12	(100.5)	121.6
Operating profit – total operations		3,654.9	2,776.5
Less share of loss/(profit) of joint ventures and associates		(28.7)	(132.0)
Operating profit before jointly controlled entities and associates		3,626.2	2,644.5
Pension service charges less contributions paid	23	(23.0)	(22.8)
Movement on operating derivatives	24	(2,100.4)	(590.1)
Depreciation, amortisation, write downs and impairments		303.2	637.9
Impairment of joint venture investment		106.9	–
Charge in respect of employee share awards (before tax)		20.8	18.1
Profit on disposal of assets and businesses	7,12	(48.2)	(1,227.9)
Release of provisions	20	(1.6)	(4.1)
Release of deferred income	6	(17.6)	(17.7)
Cash generated from operations before working capital movements		1,866.3	1,437.9
Increase in inventories		(24.4)	(71.7)
(Increase)/decrease in receivables		(625.6)	155.3
Increase in payables		538.3	420.0
Increase in provisions		61.3	36.1
Cash generated from operations		1,815.9	1,977.6
Dividends received from investments	16	177.0	191.1
Interest paid		(273.5)	(288.7)
Taxes paid		(91.5)	(62.8)
Net cash from operating activities		1,627.9	1,817.2
Purchase of property, plant and equipment	5	(1,273.6)	(985.0)
Purchase of other intangible assets	5	(182.2)	(192.3)
Deferred income received		12.3	11.2
Proceeds from disposals	12	1,366.9	1,734.8
Cash disposed from disposals	12	–	(172.8)
Purchase of businesses and subsidiaries	12	(145.3)	–
Joint venture development expenditure refunds	16	136.7	182.5
Loans and equity provided to joint ventures and associates	16	(676.0)	(188.9)
Loans and equity repaid by joint ventures	16	10.9	54.2
Increase in other investments	16	5.4	–
Net cash from investing activities		(744.9)	443.7
Proceeds from issue of share capital	22	6.3	10.4
Dividends paid to company's equity holders	11	(506.6)	(797.4)
Hybrid equity dividend payments	22	(50.7)	(46.6)
Employee share awards share purchase	22	(14.1)	(12.9)
Issue of hybrid instruments	22	–	1,051.0
Redemption of hybrid instruments	22	(426.0)	(750.0)
New borrowings	21	506.1	1,668.5
Seagreen development expenditure refinancing proceeds	21	–	246.1
Repayment of borrowings	21	(960.1)	(2,189.3)
Settlement of cashflow hedges		11.2	(5.1)
Net cash from financing activities		(1,433.9)	(825.3)
Net (decrease)/increase in cash and cash equivalents		(550.9)	1,435.6
Cash and cash equivalents at the start of year	21	1,600.2	164.6
Net (decrease)/increase in cash and cash equivalents		(550.9)	1,435.6
Cash and cash equivalents at the end of year		1,049.3	1,600.2

The accompanying notes are an integral part of these financial statements.

* The comparative consolidated cash flow statement has been restated. See note 1.2.

Notes to the consolidated financial statements

For the year ended 31 March 2022

1. General information and basis of preparation

1.1. General information

SSE plc (the Company) is a company domiciled in Scotland. The address of the registered office is given on the back cover. The Group's operations and its principal activities are set out in the Strategic Report. The consolidated financial statements for the year ended 31 March 2022 comprise those of the Company and its subsidiaries (together referred to as the Group). The Company financial statements present information about the Company as a separate entity and not about the Group, these can be seen on [pages 324 to 335](#).

1.2. Basis of preparation

Statement of compliance

The financial statements were authorised for issue by the directors on 24 May 2022. The financial statements have been prepared in accordance with UK adopted International Accounting Standards.

Going concern

The Directors consider that the Group has adequate resources to continue in operational existence for the period to 31 December 2023. The financial statements are therefore prepared on a going concern basis.

In addition, further details of the Group's liquidity position and going concern review are provided in A6 Accompanying Information to the Financial Statements on [page 312](#).

Basis of measurement

The financial statements of the Group are prepared on the historical cost basis except for certain gas inventory, derivative financial instruments, financial instruments designated at fair value through profit or loss or other comprehensive income on initial recognition, assets of the Group pension schemes, all of which are measured at their fair value, and liabilities of the Group pension schemes which are measured using the projected unit credit method. The directors believe the financial statements present a true and fair view. The financial statements of the Group are presented in pounds sterling. The basis for including operations and transactions conducted in currencies other than pounds sterling is provided in A1 Accompanying Information to the Financial Statements on [page 290](#).

Use of estimates and judgements

The preparation of financial statements conforming with adopted IFRS requires the use of certain accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. The areas involving a higher level of judgement or estimation are summarised at [pages 222 to 224](#).

Changes to presentation – prior year adjustments

Discontinued operations

On 2 August 2021, the Group announced it had agreed to sell its 33.3% stake in gas distribution operator SGN to a consortium comprising existing SGN shareholders Ontario Teachers' Pension Plan Board and Brookfield Super-Core Infrastructure Partners for cash consideration of £1,225m. The transaction completed on 22 March 2022, with the Group recognising an exceptional gain on disposal of £576.5m within discontinued activities. The Group assessed that the investment met the criteria to be classified as held for sale on 11 June 2021 when an Exclusivity Agreement was signed by the consortium. Accordingly, from 11 June 2021 the Group ceased to equity account for its investment in SGN on designation as held for sale. As the investment in SGN comprised a separate single major line of business, the investment was also classified as a discontinued operation. Therefore, comparative information for the year ended 31 March 2021 has been restated. The impact of reclassification of the SGN investment to discontinued operations has been to reduce adjusted operating profit for continuing operations for March 2021 by £173.0m; reduce adjusted profit before tax for continuing operations for March 2021 by £116.0m; and reduce adjusted earnings per share for continuing operations for March 2021 by 9.1p. Total results for the Group in the prior year are unchanged.

Segments

In accordance with the requirements of IFRS 8 'Operating Segments' the Group has aligned its segmental disclosures with its revised internal reporting following changes to the Group's structure and operations. These segments are used internally by the Group Executive Committee to in order to assess operating performance and to make decisions on how to allocate capital. Consequently, the segmental results reported in the Group's operating segments have been restated with effect from 1 April 2021. Following the Group's sale of its Contacting and Rail business to Aurelius Group, the primary retained activities of the Enterprise business is Distributed Energy which will develop and provide the Group's solar and battery storage operations and focus on distributed generation, heat and cooling networks, smart buildings and EV charging. Accordingly, the result from the Group's out of areas networks business and Neos Networks Limited joint venture will now be reported within SSEN Distribution and Corporate Unallocated respectively. Comparative segmental information in note 5 has been represented to reflect the change to these segments. The impact of the restatements are an increase to reported revenue of SSEN Distribution (March 2021: £25.0m) and a decrease to the reported revenue of Distributed Energy (March 2021: £25.0m), and an increase to the adjusted operating profit of SSEN Distribution (March 2021 £8.5m), an increase to the adjusted operating loss of Distributed Energy (March 2021: £5.7m) and an increase to the adjusted operating loss of Corporate Unallocated (March 2021: £2.8m).

Changes to estimates

There have been no changes to the basis of accounting estimates during the current and prior year.

Notes to the consolidated financial statements continued

For the year ended 31 March 2022

2. New accounting policies and reporting changes

The principal accounting policies applied in the preparation of these financial statements are set out below and in the A1 Accompanying Information to the Financial Statements on [pages 290 to 300](#).

2.1 New standards, amendments and interpretations effective or adopted by the Group

Phase 2 of the Interest Rate Benchmark Reform became effective for the Group from 1 April 2021. Under Phase 2, provided that the new basis for calculating cash flows is economically equivalent to the previous basis, reliefs permit hedge accounting relationships to continue unaffected. The Group has applied these reliefs to continue hedge accounting on affected instruments and therefore adoption of the amendment had no impact on the financial statements.

The amendment to IFRS 16 'Covid-19 Related Rent Concessions beyond 30 June 2021' had no impact on the financial statements.

2.2 New standards, amendments and interpretations issued, but not yet adopted by the Group

A number of standards, amendments and interpretations have been issued but not yet adopted by the Group within these financial statements, because application is not yet mandatory or because UK adoption remains outstanding at the date the financial statements were authorised for issue.

Amendments to IAS 16 'Property, Plant and Equipment: Proceeds Before Intended Use' is effective from 1 January 2022 and was endorsed by the UK Endorsement Board in April 2022, subsequent to the balance sheet date. The standard will be applied from 1 April 2022, with retrospective application in periods presented. During the year ended 31 March 2022, the Group earned pre-commissioning revenue during the testing and commissioning phases of its Keadby 2 CCGT and Gordonbush windfarm extension project. Restatement of prior year comparatives will not have a material impact on reported results in those periods.

IFRS 17 'Insurance contracts' is expected to be effective from 1 January 2023 (1 April 2023 for the Group) but remains subject to UK endorsement. The Group's initial expectation is that adoption of this standard will not have a material impact on the Group's consolidated financial statements.

There are a number of other interpretations and amendments issued but not yet effective at 31 March 2022. These are not anticipated to have a material impact on the Group's consolidated financial statements.

3. Adjusted accounting measures

The Group applies the use of adjusted accounting measures or alternative performance measures ('APMs') throughout the Annual Report and Financial Statements. These measures enable the Directors to present the underlying performance of the Group and its segments to the users of the statements in a consistent and meaningful manner. The adjustments applied and certain terms such as 'adjusted operating profit', 'adjusted earnings per share', 'adjusted EBITDA', 'adjusted investment and capital expenditure', 'adjusted investment, capital and acquisition expenditure' and 'adjusted net debt and hybrid equity' that are not defined under IFRS and are explained in more detail below. In addition, the section 'Alternative Performance Measures' at [page 204](#) provides further context and explanation of these terms.

3.1 Adjusted measures

The Directors assess the performance of the Group and its reportable segments based on 'adjusted measures'. These measures are used for internal performance management and are believed to be appropriate for explaining underlying performance to users of the accounts. These measures are also deemed useful for ordinary shareholders of the Company and for other stakeholders.

The performance of the reportable segments is reported based on adjusted profit before interest and tax ('adjusted operating profit'). This is reconciled to reported profit before interest and tax by adding back exceptional items and certain re-measurements (see note 3.2 below), depreciation on fair value uplifts, the share of operating profit attributable to non-controlling interests, adjustments to the retained Gas Production decommissioning provision and after the removal of interest and taxation on profits from equity-accounted joint ventures and associates.

The performance of the Group is reported based on adjusted profit before tax which excludes exceptional items and certain re-measurements (see note 3.2 below), depreciation on fair value uplifts, the share of profit before tax attributable to non-controlling interests, non-recurring financing costs in joint ventures, the net interest costs associated with defined benefit schemes, adjustments to the retained Gas Production decommissioning provision and taxation on profits from equity-accounted joint ventures and associates. The interest charges or credits on defined benefit schemes removed are non-cash and are subject to variation based on actuarial valuations of scheme liabilities.

The Group also uses adjusted earnings before interest, taxation, depreciation and amortisation ('adjusted EBITDA') as an alternative operating performance measure which acts as a management proxy for cash generated from operating activities. This does not take into account the rights and obligations that SSE has in relation to its equity-accounted joint ventures and associates. This measure excludes exceptional items and certain re-measurements (see note 3.2 below), the depreciation charged on fair value uplifts, the share of EBITDA attributable to non-controlling interests, adjustments to the retained Gas Production decommissioning provision, non-recurring financing costs in joint ventures, the net interest costs associated with defined benefit schemes, depreciation and amortisation from equity-accounted joint ventures and associates and interest and taxation on profits from equity-accounted joint ventures and associates. For the purpose of calculating the 'Net Debt to EBITDA' metric referred at [page 90](#), 'adjusted EBITDA' is further adjusted to remove the proportion of adjusted EBITDA from equity-accounted joint ventures relating to off-balance sheet debt (see note 5.1(v)).

The Group's key performance measure is adjusted earnings per share (EPS), which is based on basic earnings per share before exceptional items and certain re-measurements (see note 3.2 below), depreciation on fair value uplifts, adjustments to the retained Gas Production decommissioning provision, non-recurring financing costs in joint ventures, the net interest costs associated with defined benefit schemes and after the removal of deferred taxation and other taxation items. Deferred taxation is excluded from the Group's adjusted EPS because of the Group's significant ongoing capital investment programme, which means that the deferred tax is unlikely to reverse. Adjusted profit after tax is presented on a basis consistent with adjusted EPS except for the non-inclusion of payments to holders of hybrid equity.

The financial statements also include an 'adjusted net debt and hybrid equity' measure. This presents financing information on the basis used for internal liquidity risk management. This measure excludes obligations due under lease arrangements and the share of net debt attributable to non-controlling interests, and includes cash held as collateral on commodity trading exchanges, cash presented as held for sale and other short term loans. The measure represents the capital owed to investors, lenders and equity holders other than the ordinary shareholders. As with 'adjusted earnings per share', this measure is considered to be of relevance to the ordinary shareholders of the Group as well as other stakeholders and interested parties.

Finally, the financial statements include an 'adjusted investment and capital expenditure' and an 'adjusted investment, capital and acquisition expenditure' measure. These metrics represent the capital invested by the Group in projects that are anticipated to provide a return on investment over future years or which otherwise support Group operations and is consistent with internally applied metrics. They therefore include capital additions to property, plant and equipment and intangible assets and also the Group's direct funding of joint venture and associates capital projects. The Group has considered it appropriate to report these values both internally and externally in this manner due to its use of equity-accounted investment vehicles to grow the Group's asset base, where the Group is providing a source of funding to the vehicle through either loans or equity. The Group does not include project funded capital additions in these metrics, nor does it include other capital invested in joint ventures and associates. Where initial capital funding of an equity accounted joint venture is refunded, these refunds are deducted from the metrics in the year the refund is received. In addition, the Group excludes from this metric additions to its property, plant and equipment funded by Customer Contributions and additions to intangible assets associated with Allowances and Certificates. The Group also excludes the share of investment and capital expenditure attributable to non-controlling interests. The 'adjusted investment, capital and acquisition expenditure' measure also includes cash consideration paid by the Group in business combinations which contribute to growth of the Group's capital asset base and is considered to be relevant metric in context of the Group's Net Zero Acceleration Programme. As with 'adjusted earnings per share', these measures are considered to be of relevance to the ordinary shareholders of the Group as well as other stakeholders and interested parties.

Reconciliations from reported measures to adjusted measures along with further description of the rationale for those adjustments are included in the "Adjusted Performance Measures" section at [pages 204 to 212](#).

APM Where the Group have referred to an adjusted performance measure in the financial statements the following sign is presented to denote this.

3.2 Exceptional items and certain re-measurements

Exceptional items are those charges or credits that are considered unusual by nature and/or scale and of such significance that separate disclosure is required for the financial statements to be properly understood. The trigger points for recognition of items as exceptional items will tend to be non-recurring although exceptional charges (or credits) may impact the same asset class or segment over time.

Market conditions that have deteriorated or improved significantly over time will only be captured to the extent observable at the balance sheet date. Examples of items that may be considered exceptional include material asset or business impairment charges, reversals of historic impairments, business restructuring costs and reorganisation costs, significant realised gains or losses on disposal, unrealised fair value adjustments on part disposal of a subsidiary and provisions in relation to contractual settlements associated with or material significant disputes and claims.

The Group operates a policy framework for estimating whether items are considered to be exceptional. This framework, which is reviewed annually, estimates the materiality of each broad set of potentially exceptional circumstances, after consideration of strategic impact and likelihood of recurrence, by reference to the Group's key performance measure of adjusted earnings per share. This framework estimates that any relevant item greater than £30.0m will be considered exceptional, with lower thresholds applied to circumstances that are considered to have a greater strategic impact and are less likely to recur. The only exception to this threshold is for gains or losses on disposal or divestment of early stage international or offshore wind farm development projects which are considered non-exceptional in line with the Group's strategy to generate recurring gains from developer divestments.

Certain re-measurements are re-measurements arising on certain commodity, interest rate and currency contracts which are accounted for as held for trading or as fair value hedges in accordance with the Group's policy for such financial instruments, or remeasurements on stocks of commodities held at the balance sheet date. The amount shown in the before exceptional items and certain re-measurements results for these contracts is the amount settled in the year as disclosed in note 24.1.

This excludes commodity contracts not treated as financial instruments under IFRS 9 where held for the Group's own use requirements which are not recorded until the underlying commodity is delivered.

The impact of changes in Corporation Tax rates on deferred tax balances are also included within certain remeasurements.

Notes to the consolidated financial statements continued

For the year ended 31 March 2022

3. Adjusted accounting measures continued

3.3 Other additional disclosures

As permitted by IAS 1 'Presentation of financial statements', the Group's income statement discloses additional information in respect of joint ventures and associates, exceptional items and certain re-measurements to aid understanding of the Group's financial performance and to present results clearly and consistently.

4. Accounting judgements and estimation uncertainty

In the process of applying the Group's accounting policies, management are required to make judgements and estimates that have a significant effect on the amounts recognised in the financial statements. Changes in the assumptions underlying the estimates could result in a significant impact to the financial statements. The Group's key accounting judgement and estimation areas are noted below, with the most significant financial judgement areas as specifically considered by the Audit Committee being highlighted separately.

4.1 Significant financial judgements and estimation uncertainties

The preparation of these financial statements has specifically considered the following significant financial judgements, some of which are also areas of estimation uncertainty as noted below.

(i) Impairment testing and valuation of certain non-current assets – financial judgement and estimation uncertainty

The Group reviews the carrying amounts of its goodwill, other intangible assets, specific property, plant and equipment and investment assets to determine whether any impairment of the carrying value of those assets requires to be recorded. Where an indicator of impairment or impairment reversal exists, the recoverable amount of those assets is determined by reference to value in use calculations or fair value less cost to sell assessments, if more appropriate. The specific assets under review in the year ended 31 March 2022 are intangible development assets and specific property, plant and equipment assets related to gas storage and thermal power generation. In addition, the Group performed an impairment review over the carrying value of its investment in Neos Networks Limited.

In conducting its reviews, the Group makes judgements and estimates in considering both the level of cash generating unit (CGU) at which common assets such as goodwill are assessed against, as well as the estimates and assumptions behind the calculation of recoverable amount of the respective assets or CGUs.

Changes to the estimates and assumptions on factors such as regulation and legislation changes (including climate change related regulation), power, gas, carbon and other commodity prices, volatility of gas prices, plant running regimes and load factors, discount rates and other inputs could impact the assessed recoverable value of assets and CGUs and consequently impact the Group's income statement and balance sheet.

Further detail of the calculation basis and key assumptions used in the impairment review, the resulting impairment reversals and the sensitivity of this assessment to key assumptions is disclosed at note 15. Detail on the accounting policies applied is included in the Accompanying Information section A1.

(ii) Retirement benefit obligations – estimation uncertainty

The assumptions in relation to the cost of providing post-retirement benefits during the year are based on the Group's best estimates and are set after consultation with qualified actuaries. While these assumptions are believed to be appropriate, a change in these assumptions would impact the level of the retirement benefit obligation recorded and the cost to the Group of administering the schemes.

Further detail of the calculation basis and key assumptions used, the resulting movements in obligations, and the sensitivity of key assumptions to the obligation is disclosed at note 23.

(iii) Revenue recognition – Customers unbilled supply of energy – estimation uncertainty

Revenue from energy supply activities undertaken by the Business Energy and Airtricity businesses includes an estimate of the value of electricity or gas supplied to customers between the date of the last meter reading and the year end. This estimation comprises both billed revenue and unbilled revenue and is calculated based on applying the tariffs and contract rates applicable to customers against estimated customer consumption, taking account of various factors including usage patterns, weather trends and externally notified aggregated volumes supplied to customers from national settlements bodies. A change in the assumptions underpinning the calculation would have an impact on the amount of revenue recognised in any given period. The sensitivity associated with this judgement factor is disclosed at note 18.

This estimation is subject to an internal corroboration process which compares of calculated unbilled volumes to a theoretical 'perfect billing' benchmark measure of unbilled volumes (in GWh and millions of therms) derived from historical weather-adjusted consumption patterns and aggregated metering data used in industry reconciliation processes. Furthermore, actual meter readings and billings continue to be compared to unbilled estimates between the balance sheet date and the finalisation of the financial statements.

Given the non-routine process, the number and the extent of differing inputs and the requirement of management to apply judgement noted above, the estimated revenue is considered a significant estimate made by management in preparing the financial statements.

(iv) Valuation of other receivables – financial judgement and estimation uncertainty

The Group holds a £100m loan note due from Ovo Energy Limited following the disposal of SSE Energy Services on 15 January 2020. The loan carries interest at 13.25% and is presented cumulative of accrued interest payments, discounted at 13.25%. At 31 March 2022, the carrying value (net of expected credit loss provision of £1.8m) is £131.0m.

Consistent with the prior year, the Group has assessed recoverability of the loan note receivable and has recognised a provision for expected credit loss in accordance with the requirements of IFRS 9. Due to recent market volatility, the Group's assessment of the value of the loan note is now considered a more significant financial judgement. While the carrying value is considered to be appropriate, changes in economic conditions could lead to a change in the level of expected credit loss incurred by the Group.

(v) Impact of climate change and the transition to net zero – financial judgement and estimation uncertainty

Climate change and the transition to net zero have been considered in the preparation of these financial statements. The Group has a clearly articulated Net Zero Acceleration Programme ('NZAP') set out on [pages 4 to 5](#) to lead in the UK's transition to net zero and aligns its investment plans and business activities to that strategy. The impact of future climate change regulation could have a material impact on the currently reported amounts of the Group's assets and liabilities.

In preparing these financial statements, the following has been considered:

Valuation of property, plant and equipment, and impairment assessment of goodwill

In the medium term, the transition to net zero may result in regulation restricting electricity generation from unabated gas fired power stations. The Group's view is that flexible generation capacity, such as the Group's fleet of CCGT power stations, will be an essential part of the net zero transition in order to provide security of supply to a market which is increasingly dependent upon renewable sources, which are inherently intermittent. The majority of the Group's GB CCGT fleet is nearing the end of its economic life and it is not currently expected that regulation to require abatement would be introduced before the planned closure of those power stations. Of the value capitalised at 31 March 2022, only two assets are forecast to continue to operate beyond 2030, being Great Island and Keadby 2. The Group's view is that Great Island will continue to be essential to providing security of supply in the Irish electricity market. Keadby 2 is nearing completion and has achieved market leading efficiency throughout test operations. Therefore, the Group considers that other assets operating in the market would be more likely to close before Keadby 2 and the plant will continue to be required to balance the UK electricity market beyond 2030. As a result, the useful economic life of both assets has not been shortened when preparing the 31 March 2022 financial statements. The Group assesses the useful economic life of its Property, Plant and Equipment assets annually. In the short term, the economic return from the balancing activity provided by the Group's GB CCGT assets has increased due to scarcity of supply in the UK electricity market, resulting in the reversal of historic impairments at 31 March 2022. See note 15.2.

A significant increase in renewable generation capacity in the Group's core markets could potentially result in an oversupply of renewable electricity at a point in the future, which would lead to a consequential decrease in the power price achievable for the Group's wind generation assets. The Group has not assessed that this constitutes an indicator of impairment at 31 March 2022 as the Group's baseline investment case models assume a centrally approved volume of new build in these markets. The Group's policy is to test the goodwill balances associated with wind generation portfolio for impairment on an annual basis. Through this impairment assessment (see note 15.1), a sensitivity to power price, which may arise in a market with significant new build, was modelled. This scenario indicated that, despite a modelled 10% reduction in power price, there remained significant headroom on the carrying value in the Group's wind generation assets.

Another climate related risk to SSE's valuation bases could be changes to weather patterns resulting from global warming. This in turn could result in calmer, drier weather patterns, which would reduce volumes achievable for the Group's wind and hydro generation assets (although noting that this would likely lead to capacity constraints and hence higher prices). This has not been assessed as an indicator of impairment at 31 March 2022, as there is no currently observable evidence to support that scenario directly. However, the Group has performed a sensitivity to its impairment modelling and has assessed that a 15% reduction in achievable volume would result in significant headroom on the carrying value of the assets at 31 March 2022 (see note 15.1).

Valuations of decommissioning provisions

The Group holds decommissioning provisions for its Renewable and Thermal generation assets and has retained a 60% share for the decommissioning of its disposed Gas Production business. As noted above, the Group's view at 31 March 2022 is that climate change regulation will not bring forward the closure dates of its CCGT fleet, many of which are expected to close before 2030. Similarly, it is expected that fundamental changes to weather patterns, or the impact of new wind generation capacity will not bring forward the decommissioning of the Group's current wind farm portfolio.

The discounted share of the Gas Production provision is £249.4m. At 31 March 2022, the impact of discounting of this retained provision is £33.8m, which is expected to be incurred across the period to 31 March 2037. If the decommissioning activity was accelerated due to changes in legislation, the costs of unwinding the discounting of the provision would be recognised earlier.

Notes to the consolidated financial statements continued

For the year ended 31 March 2022

4. Accounting judgements and estimation uncertainty continued

4.2 Other accounting judgements – changes from prior year

(i) Accounting for the impacts of coronavirus – accounting judgement and estimation uncertainty

For the years ended 31 March 2020 and 31 March 2021, the Group included a specific accounting judgement and estimation uncertainty in relation to the impact of coronavirus on its operations and going concern assessments. During the current year, the UK economy has continued to recover from the effects of the pandemic, and therefore the specific accounting judgement and estimation uncertainty in relation to the impact of coronavirus is no longer required.

4.3 Other areas of estimation uncertainty

(i) Tax provisioning

The Group has open tax issues with the tax authorities in the UK. Where management makes a judgement that an outflow of funds is probable, and a reliable estimate of the dispute can be made, provision is made for the best estimate of the most likely liability.

In estimating any such liability, the Group applies a risk-based approach, taking into account the specific circumstances of each dispute based on management's interpretation of tax law and supported, where appropriate, by discussion and analysis by external tax advisors. These estimates are inherently judgemental and could change substantially over time as disputes progress and new facts emerge.

Provisions are reviewed on an ongoing basis, however the resolution of tax issues can take a considerable period of time to conclude and it is possible that amounts ultimately paid will be different from the amounts provided. Provisions for uncertain tax positions are included in current tax liabilities, and total £27.9m at 31 March 2022 (2021: £37.6m). The Group estimates that a reasonably possible range of settlement outcomes for the uncertain tax provisions given their binary nature is between nil and the full value of the provision.

(ii) Decommissioning costs

The calculation of the Group's decommissioning provisions involves the estimation of quantum and timing of cash flows to settle the obligation. The Group engages independent valuation experts to estimate the cost of decommissioning its Renewable, Thermal and Gas Storage assets every three years based on current technology and prices. The last independent assessment for Renewable and Thermal generation assets was performed in the year to 31 March 2022. The last formal assessment for Gas Storage assets was performed in the year to 31 March 2020. Retained decommissioning costs in relation to the disposed Gas Production business are periodically agreed with the field operators and reflect the latest expected economic production lives of the fields.

The dates for settlement of future decommissioning costs are uncertain, particularly for the disposed gas exploration and production business where reassessment of gas and liquids reserves and fluctuations in commodity prices can lengthen or shorten the field life.

Further detail on the assumptions applied, including expected decommissioning dates, and movement in decommissioning costs during the year are disclosed at note 20.

5. Segmental information

The changes to the Group's segments in the year are explained at note 1.2 and includes the realignment of the activities of the Distributed Energy business (from the Enterprise segment) and the impact of the Group's investment in SGN being classified as a discontinued operation prior to disposal on 22 March 2022. Comparative information has been represented to reflect the change to these segments. The Group's Gas Production business was disposed on 14 October 2021 and is presented separately as a discontinued operation. The Group's 'Corporate unallocated' segment is the Group's residual corporate central costs which cannot be allocated to individual segments and which now includes the contribution from the Group's Neos Networks joint venture.

The types of products and services from which each reportable segment derives its revenues are:

Business area	Reported segments	Description
Continuing operations		
Transmission	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.
Distribution	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.

Business area	Reported segments	Description
Continuing operations		
Renewables	SSE Renewables	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.
Thermal	SSE Thermal	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.
Energy Customer Solutions	Business Energy	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.
Distributed Energy	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.
EPM & I	Energy Portfolio Management (EPM)	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.
Discontinued operations		
EPM & I	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.
Gas Distribution	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.

As referred to in note 3, the internal measure of profit used by the Board is 'adjusted profit before interest and tax' or 'adjusted operating profit' which is arrived at before exceptional items, the impact of financial instruments measured under IFRS 9, the net interest costs associated with defined benefit pension schemes, adjustments to the retained Gas Production decommissioning and after the removal of taxation and interest on profits from joint ventures and associates.

Analysis of revenue, operating profit, assets and earnings before interest, taxation, depreciation and amortisation ('EBITDA') by segment is provided on the following pages. All revenue and profit before taxation arise from operations within the UK and Ireland.

Notes to the consolidated financial statements continued
For the year ended 31 March 2022

5. Segmental information continued

5.1 Segmental information disclosure

(i) Revenue by segment

	Reported revenue 2022 £m	Inter-segment revenue (i) 2022 £m	Segment revenue 2022 £m	Reported revenue (restated*) 2021 £m	Inter-segment revenue (i) 2021 £m	Segment revenue (restated*) 2021 £m
Continuing operations						
SSEN Transmission	589.7	—	589.7	404.9	—	404.9
SSEN Distribution	954.6	78.6	1,033.2	834.5	69.1	903.6
SSE Renewables	357.4	418.8	776.2	281.9	544.2	826.1
SSE Thermal	844.2	285.0	1,129.2	504.0	699.0	1,203.0
Gas storage	8.7	2,471.1	2,479.8	7.1	766.0	773.1
Energy Customer Solutions						
Business Energy	2,289.0	34.5	2,323.5	1,934.5	30.5	1,965.0
SSE Airtricity	1,177.3	451.3	1,628.6	1,072.7	61.5	1,134.2
Distributed Energy	176.9	25.4	202.3	334.5	33.6	368.1
<i>EPM:</i>						
Gross trading	12,808.3	7,160.2	19,968.5	8,811.9	2,699.3	11,511.2
Optimisation trades	(10,667.6)	(2,914.0)	(13,581.6)	(7,449.2)	(155.8)	(7,605.0)
EPM	2,140.7	4,246.2	6,386.9	1,362.7	2,543.5	3,906.2
Corporate unallocated	69.7	147.7	217.4	89.6	189.4	279.0
Total continuing operations	8,608.2	8,158.6	16,766.8	6,826.4	4,936.8	11,763.2
Discontinued operations						
Gas Production	8.1	133.9	142.0	14.2	90.8	105.0
Total discontinued operations	8.1	133.9	142.0	14.2	90.8	105.0
Total SSE Group	8,616.3	8,292.5	16,908.8	6,840.6	5,027.6	11,868.2

(i) Significant inter-segment revenue is derived from the sale of power and stored gas from SSE Renewables, SSE Thermal, Gas Storage and Distributed Energy to EPM; use of system income received by SSEN Distribution from Business Energy; Business Energy provides internal heat and light power supplies to other Group companies; EPM provides power, gas and other commodities to Business Energy and SSE Airtricity; Gas Production (discontinued) sells gas from producing upstream fields to EPM; and Corporate unallocated provides corporate and infrastructure services to all segments as well as third parties. All are provided at arm's length.

Revenue from the Group's joint venture investment in Scotia Gas Networks Limited, SSE's share being £60.4m for the period to 11 June 2021 (2021: £411.8m), is not recorded in the revenue line in the income statement.

* The comparative segment revenue has been restated. See note 1.2.

Disaggregation of revenue

Revenue from contracts with customers can be disaggregated by reported segment, by major service lines and by timing of revenue recognition as follows:

	Revenue from contracts with customers										Total 2022 £m	
	Goods or services transferred over time			Goods or services transferred at a point in time				Total revenue from contracts with customers 2022 £m	Other contract revenue 2022 £m			
	Use of electricity networks 2022 £m	Supply of energy and ancillary services 2022 £m	Construction related services 2022 £m	Other contracted services 2022 £m	Physical energy 2022 £m	Gas storage 2022 £m	Other revenue 2022 £m					
Continuing operations												
SSEN Transmission	570.8	—	—	16.5	—	—	2.4	589.7	—	589.7		
SSEN Distribution	903.3	—	—	10.5	—	—	22.8	936.6	18.0	954.6		
SSE Renewables	—	79.7	—	75.0	202.7	—	—	357.4	—	357.4		
SSE Thermal	—	840.1	—	—	—	—	4.1	844.2	—	844.2		
Gas Storage	—	—	—	—	—	8.7	—	8.7	—	8.7		
Energy Customer Solutions	—	—	—	—	—	—	—	—	—	—		
Business Energy	—	2,289.0	—	—	—	—	—	2,289.0	—	2,289.0		
SSE Airtricity	—	1,158.1	—	19.2	—	—	—	1,177.3	—	1,177.3		
Distributed Energy	11.9	15.8	77.7	3.9	2.9	—	59.3	171.5	5.4	176.9		
EPM	—	—	—	—	1,920.9	—	219.8	2,140.7	—	2,140.7		
Corporate unallocated	—	—	—	—	—	—	69.7	69.7	—	69.7		
Total continuing operations	1,486.0	4,382.7	77.7	125.1	2,126.5	8.7	378.1	8,584.8	23.4	8,608.2		
Discontinued operations												
Gas Production	—	—	—	—	—	—	8.1	8.1	—	8.1		
Total discontinued operations	—	—	—	—	—	—	8.1	8.1	—	8.1		
Total SSE Group	1,486.0	4,382.7	77.7	125.1	2,126.5	8.7	386.2	8,592.9	23.4	8,616.3		

Notes to the consolidated financial statements continued

For the year ended 31 March 2022

5. Segmental information continued

5.1 Segmental information disclosure continued

	(Restated*)										
	Revenue from contracts with customers								Total revenue from contracts with customers 2021 £m	Other contract revenue 2021 £m	Total 2021 £m
	Goods or services transferred over time				Goods or services transferred at a point in time						
	Use of electricity networks 2021 £m	Supply of energy and ancillary services 2021 £m	Construction related services 2021 £m	Other contracted services 2021 £m	Physical energy 2021 £m	Gas storage 2021 £m	Other revenue 2021 £m				
Continuing operations											
SSEN Transmission	373.8	–	–	26.4	–	–	4.7	404.9	–	404.9	
SSEN Distribution	787.1	–	–	9.1	–	–	16.2	812.4	22.1	834.5	
SSE Renewables (i)	–	117.7	–	42.2	122.0	–	–	281.9	–	281.9	
SSE Thermal Gas Storage	–	484.3	–	–	–	–	19.7	504.0	–	504.0	
Energy Customer Solutions	–	–	–	–	–	–	–	–	–	–	
Business Energy	–	1,934.5	–	–	–	–	–	1,934.5	–	1,934.5	
SSE Airtricity	–	1,055.2	–	17.5	–	–	–	1,072.7	–	1,072.7	
Distributed Energy	12.8	15.4	265.4	33.3	1.2	–	0.5	328.6	5.9	334.5	
EPM	–	–	–	–	988.9	–	373.8	1,362.7	–	1,362.7	
Corporate unallocated	–	–	–	–	–	–	89.6	89.6	–	89.6	
Total continuing operations	1,173.7	3,607.1	265.4	128.5	1,112.1	7.1	504.5	6,798.4	28.0	6,826.4	
Discontinued operations											
Gas Production	–	–	–	–	–	–	14.2	14.2	–	14.2	
Total discontinued operations	–	–	–	–	–	–	14.2	14.2	–	14.2	
Total SSE Group	1,173.7	3,607.1	265.4	128.5	1,112.1	7.1	518.7	6,812.6	28.0	6,840.6	

* The comparative disaggregated segment revenue has been restated. See note 1.2.

(i) For the SSE Renewables £42.2m of revenue for the year ended 31 March 2021 has been reallocated from Supply of energy and ancillary services to Other contracted services.

Included within trade and other receivables (note 18) is £492.7m (2021: £325.0m) of unbilled energy income and £nil (2021: £12.8m) of contract related assets. Included within trade and other payables (note 19) is £242.5m (2021: £240.6m) of contract related liabilities. Contract related assets reflect the Group's right to consideration in exchange for goods or services that have transferred to the customer, and contract related liabilities reflect the Group's obligation to transfer future goods or services for which the Group has already received consideration. Contract related assets and liabilities principally arose in the Distributed Energy reporting segment with changes during the periods reflecting ongoing contract progress, offset by cash receipts or customer invoicing.

The Group has not disclosed information related to the transaction price allocated to remaining performance obligations on the basis that the Group's contracts either have an original expected duration of less than one year, or permit the Group to recognise revenue as invoiced.

Revenue by geographical location on continuing operations is as follows:

	2022 £m	2021 £m
UK	7,292.1	5,834.4
Ireland	1,316.1	992.0
	8,608.2	6,826.4

(ii) Operating profit/(loss) by segment

	Adjusted operating profit reported to the Board APM £m	Depreciation on fair value uplifts £m	JV/Associate share of interest and tax £m	Adjustments to Gas Production decommissioning provision £m	Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	Total £m
Continuing operations							
SSEN Transmission	380.5	–	–	–	380.5	–	380.5
SSEN Distribution	351.8	–	–	–	351.8	–	351.8
SSE Renewables	568.1	(18.8)	(92.9)	–	456.4	(28.6)	427.8
SSE Thermal	306.3	–	(9.5)	–	296.8	333.3	630.1
Gas Storage	30.7	–	–	–	30.7	94.7	125.4
Energy Customer Solutions							
Business Energy	(21.5)	–	–	–	(21.5)	–	(21.5)
SSE Airtricity	60.4	–	–	–	60.4	–	60.4
Distributed Energy	(10.9)	–	–	–	(10.9)	(18.3)	(29.2)
EPM	(16.8)	–	–	–	(16.8)	2,100.4	2,083.6
Corporate							
Corporate unallocated	(95.7)	–	(4.7)	(13.1)	(113.5)	–	(113.5)
Neos	(16.1)	(1.8)	(7.0)	–	(24.9)	(115.1)	(140.0)
Total continuing operations	1,536.8	(20.6)	(114.1)	(13.1)	1,389.0	2,366.4	3,755.4
Discontinued operations							
Gas Production	101.4	–	–	–	101.4	(120.8)	(19.4)
SGN	21.0	–	(12.8)	–	8.2	487.2	495.4
Total discontinued operations	122.4	–	(12.8)	–	109.6	366.4	476.0
Total SSE Group	1,659.2	(20.6)	(126.9)	(13.1)	1,498.6	2,732.8	4,231.4

(i) The adjusted operating profit reported to the Board for SSE Airtricity includes a correction in respect of historic use of systems costs of £25.0m. It has been assessed that adjustment in the current year does not materially impact prior year financial statements.

The adjusted operating profit of the Group is reported after removal of the Group's share of interest, fair value movements on financing derivatives, Gas Production decommissioning costs, the depreciation charged on fair value uplifts and tax from joint ventures and associates and after adjusting for exceptional items and certain re-measurements (note 7). The share of SGN interest includes loan stock interest payable to the consortium shareholders (included in SGN). The Group has accounted for its 33% share of this, £6.8m (2021: £9.8m), as discontinued finance income (note 9).

The Group's share of operating profit from joint ventures and associates has been recognised in the SSE Renewables, SSE Thermal, Distributed Energy and SGN segments.

Notes to the consolidated financial statements continued
For the year ended 31 March 2022

5. Segmental information continued

5.1 Segmental information disclosure continued

(ii) **Operating profit/(loss) by segment**

	2021 (restated*)						
	Adjusted operating profit reported to the Board APM £m	Depreciation on fair value uplifts £m	JV/Associate share of interest and tax £m	Adjustments to Gas Production decommissioning provision £m	Before exceptional items and certain re- measurements £m	Exceptional items and certain re- measurements £m	Total £m
Continuing operations							
SSEN Transmission	220.9	–	–	–	220.9	–	220.9
SSEN Distribution	275.8	–	–	–	275.8	–	275.8
SSE Renewables	731.8	(18.8)	(71.4)	–	641.6	214.4	856.0
SSE Thermal Gas Storage	160.5 (5.7)	– –	(19.6) –	– –	140.9 (5.7)	634.4 8.5	775.3 2.8
Energy Customer Solutions							
Business Energy	(24.0)	–	–	–	(24.0)	20.1	(3.9)
SSE Airtricity	44.0	–	–	–	44.0	6.0	50.0
Distributed Energy	(27.0)	–	–	–	(27.0)	(49.1)	(76.1)
EPM	18.4	–	–	–	18.4	590.1	608.5
Corporate							
Corporate unallocated	(58.4)	(1.8)	(2.4)	–	(62.6)	22.3	(40.3)
Neos	(2.8)	–	(11.3)	–	(14.1)	–	(14.1)
Total continuing operations	1,333.5	(20.6)	(104.7)	–	1,208.2	1,446.7	2,654.9
Discontinued operations							
Gas Production	33.0	–	–	–	33.0	–	33.0
SGN	173.0	–	(86.0)	–	87.0	1.6	88.6
Total discontinued operations	206.0	–	(86.0)	–	120.0	1.6	121.6
Total SSE Group	1,539.5	(20.6)	(190.7)	–	1,328.2	1,448.3	2,776.5

* The comparative operating profit by segment information has been restated. See note 1.2.

(iii) Capital expenditure by segment

	Capital additions to intangible assets 2022 £m	Capital additions to property, plant and equipment 2022 £m	Capital additions to intangible assets 2021 £m	Capital additions to property, plant and equipment 2021 £m
Continuing operations				
SSEN Transmission	5.8	608.6	6.3	429.9
SSEN Distribution	15.6	440.5	12.5	400.1
SSE Renewables	265.2	193.2	112.7	111.2
SSE Thermal	9.5	65.1	3.4	76.7
Gas Storage	—	2.1	—	1.9
Energy Customer Solutions				
Business Energy	4.6	30.6	—	25.6
SSE Airtricity	—	4.6	—	5.6
Distributed Energy	8.7	17.9	2.6	21.9
EPM	545.3	1.6	509.0	2.1
Corporate unallocated	65.8	21.2	53.9	1.6
Total continuing operations	920.5	1,385.4	700.4	1,076.6
Discontinued operations				
Gas Production	—	13.9	0.9	25.9
Total discontinued operations	—	13.9	0.9	25.9
Total SSE Group	920.5	1,399.3	701.3	1,102.5
(Decrease)/increase in prepayments related to capital expenditure	—	(2.0)	—	0.5
Decrease/(increase) in trade payables related to capital expenditure	—	53.3	—	(10.8)
IFRS 15 adjustment	—	(91.3)	—	(61.8)
Lease asset additions	—	(85.7)	—	(45.4)
Less non-cash items				
Allowance and certificates	(193.7)	—	(201.6)	—
Assets acquired through acquisitions	(197.8)	—	—	—
Net cash outflow	529.0	1,273.6	499.7	985.0

Capital additions do not include assets acquired in acquisitions or assets acquired under leases. Capital additions to intangible assets includes the cash purchase of emissions allowances and certificates (2022: £350.8m; 2021: £307.4m). Other non-cash additions comprise self-generated renewable obligation certificates.

No segmental analysis of assets requires to be disclosed as this information is not presented to the Board.

Notes to the consolidated financial statements continued
For the year ended 31 March 2022

5. Segmental information continued

5.1 Segmental information disclosure continued

(iii) Capital expenditure by segment

At 31 March 2022	Capital additions to intangible assets 2022 £m	Capital additions to property, plant and equipment 2022 £m	Capital Investment relating to Joint Ventures and Associates (i)	Allowances and certificates (ii)	Customer funded additions (iii)	Acquired through business combinations (iv)	Lease asset additions (v)	Additions subsequently disposed (vi)	Refinancing proceeds (vii)	Adjusted Investment and Capital Expenditure 2022 APM £m
Continuing operations										
SSEN										
Transmission	5.8	608.6	–	–	–	–	–	–	–	614.4
SSEN										
Distribution	15.6	440.5	–	–	(91.3)	–	–	–	–	364.8
SSE Renewables	265.2	193.2	588.8	–	–	(197.8)	(38.4)	–	(136.7)	674.3
SSE Thermal	9.5	65.1	54.7	–	–	–	–	–	–	129.3
Gas Storage	–	2.1	–	–	–	–	–	–	–	2.1
Energy										
Customer Solutions										
Business										
Energy	4.6	30.6	–	–	–	–	–	–	–	35.2
SSE Airtricity	–	4.6	–	–	–	–	–	–	–	4.6
Distributed Energy	8.7	17.9	–	–	–	–	–	–	–	26.6
EPM	545.3	1.6	–	(544.5)	–	–	–	–	–	2.4
Corporate unallocated	65.8	21.2	39.0	–	–	–	(47.3)	–	–	78.7
Total continuing operations	920.5	1,385.4	682.5	(544.5)	(91.3)	(197.8)	(85.7)	–	(136.7)	1,932.4
Discontinued operations										
Gas Production	0.5	13.4	–	–	–	–	–	(13.9)	–	–
Total discontinued operations	0.5	13.4	–	–	–	–	–	(13.9)	–	–
Total SSE Group	921.0	1,398.8	682.5	(544.5)	(91.3)	(197.8)	(85.7)	(13.9)	(136.7)	1,932.4

(i) Represents equity or debt funding provided to joint ventures or associates in relation to capital expenditure projects.

(ii) Allowances and Certificates consist of purchased carbon emissions allowances and generated or purchased renewable obligations certificates (ROCs) and are not included in the Group's Capital Expenditure and Investment alternative performance measure.

(iii) Represents removal of additions to electricity and other networks funded by customer contributions.

(iv) Represents removal of additions achieved through business combinations; for Renewables additions of £197.8m refer to note 12. Note that the Group's Adjusted Investment, Capital and Acquisitions metric includes the £141.3m cash consideration paid for Business Combinations and totals £2,073.7m.

(v) Represents removal of additions in respect of right of use assets recognised on the commencement date of a lease arrangement.

(vi) On 14 October 2021, the Group disposed of its Gas Production business but retained a 60% share of the decommissioning obligation of the business.

(vii) Represents the refunding of equity or debt funding provided by the Group (predominately to joint ventures); as the funding is included at i) above, when there is a refinancing and SSE receives a repayment, those proceeds are excluded from its adjusted capex measure. In the year ended 31 March 2022, Doggerbank windfarm reimbursed SSE for previous funding of £136.7m.

	(restated*)								Adjusted Investment and Capital Expenditure 2021 [APM] £m
	Capital additions to intangible assets 2021 £m	Capital additions to property, plant and equipment 2021 £m	Capital Investment relating to Joint Ventures and Associates (i)	Allowances and certificates (ii)	Customer funded additions (iii)	Lease asset additions (iv)	Refinancing proceeds (v)	Additions subsequently disposed (vi)	
At 31 March 2021									
Continuing operations									
SSEN Transmission	6.3	429.9	–	–	–	(1.0)	–	–	435.2
SSEN Distribution	12.5	400.1	–	–	(61.8)	–	–	–	350.8
SSE Renewables	112.7	111.2	97.9	–	–	(7.8)	(428.6)	(19.7)	(134.3)
SSE Thermal	3.4	76.7	26.4	–	–	–	–	–	106.5
Gas Storage	–	1.9	–	–	–	–	–	–	1.9
Energy Customer Solutions									
Business Energy	–	25.6	–	–	–	–	–	–	25.6
SSE Airtricity	–	5.6	–	–	–	–	–	–	5.6
Distributed Energy	2.6	21.9	–	–	–	(6.9)	–	–	17.6
EPM	509.0	2.1	–	(509.0)	–	–	–	–	2.1
Corporate unallocated	53.9	1.6	48.4	–	–	(29.7)	–	–	74.2
Total continuing operations	700.4	1,076.6	172.7	(509.0)	(61.8)	(45.4)	(428.6)	(19.7)	885.2
Discontinued operations									
Gas Production	0.9	25.9	–	–	–	–	–	–	26.8
Total discontinued operations	0.9	25.9	–	–	–	–	–	–	26.8
Total SSE Group	701.3	1,102.5	172.7	(509.0)	(61.8)	(45.4)	(428.6)	(19.7)	912.0

* The comparatives have been restated. See note 1.2.

- (i) Represents equity or debt funding provided to joint ventures or associates in relation to capital expenditure projects.
- (ii) Allowances and Certificates consist of purchased carbon emissions allowances and generated or purchased renewable obligations certificates (ROCs) and are not included in the Group's Capital Expenditure and Investment alternative performance measure.
- (iii) Represents removal of additions to electricity and other networks funded by customer contributions.
- (iv) Represents removal of right of use assets recognised on the commencement date of a lease arrangement.
- (v) Represents the refunding of equity or debt funding provided by the Group (predominately to joint ventures); as the funding is included at i) above, when there is a refinancing and SSE receives a repayment, those proceeds are excluded from its adjusted capex measure. In the year to 31 March 2021, the Group received reimbursed capex of £246.1m in relation to Seagreen windfarm (prior to disposal of a stake in the venture) and £182.5m in relation to Doggerbank windfarm.
- (vi) In the year the Group funded £19.7m of capex additions in relation to the Seagreen windfarm prior to disposal. On 3 June 2020, the Group disposed of a 51% stake in Seagreen 1 (note 12), therefore the capex incurred prior to that date has been excluded from the Group's net adjusted investment and capital expenditure metric.

Notes to the consolidated financial statements continued
For the year ended 31 March 2022

5. Segmental information continued

5.1 Segmental information disclosure continued

(iv) Items included in operating profit/(loss) by segment

	Depreciation/impairment on property, plant and equipment			Amortisation/impairment of intangible assets		
	Before exceptional charges 2022 £m	Impairment charges/ (credits) 2022 £m	Total 2022 £m	Before exceptional charges 2022 £m	Impairment charges/ (credits) 2022 £m	Total 2022 £m
Continuing operations						
SSEN Transmission	99.6	–	99.6	3.6	–	3.6
SSEN Distribution	165.8	20.7	186.5	9.4	–	9.4
SSE Renewables	160.1	–	160.1	0.8	–	0.8
SSE Thermal Gas Storage	69.8 0.8	(331.6) (97.3)	(261.8) (96.5)	0.4 –	– –	0.4 –
Energy Customer Solutions						
Business Energy	5.1	–	5.1	6.2	–	6.2
SSE Airtricity	0.2	–	0.2	1.5	–	1.5
Distributed Energy	5.6	(1.6)	4.0	2.3	0.5	2.8
EPM	–	–	–	4.5	–	4.5
Corporate unallocated	38.4	–	38.4	16.7	1.0	17.7
Total continuing operations	545.4	(409.8)	135.6	45.4	1.5	46.9
Discontinued operations						
Gas Production	–	120.8	120.8	–	–	–
Total discontinued operations	–	120.8	120.8	–	–	–
Total SSE Group	545.4	(289.0)	256.4	45.4	1.5	46.9

	(restated*)					
	Depreciation/impairment on property, plant and equipment			Amortisation/impairment of intangible assets		
	Before exceptional charges 2021 £m	Impairment charges 2021 £m	Total 2021 £m	Before exceptional charges 2021 £m	Impairment charges 2021 £m	Total 2021 £m
Continuing operations						
SSEN Transmission	85.1	–	85.1	2.0	–	2.0
SSEN Distribution	159.9	–	159.9	8.9	–	8.9
SSE Renewables	157.7	0.5	158.2	0.5	4.7	5.2
SSE Thermal	54.3	58.1	112.4	–	–	–
Gas Storage	0.8	–	0.8	–	–	–
Energy Customer Solutions						
Business Energy	4.6	–	4.6	0.5	–	0.5
SSE Airtricity	6.0	–	6.0	1.5	–	1.5
Distributed Energy	6.6	(1.9)	4.7	2.1	–	2.1
EPM	0.3	–	0.3	3.9	–	3.9
Corporate unallocated	48.0	15.1	63.1	13.5	5.2	18.7
Total continuing operations	523.3	71.8	595.1	32.9	9.9	42.8
Discontinued operations						
Gas Production	–	–	–	–	–	–
Total discontinued operations	–	–	–	–	–	–
Total SSE Group	523.3	71.8	595.1	32.9	9.9	42.8

* The comparatives have been restated. See note 1.2.

The Group's share of SGN depreciation (2022: £10.4m; 2021: £57.4m) and amortisation (2022: £0.7m; 2021: £4.2m) is not included within operating costs.

Notes to the consolidated financial statements continued
For the year ended 31 March 2022

5. Segmental information continued

5.1 Segmental information disclosure continued

(v) **Earnings before interest, taxation, depreciation and amortisation ('EBITDA')**

	Adjusted operating profit reported to the Board (note 5.1(ii)) APM 2022 £m	Depreciation on fair value uplifts 2022 £m	Depreciation/ impairment/ amortisation before exceptional charges (note 5.1(iv)) 2022 £m	JV/Associate share of depreciation and amortisation (note 16.4) 2022 £m	Release of deferred income (note 6) 2022 £m	Adjusted EBITDA APM 2022 £m
Continuing operations						
SSEN Transmission	380.5	—	103.2	—	(3.8)	479.9
SSEN Distribution	351.8	—	195.9	—	(11.6)	536.1
SSE Renewables	568.1	(18.8)	160.9	85.4	—	795.6
SSE Thermal	306.3	—	70.2	19.0	—	395.5
Gas Storage	30.7	—	0.8	—	—	31.5
Energy Customer Solutions						
Business Energy	(21.5)	—	11.3	—	—	(10.2)
SSE Airtricity	60.4	—	1.7	—	—	62.1
Distributed Energy	(10.9)	—	7.4	—	(1.3)	(4.8)
EPM	(16.8)	—	4.5	—	—	(12.3)
Corporate						
Corporate unallocated	(95.7)	—	56.1	—	(0.9)	(40.5)
Neos	(16.1)	(1.8)	—	42.2	—	24.3
Total continuing operations	1,536.8	(20.6)	612.0	146.6	(17.6)	2,257.2
Discontinued operations						
Gas Production	101.4	—	—	—	—	101.4
SGN	21.0	—	—	11.1	—	32.1
Total discontinued operations	122.4	—	—	11.1	—	133.5
Total SSE Group	1,659.2	(20.6)	612.0	157.7	(17.6)	2,390.7

Note that the Group's 'Net Debt to EBITDA' metric is derived after removing the proportionate EBITDA from the following debt-financed JVs: Beatrice and Cloosh. This adjustment is £125.4m (2021: £110.5m) (restated) resulting in EBITDA on continuing operations for inclusion in the Debt to EBITDA metric of £2,131.2m (2021: £1,884.8m restated).

The £612.0m combined depreciation, impairment and amortisation charges included non-exceptional impairments totalling £21.2m.

	Adjusted operating profit reported to the Board (note 5.1 (ii)) APM 2021 £m	Depreciation on fair value uplifts 2021 £m	(restated*) Depreciation/ impairment/ amortisation before exceptional charges (note 5.1 (iv)) 2021 £m	JV/Associate share of depreciation and amortisation (note 16.4) 2021 £m	Release of deferred income (note 6) 2021 £m	Adjusted EBITDA APM 2021 £m
Continuing operations						
SSEN Transmission	220.9	–	87.1	–	(2.6)	305.4
SSEN Distribution	275.8	–	168.8	–	(11.3)	433.3
SSE Renewables	731.8	(18.8)	158.0	90.1	–	961.1
SSE Thermal Gas Storage	160.5 (5.7)	– –	54.3 0.8	15.8 –	(1.0) –	229.6 (4.9)
Energy Customer Solutions						
Business Energy	(24.0)	–	4.6	–	–	(19.4)
SSE Airtricity	44.0	–	7.5	–	–	51.5
Distributed Energy	(27.0)	–	8.2	–	(1.7)	(20.5)
EPM	18.4	–	5.3	–	–	23.7
Corporate						
Corporate unallocated	(58.4)	(1.8)	61.6	2.7	(1.1)	3.0
Neos	(2.8)	–	–	35.3	–	32.5
Total continuing operations	1,333.5	(20.6)	556.2	143.9	(17.7)	1,995.3
Discontinued operations						
Gas Production	33.0	–	–	–	–	33.0
SGN	173.0	–	–	61.6	–	234.6
Total discontinued operations	206.0	–	–	61.6	–	267.6
Total SSE Group	1,539.5	(20.6)	556.2	205.5	(17.7)	2,262.9

* The comparative operating profit by segment information has been restated. See note 2.1.

Notes to the consolidated financial statements continued
For the year ended 31 March 2022

6. Other operating income and cost

Group operating profit on continuing operations is stated after charging/(crediting) the following items:

	2022 £m	2021 £m
Depreciation of property, plant and equipment on continuing operations (i) (note 14)	544.8	523.3
Net exceptional gains on disposal (note 7)	(4.3)	(976.0)
Exceptional (credits)/charges (continuing operations) (note 7)	(297.5)	125.7
Research costs	12.0	12.0
Lease charges (ii)	11.0	11.6
Release of deferred income in relation to capital grants and historic customer contributions	(17.6)	(17.7)
Gain on disposals (non-exceptional) (note 12)	(67.1)	(251.9)
Amortisation of other intangible assets	1.5	2.7

(i) Does not include exceptional impairment charges.

(ii) Represents the expense of leases with a duration of 12 months or less and leases for assets which are deemed "low value" under the principles of IFRS 16.

In addition, variable lease payments, which are not included within the measurement of lease liabilities as they do not depend on an index or rate, of £7.8m (2021: £4.1m) were charged in the current year.

Auditor's remuneration

	2022 £m	2021 £m
Audit of these financial statements	0.4	0.4
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	3.1	1.9
Audit related assurance services	0.3	0.2
Other services fees	0.1	0.2
	3.5	2.3
Total remuneration paid to auditor	3.9	2.7

Audit fees in the current year include scope changes and overruns of £0.4m (2021: £0.4m) related to the prior year audit. Assurance and Tax service fees incurred in the year were £0.5m (2021: £0.4m). Audit related assurance services include fees incurred in relation to regulatory accounts and returns required by Ofgem and comfort letters in connection with funding and debt issuance. A description of the work of the Audit Committee is set out on [pages 152 to 161](#) and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

7. Exceptional items and certain re-measurements

	2022 £m	2021 £m (restated*)
Continuing operations		
Exceptional items (note 7.1)		
Asset impairments and related (charges) and credits	322.6	(50.4)
Provisions for restructuring and other liabilities	—	(75.3)
	322.6	(125.7)
Net (losses)/gains on disposals of businesses and other assets	(17.6)	976.0
Total exceptional items	305.0	850.3
Certain re-measurements		
Movement on operating derivatives (note 24)	2,100.4	590.1
Movement in fair value of commodity stocks	(2.6)	8.5
Movement on financing derivatives (note 24)	21.0	55.6
Share of movement on derivatives in jointly controlled entities (net of tax)	—	(0.8)
Total certain re-measurements	2,118.8	653.4
Exceptional items and certain re-measurements on continuing operations before taxation	2,423.8	1,503.7
Taxation		
Taxation on other exceptional items	(79.0)	3.1
Taxation on certain re-measurements	(408.0)	(125.9)
Effect of deferred tax rate change in wholly owned entities	(244.7)	—
Effect of deferred tax rate change in jointly controlled entities	(33.2)	—
Taxation	(764.9)	(122.8)
Total exceptional items and certain re-measurements on continuing operations after taxation	1,658.9	1,380.9
Discontinued operations		
Exceptional items		
Gas production disposal and related charges	(120.8)	—
Net gain on disposal of jointly controlled entities	576.5	—
Share of movement on derivatives in jointly controlled entities (net of tax)	(3.8)	1.6
Effect of deferred tax rate change in jointly controlled entities	(85.5)	—
Total exceptional items and certain re-measurements on discontinued operations after taxation	366.4	1.6

* The comparatives have been restated. See note 1.2.

Notes to the consolidated financial statements continued

For the year ended 31 March 2022

7. Exceptional items and certain re-measurements continued

Exceptional items and certain remeasurements are disclosed across the following categories within the income statement:

	2022 £m	2021 £m (restated*)
Continuing operations		
Cost of sales:		
Movement on operating derivatives (note 24)	2,100.4	590.1
Movement in fair value of commodity stocks	(2.6)	8.5
	2,097.8	598.6
Operating costs:		
Asset impairments and reversals	322.6	(30.1)
SSE Energy Services related restructuring costs and asset impairments	—	(24.2)
Other exceptional provisions and charges	(25.1)	(72.8)
	297.5	(127.1)
Operating income:		
Net gains on disposals of businesses and other assets	4.3	976.0
	4.3	976.0
Joint ventures and associates:		
Share of movement on derivatives in jointly controlled entities (net of tax)	—	(0.8)
Effect of deferred tax rate change in jointly controlled entities	(33.2)	—
	(33.2)	(0.8)
Operating profit	2,366.4	1,446.7
Finance income		
Movement on financing derivatives (note 24)	21.0	55.6
Interest income on deferred consideration receipt	3.2	1.4
	24.2	57.0
Profit before tax on continuing operations	2,390.6	1,503.7
Discontinued operations		
Gas Production asset impairments and related charges	(120.8)	—
Joint ventures and associates:		
Net gain on disposal of jointly controlled entities	576.5	—
Share of movement on derivatives in jointly controlled entities (net of tax)	(3.8)	1.6
Profit before tax on discontinued operations	451.9	1.6

* The comparatives have been restated. See note 1.2.

7.1 Exceptional items

Exceptional items in the year ended 31 March 2022

In the year to 31 March 2022, the Group recognised a net exceptional credit of £305.0m arising from its continuing operations. The net exceptional credit is primarily due to impairment reversals of £331.5m in relation to the Group's GB combined cycle gas turbine ('CCGT') power stations and the Group's Great Island CCGT plant in Ireland and impairment reversals of £97.3m related to the Group's Gas Storage operations at Atwick and Aldbrough. These credits have been offset by an impairment loss of £106.9m recognised in relation to the Group's investment in Neos Networks, a further £18.9m loss recognised on completion of the disposal of SSE Contracting on 30 June 2021 and £6.2m consideration adjustment associated with the disposal of the Group's 50% stake in Neos Networks, which completed in the year ended 31 March 2019.

In discontinued operations, the Group recognised an exceptional gain on the disposal of the Group's 33.3% investment in SGN of £576.5m, offset by an exceptional charge of £120.8m associated with the disposal of its Gas Production assets, which completed on 14 October 2021.

The net exceptional charges/(credits) recognised can be summarised as follows:

	Property, plant and equipment (note 14) £m	Held for sale £m	Provisions and other charges £m	Investment in joint ventures £m	Other receivables £m	Total charges/ (credits) £m
Thermal Electricity Generation (i)	(331.6)	–	–	–	–	(331.6)
Gas storage (ii)	(97.3)	–	–	–	–	(97.3)
SSE Contracting (iii)	–	–	18.9	–	–	18.9
Neos Networks (iv)	–	–	6.2	106.9	–	113.1
Other credits (v)	(0.6)	–	–	–	(7.5)	(8.1)
Total exceptional items continuing operations	(429.5)	–	25.1	106.9	(7.5)	(305.0)
SGN disposal gain (vi)	–	–	–	–	(576.5)	(576.5)
Gas Production (vii)	–	120.8	–	–	–	120.8
Total exceptional items discontinued operations	–	120.8	–	–	(576.5)	(455.7)
Total exceptional items	(429.5)	120.8	25.1	106.9	(584.0)	(760.7)

(i) Thermal Electricity Generation – impairment reversals

At 31 March 2022, the Group has carried out a formal impairment review in order to assess the carrying value of its GB combined cycle gas turbine ('CCGT') power stations and the Group's Great Island CCGT plant in Ireland (see note 15.2). As a result of the assessment, the Group has recognised an exceptional impairment reversal of £331.6m to the carrying value of the assets.

(ii) Gas Storage – impairment reversal

At 31 March 2022, the Group has carried out a formal impairment review in order to assess the carrying value of its Gas Storage operations at Atwick and Aldbrough (see note 15.2). As a result of the assessment, the Group has recognised an exceptional impairment reversal of £97.3m to the carrying value of the assets.

(iii) SSE Contracting – loss on disposal

On 30 June 2021, the Group completed the sale of its Contracting and Rail business to the Aurelius Group for headline consideration of £22.5m and £5m of contingent consideration, based on earning targets within the business. Due to working capital adjustments, cash consideration received was £0.2m. The Group recorded a further exceptional loss on disposal of £18.9m on completion, in addition to the exceptional impairment loss of £51.2m recognised during the year ended 31 March 2021.

(iv) Neos Networks – investment impairment and adjustments to consideration

At 31 March 2022, the Group has assessed that the value of its investment in Neos Networks has been impaired by £106.9m. See note 15 for detail of this assessment.

In the year ended 31 March 2019, the Group disposed of 50% of its stake in Neos Networks Limited (formerly SSE Telecommunications Limited) to Infracapital Partners III, 'Infracap', for initial consideration of £215.0m and the potential for a further £165m of contingent consideration dependent on achievement of certain targets. In the year ended 31 March 2022, the Group reassessed its position relating to the retained contingent elements and its contractual position with Infracap, with the net impact being the recognition of an exceptional charge of £6.2m.

(v) Other credits

At 31 March 2022, the Group recognised further exceptional credits of £8.1m relating to reversal of previously recognised exceptional charges or judgements. These included i) reassessment of impairments associated with Heat Networks assets (credit of £0.6m), ii) credit of £3.2m (2021: £1.4m) in relation to the unwind of discounting on deferred consideration recognised on the part disposal of SSE Slough Multifuel Limited in the year ending 31 March 2021, iii) credit of £4.3m in relation to a gain on disposal of historically impaired land at Seabank.

Exceptional items within discontinued operations in the year ended 31 March 2022

(vi) SGN disposal gain

On 2 August 2021, the Group announced it had agreed to sell its 33.3% investment in SGN to a consortium comprising existing SGN shareholders Ontario Teachers' Pension Plan Board and Brookfield Super-Core Infrastructure Partners for cash consideration of £1,225m. The transaction completed on 22 March 2022, with the Group recognising an exceptional gain on disposal of £576.5m. See note 12.2 for further information.

Notes to the consolidated financial statements continued

For the year ended 31 March 2022

7. Exceptional items and certain re-measurements continued

7.1 Exceptional items continued

(vii) Gas Production – loss on disposal

The Group recorded an exceptional disposal loss of £120.8m related to sale of its Gas Production assets and liabilities to Viaro Energy through its subsidiary RockRose Energy Limited which completed on 14 October 2021. At 30 September 2021 an impairment charge of £93.9m was recognised in relation to the loss on sale incurred to 30 September 2021 under the transaction's lock box mechanism. The further £26.9m recognised in the second half of the financial year represents the profit of the business due to the buyer between 1 October 2021 and the disposal date on 14 October 2021. See note 12.2 for further information.

Exceptional items in the year ended 31 March 2021

In the year to 31 March 2021, the Group recognised a net exceptional credit of £850.3m in its continuing operations. The net exceptional credit was primarily due to gains on disposal of the Group's stakes in Ferrybridge Multifuel (£669.9m), Walney offshore windfarm (£188.7m) and Maple SmartMeterCo (£70.4m). In addition, the Group reversed £26.1m of prior year exceptional provisions for bad debt arising from coronavirus and recorded exceptional gains following the fair value uplift of its retained stakes in SSE Slough Multifuel Limited (£21.3m) and Seagreen Holdco 1 Limited (£25.7m). These exceptional credits were offset by an impairment to the Group's Great Island Thermal CCGT plant of £58.1m and a write down to fair value less costs to sell SSE Contracting, which was held for sale at 31 March 2021, of £51.2m. Finally, the Group incurred £24.2m of further charges related to the disposal of SSE Energy Services which was completed in 2020 and reduced the overall gain on disposal, completed in the year ended 31 March 2019, of SSE Telecommunications Limited by £21.8m.

The net exceptional charges/(credits) recognised can be summarised as follows:

	Property, plant and equipment (note 14) £m	Intangible assets (note 13) £m	Provisions and other charges £m	Trade receivables £m	Other receivables £m	Total charges/ (credits) £m
Thermal Electricity Generation (i)	58.1	–	–	–	–	58.1
Customer bad debt provisioning (ii)	–	–	–	(26.1)	–	(26.1)
SSE Contracting (iii)	–	–	51.2	–	–	51.2
SSE Energy Services disposal costs (iv)	15.1	5.2	3.9	–	–	24.2
Neos Networks (v)	–	–	20.2	–	1.6	21.8
Other charges (vi)	(1.9)	–	–	–	(1.6)	(3.5)
Disposal gains (vii)	–	–	–	–	(976.0)	(976.0)
Total exceptional items	71.3	5.2	75.3	(26.1)	(976.0)	(850.3)

(i) Thermal Electricity Generation – impairment charges

At 31 March 2021, the Group carried out a formal impairment review in order to assess the carrying value of its CCGT plant at Great Island. As a result of the assessment, the Group recognised an exceptional impairment of £58.1m to the carrying value of the asset, which arose following reductions in forward price curves and forecast electricity demand in Ireland.

(ii) Customer bad debt provisioning

In the year ending 31 March 2020, the Group recognised an exceptional provision for exposure to bad debts of £33.7m specifically related to the coronavirus pandemic within its Business Energy (£27.7m) and Airtricity (£6.0m) businesses. The initial outbreak of the pandemic happened late in 2019 and the UK remained in lockdown at the date of approval of the Annual Report on 16 June 2020, which meant that there was significant uncertainty surrounding the judgement at that date. The provision reflected the Group's best estimate at that date and was treated as an adjusting post balance sheet event. During the year to 31 March 2021, the Group achieved higher cash collections in recovery of its debt than was expected, largely due to government support schemes and other factors. As a result, an exceptional reversal of the provision of £20.1m in its Business Energy and £6.0m in its Airtricity businesses was recognised.

(iii) SSE Contracting – impairment charges

On 1 April 2021, subsequent to the balance sheet date, the Group announced the sale of its Contracting & Rail business to Aurelius Group. The transaction was for initial consideration of £17.5m, plus a loan note receivable of £5m, and a further £5m of contingent consideration based upon future financial performance of the business. At 31 March 2021, the Group classified its interest in the business as held for sale and impaired the carrying amount of the held for sale asset to its net realisable value, resulting in an impairment of £51.2m. The transaction completed on 30 June 2021.

(iv) SSE Energy Services disposal costs

In 2020, the Group disposed of its SSE Energy Services business to Ovo Energy Limited, incurring an exceptional loss of £237.7m. The calculation of the loss included estimates for costs of disposal and separation which were subsequently re-estimated in the year to 31 March 2021. These additional costs of disposal, which total £24.2m, included increased estimates of the cost of IT separation and decommissioning and the impairment of SSE properties which were wholly (or substantially) leased to the disposal group.

(v) Neos Networks adjustment to consideration

In the financial year to 31 March 2019, the Group disposed of 50% of its stake in Neos Networks Limited (formerly SSE Telecommunications Limited) to Infracapital Partners III, 'Infracap', for initial consideration of £215.0m and the potential for a further £165m of contingent consideration dependent on achievement of certain targets. In the year ended 31 March 2021, the Group received further cash proceeds of £44m relating to previously accrued deferred consideration but also reassessed its position relating to the retained contingent elements and its contractual position with Infracap, with the net impact being the recognition of an exceptional charge of £20.2m.

(vi) Other charges

At 31 March 2021, the Group recognised further exceptional credits of £3.4m relating to reversal of previously recognised exceptional charges or judgements. These included i) reassessment of impairments associated with Heat Networks assets (credit of £2.1m), ii) credit of £1.3m in relation to a gain on disposal of the historically impaired Barkip anaerobic digestion plant.

(vii) Disposal gains

During the year ended 31 March 2021 the Group progressed with its disposal plan for non-core assets announced in June 2020, which resulted in exceptional gains on disposal. The exceptional gains on disposal totalling £976.0m are summarised below. Further detail on the disposals in the year is provided in note 12.

On 13 October 2020, the Group announced it had reached an agreement to dispose of its 50% investment in Multifuel Energy Limited and Multifuel Energy 2 Limited (together 'MEL') to European Diversified Infrastructure Fund III for headline consideration of £995m. The transaction completed on 7 January 2021. The Group recorded an exceptional gain on disposal of £669.9m.

On 2 September 2020, the Group agreed to sell its subsidiary, SSE Renewables Walney Limited, to Greencoat UK Wind Plc for consideration of £350m, resulting in an exceptional gain on sale of £188.7m. SSE Renewables Walney Limited was the holding company of the Group's non-operated 25.1% stake in Walney Offshore Wind Farm. The disposal was not considered to be aligned to the Group's strategic objective of gaining value from divestment of stakes in offshore or international wind developments, therefore the gain on disposal was recognised as exceptional.

On 23 September 2020, the Group disposed of its 33% investment in Maple Topco Limited, the smart meter services provider, for proceeds of £95.3m, and recognised an exceptional gain on disposal of £70.4m.

On 3 June 2020, the Group disposed of a 51% stake in its wholly owned subsidiary, Seagreen Holdco 1 Ltd ('Seagreen 1'), to Total. The transaction was for initial cash proceeds of £70m, plus contingent consideration of up to £60m dependent upon future criteria being met. The Group assessed that control of the company was lost on that date, and that the investment in Seagreen 1 should be accounted for as an equity accounted joint venture under the principles of IFRS 11 "Joint Arrangements". The Group acquired the joint venture investment at fair value under the principles of IFRS 10 "Consolidated Financial Statements", resulting in a total gain of £49.0m. Of that gain, £25.7m was recognised as exceptional, as it represented the fair value gain on acquisition of the joint venture investment retained by the Group. The remaining £23.3m of the gain was included in underlying operations, in line with the Group's stated exceptional policy (see note 3.2).

On 2 April 2020, the Group disposed of a 50% stake in its wholly owned subsidiary, SSE Slough Multifuel Ltd, to Copenhagen Infrastructure Partners. The transaction was for initial cash proceeds of £10m, plus contingent consideration of up to £59.1m dependent upon future criteria being met. The Group assessed that control of the company was lost on that date, and that the investment in Slough Multifuel should be accounted for as an equity accounted joint venture under the principles of IFRS 11. The Group acquired the joint venture investment at fair value under the principles of IFRS 10, resulting in a total gain of £41.7m. Of that gain, £21.3m was recognised as exceptional, as it represented the fair value gain on acquisition of the joint venture investment retained by the Group. The remaining £20.4m of the gain was included in underlying operations, in line with the Group's stated exceptional policy (see note 3.2).

Exceptional items in the year ended 31 March 2020

In the year to 31 March 2020, the Group recognised a net exceptional charge of £209.7m in its continuing operations and a charge of £529.0m in its discontinued operations. The net exceptional charge in continuing operations was primarily due to the closure of Fiddler's Ferry coal fired power station (£112.3m), provisions for bad debts as a result of coronavirus of £33.7m, impairments to SSE assets as a result of the disposal of SSE Energy Services (£48.8m) and other asset impairments and restructuring costs of £45.6m. These exceptional charges were offset by gains on disposal of £30.6m in total related to recognition of additional contingent consideration, offset by related costs and including £2.4m of discount unwind, in relation to the 31 March 2019 disposal of SSE Telecommunications and a completion accounts adjustment to the gain on sale of Stronelaig and Dunmaglass windfarms, also from 31 March 2019 financial year.

In the discontinued operations, the Group incurred an exceptional impairment on its Gas Production assets of £291.3m to adjust the carrying value of the assets to their expected fair value on disposal, a loss on disposal of SSE Energy Services of £226.9m and restructuring costs of £10.8m within SSE Energy Services.

Notes to the consolidated financial statements continued

For the year ended 31 March 2022

7. Exceptional items and certain re-measurements continued

7.1 Exceptional items continued

The net exceptional items recognised can be summarised as follows:

	Property, plant and equipment £m	Intangible assets £m	Inventories £m	Provisions and other charges £m	Trade receivables £m	Other receivables £m	Total charges/ (credits) £m
Thermal Electricity							
Generation (i)	–	–	75.6	35.0	–	1.7	112.3
Other charges (ii)	–	83.0	–	11.3	33.7	–	128.0
Other income (iii)	–	1.9	–	5.3	–	(37.8)	(30.6)
Total continuing operations	–	84.9	75.6	51.6	33.7	(36.1)	209.7
SSE Energy Services (iv)	–	–	–	237.7	–	–	237.7
Gas Production (v)	231.1	60.2	–	–	–	–	291.3
Total SSE Group	231.1	145.1	75.6	289.3	33.7	(36.1)	738.7

7.2 Certain re-measurements

The Group, through its EPM business, enters into forward commodity purchase (and sales) contracts to meet the future demand requirements of its Business Energy and SSE Airtricity supply businesses and to optimise the value of its SSE Renewables and SSE Thermal. Certain of these contracts (predominately electricity, gas and other commodity purchase contracts) are determined to be derivative financial instruments under IFRS 9 "Financial Instruments" and as such are required to be recorded at their fair value. Conversely, commodity contracts that are not financial instruments under IFRS 9 (predominately electricity sales contracts) are accounted for as 'own use' contracts and are not recorded at their fair value. In addition, inventory purchased to utilise excess capacity ahead of an optimised sale in the market by the Gas Storage business is held as trading inventory at fair value.

Changes in the fair value through the profit and loss statement of those commodity contracts designated as financial instruments and trading inventory are therefore reflected in the income statement. The Group shows the change in the fair value of these forward contracts and trading inventory separately as "certain re-measurements", as the Group does not believe this mark-to-market movement is relevant to the underlying performance of its operating segments.

At 31 March 2022, volatility in global commodity markets has resulted in an 'in the money' mark-to-market remeasurement on commodity contracts (predominately gas purchases) designated as financial instruments and trading inventory of £2,100.4m (2021: £590.1m). However, the Group has executory 'own use' designated commodity contracts (predominately electricity sales) which, if classified as financial instruments and remeasured at fair value in accordance with IFRS 9, would significantly reduce the total fair value remeasurement and closing asset value. A significant proportion of 'in the money' mark-to-market remeasurement recorded at 31 March 2022 and unvalued 'own use' designated commodity contracts are expected to reverse in the next financial year as the relevant commodity is delivered. The remaining settlement of these contracts will predominately be within the subsequent 12 to 24 months. The mark-to-market gain in the year has resulted in a deferred tax charge of £408.0m, which has also been classified as exceptional.

The re-measurements arising from IFRS 9 and the associated deferred tax are disclosed separately to aid understanding of the underlying performance of the Group.

This category also includes the income statement movement on financing derivatives (and hedged items) as described in note 24.

7.3 Change in UK corporation tax rates

The Government announced in the Budget on 3 March 2021 that the main rate of corporation tax will increase to 25% for the financial year beginning 1 April 2023. Prior to this date, the rate of corporation tax will remain at 19%. The increase to 25% was substantively enacted at 24 May 2021 and therefore the deferred tax balances have been re-measured at 31 March 2022. The rate change resulted in an income statement charge for continuing operations of £244.7m and an increase to the Group's deferred tax liabilities (including the effect of equity accounted items) of £279.5m. The impact of the rate change on the Group's share of profits of its equity accounted investments was a charge of £55.2m for continuing operations and a charge of £85.6m for discontinued operations.

Finance Bill 2021 also included draft legislation in respect of Capital Allowance 'Super-deductions' of 130% in respect of General Pool plant and machinery, alongside First Year Allowances of 50% for Special Rate Pool plant and machinery for the two years commencing 1 April 2021. The Group expects these changes, which were substantively enacted on 24 May 2021, to significantly increase the deduction for Capital Allowances in the financial years ending 31 March 2022 and 31 March 2023. An estimate of the super-deduction has been taken into account when calculating the effective tax for the current year.

Taxation

The Group has separately recognised the tax effect of the exceptional items and certain re-measurements summarised above.

8. Directors and employees

8.1 Staff costs

	2022 £m	2021 £m
Continuing operations		
Staff costs:		
Wages and salaries	517.6	526.8
Social security costs	60.1	58.7
Share-based remuneration	17.6	18.2
Pension costs (note 23)	93.4	96.7
	688.7	700.4
Less: capitalised as property, plant and equipment or intangible assets	(157.4)	(144.8)
	531.3	555.6

The figures in the table above include £11.9m of staff costs related to the Group's Contracting and Rail business which was sold on 30 June 2021 (2021: £83.3m).

8.2 Employee numbers

	2022 Number	2021 Number
Numbers employed at 31 March in continuing operations	10,754	12,512
Numbers employed at 31 March in discontinued operations	—	1
	10,754	12,513

The average number of people employed by the Group (including Executive Directors) during the year was:

	2022 Number	2021 Number
Continuing operations		
SSEN Transmission	814	572
SSEN Distribution	3,984	3,704
SSE Renewables	1,286	1,084
SSE Thermal	432	466
Gas Storage	84	80
Energy Customer Solutions		
Business Energy	817	832
SSE Airtricity	766	688
Distributed Energy ¹	735	2,558
EPM	238	158
Corporate Services	1,598	1,547
Total from continuing operations	10,754	11,689
Discontinued operations		
Gas Production	—	2
Total from discontinued operations	—	2
Total SSE Group	10,754	11,691

1 Distributed energy employee numbers at March 2021 included 1,753 employees of the disposed Contracting and Rail business.

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For the year ended 31 March 2022

8. Directors and employees continued

8.3 Remuneration of key management personnel

The remuneration of the key management personnel of the Group (excluding amounts equivalent to pension value increases as set out in the Remuneration Report), is set out below in aggregate.

	2022			2021		
	Executive committee members £m	Executive directors £m	Total £m	Executive committee members £m	Executive directors £m	Total £m
Salaries and short term employee benefits	2.2	4.9	7.1	1.9	3.7	5.6
Social security costs	0.4	0.9	1.3	0.3	0.5	0.8
Post-employment benefits	0.3	0.9	1.2	0.4	1.0	1.4
Share based benefits	1.2	4.3	5.5	1.2	2.1	3.3
	4.1	11.0	15.1	3.8	7.3	11.1

Key management personnel are responsible for planning, directing and controlling the operations of the Group and are designated Persons Discharging Management Responsibilities ('PDMRs') in line with the market abuse regulation definition. The Group has three (2021: three) Executive directors. Executive committee members included in the table above at 31 March 2022 are the Managing Director of Networks; the Managing Director of SSEN Transmission; the Managing Director of SSE Renewables and the Group's General Counsel.

Further information about the remuneration of individual directors is provided in the audited part of the Remuneration Report.

Information regarding transactions with post-retirement benefit plans is included in note 23.

Non-executive directors were paid fees of £1.2m during the current year (2021: £1.0m).

9. Finance income and costs

Recognised in income statement

	2022			2021 (restated*)		
	Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	Total £m	Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	Total £m
Finance income:						
Interest income from short term deposits	0.8	—	0.8	1.9	—	1.9
Interest on pension scheme assets (i)	7.6	—	7.6	8.3	—	8.3
Foreign exchange translation of monetary assets and liabilities	—	—	—	1.3	—	1.3
Other interest receivable:						
Joint ventures and associates	46.8	—	46.8	43.9	—	43.9
Other receivable	23.8	3.2	27.0	22.8	1.4	24.2
	70.6	3.2	73.8	66.7	1.4	68.1
Total finance income	79.0	3.2	82.2	78.2	1.4	79.6
Finance costs:						
Bank loans and overdrafts	(16.2)	—	(16.2)	(24.0)	—	(24.0)
Other loans and charges	(340.2)	—	(340.2)	(323.2)	—	(323.2)
Foreign exchange translation of monetary assets and liabilities	(14.6)	—	(14.6)	—	—	—
Notional interest arising on discounted provisions	(5.7)	—	(5.7)	(3.8)	—	(3.8)
Lease charges	(30.4)	—	(30.4)	(35.3)	—	(35.3)
Less: interest capitalised (ii)	30.7	—	30.7	14.2	—	14.2
Total finance costs	(376.4)	—	(376.4)	(372.1)	—	(372.1)
Changes in fair value of financing derivative assets or liabilities at fair value through profit or loss	—	21.0	21.0	—	55.6	55.6
Net finance costs	(297.4)	24.2	(273.2)	(293.9)	57.0	(236.9)
Presented as:						
Finance income	79.0	24.2	103.2	78.2	57.0	135.2
Finance costs	(376.4)	—	(376.4)	(372.1)	—	(372.1)
Net finance costs	(297.4)	24.2	(273.2)	(293.9)	57.0	(236.9)

* The comparatives have been restated. See note 1.2.

(i) The interest income on net pension assets for the year ended 31 March 2022 of £7.6m (2021: £8.3m) represents the interest earned under IAS 19.

(ii) The capitalisation rate applied in determining the amount of borrowing costs to capitalise in the period was 3.86% (2021: 3.61%).

Notes to the consolidated financial statements continued

For the year ended 31 March 2022

9. Finance income and costs continued

Adjusted net finance costs are arrived at after the following adjustments:

	2022 £m	2021 £m (restated*)
Net finance costs	(273.2)	(236.9)
(add)/less:		
Share of interest from joint ventures and associates	(67.8)	(82.4)
Interest on pension scheme liabilities	(7.6)	(8.3)
Movement on financing derivatives (note 24)	(21.0)	(55.6)
Exceptional item	(3.2)	(1.4)
Adjusted net finance costs [APM]	(372.8)	(384.6)
Notional interest arising on discounted provisions	5.7	3.8
Lease charges	30.4	35.3
Hybrid coupon payment (note 22.5(iii))	(50.7)	(46.6)
Adjusted net finance costs for interest cover calculations [APM]	(387.4)	(392.1)

* The comparatives have been restated. See note 1.2.

Recognised in other comprehensive income

	2022 £m	2021 £m
Loss on effective portion of cash flow hedges (before tax)	22.9	(44.7)
Share of joint venture/associate loss on effective portion of cash flow hedges (before tax)	224.0	30.6
Total recognised in other comprehensive income	246.9	(14.1)

Other comprehensive income of £246.9m includes £28.6m, which was realised on the disposal of SGN.

10. Taxation

10.1 Analysis of charge recognised in the income statement

	2022			2021		
	Before exceptional items and certain re- measurements £m	Exceptional items and certain re- measurements £m	Total £m	Before exceptional items and certain re- measurements £m	Exceptional items and certain re- measurements £m	Total £m
Current tax						
UK corporation tax	82.5	8.8	91.3	84.1	6.2	90.3
Adjustments in respect of previous years	(5.9)	–	(5.9)	(11.4)	–	(11.4)
Total current tax	76.6	8.8	85.4	72.7	6.2	78.9
Deferred tax						
Current year	76.7	478.2	554.9	34.0	113.3	147.3
Effect of change in tax rate	–	244.7	244.7	–	–	–
Adjustments in respect of previous years	(2.2)	–	(2.2)	(5.2)	3.3	(1.9)
Total deferred tax	74.5	722.9	797.4	28.8	116.6	145.4
Total taxation charge	151.1	731.7	882.8	101.5	122.8	224.3

The Group has separately recognised the tax effect of the exceptional items and certain re-measurements summarised above. The rate change to 25% in respect of periods commencing after 1 April 2023 included in Finance Bill 2021 has been recognised during the year ended 31 March 2022, as it was substantively enacted on 24 May 2021.

SSE continues to be accredited with the Fair Tax Mark. As a consequence, these financial statements include a number of areas of enhanced disclosure which have been provided in order to develop stakeholder understanding of the tax the Group pays and the reported total taxation charge along with additional commentary on the main reconciling items.

These can be seen at section A2 [A2].

The majority of the Group's profits are earned in the UK, with the standard rate of UK corporation tax being 19% for the year to 31 March 2022 (2021: 19%). The Group's Gas Production business, which is included within discontinued operations for the year ended 31 March 2022 (and 31 March 2021), is taxed at a UK corporation tax rate of 30% plus a supplementary charge of 10% (combined 40%). Profits earned by the Group in the Republic of Ireland are taxable at either 12.5% or 25%, depending upon the nature of the income.

The majority of the Group's profits are earned in the UK, with the standard rate of UK corporation tax being 19% for the year to 31 March 2021 (2020: 19%). The Group's Gas Production business, which is included within discontinued operations for the year ended 31 March 2022 (and 31 March 2021), is taxed at a UK corporation tax rate of 30% plus a supplementary charge of 10% (combined 40%). Profits earned by the Group in the Republic of Ireland are taxable at either 12.5% or 25%, depending upon the nature of the income.

The 'adjusted current tax charge' and the 'adjusted effective rate of tax', which are presented in order to best represent underlying performance by making similar adjustments to the 'adjusted profit before tax' measure, are arrived at after the following adjustments:

	2022 £m	2022 %	2021 £m (restated*)	2021 % (restated*)
Continuing operations				
Group tax charge and effective rate	882.8	25.4	224.3	9.3
Less: reported deferred tax charge and effective rate	(797.4)	(22.9)	(145.4)	(6.1)
Reported current tax charge and effective rate	85.4	2.5	78.9	3.2
Effect of adjusting items		4.8		5.1
Reported current tax charge and effective rate on adjusted basis	85.4	7.3	78.9	8.3
add:				
Share of current tax from joint ventures and associates	30.6	2.6	13.2	1.4
less:				
Current tax credit on exceptional items	(8.9)	(0.7)	(6.2)	(0.6)
Adjusted current tax charge and effective rate [APM]	107.1	9.2	85.9	9.1

* The comparatives have been restated. See note 1.2.

Tax charge/(credit) recognised in other comprehensive income/(loss):

	2022 £m	2021 £m
Relating to:		
Pension scheme actuarial movements	72.6	(3.1)
Cash flow and net investment hedge movements	4.4	(9.9)
Other	(1.9)	(1.7)
	75.1	(14.7)

All tax recognised through other comprehensive income is deferred tax.

See further Taxation disclosures at [A2](#).

10.2 Current tax liabilities

	2022 £m	2021 £m
Corporation tax (asset)/liability	(8.8)	0.1

Uncertain tax positions

The Group invests heavily in infrastructure, on which significant amounts of capital allowances are potentially available. The extent to which capital allowances are available on any single asset is, however, very much dependent upon the fact pattern for the asset involved, and there will often be an element of uncertainty as to how capital allowances legislation applies in those circumstances. Reaching agreement with tax authorities as to the amount of capital allowances available can take a number of years and sometimes can only be resolved through a formal legal process.

The calculation of the Group's total tax charge therefore necessarily involves a degree of estimation and judgement in relation to certain items for which the tax treatment cannot be finally determined until resolution has been reached with the tax authorities or, if required, through a formal legal process. At 31 March 2022, the Group has recognised provisions totalling £27.9m in respect of uncertain tax positions, primarily in relation to the availability of capital allowances (2021: £37.6m). The Group estimates that a reasonably possible range of settlement outcomes for the uncertain tax positions could be in the range from nil to the full value of the provision, due to the binary nature of the decision as to whether capital allowances are available or not.

Notes to the consolidated financial statements continued

For the year ended 31 March 2022

10. Taxation continued

10.2 Current tax liabilities continued

Due to the uncertainty associated with such tax positions, it is possible that at a future date, and on conclusion of these open tax positions, the final outcomes may vary significantly. While a range of outcomes is reasonably possible, the Group continues to believe that it has made appropriate provision for periods which are open and not yet agreed with the tax authorities.

In December 2020, the Group's case concerning the availability of capital allowances on Glendoe Hydro Electric Station was heard at the Court of Appeal. A decision was released in February 2021, which was largely in the Group's favour. HMRC have sought permission to have an appeal heard against the decision by the Supreme Court, with the Supreme Court granting HMRC leave to appeal on 30 March 2022. The case has not yet been listed for hearing at the Supreme Court. Any movement in the amounts carried for other uncertain tax positions during the next twelve months will be driven by tax litigation the Group is not directly involved in and is unable to predict the outcome of.

10.3 Deferred taxation

The following are the deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting periods:

	Accelerated capital allowances £m	Fair value gains/(losses) on derivatives £m	Retirement benefit obligations £m	Other £m	Total £m
At 31 March 2020	704.5	(140.6)	65.0	16.9	645.8
(Credit)/charge to income statement on continuing operations	13.5	119.0	5.9	7.0	145.4
(Credit)/charge to equity	–	(3.7)	(3.1)	(1.7)	(8.5)
(Credit)/charge recognised on disposal	(0.2)	–	–	(5.7)	(5.9)
Transfers	15.8	–	–	(15.8)	–
Transferred to held for sale	0.2	–	–	–	0.2
Exchange adjustments	–	–	–	(2.7)	(2.7)
At 31 March 2021	733.8	(25.3)	67.8	(2.0)	774.3
(Credit)/charge to income statement on continuing operations	407.6	399.4	5.8	(15.4)	797.4
(Credit)/charge to equity	–	4.4	72.6	(1.9)	75.1
Exchange adjustment	0.2	–	–	(1.4)	(1.2)
At 31 March 2022	1,141.6	378.5	146.2	(20.7)	1,645.6

Certain deferred tax assets and liabilities have been offset, including the asset balances analysed in the tables above. The following is an analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2022 £m	2021 £m
Deferred tax liabilities	1,716.0	801.6
Deferred tax assets	(70.4)	(27.3)
Net deferred tax liabilities/(assets)	1,645.6	774.3

In total there are £6.0m (2021: £103.5m) of unrecognised deferred tax assets. The Group has now disposed of its offshore interest which formed the majority of the unrecognised deferred tax asset at 31 March 2021. The group has not recognised a deferred tax asset on trading losses of £47.6m (2021: £49.6m) in the Republic of Ireland. These assets have not been recognised as the Group is uncertain that there will be sufficient future profits against which to utilise the assets. There is no time limit for expiry of the losses or allowances to which they relate.

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries, associates and joint ventures. As the earnings are continually reinvested by the Group, no tax is expected to be payable on them in the foreseeable future. Total unremitted earnings at 31 March 2022 were £350.8m (2021: £281.5m).

11. Dividends and earnings per share

11.1 Ordinary dividends

	2022 Total £m	Settled via scrip £m	Pence per ordinary share	2021 Total £m	Settled via scrip £m	Pence per ordinary share
Interim – year ended 31 March 2022	271.8	28.2	25.5	–	–	–
Final – year ended 31 March 2021	590.5	327.5	56.6	–	–	–
Interim – year ended 31 March 2021	–	–	–	254.3	13.5	24.4
Final – year ended 31 March 2020	–	–	–	582.1	25.5	56.0
	862.3	355.7		836.4	39.0	

The final dividend of 56.6p per ordinary share declared in respect of the financial year ended 31 March 2021 (2020: 56.0p) was approved at the Annual General Meeting on 22 July 2021 and was paid to shareholders on 23 September 2021. Shareholders were able to elect to receive ordinary shares credited as fully paid instead of the cash dividend under the terms of the Company's scrip dividend scheme. For dividends paid in relation to the financial year ended 31 March 2022 and in relation to the subsequent years to 31 March 2026, the Group will repurchase shares to reduce the scrip's dilutive effects, if the scrip take-up exceeds 25% of the full year dividend in any given year.

An interim dividend of 25.5p per ordinary share (2021: 24.4p) was declared and paid on 10 March 2022 to those shareholders on the SSE plc share register on 14 January 2022. Shareholders were able to elect to receive ordinary shares credited as fully paid instead of the interim cash dividend under the terms of the Company's scrip dividend scheme.

The proposed final dividend of 60.2p per ordinary share based on the number of issued ordinary shares at 31 March 2022 is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. Based on shares in issue at 31 March 2022, this would equate to a final dividend of £646.0m.

11.2 Basic and adjusted earnings per share

The calculation of basic earnings per ordinary share at 31 March 2022 is based on the net profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding during the year ended 31 March 2022.

Adjusted earnings per share has been calculated by excluding the charge for deferred tax, interest on net pension liabilities under IAS 19, retained Gas Production decommissioning costs, the depreciation charged on fair value uplifts and the impact of exceptional items and certain re-measurements (note 7).

	2022 Earnings £m	2022 Earnings per share pence	2021 Earnings £m (restated*)	2021 Earnings per share pence (restated*)
Continuing operations				
Earnings attributable to ordinary shareholders	3,031.4	287.3	2,276.2	218.7
Less: earnings attributable to discontinued operations	(482.7)	(45.7)	(129.1)	(12.4)
Basic earnings on continuing operations used to calculate adjusted EPS	2,548.7	241.6	2,147.1	206.3
Exceptional items and certain re-measurements (note 7)	(1,658.9)	(157.3)	(1,380.9)	(132.8)
Basic excluding exceptional items and certain re-measurements	889.8	84.3	766.2	73.5
Adjusted for:				
Decommissioning Gas Production	13.1	1.2	–	–
Depreciation charge on fair value uplifts	20.6	2.0	20.6	2.0
Interest on net pension scheme assets/(liabilities) (note 9)	(7.6)	(0.7)	(8.3)	(0.8)
Deferred tax	74.5	7.1	28.8	2.8
Deferred tax from share of joint ventures and associates	15.8	1.5	9.1	0.9
Adjusted [APM]	1,006.2	95.4	816.4	78.4
Basic	2,548.7	241.6	2,147.1	206.3
Dilutive effect of outstanding share options	–	(0.5)	–	(0.3)
Diluted	2,548.7	241.1	2,147.1	206.0

Notes to the consolidated financial statements continued

For the year ended 31 March 2022

11. Dividends and earnings per share continued

11.2 Basic and adjusted earnings per share continued

Reported earnings per share

	2022 Earnings £m	2022 Earnings per share pence	2021 Earnings £m (restated*)	2021 Earnings per share pence (restated*)
Basic				
Earnings per share on continuing operations	2,548.7	241.6	2,147.1	206.3
Earnings per share on discontinued operations	482.7	45.7	129.1	12.4
Earnings per share attributable to ordinary shareholders	3,031.4	287.3	2,276.2	218.7
Diluted earnings per share on continuing operations	2,548.7	241.1	2,147.1	206.0
Diluted earnings per share on discontinued operations	482.7	45.7	129.1	12.3
Diluted earnings per share attributable to ordinary shareholders	3,031.4	286.8	2,276.2	218.3

The weighted average number of shares used in each calculation is as follows:

	31 March 2022 Number of shares (millions)	31 March 2021 Number of shares (millions)
For basic and adjusted earnings per share	1,055.0	1,040.9
Effect of exercise of share options	2.0	1.6
For diluted earnings per share	1,057.0	1,042.5

11.3 Dividend cover

The Group's adjusted dividend cover metric is calculated by comparing adjusted earnings per share on continuing operations to the projected dividend per share payable to ordinary shareholders.

	2022 Earnings per share (pence)	2022 Dividend per share (pence)	2022 Dividend cover (times)	2021 Earnings per share (pence) (restated*)	2021 Dividend per share (pence)	2021 Dividend cover (times) (restated*)
Reported earnings per share (continuing operations)	241.6	85.7	2.82	206.3	81.0	2.55
Adjusted earnings per share (continuing operations) <small>APM</small>	95.4	85.7	1.11	78.4	81.0	0.97

* The comparatives have been restated. See note 1.2.

12. Acquisitions, disposals and held-for-sale assets

12.1 Acquisitions

Acquisition of 80% equity interest in Japanese offshore wind development platform

On 29 October 2021 the Group, through its wholly owned subsidiary SSE Renewables International Holdings Limited, completed the acquisition of an 80% equity interest in an offshore wind development platform from Pacifico Energy and its affiliates for \$193m USD upfront cash consideration and a further \$30m USD deferred consideration subject to a number of conditions. This acquisition is aligned to the Group's published strategy to pursue overseas renewable opportunities.

An 80% equity stake was acquired in the following entities and vehicles: SSE Pacifico K.K., Aichi Offshore Wind Power No.1 G.K., Aichi Offshore Wind Power No.2 G.K., Enshunada Offshore Wind Power No.1 G.K., Goto-Fukue Offshore Wind Power G.K., Izu Islands Offshore Wind Power G.K., Minami-Izu Offshore Wind Power No.1 G.K., Niigata Offshore Wind Power No.1 G.K., Oki Islands Offshore Wind Power G.K., Wakayama-West Offshore Wind Power No.1 G.K. and Wakayama-West Offshore Wind Power No.2 G.K.

Acquisition costs of £7.2m were expensed to operating costs in the year. The subsidiaries acquired had nil revenue and contributed a loss of £0.1m to the consolidated result of the Group for the year. The assets and liabilities acquired largely comprise tangible and intangible assets, being windfarm site development costs and goodwill as set out in the table below. The goodwill recognised represents early stage intangible development costs that do not qualify for separate recognition. The non-controlling interest acquired was measured at fair value, where fair value represented the non-controlling interest's proportionate share of the assets and liabilities acquired through the transaction.

Fair value at
29 October 2021

Assets acquired	
Intangible development assets	20.5
Cash	4.3
Other assets	0.4
Total net assets acquired	25.2
Non-controlling interest	(40.6)
Goodwill	176.7
	161.3
Cash consideration	141.3
Deferred consideration	20.0
	161.3

During the year the Group made other smaller asset acquisitions (of special purpose vehicles as opposed to businesses) for consideration of £4.0m. In the prior year there were no significant acquisitions. The acquired intangible assets in note 13 of £197.8m consist of the goodwill balance and development assets noted above (£197.2m) plus other immaterial acquired assets. The cash consideration for the business combination of £141.3m is included in the Group's Adjusted investment, capital and acquisition metric.

12.2 Disposals

(i) Significant disposals

Current year disposals

During the year the Group completed its strategic disposal plan for non-core assets announced in June 2020, and continued its programme of strategic partnering generating developer gains. As a result, it recognised an exceptional gain on disposal of £576.5m of its investment in SGN (discontinued), a combined exceptional loss of £120.8m on disposal of SSE E&P UK Limited (discontinued) and other less material exceptional gains and losses on disposal (see note 7) and a non-exceptional gain on disposal of £67.1m. The disposals below primarily comprise sales of stakes in non-operated investment assets, or the sale of a stake in early stage offshore windfarm development, which aligns to the Group's stated policy to realise value from these assets.

Sale of investment in SSE Contracting: On 30 June 2021, the Group completed the sale of its Contracting and Rail business to the Aurelius Group for headline consideration of £22.5m and £5m of contingent consideration, based on earning targets within the business. Due to working capital movements in the business subsequent to the transaction agreement, cash consideration received was £0.2m. The Group recorded an additional exceptional loss on disposal of £18.9m on completion, in addition to the exceptional impairment loss of £51.2m recognised during the year ended 31 March 2021.

Sale of stake in Dogger Bank C: On 10 February 2022, SSE completed the sale of a 10% stake in Dogger Bank C to Eni for consideration of £70.0m and contingent consideration of up to £40m, resulting in a non-exceptional gain on disposal of £64.3m. The gain has been recognised within the adjusted profit of the Group in line with the Group's stated exceptional policy for gains on disposal of divestments in early stage offshore windfarms (see note 3.2). After the sale the Group's shareholding in Dogger Bank C is 40%.

Other disposals: On 19 August 2021 the Group received a dividend of £4.8m following the sale of Smarter Grid Solutions by the Environmental Energies Fund Limited, resulting in a non-exceptional gain on sale of £2.8m.

Sale of discontinued operations

Sale of investment in SGN: On 2 August 2021, the Group announced it had agreed to sell its 33.3% investment in SGN to a consortium comprising existing SGN shareholders Ontario Teachers' Pension Plan Board and Brookfield Super-Core Infrastructure Partners for cash consideration of £1,225m. The agreement was conditional on certain regulatory approvals and completed on 22 March 2022, with the Group recognising an exceptional gain on disposal of £576.5m.

Sale of investment in Gas Production: On 14 October 2021, the Group completed the sale of its Gas Production business to Viaro Energy through its subsidiary RockRose Energy Limited. In the period to 14 October 2021, the Gas Production business had an operating profit (recognised in discontinued operations) of £101.4m. The Group recorded a combined loss on sale of £120.8m following on completion of the disposal.

Prior year disposals

Sale of investment in Ferrybridge Multifuel: On 13 October 2020, the Group announced it had reached an agreement to dispose of its 50% joint venture investment in Multifuel Energy Limited and Multifuel Energy 2 Limited (together 'MEL'), to European Diversified Infrastructure Fund III for headline consideration of £995m. The agreement was subject to antitrust approval by the European Commission, which was granted on 7 January 2021 when the transaction completed. The Group recorded an exceptional gain on disposal of £669.9m on completion.

Notes to the consolidated financial statements continued

For the year ended 31 March 2022

12. Acquisitions, disposals and held-for-sale assets continued

12.2 Disposals continued

Sale of investment in Walney Windfarm: On 2 September 2020, the Group agreed to sell its subsidiary, SSE Renewables Walney Limited, to Greencoat UK Wind Plc for consideration of £350m, resulting in an exceptional gain on sale of £188.7m. SSE Renewables Walney Limited was the holding company of the Group's non-operated 25.1% joint venture stake in Walney Offshore Windfarm. As essentially a financial investment and as Walney Offshore Wind Farm Limited has been operational for several years, the disposal is not considered to be aligned to the Group's strategic objective of gaining value from divestment of stakes in offshore or international wind developments, therefore the gain on disposal has been recognised as exceptional.

Sale of investment in Maple Smart Meter Assets: On 23 September 2020, the Group disposed of its 33% joint venture investment in Maple Topco Limited, the smart meter services provider, for proceeds of £95.3m, recognising an exceptional gain on disposal of £70.4m.

Sale of stake in Doggerbank A&B Windfarms: On 4 December 2020, the Group announced it had agreed to sell a 10% stake in Doggerbank A and Doggerbank B windfarms to Eni for consideration of £206.3m, including an interest adjustment of £3.8m, resulting in a non-exceptional gain on disposal of £202.8m. The gain has been recognised within the adjusted profit of the Group in line with the Group's stated exceptional policy for gains on disposal of divestments in offshore windfarms (see note 3.2).

On the same date, Eni entered into an agreement with Equinor to purchase a further 10% stake in the development. Following these transactions, SSE and Equinor each hold a 40% equity stake and Eni a 20% stake.

Sale of stake in Seagreen 1 Windfarm: On 3 June 2020, the Group disposed of a 51% stake in its wholly owned subsidiary, Seagreen Holdco 1 Ltd ('Seagreen 1'), to Total. The transaction was for initial cash proceeds of £70m, plus contingent consideration of up to £60m dependent upon future criteria being met. The Group has assessed that control of the company was lost on that date, and that the investment in Seagreen 1 should be accounted for as an equity accounted joint venture under the principles of IFRS 11 "Joint Arrangements". The Group acquired the joint venture investment at fair value under the principles of IFRS 10 "Consolidated Financial Statements", resulting in a total gain of £49.0m. Of that gain, £25.7m was recognised as exceptional, as it represented the fair value gain on acquisition of the joint venture investment retained by the Group. The remaining £23.3m of the gain was included in underlying operations, in line with the Group's stated exceptional policy (see note 3.2).

Sale of stake in Slough Multifuel: On 2 April 2020, the Group disposed of a 50% stake in its wholly owned subsidiary, SSE Slough Multifuel Ltd, to Copenhagen Infrastructure Partners. The transaction was for initial cash proceeds of £10m, plus contingent consideration of up to £59.1m dependent upon future criteria being met. The Group has assessed that control of the company was lost on that date, and that the investment in Slough Multifuel should be accounted for as an equity accounted joint venture under the principles of IFRS 11 "Joint Arrangements". The Group acquired the joint venture investment at fair value under the principles of IFRS 10 "Consolidated Financial Statements", resulting in a total gain of £41.7m. Of that gain, £21.3m was recognised as exceptional, as it represented the fair value gain on acquisition of the joint venture investment retained by the Group. The remaining £20.4m of the gain was included in underlying operations, in line with the Group's stated exceptional policy (see note 3.2).

(ii) Disposal reconciliation

The following table summarises disposals of subsidiaries, businesses and assets during the financial year, including other assets and investments disposed of as part of the normal course of business but before recognition of impairment charges in the year, which are noted in the relevant respective notes to the financial statements.

	2022 £m	2021 £m
Net assets disposed:		
Property, plant and equipment	105.1	25.7
Intangible and biological assets	28.4	348.4
Investments and loans – joint ventures	662.5	490.3
Other investments	2.0	–
Deferred tax asset	14.8	0.6
Inventories	6.9	–
Trade and other receivables	28.5	29.2
Cash and cash equivalents	–	172.8
Trade and other payables	(33.2)	(23.8)
Deferred tax liability	–	(0.2)
Derivative financial liabilities	–	(3.1)
Provisions	(159.8)	–
Loans and borrowings	(0.8)	(438.7)
Net assets	654.4	601.2
Proceeds of disposal:		
Consideration	1,372.1	1,753.6
Fair value uplift	–	47.0
Recognition of investment on loss of control	–	51.5
Provision recognised on disposal	(35.0)	–
Costs of disposal	(29.8)	(23.0)
Net proceeds	1,307.3	1,829.1
Recycle of amounts recognised in hedge reserve	(28.2)	–
Gain on disposal	624.7	1,227.9
Presentation:		
Continuing operations		
Income statement exceptional (loss)/gain	(18.9)	976.0
Income statement non-exceptional credit	67.1	251.9
	48.2	1,227.9
Discontinuing operations		
Income statement exceptional credit	576.5	–
SSE Group	624.7	1,227.9
	2022 £m	2021 £m
Net proceeds of disposal	1,279.1	1,829.1
Fair value uplift	–	(47.0)
Recycle of amounts recognised in hedge reserve	28.2	–
Provision recognised on disposal	35.0	–
Recognition of investment on loss of control	–	(51.5)
Costs of disposal	29.8	23.0
Deferred consideration	(5.2)	(18.8)
Total cash proceeds	1,366.9	1,734.8
Less: cash disposed	–	(172.8)
Net cash proceeds	1,366.9	1,562.0

Notes to the consolidated financial statements continued
For the year ended 31 March 2022

12. Acquisitions, disposals and held-for-sale assets continued

12.3 Held-for-sale assets and liabilities

There were no assets and liabilities classified as held for disposal at 31 March 2022. The assets held for disposal at 31 March 2021 the Group's Gas Production assets and liabilities, which were sold to Viaro Energy through its subsidiary RockRose Energy Limited on 14 October 2021 and the assets and liabilities of the Group's Enterprise Contracting and Rail Business, which was sold to Aurelius Group on 30 June 2021.

	Gas Production £m	SSE Contracting £m	2021 £m
Property, plant and equipment	167.5	–	167.5
Goodwill and other intangible assets	49.6	–	49.6
Deferred tax asset	14.7	0.2	14.9
Inventories	2.6	2.1	4.7
Trade and other receivables	7.7	94.7	102.4
Total assets	242.1	97.0	339.1
Trade and other payables	(9.1)	(46.3)	(55.4)
Current tax liabilities	–	(0.1)	(0.1)
Provisions	(149.3)	(46.5)	(195.8)
Loans and other borrowings	–	(2.2)	(2.2)
Total liabilities	(158.4)	(95.1)	(253.5)
Net assets/(liabilities) held for sale	83.7	1.9	85.6

12.4 Discontinued operations

The discontinued operations during 31 March 2022 represent the Group's investment in SGN, which was disposed on 22 March 2022 and the Group's investment in Gas Production assets, which was sold on 14 October 2021. In the prior year comparative, the discontinued operations included Gas Production, and the Group's Enterprise Contracting and Rail Business, which was sold on 30 June 2021 (see note 12.2). The profit/(loss) of the discontinued operation is as follows:

	2022			2021		
	Before exceptional items and certain re-measurements £m	Exceptional items and certain re-measurements £m	Total £m	Before exceptional items and certain re-measurements (restated*) £m	Exceptional items and certain re-measurements (restated*) £m	Total (restated*) £m
Revenue	142.0	—	142.0	105.0	—	105.0
Cost of sales	(38.9)	—	(38.9)	(68.9)	—	(68.9)
Gross profit	103.1	—	103.1	36.1	—	36.1
Operating costs	(1.7)	(120.8)	(122.5)	(3.1)	—	(3.1)
Operating profit/(loss) before joint ventures	101.4	(120.8)	(19.4)	33.0	—	33.0
Joint ventures						
Share of operating profit	21.0	—	21.0	173.0	—	173.0
Share of interest	(11.1)	—	(11.1)	(64.1)	—	(64.1)
Share of movement on derivatives	—	(4.6)	(4.6)	—	1.9	1.9
Share of tax	(1.7)	(84.7)	(86.4)	(21.9)	(0.3)	(22.2)
Share of profit/(loss) on joint ventures	8.2	(89.3)	(81.1)	87.0	1.6	88.6
Operating profit/(loss)	109.6	(210.1)	(100.5)	120.0	1.6	121.6
Finance income	6.8	—	6.8	9.8	—	9.8
Finance costs	(0.1)	—	(0.1)	(2.3)	—	(2.3)
Profit/(loss) for the year	116.3	(210.1)	(93.8)	127.5	1.6	129.1
Profit on disposal of discontinued operations, after tax	—	576.5	576.5	—	—	—
Profit/(loss) from discontinued operations, net of tax	116.3	366.4	482.7	127.5	1.6	129.1

* The comparatives have been restated. See note 1.2.

Other comprehensive income from discontinued operations

	2022 £m	2021 £m
Items that will be reclassified subsequently to profit or loss:		
Share of other comprehensive gain/(loss) of joint ventures and associates, net of taxation	0.5	4.7
Items that will not be reclassified to profit or loss:		
Share of other comprehensive (loss)/income of joint ventures, net of taxation	(1.7)	(23.3)
Other comprehensive loss from discontinued operations	(1.2)	(18.6)

Cashflows from discontinued operations

	2022 £m	2021 £m
Cashflows from operating activities	11.6	26.8
Cashflows from investing activities	(11.6)	(26.8)
Net (decrease)/increase in cash and cash equivalents in discontinued operations	—	—

Notes to the consolidated financial statements continued
For the year ended 31 March 2022

13. Intangible assets

	Goodwill £m	Allowances & certificates £m	Development assets £m	Other intangibles £m	Software assets £m	Total £m
Cost:						
At 31 March 2020	533.8	730.7	580.7	114.8	782.8	2,742.8
Additions	–	509.0	116.1	2.3	73.0	700.4
Transfer to property plant and equipment (note 14)	–	–	(43.1)	–	–	(43.1)
Disposals/utilised	(5.9)	(637.3)	(348.7)	–	(7.7)	(999.6)
Transferred to held for sale (note 12)	(1.0)	–	–	(1.2)	(2.2)	(4.4)
Exchange adjustments	(4.8)	–	(1.5)	–	(1.6)	(7.9)
At 31 March 2021	522.1	602.4	303.5	115.9	844.3	2,388.2
Additions	–	544.5	80.5	–	97.7	722.7
Acquired through business combinations	176.7	–	21.1	–	–	197.8
Transfer (to)/from property plant and equipment (note 14)	–	–	(40.4)	–	–	(40.4)
Disposals/utilised	–	(459.8)	(9.8)	–	(29.8)	(499.4)
Exchange adjustments	6.1	(0.3)	(0.5)	–	–	5.3
At 31 March 2022	704.9	686.8	354.4	115.9	912.2	2,774.2
Aggregate amortisation and impairment:						
At 31 March 2020	(192.9)	(227.5)	(154.0)	(111.1)	(452.7)	(1,138.2)
Charge for the year	–	–	–	(2.7)	(30.2)	(32.9)
Exceptional impairment charges (note 7)	–	–	–	–	(5.2)	(5.2)
Non-exceptional impairment charge (i)	–	–	(4.7)	–	–	(4.7)
Disposals/utilised	–	–	–	–	7.7	7.7
Transferred to held for sale (note 12)	–	–	–	0.7	0.5	1.2
Exchange adjustments	–	–	0.3	–	(0.2)	0.1
At 31 March 2021	(192.9)	(227.5)	(158.4)	(113.1)	(480.1)	(1,172.0)
Charge for the year	–	–	–	(1.5)	(43.9)	(45.4)
Non-exceptional impairment charge (i)	–	–	5.1	–	26.7	31.8
Exchange adjustments	–	–	–	–	(1.5)	(1.5)
At 31 March 2022	(192.9)	(227.5)	(153.3)	114.6	(498.8)	(1,187.1)
Carrying amount:						
At 31 March 2022	512.0	459.3	201.1	1.3	413.4	1,587.1
At 31 March 2021	329.2	374.9	145.1	2.8	364.2	1,216.2
At 1 April 2020	340.9	503.2	426.7	3.7	330.1	1,604.6

(i) The non-exceptional impairments in both years relate to assets where future development became uncertain or untenable in the year. The impairment of these items does not meet the Group's definition of an exceptional item, therefore they are included in the adjusted and reported results of the Group.

Intangible assets have been analysed as current and non-current as follows:

	2022 £m	2021 £m
Current	459.3	374.9
Non-current	1,127.8	841.3
	1,587.1	1,216.2

(i) Goodwill

At inception, goodwill arising from business combinations is allocated to cash-generating units (CGUs) for impairment testing purposes. Certain goodwill valuations have changed in the current year following retranslation. Commentary on the impairment testing of the related CGUs, with the exception of two historic balances totalling £8.2m, is included in note 15.

A summary of the goodwill allocated to CGUs and the Group's operating segments is presented below:

Cash-generating unit	Operating segment	2022 £m	2021 £m
Onshore windfarms	SSE Renewables	71.3	73.7
Offshore windfarms	SSE Renewables	214.9	214.9
SSE Pacifico ¹	SSE Renewables	185.2	–
Energy Solutions ²	GB Business Energy & Distributed Energy	32.4	32.4
Ireland Supply ³	SSE Airtricity	8.2	8.2
		512.0	329.2

1 Relates to the acquisition of an 80% equity interest in an offshore wind development platform from Pacifico Energy.

2 Energy Solutions includes goodwill balances arising from the historic acquisitions of The Energy Solutions Group Limited (TESGL) of £31.7m (2021: £31.7m and a further £0.7m (2021: £0.7m) in relation to the acquisition of Fusion Heating Limited. The amount of goodwill associated with the historic businesses is not significant in context of the aggregate carrying value of the business units or the aggregate value of goodwill held by the Group.

3 The value associated with the Ireland supply goodwill represents the difference between the fair value attributed to the Northern Ireland based Phoenix Energy business acquired in 2012 and the book value of those assets. No impairment has been recognised during the year on this balance.

(ii) Allowances and certificates

Allowances and Certificates consist of purchased carbon emissions allowances and generated or purchased renewable obligations certificates (ROCs). These allowances and certificates will be utilised in settlement of environmental obligations incurred by the Group's Thermal and GB Business Energy supply business and are therefore distinct from allowances and certificates in excess of the Group's environmental obligations which are recorded within inventories.

(iii) Development assets

Development costs relate to the design, construction and testing of Thermal and Renewable generation sites, which the Group believes will generate probable future economic benefits. Costs capitalised as development intangibles include options over land rights, planning application costs, environmental impact studies and other costs incurred in bringing windfarms and other development projects to the consented stage. These may be costs incurred directly or at a cost as part of the fair value attribution on acquisition.

At the point the development reaches the consent stage and is approved for construction, the carrying value is transferred to property, plant and equipment (note 14). At the point a project is no longer expected to reach the consented stage, the carrying amount of the project is impaired.

(iv) Other intangible assets

Included within other intangible assets are brands, customer lists and contracts.

No exceptional or non-exceptional impairment charges have been recognised in the year (2021: £nil).

(v) Software assets

Software assets include application software license fees, software development work, software upgrades and purchased PC software packages.

Exceptional charges of £5.2m were recognised in the prior year in relation to the disposal of SSE Energy Services (recognised within continuing operations) (note 7).

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For the year ended 31 March 2022

14. Property, plant and equipment

	Thermal power generation assets (i) £m	Renewable power generation assets (i) £m	Distribution network assets £m	Transmission network assets £m	Land and buildings £m	Assets under construction £m	Other assets £m	Total £m
Cost:								
At 31 March 2020	2,738.0	5,743.5	8,687.3	4,143.5	515.1	550.0	1,221.4	23,598.8
Additions	3.6	—	60.5	—	14.7	968.7	29.1	1,076.6
Adjustment to decommissioning asset	2.2	(9.5)	—	—	—	—	(5.3)	(12.6)
Transfer from (to)/from intangible assets (note 13)	—	—	—	—	1.9	41.2	—	43.1
Transfer from assets under construction	36.9	25.5	329.8	415.5	8.8	(870.2)	53.7	—
Disposals (ii)	(0.6)	—	(1.9)	(2.6)	(9.3)	(22.8)	(21.2)	(58.4)
Transfer to assets held for sale	—	—	—	—	(2.3)	—	(0.7)	(3.0)
Exchange rate adjustments	(21.8)	(37.5)	—	—	(1.0)	(1.4)	(2.2)	(63.9)
At 31 March 2021	2,758.3	5,722.0	9,075.7	4,556.4	527.9	665.5	1,274.8	24,580.6
Additions	—	—	76.3	3.6	41.1	1,220.2	44.2	1,385.4
Adjustment to decommissioning asset	58.7	88.5	—	—	—	—	—	147.2
Transfer from intangible assets (note 13); (iii)	—	—	—	—	—	40.4	—	40.4
Transfer from Assets Under Construction	21.8	75.8	347.6	550.5	(0.9)	(1,058.6)	63.8	—
Disposals (ii)	(17.8)	(18.5)	—	—	(13.8)	(7.8)	(87.9)	(145.8)
Exchange rate adjustments	(3.6)	(8.1)	—	—	(0.2)	(0.2)	(0.6)	(12.7)
At 31 March 2022	2,817.4	5,859.7	9,499.6	5,110.5	554.1	859.5	1,294.3	25,995.1
Depreciation:								
At 31 March 2020	(2,184.9)	(2,624.2)	(4,051.4)	(600.3)	(168.3)	(20.2)	(1,134.8)	(10,784.1)
Charge for the year	(36.5)	(171.3)	(148.7)	(81.1)	(27.2)	—	(58.5)	(523.3)
Impairments charges (note 7); (iv)	(58.6)	—	—	—	(15.1)	1.9	—	(71.8)
Transfers in the year	—	—	(0.1)	—	(0.1)	—	0.2	—
Disposals (ii)	—	—	0.5	0.1	1.5	—	20.5	22.6
Transfer to assets held for sale	—	—	—	—	0.5	—	0.3	0.8
Exchange rate adjustments	21.5	7.3	—	—	—	—	0.7	29.5
At 31 March 2021	(2,258.5)	(2,788.2)	(4,199.7)	(681.3)	(208.7)	(18.3)	(1,171.6)	(11,326.3)
Charge for the year	(65.3)	(158.3)	(156.4)	(90.5)	(17.2)	—	(57.7)	(545.4)
Impairment reversals (note 7); (iv)	331.6	—	—	—	—	—	97.9	429.5
Non-exceptional impairment charges	—	—	(20.7)	—	—	1.0	—	(19.7)
Disposals (ii)	—	18.7	—	—	1.9	6.5	49.6	76.7
Exchange rate adjustments	(0.2)	0.2	—	—	—	—	8.8	8.8
At 31 March 2022	(1,992.4)	(2,927.6)	(4,376.8)	(771.8)	(224.0)	(10.8)	(1,073.0)	(11,376.4)
Net book value								
At 31 March 2022	825.0	2,932.1	5,122.8	4,338.7	330.1	848.7	221.3	14,618.7
At 31 March 2021	499.8	2,933.8	4,876.0	3,875.1	319.2	647.2	103.2	13,254.3
At 1 April 2020	553.1	3,119.3	4,635.9	3,543.2	346.8	529.8	86.6	12,814.7

- (i) Thermal and Renewable generation assets include generation plant and machinery and related land and buildings. The net book value of power generation assets, renewables and thermal includes decommissioning costs with a net book value of £183.5m and £255.0m (2021: £124.6m and £80.3m) respectively.
- (ii) Assets disposed in 2021 included £24.4m in respect of the Group's assets relating to the disposal of Slough Multifuel.
- (iii) Represents the carrying value of development assets transferred from intangible assets (note 13) which have reached the consent stage and have been approved for construction.
- (iv) Impairment (reversals)/charges relate to exceptional impairment reversals of £331.6m in relation to the Group's GB CCGT power stations and the Group's Great Island CCGT plant and £97.3m relating to the Group's gas storage operations at Atwick and Aldbrough (see note 7) and non-exceptional impairments of £1.0m. (2021: exceptional impairments of £71.3m and non-exceptional impairments of £0.5m).

The presentation of this property, plant and equipment note has been restated from that included in the financial statements to 31 March 2021 to more meaningfully represent the Group's primary categories of assets. The disclosure better aligns assets to the Group's major business units, reflecting asset management and ownership and grouping common assets into appropriate asset classes.

Included within property, plant and equipment are the following right of use assets for leased assets:

	Thermal power generation assets £m	Land and buildings £m	Distribution network assets £m	Metering assets and other equipment £m	Total £m
Cost:					
At 31 March 2020	369.6	165.1	12.2	93.2	640.1
Additions	—	15.6	—	29.8	45.4
Disposals	—	(8.0)	—	(4.2)	(12.2)
Exchange rate adjustments	—	(1.5)	—	(0.4)	(1.9)
At 31 March 2021	369.6	171.2	12.2	118.4	671.4
Additions	—	40.6	—	45.1	85.7
Disposals	—	(8.7)	—	(67.8)	(76.5)
At 31 March 2022	369.6	203.1	12.2	95.7	680.6
Depreciation					
At 31 March 2020	(260.4)	(11.7)	(0.4)	(27.1)	(299.6)
Charge for the year	(12.1)	(11.7)	(2.2)	(26.3)	(52.3)
Disposals	—	1.5	—	4.0	5.5
Exchange rate adjustments	—	0.3	—	0.3	0.6
At 31 March 2021	(272.5)	(21.6)	(2.6)	(49.1)	(345.8)
Charge for the year	(15.1)	(10.6)	(2.2)	(18.9)	(46.8)
Disposals	—	1.1	—	31.7	32.8
Impairment reversal	54.0	—	—	—	54.0
At 31 March 2022	(233.6)	(31.1)	(4.8)	(36.3)	(305.8)
Net book value					
At 31 March 2022	136.0	172.0	7.4	59.4	374.8
At 31 March 2021	97.1	149.6	9.6	69.3	325.6
At 1 April 2020	109.2	153.4	11.8	66.1	340.5

15. Impairment testing

Goodwill and intangibles that are not amortised are reviewed at least annually for impairment. PPE, investments and other intangibles are assessed annually for impairment (or impairment reversals) triggers.

The Group's accounting policies and methodologies for impairment testing are described at Accompanying Information [sections A1.2](#).

The key operating and valuation assumptions, specific considerations and outcome of tests for all impairment reviews are noted in the following sections. The discount rates used are pre-tax real, except where noted, and reflect specific risks attributable to the relevant assets subject to impairment review. The discount rates applied in both 2022 and 2021 remain consistent across all CGUs, except where noted, reflecting the Group's view of cost of capital and risk. The recoverable amounts derived from the VIU or FVLCS calculations are compared to the carrying amount of each asset or CGU to determine whether an impairment charge requires to be recognised. The reviews carried out for the 2022 financial statements were carried out in the fourth quarter of the year, which is consistent with previous reviews. Note that the actual outcomes may differ from the assumptions included in the assessments at the balance sheet date.

Notes to the consolidated financial statements continued

For the year ended 31 March 2022

15. Impairment testing continued

15.1 Goodwill impairment reviews – CGUs testing

The recoverable amounts of the Onshore Windfarm, the Offshore Windfarm and Enterprise Energy Solutions CGUs are determined by reference to value-in-use ('VIU') calculations. The VIU calculations use, as a starting point, pre-tax cash flow projections based on the Group's five year Corporate Model as approved by the Board. The Group's Corporate Model is based both on past experience and reflects the Group's forward view of markets, prices, risks and its strategic objectives. Commodity prices used are based on observable market data and, where this is not available, on internal estimates.

Assets/CGUs	Cash flow period assumption	Operating and other valuation assumptions	Commentary and impairment conclusions
Onshore Windfarm	Period to end of life of portfolio assets	<p>Onshore</p> <p>The VIU assessment is used to test the carrying value of £71.3m of goodwill related to the Group's onshore windfarms for impairment. The assessment is based on the discounted pre-tax cash flows expected to be generated by the specific wind farm assets included in the CGU across the remaining useful lives of those assets. This includes over 50 operating assets in both the UK and Republic of Ireland.</p> <p>Cash inflows for the CGUs are based on the expected average annual generation GWh output based on technical assessment and past experience and are valued based on forward power prices. These factors are subject to management review on an annual basis. The prices applied to projected outputs are based either on observable market information during that period, which is deemed to be 3 years, or on internal estimations beyond the observable market period (a Level 3 basis as defined by IFRS 13 Fair Value Measurement). The projections are also dependent on the UK and Irish government's continuing support for existing qualifying wind assets through ROCs or REFIT. Cash outflows are based on planned and expected maintenance profiles and other capital or replacement costs.</p> <p>The Onshore Windfarm CGU includes cashflows for operational assets only, being over 50 individual windfarms across UK and Republic of Ireland, given the risk and uncertainty associated with projects in the development stage.</p> <p>The cash flow projections are based on UK power prices between £64 - £116 per MWh over the next three years and have been discounted applying a pre-tax real discount rate between 5.1% and 6.0% (2021: between 5.1% and 5.6%) based on technology and market risks.</p>	<p>Impairment conclusion – Onshore</p> <p>The recoverable amount of the Onshore windfarm CGU continues to significantly exceed the carrying value of the CGU based on the impairment test, therefore no impairment has been recognised.</p> <p>Sensitivity analysis – Onshore</p> <p>The principal assumptions impacting the valuation model of the onshore windfarm CGU are discount rate, generation volume and electricity price.</p> <p>While cash flow projections are subject to inherent uncertainty, a 10% power price decrease was modelled, which indicated significant headroom on the carrying value of the assets. A 0.5% increase in the pre-tax real discount rate to between 5.6% - 6.5% also indicated significant headroom on the carrying value of the assets.</p> <p>TCFD related sensitivity analysis – Onshore</p> <p>A significant increase in renewable generation capacity in the Group's core markets could potentially result in an oversupply of renewable electricity at a point in the future, which would lead to a consequential decrease in the power price achievable for the Group's onshore wind generation assets. A downside power price sensitivity, which may arise in a market with significant new build was modelled. This scenario indicated that, despite a modelled 10% reduction in power price, there remained significant headroom on the carrying value in the Group's onshore wind generation assets.</p> <p>Changes to weather patterns resulting from global warming could result in calmer weather patterns, which would reduce volumes achievable for the Group's onshore wind generation assets (although noting that this would likely lead to capacity constraints and hence higher prices). Despite a 15% reduction in modelled achievable volume, there remained significant headroom on the carrying value in the Group's onshore wind generation assets.</p>

Assets/CGUs	Cash flow period assumption	Operating and other valuation assumptions	Commentary and impairment conclusions
Offshore Windfarms	Period to end of life of portfolio assets	<p>Offshore</p> <p>The VIU assessment is used to test the carrying value of £214.9m of goodwill related to the Group's offshore windfarms for impairment. The assessment is based on the discounted pre-tax cash flows expected to be generated by the specific wind farm assets included in the CGU across the remaining useful lives of those assets.</p> <p>The Offshore Windfarm CGU includes cashflows for operational assets only, being Beatrice and Greater Gabbard wind farms, given the risk and uncertainty associated with projects in the development stage. Seagreen and Doggerbank are currently under construction and have been excluded from the analysis.</p> <p>Cash inflows for the CGUs are based on the expected average annual generation GWh output based on technical assessment and past experience and are valued based on forward power prices. These factors are subject to management review on an annual basis. The prices applied to projected outputs are based either on observable market information during that period, which is deemed to be 3 years, or on internal estimations beyond the observable market period (a Level 3 basis as defined by IFRS 13 Fair Value Measurement). The projections are also dependent on the UK government's continuing support for existing qualifying wind assets through CFD subsidies. Cash outflows are based on planned and expected maintenance profiles and other capital or replacement costs.</p> <p>The cash flow projections are based on UK power prices between £65 - £117 per MWh over the next three years and have been discounted applying a pre-tax real discount rate of 6.0% (2021: 5.6%) based on technology and market risks.</p>	<p>Impairment conclusion – Offshore</p> <p>The recoverable amount of the Onshore windfarm CGU significantly exceeds the carrying value of the CGU based on the impairment test, therefore no impairment has been recognised.</p> <p>Sensitivity analysis – Offshore</p> <p>The principal assumptions impacting the valuation model of the onshore windfarm CGU are discount rate, generation volume and electricity price.</p> <p>While cash flow projections are subject to inherent uncertainty, a 10% power price decrease was modelled, which indicated significant headroom on the carrying value of the assets. A 0.5% increase in the pre-tax real discount rate to 6.5% also indicated significant headroom on the carrying value of the assets.</p> <p>TCFD related sensitivity analysis – Offshore</p> <p>A significant increase in renewable generation capacity in the Group's core markets could potentially result in an oversupply of renewable electricity at a point in the future, which would lead to a consequential decrease in the power price achievable for the Group's offshore wind generation assets. A downside power price sensitivity, which may arise in a market with significant new build was modelled. This scenario indicated that, despite a modelled 10% reduction in power price, there remained significant headroom on the carrying value in the Group's offshore wind generation assets.</p> <p>Changes to weather patterns resulting from global warming could result in calmer weather patterns, which would reduce volumes achievable for the Group's offshore wind generation assets (although noting that this would likely lead to capacity constraints and hence higher prices). Despite a 15% reduction in modelled achievable volume, there remained significant headroom on the carrying value in the Group's offshore wind generation assets.</p>
Enterprise Energy Solutions	5 years	<p>The Group has capitalised goodwill of £31.7m in relation to the acquisition of the Energy Solutions Group in 2016. The business designs, installs and optimises building management technologies which deliver efficient operating environments for its customers.</p> <p>The VIU of the business CGU has been based on a 5.6% (2021: 5.6%) pre-tax real discount rate, which is consistent with the prior year.</p>	<p>Conclusion</p> <p>At 31 March 2022, the impairment review indicates headroom on the carrying value. A decrease in forecast cashflows of 20% would result in a £6.0m impairment. An increase in the discount rate of 4% would result in an impairment of £12.4m.</p>

During the year SSE completed the acquisition of SSE Pacifico, which has resulted in the recognition on acquisition of £176.7m of goodwill in the year. Management utilised the cash flow models produced at the time of the acquisition, to test for impairment at the year end and identified no impairment.

Notes to the consolidated financial statements continued For the year ended 31 March 2022

15. Impairment testing continued

15.2 PP&E, other intangibles and investment impairment reviews – asset testing

Where an indicator of impairment exists, the recoverable amounts of the Group's PP&E, other intangible assets and interests in joint ventures and associates are determined by reference to VIU or, where appropriate, fair value less costs to sell calculations. The calculations use, as their starting point, pre-tax cash flow projections based on the Group's five year Corporate Model as approved by the Board. The Group's Corporate Model is based on past experience and reflects the Group's forward view of markets, prices, risks and its strategic objectives. Commodity prices used are based on observable market data and, where this is not available, on internal estimates. Fair value less costs to sell valuations are derived from market analysis for similar transactions, adjusted to specific circumstances of the Group's investment to reflect the amount the Group believes will be recoverable in a sale transaction.

Changes from prior year

The assets identified for impairment reviews in the prior year (being GB CCGTs, the Great Island CCGTs and the Group's discontinued Gas Production assets) remained subject to impairment testing at 31 March 2022, with the exception of the now disposed Gas Production assets. In addition to these assets, the Group's Gas Storage assets displayed indicators of impairment reversal following improved financial performance during the year. This improved financial performance was mainly due to global gas price volatility during the year, with the asset providing opportunities for the Group to trade within this volatility. Finally, the Group's 50% joint venture investment in Neos Networks Limited displayed indicators of impairment following the loss of a major contract, subsequent to increases in the Group's investment during the year.

Assets	Cash flow period assumption	Operating and other valuation assumptions	Commentary and impairment conclusions
GB CCGTs (Keadby, Medway, Peterhead and Marchwood (PPA Right of use lease asset) power stations	Period to end of life	<p>Modelling methodology and assumptions</p> <p>The VIU of the Group's GB combined cycle gas turbine ('CCGT') power stations were based on pre-tax discounted cash flows expected to be generated by each plant, based on management's view of operating prospects and operational flexibility within the GB wholesale market, including capacity market clearing prices. Cash flows are subject to a pre-tax real discount rate between 9.2% and 21.2% (2021: between 8.9% and 19.9%).</p> <p>Changes from prior year</p> <p>Certain assets within the Group's GB CCGT fleet are nearing the end of their operational life and are therefore more sensitive to fluctuations in market assumptions.</p> <p>During the year, increases in gas and carbon prices, exacerbated by Russia's invasion of Ukraine in February 2022, have resulted in an increase in UK power prices. The UK market has also experienced periods where available generation capacity above demand has been reduced, which has also resulted in increased power prices. As a result the observable spark margins assumed for the GB CCGT assets has increased and there has been strong operational performance of the assets. These factors were considered an indicator of impairment reversal at 31 March 2022.</p> <p>The Group recorded exceptional impairment reversals totalling £175.8m at 30 September 2021 (Peterhead (£25.4m); Keadby (£46.7m); Medway (£49.7m) and Marchwood (£54.0m)) on its GB CCGT fleet based on observable power prices at that date. In the second half of the financial year, observable power prices have increased further, resulting in further impairment reversals in the second half of the year. The conclusion presented opposite represents the total impairment reversals recognised for the year.</p>	<p>Conclusion</p> <p>At 31 March 2022 an impairment reversal of £293.8m, has been recognised across the GB CCGT assets.</p> <p>The impairment assessment returned individually exceptional impairment reversals to Peterhead (£91.4m), Marchwood (£54.0m), Keadby (£65.3m) and Medway (£83.1m). Following this assessment, all historic impairments on these assets have now been reversed.</p> <p>The closing carrying values, subsequent to the impairment reversals, are: Peterhead (£133.1m); Marchwood (£142.4m); Keadby (£72.0m); and Medway (£97.7m).</p> <p>The Group has assessed that the recoverable values of these assets are: Peterhead (£246.5m); Marchwood (£437.8m); Keadby (£250.5m); and Medway (£226.3m).</p> <p>As a result of securing additional supply contracts, the useful economic life of Keadby CCGT has been extended by 4 years to 2028 and Medway by 1 year to 2026. Both of these life extensions have been considered within the impairment testing process. Based on the reinstated asset values, this will result in a £32.2m decrease to FY22/23 depreciation charge.</p> <p>Sensitivity analysis</p> <p>A 20% decrease in gross margin would still result in full impairment reversal for each asset. A sensitivity on non-contracted capacity mechanism prices has not been performed as the assets subject to impairment testing are contracted into future periods.</p> <p>TCFD related sensitivity analysis – GB CCGTs</p> <p>The future introduction of legislation restricting power generation from unabated gas fired power stations beyond 2030 has been identified as a potential risk the Group could be exposed to as the UK transitions to a net zero economy. However, this has not been treated as an indicator of impairment at 31 March 2022, as legislation has not been introduced or enacted by the balance sheet date.</p> <p>Most of the Group's GB CCGTs are nearing the end of their economic life and are projected to cease operations before 2030. Of the Group's GB CCGTs, only Keadby 2 is projected to operate beyond this date. Keadby 2 is not displaying indicators of impairment and so has not been included in the impairment review above. If legislation was introduced requiring the closure of Keadby 2 by 2030, it would result in no impairment at 31 March 2022.</p>

Notes to the consolidated financial statements continued
For the year ended 31 March 2022

15. Impairment testing continued

15.2 PP&E, other intangibles and investment impairment reviews – asset testing continued

Assets	Cash flow period assumption	Operating and other valuation assumptions	Commentary and impairment conclusions
Great Island CCGT	Period to end of life	<p>The VIU of the Group's Great Island CCGT Power station was based on pre-tax discounted cash flows expected to be generated by the plant based on management's view of the plant's operating prospects. Cash flows are subject to a pre-tax real discount rate of 11.0% (2021: 10.8%) reflecting the specific risks in the Irish market.</p> <p>The Group recorded an exceptional impairment reversal of £5.8m at 30 September 2021 on its Great Island CCGT based on observable power prices at that date. In the second half of the financial year, observable power prices have increased further, resulting in a further impairment reversal in the second half of the year. The conclusion presented opposite represents the total impairment reversal recognised for the year.</p>	<p>Conclusion The VIU assessment performed on the asset indicated an exceptional impairment reversal of £37.5m, which has been recognised at 31 March 2022.</p> <p>The carrying value of the asset following the impairment reversal is £259.8m.</p> <p>Sensitivity analysis A 0.5% increase in the discount rate would decrease the impairment reversal to £30.7m and a 0.5% decrease in the discount rate would increase the impairment reversal to £44.9m.</p> <p>A 20% decrease in gross margin would result in an impairment of £53.0m, and a 20% increase in gross margin would result in an impairment reversal of £54.2m, which would represent a full reversal of historic impairments.</p> <p>A €10/KW decrease in non-contracted capacity market price would decrease the impairment reversal to £20.2m and a €10/KW increase would increase the impairment reversal to £54.2m, which would represent a full reversal of historic impairments.</p> <p>TCFD related sensitivity analysis – GB CCGTs The future introduction of legislation restricting power generation from unabated gas fired power stations beyond 2030 has been identified as a potential risk the Group could be exposed to as Ireland transitions to a net zero economy. However, this has not been treated as an indicator of impairment at 31 March 2022, as legislation has not been introduced or enacted by the balance sheet date.</p> <p>Great Island is projected to operate beyond this date, and so while legislation has not been introduced requiring the shortening of the economic life to this date, the Group has performed a sensitivity analysis to the impairment test noted above. If legislation was introduced requiring the closure of Great Island by 2030, it would result in an impairment of £41.5m at 31 March 2022.</p>

Assets	Cash flow period assumption	Operating and other valuation assumptions	Commentary and impairment conclusions
Gas Storage assets (Atwick and Aldbrough)	Period to end of life	<p>The VIU of the Group's Gas Storage assets at Aldbrough and Atwick were based on pre-tax discounted cash flows expected to be generated by the storage assets based on management's view of the assets' operating prospects. Cash flows are subject to a pre-tax real discount rate of 15.3% reflecting risks specific to the assets.</p> <p>The key assumptions applied in the valuation of the assets are gas price volatility and the mean reversion rate ('MRR'). The gas price volatility assumption reflects management's view of price fluctuations between periods where the Group can purchase gas at a low price, store it and sell during periods of peak prices. The assumption is based off of market observed volatility in the last 3 years and management's view on projected volatility in future periods. MRR represents the time taken for the market to return to average after a period of increase or decline. The MRR combined with the volatility rate derives management's fair value of the assets.</p>	<p>Conclusion</p> <p>The VIU assessment performed on the assets indicated an exceptional impairment reversal of £97.3m in total, which has been recognised at 31 March 2022.</p> <p>The impairment assessment returned exceptional impairment reversals to Atwick (£70.2m) and Aldbrough (£27.1m). While an impairment reversal below £30m would not normally be treated as exceptional, it constitutes the reversal of an impairment that was previously treated as exceptional. The Group's policy therefore is to also treat the reversal of the impairment as exceptional.</p> <p>Following the impairment reversals the carrying value of Atwick is £70.2m and the carrying value of Aldbrough is £49.1m. Both of these carrying values represent the net book value of the storage assets and exclude the carrying value of cushion gas volumes.</p> <p>Sensitivity analysis</p> <p>A sensitivity performed with a high volatility assumption would result in an impairment reversal of £72.9m to Atwick and £59.5m to Aldbrough. The Atwick reversal would represent a full reversal of historic impairments.</p> <p>A low volatility assumption would result in an impairment reversal of £52.0m in Atwick and £0.6m in Aldbrough.</p> <p>A high sensitivity of the MRR assumption (represents an increase in the rate by 1.0) would result in an impairment reversal of £72.9m to Atwick and £58.6m to Aldbrough. The Atwick reversal would represent a full reversal of historic impairments.</p> <p>A low sensitivity of the MRR assumption (represents a decrease in the rate by 1.0) would result in an impairment reversal of £60.7m in Atwick and £9.3m in Aldbrough.</p>

Notes to the consolidated financial statements continued

For the year ended 31 March 2022

15. Impairment testing continued

15.2 PP&E, other intangibles and investment impairment reviews – asset testing continued

Assets	Cash flow period assumption	Operating and other valuation assumptions	Commentary and impairment conclusions
Investment in Neos Networks Limited	n/a	<p>The Group has valued its 50% joint venture investment in Neos Networks Limited ('NNL') based on projected valuations that could be achieved in a market transaction, using earnings multiples observable from recent similar transactions. Due to the nature of the valuation technique, which was performed to approximate an achievable fair value less costs to sell, a wide range of valuations were derived from this exercise. The Group has used a point estimate valuation within the range of possible valuations based on earnings targets and earning multiples that the Group believes are achievable. The Group has assessed that this is a level 3 valuation in the fair value hierarchy, with the key inputs being EBITDA and the transaction multiple.</p>	<p>Conclusion The valuation exercise resulted in a wide range of reasonably probable valuations for the business from an impairment of £154.4m to headroom of £37.0m.</p> <p>The Group has assessed that within this range of valuations, a point valuation resulting in an impairment of £106.9m best represents the recoverable value of the investment.</p> <p>Following the impairment, the Group's carrying value of equity investment, shareholder loans and receivables due from NNL is £195.3m.</p> <p>Sensitivity analysis Sensitivity analysis was performed in relation to the EBITDA and the multiple applied in deriving the valuation. A 10% increase in the EBITDA assumption would result in an impairment of £87.4m, whereas a 10% decrease in the EBITDA assumption would result in an impairment of £126.4m.</p> <p>A 5% decrease to the multiple assumption would result in an impairment of £116.7m, whereas a 5% increase to the multiple assumption would result in an impairment of £97.2m.</p>

16. Investments

16.1 Joint Ventures and associates

Share of net assets/cost	2022			2021 (restated*)		
	Equity £m	Loans £m	Total £m	Equity £m	Loans £m	Total £m
At 1 April	1,643.5	554.3	2,197.8	1,849.4	847.5	2,696.9
Additions	243.5	449.0	692.5	9.0	179.9	188.9
Recognition of investment on loss of control (i)	–	–	–	88.5	10.0	98.5
Repayment of shareholder loans	–	(147.6)	(147.6)	–	(236.7)	(236.7)
Dividends received	(177.0)	–	(177.0)	(191.1)	–	(191.1)
Share of profit/(loss) after tax (ii) – continuing operations	110.7	–	110.7	45.5	–	45.5
Share of profit/(loss) after tax (ii) – discontinued operations	(81.1)	–	(81.1)	88.6	–	88.6
Share of other reserves adjustments	152.8	–	152.8	1.5	–	1.5
Disposals	(545.7)	(118.8)	(664.5)	(226.1)	(264.6)	(490.7)
Transfer – Loans to Equity	–	–	–	(18.4)	18.4	–
Transfers – Other Investments	–	–	–	(2.0)	–	(2.0)
Impairments	(106.9)	–	(106.9)	(0.1)	–	(0.1)
Exchange rate adjustments	(0.3)	–	(0.3)	(1.3)	(0.2)	(1.5)
At 31 March	1,239.5	736.9	1,976.4	1,643.5	554.3	2,197.8

* The comparatives have been restated. See note 1.2.

- (i) In the prior year the Group assessed that the equity stakes retained following the disposals of its wholly owned subsidiaries, Seagreen Holdco 1 Ltd and SSE Slough Multifuel Ltd were accounted for as equity accounted joint ventures. In the table above an equity investment of £88.5m (including a fair value uplift of £47.0m on acquisition of the joint venture (see note 12.2) and loans of £10.0m were recognised on deconsolidation.
- (ii) Of the £110.7m (2021: £45.5m) share of profits from continuing operations, only £109.8m (2021: £43.4m) is recognised through the income statement. The £0.9m (2021: £2.1m) difference relates to profits earned from SSE Group companies where the costs have been capitalised. This profit has been eliminated on consolidation.

16.2 Additions and disposals of equity in the current year

During the current and prior year the Group progressed with its plan to dispose of equity stakes in non-core or non-operated assets, including equity stakes in investments. Further detail on the Group's disposals in the year is provided in note 12.2 and is summarised below.

Additions in the year arising on loss on control

There were no significant additions of equity in the current year.

Disposals of equity in the year

Sale of stake in Dogger Bank C: On 10 February 2022, SSE completed the sale of a 10% stake in Dogger Bank C to Eni for consideration of £70.0m and contingent consideration of up to £40.0m, resulting in a non-exceptional gain on disposal of £64.3m. The gain has been recognised within the adjusted profit of the Group in line with the Group's stated exceptional policy for gains on disposal of divestments in offshore windfarms (see note 3.2). After the sale the Group's shareholding in Dogger Bank C is 40%.

Sale of investment in SGN: On 2 August 2021, the Group announced it had agreed to sell its 33.3% investment in SGN to a consortium comprising existing SGN shareholders Ontario Teachers' Pension Plan Board and Brookfield Super-Core Infrastructure Partners for cash consideration of £1,225m. The agreement was conditional on certain regulatory approvals and completed on 22 March 2022, with the Group recognising an exceptional gain on disposal of £576.5m.

16.3 Acquisitions and disposals of equity in the previous year

Additions in the previous year arising on loss on control

Sale of Slough Multifuel subsidiary and acquisition of joint venture investment: On 2 April 2020, the Group disposed of a 50% stake in its wholly owned subsidiary, SSE Slough Multifuel Ltd, to Copenhagen Infrastructure Partners (see note 12.2). The Group assessed that control of the company was lost on that date, and that the remaining 50% investment in Slough Multifuel should be accounted for as an equity accounted joint venture under the principles of IFRS 11 "Joint Arrangements". The Group acquired the joint venture investment at fair value of £31.3m under the principles of IFRS 10 "Consolidated Financial Statements" on that date.

Sale of Seagreen 1 subsidiary and acquisition of investment: On 3 June 2020, the Group disposed of a 51% stake in its wholly owned subsidiary, Seagreen Holdco 1 Ltd ('Seagreen 1'), to Total (see note 12.2). The Group assessed that control of the company was lost on that date, and that the remaining 49% investment in Seagreen 1 should be accounted for as an equity accounted joint venture under the principles of IFRS 11 "Joint Arrangements". The Group acquired the joint venture investment at fair value of £67.2m under the principles of IFRS 10 "Consolidated Financial Statements" on that date.

Disposals of equity in the previous year

Sale of investment in Ferrybridge Multifuel: On 13 October 2020, the Group announced it had reached an agreement to dispose of its 50% joint venture investment in Multifuel Energy Limited and Multifuel Energy 2 Limited (together 'MEL'), to European Diversified Infrastructure Fund III for headline consideration of £995m. The agreement was subject to antitrust approval by the European Commission, which was granted on 7 January 2021 when the transaction completed. The Group recorded an exceptional gain on disposal of £669.9m on completion.

Sale of investment in Walney Windfarm: On 2 September 2020, the Group agreed to sell its subsidiary, SSE Renewables Walney Limited, to Greencoat UK Wind Plc for consideration of £350m, resulting in an exceptional gain on sale of £188.7m. SSE Renewables Walney Limited was the holding company of the Group's non-operated 25.1% joint venture stake in Walney Offshore Windfarm.

Sale of investment in Maple Smart Meter Assets: On 23 September 2020, the Group disposed of its 33% joint venture investment in Maple Topco Limited, the smart meter services provider, for proceeds of £95.3m, recognising an exceptional gain on disposal of £70.4m.

Sale of stake in Doggerbank A&B Windfarms: On 4 December 2020, the Group announced it had agreed to sell a 10% stake in Doggerbank A and Doggerbank B windfarms to Eni for consideration of £206.3m, including an interest adjustment of £3.8m, resulting in a non-exceptional gain on disposal of £202.8m. The gain was recognised within the adjusted profit of the Group in line with the Group's stated exceptional policy for gains on disposal of divestments in offshore windfarms (see note 3).

On the same date, Eni entered into an agreement with Equinor to purchase a further 10% stake in the development. Following these transactions, SSE and Equinor each hold a 40% equity stake and Eni a 20% stake.

Notes to the consolidated financial statements continued

For the year ended 31 March 2022

16. Investments continued

16.4 Principal joint ventures and associates

Under IFRS 12 Disclosure of Interests in Other Entities, the Group has evaluated the key joint ventures and associates it holds with the purpose of disclosing any which are materially significant in order to identify the impact on the Group's financial position, performance and cash flows, whilst identifying the nature of the risks associated with these interests. A full listing of the Group's incorporated joint ventures, joint operations, associates and investments are included in the Accompanying Information (A3 [1](#)).

Share of results of joint ventures and associates

	2022 Windfarms £m	2022 Thermal Generation £m	2022 Other (i) £m	2022 Total £m	2021 Total (restated*) £m
Revenue	292.9	179.3	83.2	555.4	389.9
Other Income	112.5	—	—	112.5	102.5
Depreciation and amortisation	(85.4)	(19.0)	(42.2)	(146.6)	(143.9)
Other operating costs	(80.1)	(128.4)	(54.8)	(263.3)	(197.4)
Operating profit	239.9	31.9	(13.8)	258.0	151.1
Interest expense	(52.4)	(3.4)	(12.0)	(67.8)	(82.4)
Changes in fair value of derivatives	—	—	—	—	(0.9)
Corporation tax	(68.8)	(8.7)	(2.0)	(79.5)	(22.3)
Share of post taxation results	118.7	19.8	(27.8)	110.7	45.5
Recognised in other comprehensive income					
Cashflow hedges (ii)	184.9	3.6	—	188.5	24.8
Taxation (ii)	(35.0)	(0.7)	—	(35.7)	(4.5)
Total comprehensive income	268.6	22.7	(27.8)	263.5	65.8

* The comparatives have been restated. See note 1.2.

(i) Other comprises the investments the Group holds in Neos Networks Limited and Marron Activ8 Energies Limited.

(ii) Other comprehensive income from net cashflow hedges of £181.4m includes £28.6m in relation to the disposal of SGN, which is disclosed as a discontinued operation.

Share of joint ventures and associates' assets and liabilities

	2022 Windfarms £m	2022 Thermal Generation £m	2022 Other (i) £m	2022 Total £m	2021 Total £m
Non-current assets	4,009.8	238.7	227.0	4,475.5	5,695.2
Current assets	131.8	51.2	40.5	223.5	431.7
Cash & cash equivalents	192.4	27.7	10.5	230.6	244.2
Current liabilities	(243.2)	(24.9)	(73.1)	(341.2)	(565.3)
Non-current liabilities	(3,618.0)	(156.1)	(139.1)	(3,913.2)	(4,708.0)
	472.8	136.6	65.8	675.2	1,097.8
Other adjustments	589.2	45.6	(70.5)	564.3	545.7
Share of net assets of joint ventures and associates	1,062.0	182.2	(4.7)	1,239.5	1,643.5
Shareholder loans	546.0	101.6	89.3	736.9	554.3
Interest in joint venture and associate	1,608.0	283.8	84.6	1,976.4	2,197.8

Information on Group's investments in joint ventures and associates is provided at A3, A4 and A5 [1](#).

16.5 Joint operations

Listed are the incorporated joint operations that have a material impact on the financial position and financial results of the Group.

	Principal activity	Country of incorporation	Class of shares held	Proportion of shares held (%)	Group Interest (%)	Year end
Greater Gabbard Offshore Winds Limited	Offshore Windfarm	UK	Ordinary	50	50	31 March
North Falls Offshore Wind Farm Limited	England and Wales	UK	Ordinary	50	50	31 March

The Group's interest in Greater Gabbard Offshore Winds Limited is that of a joint operation designed to provide output to the parties sharing control. The liabilities of the arrangement are principally met by the parties through the contracts for the output of the windfarm. North Falls Offshore Windfarm Limited is the Greater Gabbard extension and thus also a joint operation.

The Group also has an unincorporated arrangement with Equinor under which it accounts for its 66.7% share of the Aldbrough gas storage facility owned by SSE Hornsea Limited. The Group also had a similar arrangement for its North Sea Gas Production assets at Greater Laggan, Sean, ECA and Bacton, all of which are owned by SSE E&P UK Limited and were disposed on 14 October 2021.

16.6 Other investments held at fair value through other comprehensive income

	Total £m
At 31 March 2020	0.2
Additions in year	0.2
Dividends received in the year	0.1
Transfers – Joint Ventures and associates	2.0
Fair value adjustment through other comprehensive income	1.1
At 31 March 2021	3.6
Additions in year	5.4
Disposals in the year	(0.4)
Transfers – Joint Ventures and associates	–
Fair value adjustment through other comprehensive income	0.1
At 31 March 2022	8.7

17. Inventories

	2022 £m	2021 £m
Fuel and consumables	127.9	104.2
Renewables Obligation Certificates	171.3	147.2
Gas stocks	1.0	17.4
Less: provisions held	(33.6)	(33.9)
	266.6	234.9

Where Renewables Obligation Certificates ('ROCs') are self-generated or purchased to fulfil the Group's environmental obligations, they are recorded within intangible assets. ROCs held in excess of the Group's environmental obligations are recorded within inventories.

The Group has recognised £685.8m within cost of sales in the year (2021: £376.7m).

18. Trade and other receivables

	2022 £m	2021 £m
Non-current assets		
Loan note receivable	136.4	115.9
Current assets		
Trade receivables	1,433.9	832.2
Unbilled energy income	492.7	325.0
Contract related assets	–	12.8
Other receivables	109.8	127.5
Cash held as collateral	83.8	2.7
Other prepayments and accrued income	90.8	188.0
	2,211.0	1,488.2
Total trade and other receivables	2,347.4	1,604.1

The non-current loan note receivable includes £131.2m (2021: £115.9m) recognised on the disposal of SSE Energy Services on 15 January 2020 and is payable by Ovo by 2029 and £5.2m (2021: Enil) recognised on the disposal of the Contracting and Rail business to Aurelius Group on 1 April 2021. The Ovo loan note carries interest of 13.25% and is presented cumulative of accrued interest repayments, discounted at 13.25%.

Unbilled energy income represents an estimate of the value of electricity or gas supplied to customers between the date of the last meter reading and the year end. Detail of the calculation applied to estimate this balance is included at note 4.1(iii). A 5% sensitivity on the unbilled energy accrual would equate to an increase or decrease in the receivable balance of £24.6m (2021: £16.3m).

Contract related assets comprise amounts for goods or services provided under customer contracts, where the right to consideration is contingent on a performance obligation other than the passage of time. The Group has therefore recognised a contract asset for any work performed where payment is not yet due. The Group has assessed that the disclosures required under IFRS 15 to reconcile and explain opening and closing contract assets are immaterial for the Group financial statements.

Other receivables include financial assets totalling £4.9m (2021: £3.8m). Cash held as collateral relates to amounts deposited on commodity trading exchanges of £83.8m (2021: £2.7m).

Trade receivables and other financial assets are part of the Group's financial exposure to credit risk as explained in accompanying information note A6.

Notes to the consolidated financial statements continued
For the year ended 31 March 2022

19. Trade and other payables

	2022 £m	2021 £m
Current liabilities		
Trade payables	919.7	433.3
Contract related liabilities (i)	46.3	38.8
Other creditors	330.2	269.7
Other accruals (ii)	1,376.4	1,245.5
	2,672.6	1,987.3
Non-current liabilities		
Contract related liabilities (i)	196.2	201.8
Other accruals (ii)	646.2	520.7
	842.4	722.5
Total trade and other payables	3,515.0	2,709.8

(i) Current contract related liabilities includes customer contributions of £15.0m (2021: £15.4m) and non-current contract related liabilities includes customer contributions of £196.2m (2021: £201.8m).

(ii) Current other accruals includes government grants of £nil (2021: £0.1m) and non-current other accruals includes government grants of £1.8m (2021: £1.9m).

20. Provisions

	Decommissioning (restated ¹) £m	Legal & restructuring (restated ¹) £m	Employee related (restated ¹) £m	Other (restated ¹) £m	Total £m
At 1 April 2020	569.7	33.0	38.8	20.0	661.5
Charged in the year	9.0	89.1	5.8	15.8	119.7
Decrease in decommissioning provision	(11.1)	–	–	–	(11.1)
Unwind of discount	3.8	–	–	–	3.8
Released during the year	(1.2)	(2.9)	–	–	(4.1)
Utilised during the year	(24.8)	(18.8)	(8.0)	(16.5)	(68.1)
Transfer (to)/from held for sale	224.0	(51.7)	–	–	172.3
Exchange rate adjustments	(1.4)	–	–	–	(1.4)
At 31 March 2021	768.0	48.7	36.6	19.3	872.6
Charged in the year	–	74.1	3.0	20.6	97.7
Increase in decommissioning provision	178.7	–	–	–	178.7
Unwind of discount	5.7	–	–	–	5.7
Released during the year	–	(1.6)	–	–	(1.6)
Utilised during the year	(11.1)	(27.2)	(0.1)	(2.3)	(40.7)
Exchange rate adjustments	(1.2)	–	–	–	(1.2)
At 31 March 2022	940.1	94.0	39.5	37.6	1,111.2
At 31 March 2022					
Non-current	912.2	57.4	39.5	8.8	1,017.9
Current	27.9	36.6	–	28.8	93.3
	940.1	94.0	39.5	37.6	1,111.2
At 31 March 2021					
Non-current	746.6	5.0	36.6	5.1	793.3
Current	21.4	43.7	–	14.2	79.3
	768.0	48.7	36.6	19.3	872.6

1 The Group has changed the presentation of the categories of its provisions following the disposal of its Contracting and Rail business on 30 June 2021. The Contracting and Rail business had its own category of provision due to the materiality of provisions in that business. The Group has reassessed its categories of provision within the continuing operations of the Group and restated comparatives to present on a consistent basis.

Decommissioning provisions

Provision has been made for the estimated net present value of decommissioning the Group's Thermal and Renewable power generation assets, Gas Storage facilities and a retained 60% share of decommissioning costs of the disposed Gas Production business. Cost estimates are based on the forecast remediation or clean-up costs based on current technology and prices for Renewable, Thermal and Gas Storage assets are reviewed by independent valuation experts every three years. In the intervening years, management update cost estimates based on factors arising since the last formal valuation date. Retained decommissioning costs in relation to the disposed Gas Production business are periodically agreed with the field operators. The cost estimates include a risk adjustment and are inflated to the projected decommissioning date using a market observable inflation rate. This projection is discounted using a risk-free discount rate based on UK gilt rates with maturity date similar to the expected decommissioning date.

There is a wide range of assumed decommissioning dates across the obligation due to the number of assets and their varying ages, which is summarised in the table below. Decommissioning dates are based on the useful economic lives of the individual assets based on technology and price forecasts at the balance sheet date. It is possible that the forecast decommissioning dates will change due to technology advances or decisions to repower wind farms when the current turbines reach the end of their respective lives. The date of decommissioning of the Gas Production business can vary based on hydrocarbon reserve estimates and market commodity prices, which can shorten or lengthen the economic life of the field.

Business Unit	Value of provision £m	Number of decommissioning sites	Forecast decommissioning dates
Renewables	297.7	47	2025 – 2049
Thermal	222.6	15	2022 – 2048
Gas Storage	160.8	18 ¹	2028 – 2048
Gas Production	249.4	4 ²	2022 – 2037
Distributed Energy	9.6	1	2027
Total	940.1		

- 1 The Group has two Gas Storage assets at Aldbrough and Atwick. In total there are 18 caverns with varying economic lives, therefore the number of sites has been disclosed to more accurately reflect the scale and expected timing of decommissioning activities.
- 2 The Group has retained a 60% share of the decommissioning obligation for four Gas Production fields, though each field has multiple wells and shared infrastructure that the Group retains an obligation to remediate.

The Group's decommissioning provision has increased significantly during the year from £776.8m to £940.1m, primarily due to the financial assumptions applied in calculating the obligation. An increase in the long term inflation rate to 3.8% (2021: 1.8%) has not been offset by the increase in the risk free discount rates applied of between 1.6%-1.8% (2021: 0.8%-1.3%) which has had a significant impact on the closing provision. During the year, the Group incurred £11.1m of decommissioning spend, primarily related to the Fiddlers Ferry and Ferrybridge sites, included within Thermal above. Based on work completed to date, provisions accrued for the decommissioning of these power stations are expected to be sufficient for the final cost of the works.

Impact of climate change on the Group's decommissioning provisions

The Group has assessed that the most likely impact of climate change on its decommissioning provisions would be the enactment of legislation that would result in the earlier closure of its unabated gas fired power stations. The decommissioning provision included in the table above for these assets is based on forecast closure dates under legislation enacted at the balance sheet date and therefore forecast closure dates have not been accelerated. In the sensitivity analysis below, a scenario has been included assuming legislation is enacted that would result in closure of these assets from 2030.

Sensitivity analysis

Sensitivity analysis reflecting reasonably probable fluctuations to the main assumptions used in the calculation of the decommissioning provisions is set out below:

Estimated impact on the decommissioning provision of:	2022 £m
Increasing the projected cost estimate by 10%	1,027.8
Increasing the inflation rate by 1.0%	1,051.2
Decreasing the discount rate by 0.5%	992.1
Closure of unabated gas CCGTs from 2030	931.7 ¹

- 1 The observable inflation rate applied within the model is higher than the risk-free discount rate, which results in a reduction of total obligation at 31 March 2022 when unabated gas CCGT decommissioning is accelerated to 2030.

Notes to the consolidated financial statements continued

For the year ended 31 March 2022

20. Provisions continued

Legal and restructuring provisions

Provision has been made for costs associated with the restructure of the Group, including the disposal of SSE Energy Services, Neos Networks Limited and the Group's Contracting business. Provisions include IT costs, physical separation costs and provisions for onerous contracts arising on disposal and are calculated on a best estimate basis and are expected to be utilised in the next 12-24 months. In the year the Group recognised a charge of £35.0m for a tax indemnity provided to RockRose Energy Limited ('RRE') following the disposal of SSE E&P Limited on 14 October 2021 (see note 12.2). The tax indemnity is contingent upon clearance of RRE's tax treatment for the acquisition and expected to be settled in the next 12-24 months.

Provisions have also been made for ongoing contract and legal disputes. Where outcomes are unknown, a range of possible scenarios is calculated, with the most likely being reflected in the provision. The timing of settlement for legal provisions is more uncertain as it is dependent upon legal resolution being achieved.

Employee related provisions

Employee related provisions include the Group's employer financed retirement benefit provision for certain directors and former directors and employees, which is valued in accordance with IAS 19 using assumptions consistent with the Scottish Hydro Electric Pension Scheme (see note 23 for assumptions applied). In addition, the Group has legal obligations arising from severance payments due to employees, which are measured based on length of service. At 31 March 2022, the provisions for severance are related to the closure of Fiddler's Ferry power station.

Other provisions

Other provisions include onerous contract provisions, mutualisation obligations and other contractual obligations and are calculated based on a best estimate basis. The timing of settlement of these provisions varies by obligation between 2022 and 2025.

21. Sources of finance

21.1 Capital management

The Board's policy is to maintain a strong balance sheet and credit rating to support investor, counterparty and market confidence in the Group and to underpin future development of the business. The Group's credit ratings are also important in maintaining an efficient cost of capital and in determining collateral requirements throughout the Group. As at 31 March 2022, the Group's long-term credit rating was BBB+ stable outlook for Standard & Poor's and Baa1 stable outlook for Moody's.

The maintenance of a medium-term corporate model is a key control in monitoring the development of the Group's capital structure and allows for detailed scenarios and sensitivity testing. Key ratios drawn from this analysis underpin regular updates to the Board and include the ratios used by the rating agencies in assessing the Group's credit ratings.

The Group's debt requirements are principally met through issuing bonds denominated in Sterling and Euros as well as private placements and medium term bank loans including those with the European Investment Bank. On 1 April 2021, the Group exercised its option to redeem its €600m hybrid equity bond (£421.1m). The bond had no fixed redemption date, but the Group had the option to redeem all of the bond on 1 April 2021 or every 5 years thereafter.

SSE's adjusted net debt and hybrid capital was £8.6bn at 31 March 2022, compared with £8.9bn at 31 March 2021.

Adjusted net debt and hybrid capital is stated after removing lease obligations and cash held as collateral in line with the Group's presentation basis which is explained on [page 210](#). Cash held as collateral refers to amounts deposited on commodity trading exchanges which are reported within 'trade and other receivables' on the face of the balance sheet.

The £1.5bn of committed bank facilities, being a £1.3bn Revolving Credit Facility with a March 2026 maturity and a £0.2bn bilateral facility with an October 2026 maturity. These facilities can also be utilised to cover short term funding requirements; however, they remain undrawn for most of the time and were undrawn at 31 March 2022. In addition, the Group has an established €1.5bn Euro commercial paper programme (paper can be issued in a range of currencies and swapped into Sterling) and at 31 March 2022 £507m of commercial paper was outstanding compared to £nil at 31 March 2021.

The Group capital comprises:

	2022 £m	2021 £m
Total borrowings (excluding lease obligations)	8,671.2	8,989.6
Less: Cash and cash equivalents	(1,049.3)	(1,600.2)
Net debt (excluding hybrid equity)	7,621.9	7,389.4
Hybrid equity	1,051.0	1,472.4
Cash held as collateral and other short term loans	(74.7)	37.1
Adjusted Net Debt and Hybrid Equity [APM]	8,598.2	8,898.9
Equity attributable to shareholders of the parent	8,082.2	5,208.7
Total capital excluding lease obligations	16,680.4	14,107.6

Under the terms of its major borrowing facilities, the Group is required to comply with the following financial covenant:

- **Interest Cover Ratio:** The Group shall procure that the ratio of Operating Profit to Net Interest Payable for any relevant period is not less than 2.5 to 1.

The following definitions apply in the calculation of these financial covenants:

- **"Operating Profit"** means, in relation to a relevant period, the profit on ordinary activities before taxation (after adding back Net Interest Payable) of the Group for that relevant period but after adjusting this amount to exclude any exceptional profits (or losses) and, for the avoidance of doubt, before taking account of any exceptional profits (or losses) and excluding the effect of IFRS 9 remeasurements.
- **"Net Interest Payable"** means, in respect of any relevant period, interest payable during that relevant period less interest receivable during that relevant period.

In summary, the Group's intent is to balance returns to shareholders between current returns through dividends and long-term capital investment for growth. In doing so, the Group will maintain its capital discipline and will continue to operate within the current economic environment prudently. There were no changes to the Group's capital management approach during the year.

21.2 Loans and other borrowings

	2022 £m	2021 £m
Current		
Short-term loans	1,118.7	864.7
Lease obligations	72.1	72.9
	1,190.8	937.6
Non-current		
Loans	7,552.5	8,124.9
Lease obligations	321.4	348.1
	7,873.9	8,473.0
Total loans and borrowings	9,064.7	9,410.6
Cash and cash equivalents	(1,049.3)	(1,600.2)
Unadjusted net debt	8,015.4	7,810.4
Add/(less):		
Hybrid equity	1,051.0	1,472.4
Lease obligations	(393.5)	(421.0)
Cash held as collateral and other short term loans	(74.7)	37.1
Adjusted net debt and hybrid capital [APM]	8,598.2	8,898.9

Cash and cash equivalents (which are presented as a single class of asset on the face of the balance sheet) comprise cash at bank and short term highly liquid investments with a maturity of six months or less. The cash and cash equivalents are lower year on year due to a lower surplus cash position at March 2022 as a result no debt issue in March 2022 compared to a £500m debt issue in March 2021.

Notes to the consolidated financial statements continued
For the year ended 31 March 2022**21. Sources of finance** continued**21.3 Borrowing facilities**

The Group has an established €1.5bn Euro commercial paper programme (paper can be issued in a range of currencies and swapped into sterling) and as at 31 March 2022 there was £507m commercial paper outstanding (2021: £nil). The Group also has £1.5bn of revolving credit facilities (see note 21.1). These facilities continue to provide back-up to the commercial paper programme and, as at 31 March 2022 these facilities were undrawn (2021: undrawn).

During the year to 31 March 2022, the Group through its Scottish Hydro Electric Transmission entity priced and committed to a £350m dual tranche private placement being a £175m 10 year tranche @ 3.13% and £175m 15 year tranche @ 3.24% giving an all in average rate of 3.19%. The pricing was committed to in March 2022 and the proceeds will be received on 30 June 2022.

In April 2022 SSE plc issued a €1bn NC6 equity accounted Hybrid bond @ 4% to re-finance the dual tranche debt accounted Hybrid bonds whose first call date occurs on 16 September 2022 although SSE will take advantage of the 3 month par call option on these Hybrid bonds meaning the bonds will be repaid on 16 June 2022. The €1bn equity accounted Hybrid bond was left in Euros with the proceeds used to cover the portion of the maturing Hybrid that was swapped to Euros and a portion of the costs associated with the acquisition of the European onshore renewables development platform from Siemens Gamesa Renewables Energy.

Analysis of borrowings

	2022 Weighted average interest rate (iv)	2022 Face value £m	2022 Fair value £m	2022 Carrying amount £m	2021 Weighted average interest rate (iii)	2021 Face value £m	2021 Fair value £m	2021 Carrying amount £m
Current								
Bank Loans – non-amortising (i)	3.0%	150.0	151.1	150.0	0.8%	150.0	150.6	150.0
Other Short term loans – non-amortising (ii)	0.8%	507.1	507.5	506.1	–	–	–	–
US Private Placement 16 April 2022	4.3%	162.7	197.8	162.7	–	–	–	–
5.875% Eurobond Repayable 22 September 2022	5.9%	300.0	306.1	299.9	–	–	–	–
4.25% Eurobond repayable 14 September 2021	–	–	–	–	4.3%	300.0	305.0	299.8
2.375% €500m Eurobond repayable 10 February 2022 (v)	–	–	–	–	2.4%	415.0	424.6	414.9
Total current borrowings		1,119.8	1,162.5	1,118.7		865.0	880.2	864.7
Non-Current								
Bank loans – non-amortising (i)	2.2%	350.0	344.3	349.9	2.9%	200.0	209.0	200.0
US Private Placement 16 April 2022	–	–	–	–	4.3%	162.7	193.5	162.6
5.875% Eurobond repayable 22 September 2022	–	–	–	–	5.9%	300.0	323.5	299.6
US Private Placement 28 April 2023	2.8%	35.0	35.4	34.9	2.8%	35.0	36.3	34.7
US Private Placement 6 September 2023	2.9%	120.0	120.1	119.4	2.9%	120.0	124.0	119.2
1.75% €700m Eurobond repayable 8 September 2023 (vi)	1.8%	514.6	524.0	514.3	1.8%	514.6	538.5	514.1
US Private Placement 16 April 2024	4.4%	204.1	250.6	204.0	4.4%	204.1	253.8	203.9
1.250% Eurobond Repayable 16 April 2025 (ix)	1.3%	531.4	533.4	531.4	1.3%	531.4	557.1	531.4
0.875% €600m Eurobond Repayable 8 September 2025	0.9%	510.9	504.3	504.2	0.9%	510.9	527.0	508.4
US Private Placement 8 June 2026	3.1%	64.0	63.8	63.3	–	–	–	–
US Private Placement 6 September 2026	3.2%	247.1	258.7	244.3	–	–	–	–
Between two and five years		2,577.1	2,634.6	2,565.7		2,578.7	2,762.7	2,573.9
Bank loans – non-amortising (i)	0.8%	200.0	200.7	200.0	1.6%	500.0	513.4	499.8
US Private Placement 8 June 2026	–	–	–	–	3.1%	64.0	67.7	62.9
US Private Placement 6 September 2026	–	–	–	–	3.2%	247.1	265.8	243.7
US Private Placement 6 September 2027	3.2%	35.0	34.8	34.6	3.2%	35.0	37.2	34.5
1.375% €650m Eurobond repayable 4 September 2027 (vii)	1.4%	591.4	588.7	590.2	1.4%	591.4	631.8	590.0
1.50% Eurobond Repayable 24 March 2028	1.5%	250.0	232.9	249.0	1.5%	250.0	248.0	248.8
8.375% Eurobond repayable on 20 November 2028	8.4%	500.0	659.0	497.2	8.4%	500.0	732.1	496.8
1.750% Eurobond Repayable 16 April 2030 (x)	1.8%	442.9	439.6	442.9	1.8%	442.9	485.3	442.9
5.50% Eurobond repayable on 7 June 2032	5.5%	350.0	428.6	350.1	5.5%	350.0	476.5	350.1
2.25% Eurobond repayable 27 September 2035	2.3%	350.0	314.1	347.2	2.3%	350.0	350.1	347.0
2.125% Eurobond Repayable 24 March 2036	2.1%	250.0	220.7	248.3	2.1%	250.0	246.1	248.2
4.625% Eurobond repayable on 20 February 2037	4.6%	325.0	375.4	324.1	4.6%	325.0	425.3	324.2
6.25% Eurobond repayable on 27 August 2038	6.3%	350.0	473.3	347.5	6.3%	350.0	539.5	347.3
4.454% Index linked loan repayable on 27 February 2044	4.5%	148.5	250.8	145.1	4.5%	135.9	241.7	135.4
1.429% Index linked bond repayable on 20 October 2056	2.0%	153.9	251.2	154.2	2.0%	147.6	252.1	147.6
4.75% \$900m NC5.5 Hybrid debt maturing 16 September 2077 (viii)	4.8%	725.4	727.6	725.0	4.8%	730.0	752.2	729.0
3.625% NC5.5 Hybrid maturing 16 September 2077 (viii)	3.6%	300.0	301.6	299.8	3.6%	300.0	307.3	299.6
Over five years		4,972.1	5,499.0	4,955.2		5,568.9	6,572.1	5,547.8
Fair value adjustment (iii)				31.6				3.2
Total non-current borrowings		7,549.2	8,133.6	7,552.5		8,147.6	9,334.8	8,124.9
Total borrowings		8,669.0	9,296.1	8,671.2		9,012.6	10,215.0	8,989.6

Note: The Sterling-equivalent fair value reflects the fair value of non-Sterling denominated borrowings, post the impact of the hedges noted below.

(i) Balances include term loans and EIB debt and is a mixture of fixed and floating rate debt.

(ii) Balances include Commercial Paper and facility advances (£507.1m of Commercial Paper outstanding at 31 March 2022).

(iii) The fair value adjustment relates to the change in the carrying amount of the borrowings as a result of fair value hedges that are in place. The movement in the fair value adjustment is recognised in the income statement with a corresponding movement on the hedging instrument also being recognised in the income statement.

Notes to the consolidated financial statements continued

For the year ended 31 March 2022

21. Sources of finance continued

21.3 Borrowing facilities continued

- (iv) The weighted average interest rates (including the effect of interest rate swaps) for the year ended 31 March 2022 was 3.12% (2021 – 3.12%).
- (v) The 2.375% €500m Eurobond maturing 10 February 2022 has been swapped to Sterling giving an effective interest rate of 3.53%.
- (vi) The 1.75% €700m Eurobond maturing 8 September 2023 has been swapped to Sterling giving an effective interest rate of 3.16%.
- (vii) The 1.375% €650m Eurobond maturing 4 September 2027 has been swapped to Sterling giving an effective interest rate of 2.56%.
- (viii) The 4.75% \$900m NC5.5 Hybrid maturing 16 September 2077 has been swapped to Euros (\$605m) and Sterling (\$295m) giving an effective interest rate of 2.25% and 3.29% respectively. This and the 3.625% NC5.5 Hybrid maturing 16 September 2077 are the Group's debt-accounted Hybrids, see (ii) below.
- (ix) The 1.250% €600m eurobond maturing 16 April 2025 has been swapped to Sterling giving an effective interest rate of 2.43%.
- (x) The 1.750% €500m eurobond maturing 16 April 2030 has been swapped to Sterling giving an effective interest rate of 2.89%.

(i) Lease liabilities

Amounts charged under lease arrangements are detailed within note 6, and right of use assets recognised under lease arrangements are detailed within note 14.

	£m
At 1 April 2020	455.2
Additions during the year	43.6
Disposals during the year	(7.9)
Unwind of discount	33.1
Repayment in the year	(100.8)
Transfer to liabilities held for sale	(2.2)
At 31 March 2021	421.0
Additions during the year	82.7
Disposals during the year	(46.8)
Unwind of discount	31.7
Repayment in the year	(95.1)
At 31 March 2022	393.5

The weighted average incremental borrowing rate applied to lease liabilities during the year was 4.92% (2021: 4.84%). Incremental borrowing rates applied to individual lease additions in the year ranged between 4.81% to 5.06% (2021: 4.01% to 5.06%).

The Group has additional committed payments under short term and low value leases at 31 March 2022 of £11.3m (2021: £35.0m).

The maturity of future lease liabilities are as follows:

	2022 £m	2021 £m
Within one year	88.7	92.7
Between one and five years	223.7	262.1
After five years	268.9	267.2
	581.3	622.0
Less: future finance charge	(187.8)	(201.0)
Present value of lease obligations	393.5	421.0

(ii) Hybrid debt

On 16 March 2017, the Group issued £1.0bn of hybrid debt securities. The securities have an issuer first call date on 16 September 2022 and are able to be redeemed at the Group's discretion. This dual tranche issue comprises £300m with a coupon of 3.625% and \$900m with a coupon of 4.75%. The \$900m tranche was swapped back to both Euros and Sterling, bringing the all-in rate down to 2.72% and resulting in an all-in funding cost for both tranches to SSE of 3.02% per annum. Due to these hybrid instruments having a fixed redemption date, they are accounted for as a debt item and are included within Loans and Other Borrowings in note 21.2. This is in contrast to the Hybrid instruments issued in 2015 and 2020 which have no fixed redemption date and are accounted for as Equity, see note 22.5.

21.4 Reconciliation of net increase in cash and cash equivalents to movement in adjusted net debt and hybrid equity

	2022 £m	2021 £m
(Decrease)/increase in cash and cash equivalents	(550.9)	1,435.6
Add/(less):		
New borrowing proceeds	(506.1)	(1,912.9)
New hybrid equity proceeds	–	(1,051.0)
Repayment of borrowings	865.0	1,895.9
Disposal of borrowings	–	438.6
Repayment of hybrid equity (i)	421.4	748.3
Non-cash movement on borrowings	(40.5)	306.0
Increase/(decrease) in cash held as collateral and other short term loans	111.8	(293.5)
Decrease/(increase) in adjusted net debt and hybrids [APM]	300.7	1,567.0

Cash held as collateral refers to amounts deposited on commodity trading exchanges and loans provided with a less than three month maturity which are reported within trade and other receivables on the face of the balance sheet.

(i) On redemption of the hybrid equity £4.6m of costs were recognised within retained earnings.

21.5 Reconciliation of movements in financing liabilities

	At 31 March 2021 £m	Financing cash flows					Non-cash movements				At 31 March 2022 £m
		New borrowings £m	Disposal of borrowings £m	Repayment of borrowings £m	Repayment of lease creditor £m	Fair value movements £m	Foreign exchange movements £m	Lease liabilities £m	Re- classification £m	Other £m	
Financing liabilities											
Bank loans	699.7	–	–	–	–	–	–	–	(150.0)	0.1	549.8
US private placement	915.9	–	–	–	–	29.8	–	–	(162.7)	1.5	784.5
Fixed rate Eurobonds	5,278.1	–	–	–	–	(30.7)	(4.8)	–	(299.9)	2.3	4,945.0
Index linked loans	283.0	–	–	–	–	–	–	–	–	16.3	299.3
Hybrid debt	950.8	–	–	–	–	26.7	(4.7)	–	–	1.1	973.9
Total long term borrowings	8,127.5	–	–	–	–	25.8	(9.5)	–	(612.6)	21.3	7,552.5
Bank loans	150.0	–	–	(150.0)	–	–	–	–	150.0	–	150.0
Fixed rate Eurobonds	712.1	–	–	(715.0)	–	2.6	–	–	299.9	0.3	299.9
Other short term loans – non- amortising	–	506.1	–	–	–	–	–	–	–	–	506.1
US private placement	–	–	–	–	–	–	–	–	162.7	–	162.7
Total short term borrowings	862.1	506.1	–	(865.0)	–	2.6	–	–	612.6	0.3	1,118.7
	8,989.6	506.1	–	(865.0)	–	28.4	(9.5)	–	–	21.6	8,671.2
Lease liabilities	421.0	–	–	–	(95.1)	–	–	67.6	–	–	393.5
Total loans and borrowings	9,410.6	506.1	–	(865.0)	(95.1)	28.4	(9.5)	67.6	–	21.6	9,064.7
Assets held to hedge long term borrowings	(315.4)	–	–	–	–	73.3	–	–	–	–	(242.1)
	9,095.2	506.1	–	(865.0)	(95.1)	101.7	(9.5)	67.6	–	21.6	8,822.6

Notes to the consolidated financial statements continued

For the year ended 31 March 2022

21. Sources of finance continued

21.5 Reconciliation of movements in financing liabilities continued

	At 31 March 2020 £m	Financing cash flows					Non-cash movements				At 31 March 2021 £m
		New borrowings £m	Disposal of borrowings £m	Repayment of borrowings £m	Repayment of lease creditor £m	Fair value movements £m	Foreign exchange movements £m	Lease liabilities £m	Re- classification £m	Other £m	
Financing liabilities											
Bank loans	849.7	438.6	(438.6)	–	–	–	–	–	(150.0)	–	699.7
US private placement	1,040.4	–	–	–	–	(126.0)	–	–	–	1.5	915.9
Fixed rate											
Eurobonds	4,625.2	1,474.3	–	–	–	(86.3)	(20.1)	–	(714.2)	(0.8)	5,278.1
Index linked loans	280.4	–	–	–	–	–	–	–	–	2.6	283.0
Hybrid debt	1,023.5	–	–	–	–	(54.5)	(19.2)	–	–	1.0	950.8
Total long term borrowings	7,819.2	1,912.9	(438.6)	–	–	(266.8)	(39.3)	–	(864.2)	4.3	8,127.5
Bank loans	576.7	–	–	(574.8)	–	(1.9)	–	–	150.0	–	150.0
Fixed rate											
Eurobonds	548.9	–	–	(548.7)	–	(5.0)	1.9	–	714.2	0.8	712.1
Other short term loans – non-amortising	772.4	–	–	(772.4)	–	–	–	–	–	–	–
US private placement	–	–	–	–	–	–	–	–	–	–	–
Total short term borrowings	1,898.0	–	–	(1,895.9)	–	(6.9)	1.9	–	864.2	0.8	862.1
	9,717.2	1,912.9	(438.6)	(1,895.9)	–	(273.7)	(37.4)	–	–	5.1	8,989.6
Lease liabilities	455.2	–	–	–	(100.8)	–	–	66.6	–	–	421.0
Total loans and borrowings	10,172.4	1,912.9	(438.6)	(1,895.9)	(100.8)	(273.7)	(37.4)	66.6	–	5.1	9,410.6
Assets held to hedge long term borrowings	(84.8)	1.6	–	–	–	(232.2)	–	–	–	–	(315.4)
	10,087.6	1,914.5	(438.6)	(1,895.9)	(100.8)	(505.9)	(37.4)	66.6	–	5.1	9,095.2

22. Equity

22.1 Share capital

	Number (millions)	£m
Allotted, called up and fully paid:		
At 1 April 2020	1,046.3	523.1
Issue of shares (i)	2.8	1.4
At 31 March 2021	1,049.1	524.5
Issue of shares (i)	24.0	12.0
At 31 March 2022	1,073.1	536.5

The Company has one class of ordinary share which carries no right to fixed income. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

- (i) Shareholders were able to elect to receive ordinary shares in place of the final dividend of 56.6p per ordinary share (in relation to year ended 31 March 2021) and the interim dividend of 25.5p (in relation to the current year) under the terms of the Company's scrip dividend scheme. This resulted in the issue of 22,201,443 and 1,782,473 new fully paid ordinary shares respectively (2021: 1,918,977 and 883,408). In addition, the Company issued 0.6m (2021: 0.9m) shares during the year under the savings-related share option schemes (all of which were settled by shares held in Treasury) for a consideration of £6.3m (2021: £10.4m).

Of the 1,073m shares in issue, 5.5m are held as treasury shares. These shares will be held by the Group and used to award shares to employees under the Sharesave scheme in the UK.

During the year, on behalf of the Company, the employee share trust purchased 0.9m shares for a total consideration of £14.1m (2021: 0.9m shares, consideration of £12.9m) to be held in trust for the benefit of employee share schemes. At 31 March 2022, the trust held 6.3m shares (2021: 7.7m) which had a market value of £110.0m (2021: £112.5m).

22.2 Capital redemption reserve

The capital redemption reserve comprises the value of shares redeemed or purchased by the Company from distributable profits.

22.3 Hedge reserve

The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedge derivative instruments related to hedged transactions that have not yet occurred.

22.4 Translation reserve

Comprises exchange translation differences on foreign currency net investments offset by exchange translation differences on borrowings and derivatives classified as net investment hedges under IAS 39.

22.5 Hybrid equity

	2022 £m	2021 £m
EUR 600m 2.375% perpetual subordinated capital securities (i)	–	421.4
GBP 600m 3.74% perpetual subordinated capital securities (ii)	598.0	598.0
EUR 500m 3.125% perpetual subordinated capital securities (ii)	453.0	453.0
	1,051.0	1,472.4

(i) 10 March 2015 €600m Hybrid Capital Bonds

The March 2015 hybrid equity bonds had no fixed redemption date, but the Company may, at its sole discretion, redeem all, but not part, of the capital securities at their principal amount. The date for the first discretionary redemption of the €600m hybrid equity bond was executed and this hybrid bond was redeemed on 1 April 2021.

(ii) 2 July 2020 £600m and €500m Hybrid Capital Bonds

The hybrid capital bonds issued in July 2020 have no fixed redemption date, but the Company may, at its sole discretion, redeem all but not part of the capital securities at their principal amount. The date for the first potential discretionary redemption of the £600m hybrid bond is 14 April 2026 and then every 5 years thereafter. The date for the first potential discretionary redemption of the €500m hybrid capital bond is 14 July 2027 and then every 5 years thereafter. For the £600m Hybrid the coupon payments are made annually on 14 April and for the €500m Hybrid the coupon payments are made annually on 14 July.

(iii) Coupon payments

In relation to the €600m hybrid equity bond, the final coupon payment of £17.5m (2021: £17.5m) was made on 1 April 2021 and for the £750m hybrid equity bond the final coupon payment of £29.1m was made on 10 September 2020. In relation to the £600m hybrid equity bond a coupon payment of £16.8m (2021: £nil) was made on 14 April 2021 and for the €500m hybrid equity bond a coupon payment of £16.4m (2021: £nil) was made on 14 July 2021.

The coupon payments in the year to 31 March 2022 consequently totalled £50.7m (2021: £46.6m).

The Company has the option to defer coupon payments on the bonds on any relevant payment date, as long as a dividend on the ordinary shares has not been declared. Deferred coupons shall be satisfied only on redemption; or on a dividend payment on ordinary shares, both of which occur at the sole option of the Company. Interest will accrue on any deferred coupon.

22.6 Equity attributable to non-controlling interests

Equity attributable to non-wholly owned but controlled subsidiaries which are consolidated within the financial statements of the Group under IFRS.

Notes to the consolidated financial statements continued

For the year ended 31 March 2022

23. Retirement benefit obligations

Defined benefit schemes

The Group has two funded final salary pension schemes which provide defined benefits based on final pensionable pay. The schemes are subject to independent valuations at least every three years. The future benefit obligations are valued by actuarial methods on the basis of an appropriate assessment of the relevant parameters.

The Group also has an Employer Financed Retirement Benefit scheme and a defined contribution scheme, SSE Pensions+ under a master trust with Aviva. The Group matches employee contributions up to a specified limit, in most circumstances this is set at 6%. The Group may also provide additional contributions of 3% after five years and a further 3% after ten year's continuous Group service.

The Group presents its pension scheme valuations under two different measurement bases, an actuarial valuation and an IAS 19 valuation as required by accounting standards. The IAS 19 valuation is used to determine the assets and obligations recognised in the Group's consolidated balance sheet and is calculated annually by scheme actuaries, whereas the formal actuarial valuation is used to determine the contributions the Group make to the scheme. The actuarial valuation is recalculated for each scheme every three years.

Actuarial valuations

The individual pension scheme details based on the latest formal actuarial valuations are as follows:

	Scottish Hydro Electric	Southern Electric
Latest formal actuarial valuation	31 March 2021	31 March 2019
Valuation carried out by	Hymans Robertson	Aon Hewitt
Value of assets based on valuation	£2,050.5m	£2,257.8m
Value of liabilities based on valuation	£1,782.2m	£2,544.4m
Valuation method adopted	Projected Unit	Projected Unit
Average salary increase	RPI+0.5%	RPI+0.5%
Average pension increase	RPI	RPI
Value of fund assets/accrued benefits	115.1%	88.7%

Future contributions

Scottish Hydro Electric Scheme

The last actuarial valuation of the scheme was carried out at 31 March 2021 and showed a surplus of £268.3m on a projected unit basis. Following this valuation, the Group agreed to a new schedule of contributions to the scheme which continues to cease contributions to the scheme during the year ended 31 March 2021 for a period until the surplus on gilts funding basis is negative for two successive quarterly valuations. Consequently, the Group is not expected to make contributions to the scheme in the year ending 31 March 2023.

The next triennial funding valuation will be carried out as at 31 March 2024.

Southern Electric Pension Scheme

The last actuarial valuation of the Scheme was finalised in the year ended 31 March 2019 and showed a deficit of £286.6m as at 31 March 2019 on a projected unit basis. The Group continues to pay deficit contributions which, along with investment returns from return-seeking assets, is expected to make good this shortfall by 31 March 2027. The next funding valuation will be carried out as at 31 March 2022. This process began during the year and is expected to be finalised by 31 December 2022. As part of that process the Trustee and Company will agree future contributions to the scheme based on the valuation. The Company also pays contributions in respect of current accrual, with some active members also paying contributions. Total contributions of approximately £56.7m are expected to be paid by the Company during the year ending on 31 March 2023, including deficit repair contributions of £38.9m.

Pension summary as measured under IAS 19:

Scheme type	Net actuarial gain/(loss) recognised in respect of the pension asset in the statement of comprehensive income		Net pension asset/(liability)	
	2022 £m	2021 £m	2022 £m	2021 £m
Scottish Hydro Electric	(24.6)	8.6	517.5	543.1
Southern Electric	221.9	(24.4)	67.4	(186.1)
Net actuarial gain/(loss)	197.3	(15.8)	584.9	357.0

IFRC 14 surplus restrictions

The value of Scottish Hydro Electric Pension Scheme assets recognised was previously impacted by the asset ceiling test which restricts the surplus that can be recognised to assets that can be recovered through future refunds or reductions in future contributions to the schemes, and may increase the value of scheme liabilities where there are minimum funding liabilities in relation to agreed contributions. IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' clarifies that future refunds may be recognised if the sponsoring entity has an unconditional right to a refund in certain circumstances.

In 2016/17 the Group agreed with the trustees to the Scottish Hydro Electric pensions scheme an amendment to the scheme rules to clarify that the Company has a clear right to any surplus upon final winding up of the scheme. This amendment removes the previous restriction on recognition of any surplus and as such the previously applied restriction is no longer recognised. The net pension asset of the Scottish Hydro Electric Scheme at 31 March 2022 was equal to £517.5m (2021: £543.1m).

At 31 March 2022, the Southern Electric Pension Scheme has a net surplus of £67.4m (2021: £186.1m net deficit), and unrecognised future contributions of £195.7m (2021: £224.9m). The Group has assessed that it has the right to recognise current and any future surpluses on the scheme, therefore has not recognised a liability for future unrecoverable contributions.

23.1 Pension scheme assumptions

Both schemes have been updated to 31 March 2022 by qualified independent actuaries. The valuations have been prepared for the purposes of meeting the requirements of IAS 19. The major assumptions used by the actuaries in both schemes were:

	At 31 March 2022	At 31 March 2021
Rate of increase in pensionable salaries	4.2%	3.7%
Rate of increase in pension payments	3.7%	3.2%
Discount rate	2.7%	2.0%
Inflation rate	3.7%	3.2%

The assumptions relating to longevity underlying the pension liabilities at 31 March 2022 are based on standard actuarial mortality tables, and include an allowance for future improvements in longevity. The assumptions, equivalent to future longevity for members in normal health at age 65, are as follows:

Scottish Hydro Electric

	At 31 March 2022		At 31 March 2021	
	Male	Female	Male	Female
Currently aged 65	22	24	23	24
Currently aged 45	24	27	25	27

Southern Electric

	At 31 March 2022		At 31 March 2021	
	Male	Female	Male	Female
Currently aged 65	23	25	23	25
Currently aged 45	24	26	24	26

Notes to the consolidated financial statements continued

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23. Retirement benefit obligations continued

23.2 Sensitivity analysis

The impact on the schemes' liabilities of changing certain of the major assumptions is as follows:

Scottish Hydro Electric

	At 31 March 2022		At 31 March 2021	
	Increase/ decrease in assumption	Effect on scheme's liabilities	Increase/ decrease in assumption	Effect on scheme's liabilities
Rate of increase in pensionable salaries	0.1%	0.1%	0.1%	+/- 0.1%
Rate of increase in pension payments	0.1%	0.9%	0.1%	+/- 1.0%
Discount rate	0.1%	1.0%	0.1%	+/- 0.9%
Longevity	1 year	2.0%	1 year	+/- 1.8%

Southern Electric

	At 31 March 2022		At 31 March 2021	
	Increase/ decrease in assumption	Effect on scheme's liabilities	Increase/ decrease in assumption	Effect on scheme's liabilities
Rate of increase in pensionable salaries	0.1%	0.2%	0.1%	+/- 0.2%
Rate of increase in pension payments	0.1%	1.5%	0.1%	+/- 1.5%
Discount rate	0.1%	1.5%	0.1%	+/- 1.6%
Longevity	1 year	5.8%	1 year	+/- 6.0%

23.3 Valuation of combined Pension Schemes

	Quoted £m	Unquoted £m	Value at 31 March 2022 £m	Quoted £m	Unquoted £m	Value at 31 March 2021 £m
Equities	511.5	—	511.5	626.8	—	626.8
Government bonds	1,332.7	—	1,332.7	1,139.9	—	1,139.9
Corporate bonds	167.6	—	167.6	176.7	—	176.7
Insurance contracts (i)	—	713.5	713.5	—	780.3	780.3
Other investments	1,585.9	—	1,585.9	1,588.4	—	1,588.4
Total fair value of plan assets			4,311.2			4,312.1
Present value of defined benefit obligation			(3,726.3)			(3,955.1)
Surplus in the schemes			584.9			357.0
Deferred tax thereon (ii)			(146.2)			(67.8)
Net pension asset			438.7			289.2

(i) See details of valuations of insurance contracts in note 23.6 (ii).

(ii) Deferred tax rate of 25% applied to net pension surplus position (2021: 19%).

23.4 Movements in the combined defined benefit asset obligations and assets during the year

	2022			2021		
	Assets £m	Obligations (i) £m	Total	Assets £m	Obligations (i) £m	Total
At 1 April	4,312.1	(3,955.1)	357.0	3,922.9	(3,581.2)	341.7
Included in Income Statement						
Current service cost	–	(31.0)	(31.0)	–	(29.3)	(29.3)
Past service cost	–	(5.1)	(5.1)	–	(5.8)	(5.8)
Settlements and curtailments	(2.5)	2.6	0.1	(7.7)	9.3	1.6
Interest income/(cost)	85.2	(77.6)	7.6	88.5	(80.2)	8.3
	82.7	(111.1)	(28.4)	80.8	(106.0)	(25.2)
Included in Other Comprehensive Income						
Actuarial gain/(loss) arising from:						
Demographic assumptions	–	16.8	16.8	–	(23.1)	(23.1)
Financial assumptions	–	195.6	195.6	–	(461.5)	(461.5)
Experience assumptions	–	(41.5)	(41.5)	–	21.8	21.8
Return on plan assets excluding interest income	26.4	–	26.4	447.0	–	447.0
	26.4	170.9	197.3	447.0	(462.8)	(15.8)
Other						
Contributions paid by the employer	59.0	–	59.0	56.3	–	56.3
Scheme participant's contributions	0.1	(0.1)	–	0.1	(0.1)	–
Benefits paid	(169.1)	169.1	–	(195.0)	195.0	–
	(110.0)	169.0	59.0	(138.6)	194.9	56.3
Balance at 31 March	4,311.2	(3,726.3)	584.9	4,312.1	(3,955.1)	357.0

Pension scheme contributions and costs

Charges/(credits) recognised:

	2022 £m	2021 £m
Service costs (charged to operating profit)	36.1	35.1
Settlements and curtailment gains	(0.1)	(1.6)
	36.0	33.5
(Credited)/charged to finance costs:		
Interest from pension scheme assets	(85.2)	(88.5)
Interest on pension scheme liabilities	77.6	80.2
	(7.6)	(8.3)

The return on pension scheme assets is as follows:

	2022 £m	2021 £m
Return on pension scheme assets	111.6	535.5

Notes to the consolidated financial statements continued

For the year ended 31 March 2022

23. Retirement benefit obligations continued

23.4 Movements in the combined defined benefit asset obligations and assets during the year continued Defined contribution scheme

The total contribution paid by the Group to defined contribution pension schemes was £57.3m (2021: £61.6m).

Employer financed retirement benefit (EFRB) pension costs

The decrease in the year in relation to EFRB was £1.1m (2021: £5.8m). This is included in Employee related provisions (note 20).

Staff costs analysis

The pension costs in note 8 can be analysed as follows:

	2022 £m	2021 £m
Service costs	36.1	35.1
Defined contribution scheme payments	57.3	61.6
	93.4	96.7

23.5 Pension scheme risk assessment and mitigation

Risks to which the Pension Schemes exposes the Group

The nature of the Group's defined benefit pension schemes expose the Group to the risk of paying unanticipated additional contributions to the schemes in times of adverse experience. The most financially significant risks are likely to be:

(i) Asset volatility

The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The schemes hold a proportion of growth assets (equities, diversified growth fund and global absolute return fund) which, though expected to outperform corporate bonds in the long-term, create volatility and risk in the short-term. The allocation to growth assets is monitored to ensure it remains appropriate given the schemes' long term objectives. The SHEPS has a much lower proportion of growth assets than the SEPS reflecting the maturity of each scheme.

(ii) Changes in bond yields

A decrease in corporate bond yields will increase the value placed on the schemes' liabilities for accounting purposes. However, this will be partially offset by an increase in the value of the schemes' bond holdings and its interest rate hedging in both schemes.

(iii) Inflation risk

The majority of the schemes' benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). The majority of the assets are either unaffected by or only loosely correlated with inflation, meaning that an increase in inflation will also increase the deficit, although this is further limited by the inflation hedging in both schemes.

(iv) Life expectancy

The majority of the schemes' obligations are to provide benefits for the life of the members, so an increase in the life expectancy will result in an increase in the liabilities. The sensitivity analysis disclosed is intended to provide an indication of the impact on the value of the schemes' liabilities of the risks highlighted.

(v) Liability versus asset risk

The risk that movement in the value of the schemes' liabilities are not met by corresponding movements in the value of the schemes' assets will expose the Group to movements in the overall funding surplus.

23.6 Risk mitigation

(i) De-risking

The Trustees have taken a number of steps to control the level of investment risk including reducing the Schemes' exposures to higher risk assets and increasing the level of protection against adverse movements in interest rates and inflation. The Trustees of both schemes continue to review the risk exposures in light of the longer term objectives of the respective schemes. Detailed below are further details on the hedging of pensioner longevity risk.

(ii) Asset buy-in

On 1 October 2019, the Scottish Hydro Electric Pension Scheme entered into an asset buy-in, transferring the risk of volatility in the assumptions used to calculate the obligation for 1,800 pensioners and 567 dependents (covering c.£800m of the scheme's liabilities) to a third party. The asset buy-in is valued under the accounting principles of IFRS 13 and is considered a Level 3 instrument in the fair value hierarchy. This is in addition to a previous buy-in completed during the year ended 31 March 2018 when c.£250m of the scheme's assets and liabilities related to 617 pensioners and 190 dependents were transferred to a third party. The Group has now insured against volatility in obligations related to all pensioners to third parties (insurer PIC) and is now only exposed to valuation fluctuations related to active and deferred members and any members who retire after 1 October 2019.

(iii) Asset-liability matching strategies used by the Scheme

The Company and trustees of the schemes have agreed a long term investment strategy that seeks to reduce investment risk as and when appropriate. The asset-liability matching strategy is part of this approach which aims to reduce the volatility of the funding level of the pension schemes by investing in assets which perform in line with the liabilities of the schemes so as to protect against inflation being higher than expected. This has been adopted for a proportion of the schemes' assets, which is designed to provide partial protection against adverse movements in interest rates and inflation. The trustees of the respective schemes review the schemes' asset allocation on an ongoing basis in light of changes in the funding position and market opportunities.

23.7 Risk assessment

(i) Maturity profile of the defined benefit obligations

The weighted average duration of the defined benefit obligation is 17 years (2021: 18 years) for the Scottish Hydro Electric Pension Scheme and 16 years (2021: 17 years) for the Southern Electric Pension Scheme.

(ii) Information about the defined benefit obligations

Status of members is weighted by the liabilities of each scheme.

	Scottish Hydro Electric %	Southern Electric Scheme %
Active members	23	28
Deferred members	14	9
Pensioners	63	63
	100	100

23.8 Pension scheme policies

(i) Recognition of gains and losses

The Group recognises actuarial gains and losses in the Statement of Other Comprehensive Income following the re-measurement of the net defined benefit liabilities of the schemes.

(ii) Methods and assumptions used in preparing the sensitivity analyses

The sensitivities disclosed are calculated using approximate methods taking into account the duration of the schemes' liabilities. While these have been calculated consistently with the previous financial year, the method applied may change over time with financial conditions and assumptions.

(iii) Asset recognition

The Group has recognised net pension assets in relation to the Scottish Hydro Electric pension scheme due to a surplus existing under IAS 19 accounting. The Group will only recognise a surplus should it have rights to that surplus under the rules of the pension scheme. The company no longer applies the 'asset ceiling' restriction mandated by IFRIC 14. Details on this key accounting consideration are provided above.

(iv) Fair value assessment of scheme assets

The Group seeks to assess whether there is a quotable market value (referenced as "quotable" above) in relation to pension scheme assets held. This assessment is based on regular reviews conducted in conjunction with the trustees of the schemes. For assets where no quotable market value exists, these assets will be valued based on a set methodology agreed by trustees and scheme advisors and then regularly assessed.

Currently only one unquotable value exists within the two pension schemes of the Group, this being insurance contracts (or 'buy-in') held by the Scottish Hydro Electric Scheme. These assets are currently valued consistently with the scheme's liabilities with the expected return on these assets being set equal to the discount rate.

Notes to the consolidated financial statements continued
For the year ended 31 March 2022

24. Financial instruments

For financial reporting purposes, the Group has classified derivative financial instruments into two categories, operating derivatives and financing derivatives. Operating derivatives include all qualifying commodity contracts including those for electricity, gas, oil, and carbon. Financing derivatives include all fair value and cash flow interest rate hedges, non-hedge accounted (mark-to-market) interest rate derivatives, cash flow foreign exchange hedges and non-hedge accounted foreign exchange contracts. Non-hedge accounted contracts are treated as held for trading.

24.1 Financial instruments – income statement

	2022 £m	2021 £m
Operating derivatives		
Total result on operating derivatives (i)	3,527.2	429.1
Less: Amounts settled (ii)	(1,426.8)	161.0
Movement in unrealised derivatives	2,100.4	590.1
Financing derivatives (and hedged items)		
Total result on financing derivatives (i)	(43.3)	35.2
Less: Amounts settled (ii)	64.3	20.4
Movement in unrealised derivatives	21.0	55.6
Net income statement impact	2,121.4	645.7

- (i) Total result on derivatives in the income statement represents the total amounts (charged) or credited to the income statement in respect of operating and financial derivatives.
- (ii) Amounts settled in the year represent the result on derivatives transacted which have matured or been delivered and have been included within the total result on derivatives.

24.2 Financial instruments – balance sheet

The derivative financial assets and (liabilities) are represented as follows:

	2022 £m	2021 £m
Derivative financial assets		
Non-current	371.7	114.7
Current	2,941.8	470.9
Total derivative assets	3,313.5	585.6
Derivative liabilities		
Non-current	(549.6)	(452.1)
Current	(701.5)	(238.7)
Total derivative liabilities	(1,251.1)	(690.8)
Net liability	2,062.4	(105.2)

Information on the Group's financial risk management and the fair value of financial instruments is available at [A6 and A7](#).

25. Commitments and contingencies

25.1 Capital commitments

	2022 £m	2021 £m
Capital expenditure: Contracted for but not provided	985.9	1,189.5

Contracted for but not provided capital commitments include the fixed contracted costs of the Group's major capital projects. In practice contractual variations may arise on the final settlement of these contractual costs.

25.2 Contingent assets and liabilities

The Group has unrecognised contingent assets in relation to the part disposal transactions of Neos Networks Limited, SSE Slough Multifuel Limited, Seagreen and Doggerbank C and the disposal of SSE Contracting. In total, contingent consideration receivable is up to £187.1m, for which the Group has recognised a net receivable of £4.1m. The payments of the remaining £183.0m are subject to various earn outs or contract and planning milestones, some of which the Group has assessed are unachievable or are out of the Group's control. At 31 March 2022, the Group has assessed that there is neither the required certainty of receipt, nor the ability to accurately assess the amounts receivable for recognition of these amounts.

Contingent liabilities for the Group solely relate to SSE plc, and have been disclosed within note 12 to the Company Financial Statements.

26. Post balance sheet events

26.1 Acquisition – European onshore renewables development platform

On 19 April 2022 the Group announced that it had entered into an agreement with Siemens Gamesa Renewable Energy ("SGRE") to acquire SGRE's existing European onshore renewable energy development platform for consideration of €580m, subject to a number of conditions. The SGRE portfolio is mainly located in Spain with the remainder across France, Italy and Greece. The transaction is expected to complete by the end of September 2022 subject to the receipt of relevant foreign direct investment and regulatory approvals. This acquisition is aligned to the Group's published strategy to pursue overseas renewable opportunities.

26.2 Issuance of hybrid equity bond

In April 2022 SSE plc issued a €1bn NC6 equity accounted Hybrid bond @ 4% to re-finance the dual tranche debt accounted Hybrid bonds whose first call date occurs on 16 September 2022 although SSE will take advantage of the 3 month par call option on these Hybrid bonds meaning the bonds will be repaid on 16 June 2022. The €1bn equity accounted Hybrid bond was left in Euros with the proceeds used to cover the portion of the maturing Hybrid that was swapped to Euros and a portion of the costs associated with the acquisition of the European onshore renewables development platform from SGRE.

26.3 Issuance of private placement debt

In March 2022 the Group, through its Scottish Hydro Electric Transmission entity priced and committed to a £350m dual tranche private placement being a £175m 10 year tranche @ 3.13% and £175m 15 year tranche @ 3.24% giving an all in average rate of 3.19%. The pricing was committed to in March 2022 and the proceeds will be received on 30 June 2022.

26.4 Fiddlers Ferry site disposal

Subsequent to the year end, the board committed to dispose of the Fiddlers Ferry site, pending resolution of a final agreement with anticipated completion expected within 6 months.

Accompanying information

A1. Basis of consolidation and significant accounting policies

A1.1 Basis of consolidation

The financial statements consolidate the results of the Company and its subsidiaries together with the Group's share of the results and net assets of its interests in joint arrangements and associates. Where necessary to ensure consistency, the accounting policies of the subsidiaries, joint arrangements or associates have been adjusted to align to the accounting policies of the Group. Intra-Group balances and any unrealised gains and losses or income and expenses arising from Intra-Group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains and losses arising from transactions with joint arrangements and associates are eliminated to the extent of the Group's interest in the entity. Non-controlling interests represent the equity in subsidiaries that is not attributable, either directly or indirectly, to SSE plc shareholders.

Subsidiaries (Accompanying Information A3)

Subsidiaries are those entities controlled by the Group or the Company. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity in order to obtain variable returns from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries acquired are consolidated in the financial statements of the Group from the date that control commences until the date control ceases. Transactions with non-controlling interests that relate to their ownership interests and do not result in a loss of control are accounted for as equity transactions.

Interests in joint arrangements and associates (note 16 and Accompanying Information A3)

Joint arrangements, as defined by IFRS 11 "Joint Arrangements", are those arrangements that convey to two or more parties 'joint control'. Joint control exists when decisions about the 'relevant activities', being the financial, operational or strategic policies of the arrangement, are made with the unanimous consent of the parties sharing control. Whilst this assessment is principally focused on any 'Reserved Matters', being the material activities that typically require all significant shareholders to approve, other contractual agreements such as Power Purchase Agreements and Management Services Agreements are also considered. The Group's investments in joint arrangements are classified as either joint operations or joint ventures depending on the investee's legal form and the investor's contractual rights and obligations over the assets and liabilities of the investee.

Associates are those investments over which the Group has significant influence but neither control nor joint control.

The Group's interests in its joint operations are accounted for by recognising its share of the assets, liabilities, revenue and expenses of the operation. In these arrangements, the Group's share of the revenue will be eliminated as it relates to its purchased share of the output from the arrangement.

The Group's joint ventures and associates are accounted for using the equity method of accounting where the joint venture and associate net investments (comprising both equity and long term loans) are carried at historical cost plus the Group's share of post-acquisition results, less any impairment in value. For those investments that were formerly subsidiaries of the Group, this will also include any fair value uplift arising from loss of control. The Group recognises its share of the results of these equity-accounted operations after tax and interest in the income statement.

Foreign currencies

The consolidated financial statements are presented in pounds sterling, which is the functional currency of the parent. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured accordingly.

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Any gain or loss arising on the restatement of such items is taken to the income statement as a Finance Cost, with the exception of exchange gains or losses on foreign currency borrowings that provide a hedge against a net investment in a foreign entity or exchange gains or losses incurred as part of a qualifying cash flow hedge. These exchange gains or losses are transferred to the translation reserve to the extent the hedge is effective. Non-monetary assets that are measured in terms of historical cost in a foreign currency are translated at the historic rate at the date of transaction.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into pounds sterling at the balance sheet closing rate. The results of these operations are translated at the average rate in the relevant period. Exchange differences on retranslation of the opening net assets and the results of foreign operations are transferred to the translation reserve and are reported in the consolidated statement of comprehensive income.

The average and spot rates for the principal functional currencies that the Group's foreign operations are denominated in are shown in the table below.

		2022	2021	Change
EUR v GBP	Year end spot rate	1.1856	1.1745	0.9%
	Average spot rate	1.1750	1.1249	4.5%

A1.2 Significant accounting policies

Revenue (notes 2 and 5)

Revenue from contracts with customers is recognised to the extent that it reflects the expected consideration for goods or services provided to the customer under contract, over the performance obligations they are being provided. For each separable performance obligation identified, the Group determines whether it is satisfied at a "point in time" or "over time" based upon an evaluation of the receipt and consumption of benefits, control of assets and enforceable payment rights associated with that obligation. If the criteria required for "over time" recognition are not met, the performance obligation is deemed to be satisfied at a "point in time".

Revenue principally arises as a result of the Group's activities in energy production, storage, transmission, distribution, supply and related services in the energy markets in Great Britain and Ireland. The key policies applied by each Business Area are as follows:

Transmission

Use of electricity transmission networks

Revenue from use of electricity transmission networks is derived from the allowed revenue as defined by the parameters in the relevant electricity transmission licence, which informs the tariffs we set.

Electricity transmission revenue is determined in accordance with the regulatory licence, based on an Ofgem approved revenue model and is recognised "over time" as charged to National Grid. Where this revenue differs from the allowed revenue, there may be an over- or under-recovery of revenue which will be reflected in future financial year's allowed revenue as set out in the regulatory licence. No accounting adjustments are therefore made for over- or under-recoveries in the year that they arise.

Transmission network contracted services

Where the Group has an ongoing obligation to provide contracted services (transmission network connections), revenues are recognised "over time" consistent with the customer receiving and consuming the benefits of that service across the expected contractual service period. Any assets constructed in order to deliver the service are capitalised and depreciated over their useful life. Payments from customers are typically received from customers in advance of providing the contracted service and are deferred on balance sheet. No extended warranty periods are offered.

Distribution

Use of electricity distribution networks

Revenue from use of electricity distribution networks is derived from the allowed revenue as defined by the parameters in the relevant electricity distribution licence, which informs the tariffs we set.

Electricity distribution revenue recognised is based on the volume of electricity distributed "over time", as use of distribution service is determined by the customer, and the set customer tariff. As with electricity transmission revenue, any over- or under-recovery of revenue is reflected in future financial year's allowed revenue as set out in the regulatory licence. No accounting adjustments are therefore made for over- or under-recoveries in the year that they arise.

The Distribution business is responsible for recovering industry charges for supplier failures from customers under Ofgem's Supplier of Last Resort scheme. The Group's policy is to recognise revenue for recovered amounts when the Group is entitled to invoice customers through its regulated use of system tariff. The Group recognises its obligation to pay amounts recovered to eligible suppliers when the Group is entitled to invoice customers through its regulated use of system tariff.

Distribution network contracted services

Where the Group has an ongoing obligation to provide contracted services (such as for distribution network connections), revenues are recognised "over time" consistent with the customer receiving and consuming the benefits of that service across the expected contractual service period. Any assets constructed in order to deliver the service are capitalised and depreciated over their useful life. Payments from customers are typically received from customers in advance of providing the contracted service and are deferred on balance sheet. No extended warranty periods are offered.

Renewables

Electricity generation

Revenue from the physical generation of electricity is recognised "point in time" as generated and supplied to the national settlements body. Revenue is measured at either the spot price at the time of delivery, or trade price where that trade is eligible for "own use" designation.

Renewables contracted services

Revenue from national support schemes, such as Renewable Obligation Certificates, is recognised at the point the performance obligation has been met. This is typically considered to be either at the point electricity has been physically generated or over the contractual period, depending on the underlying performance obligation. Revenue is measured either at the market rate at the point of generation, or at the fixed contractual consideration, depending on the individual scheme mechanic.

Revenue from other ancillary generation services is recognised "over time" consistent with the customer receiving and consuming the benefits of those services across the expected contractual service period, and at the contracted consideration.

Accompanying information continued

A1. Basis of consolidation and significant accounting policies continued

A1.2 Significant accounting policies continued

Thermal

Electricity generation

Revenue from the physical generation of electricity is recognised "point in time" as generated and supplied to the national settlements body. Revenue is measured at either the spot price at the time of delivery, or trade price where that trade is eligible for "own use" designation.

Gas storage

Revenue from gas storage trading activities is recognised "point in time" as injected back into the network. Revenue is measured at either the spot price at the time of delivery, or trade price where that trade is eligible for "own use" designation.

Thermal Generation contracted services

Revenue from national support schemes, such as the Capacity Market, is recognised at the point the performance obligation has been met. This is typically considered to be either at the point electricity has been physically generated or over the contractual period, depending on the underlying performance obligation. Revenue is measured either at the market rate at the point of generation, or at the fixed contractual consideration, depending on the individual scheme mechanic.

Revenue from other ancillary generation services is recognised "over time" consistent with the customer receiving and consuming the benefits of those services across the expected contractual service period, and at the contracted consideration.

Customers

Supply of energy

Revenue on the supply of energy comprises sales to domestic and business end-user customers based on actual energy consumption including an estimate of the value of electricity and gas supplied to customers between the date of the last meter reading and the year end. Revenue is recognised "over time" consistent with the delivery of energy to the customer as we consider the receipt and consumption of the benefits of the energy to be simultaneous. Revenue is measured based on the applicable customer tariff rate and after deduction of any applicable contractual discounts.

Details of the estimation process for the value of electricity and gas supplied to customers is given within note 4.1(iii).

Payments from customers may be received in advance of providing the contracted service and are deferred on balance sheet. Amounts received from customers in relation to energy management services provided by Third Party Intermediaries ('TPIs') are offset against payments to those TPIs, reflecting the responsibility for providing the energy management service.

Energy related services

Where the Group has an ongoing obligation to provide contracted energy related services, revenues are recognised "over time" consistent with the customer receiving and consuming the benefits of that service across the expected contractual service period at the fixed contracted rate. Where the Group has an obligation to perform a specific service, revenues are recognised "point in time", following performance of the service at the fixed contracted consideration. No extended warranty periods are offered.

Distributed Energy

Construction related services

Construction related service revenue primarily relates to the Contracting and Rail business, which was disposed on 30 June 2021. For construction related services, revenue is recognised for each identified performance obligation "over time" by applying an input method to determine the proportion of total contract revenue (being fixed price consideration plus the latest estimate of variable consideration) that should be recognised. The input method applied is calculated by reference to the costs incurred to date on that performance obligation, relative to the total expected costs to satisfy that performance obligation, provided the contract outcome can be assessed with reasonable certainty. Revenue from non-contracted agreements or variations to contracted work is only recognised to the extent there is additional supporting evidence to their recoverability and may be subject to constraints on recognition. Revenue on contracts in customer dispute is recognised only to the extent it is considered to be highly probable that the revenue will be recovered.

Commissions in relation to acquisition of construction related contracts are expensed as incurred. No extended warranty periods are offered. Payments from customers are based on agreed billing schedules, with payment milestones typically aligned with delivery of performance obligations.

EPM & I

Commodity optimisation and other services

Income from sales commodity optimisation trading occurring in any business unit is presented net in cost of sales alongside purchase commodity optimisation trades.

Revenue arising on commodities purchased in excess of the Group's requirements and recorded as inventory assets, such as Renewables Obligation Certificates, is recognised "point in time" on disposal of these inventory assets to third parties.

Revenue from other ancillary services is recognised "over time" consistent with the customer receiving and consuming the benefits of those services across the expected contractual service period, and at the contracted consideration.

Physical energy production

Revenue from the physical production of natural gas, crude oil and condensates arises from the Group's interest in various joint ventures and associates and is based on the entitlement method; whereby the Group's share of interest and production sharing terms are used to determine the allocation of production to each party in the arrangement. Revenue is recognised "point in time" based on the production that has been delivered to the customer at the specified delivery point and measured based on the applicable market price as specified in the customer contracts. On the 14 October 2021 the Gas Production business was disposed.

Aside from where specifically noted above, consideration is due when the performance obligation has been satisfied. As the period between satisfaction of the performance obligation and receipt of consideration from the customer is expected to be less than a year, the Group has applied the practical expedient not to adjust revenue for the effect of any financing components.

Revenue from sources other than the Group's contracts with customers principally comprise meter rental income within the Enterprise business, and Contract for Difference income within certain Joint Venture arrangements.

Income on meter rental agreements, which are classified as operating leases, are presented as revenue where they relate to the core operating activities of that business. Lease payments are recognised as income on a straight-line basis over the lease term.

Contract for Differences are agreements between a low carbon electricity generator and the Low Carbon Contracts Company ('LCCC'), a UK Government owned entity responsible for delivering support mechanisms for low-carbon electricity generation. These agreements are not considered to be contracts with a customer, as the LCCC does not receive any goods or services from the generator. These arrangements are instead considered to be Government Grants, with income arising from these grants recognised in the income statement in the period in which generation takes place. This income is presented as revenue where they relate to the core operating activities of that business.

Cost of sales (note 6)

Cost of sales includes fuel and energy purchases, direct employee benefits, and depreciation of property, plant and equipment.

The net result from sales and purchases of commodity optimisation trades – comprising both realised and unrealised gains and losses arising from optimisation trading activities – is also presented within cost of sales, reflecting the underlying economic purpose of this trading activity.

Finance income and costs (note 9)

Interest income and costs are recognised in the income statement as they accrue, on an effective interest method. The issue costs and interest payable on bonds and all other interest payable and receivable is reflected in the income statement on the same basis.

Interest on the funding attributable to major capital projects is capitalised during the period of construction and depreciated as part of the total cost over the useful life of the asset.

The accounting policy for foreign exchange translation of monetary assets and liabilities is described on [page 290](#) and for lease liability charges on [page 297](#).

Taxation (note 10)

Taxation on the profit for the year comprises current and deferred tax. Taxation is recognised in the income statement unless it relates to items recognised directly in equity, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities other than in business combinations that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax assets and liabilities are offset where there is a legally enforceable right of offset within the same tax authority and where the Group intends to either settle them on a net basis, or to realise the asset and settle the liability simultaneously. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Accompanying information continued

A1. Basis of consolidation and significant accounting policies continued

A1.2 Significant accounting policies continued

Business Combinations (note 12)

The acquisition of subsidiaries, and joint operations that meet the definition of a business, is accounted for under the acquisition method as defined by IFRS 3 "Business Combinations".

The cost of acquisition is measured as being the aggregate fair value of consideration to be transferred at the date control is obtained. Goodwill is measured at the acquisition date as the fair value of consideration transferred, plus non-controlling interests, less the net recognised amount (which is generally fair value) of the identifiable assets and liabilities assumed. Goodwill is subject to an annual review for impairment (or more frequently if necessary) in accordance with the Group's impairment accounting policy.

Contingent consideration is classified as a liability and subsequently re-measured through the income statement. Acquisition costs are expensed as incurred.

Changes in ownership that do not result in a change of control are accounted for as equity transactions.

Held for disposal assets and liabilities and discontinued operations (note 12)

Non-current assets are classified as held for disposal if their recoverable value is likely to be recovered via a sale or distribution as opposed to continued use by the Group. In order to be classified as assets held for disposal, assets must meet all of the following conditions; the disposal is highly probable, it is available for immediate disposal, it is being actively marketed and the disposal is likely to occur within one year.

Assets that qualify as held for disposal and related liabilities are disclosed separately from other assets and liabilities in the balance sheet prospectively from the date of classification. Non-current assets determined as held for disposal are measured at the lower of carrying value and fair value less costs to sell, no depreciation is charged in respect of these assets after classification as held for disposal.

Assets or groups of assets and related liabilities that qualify as held for disposal are classified as discontinued operations when they represent a separate major line of business or geographical area, are part of a single plan to dispose of a separate major line of business or geographical area or are acquired exclusively with a view to resale. Income and expenses relating to these discontinued operations are disclosed in a single net amount after taxes in the income statement, with comparative amounts re-presented accordingly.

Intra-Group balances and any unrealised gains and losses or income and expenses arising from trading between continuing and discontinued operations continue to be eliminated in preparing the consolidated financial statements.

Intangible assets (note 13)

Goodwill and impairment testing

Goodwill arising on a business combination represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary, associate or joint venture at the date of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment at least on an annual basis.

For the purpose of impairment testing, goodwill is allocated on initial recognition to those cash-generating units (CGUs) expected to benefit from the combination's synergies. The cash-generating units used for goodwill impairment testing purposes will represent how goodwill was attributed but may not represent reportable business segments.

Goodwill may also arise upon investments in joint arrangements and associates. Goodwill arising on a joint operation is recorded as a separate asset and any impairment loss is recognised in the income statement. Goodwill arising on a joint venture or associate is recorded within the carrying amount of the Group's investment and any impairment loss is included within the share of result from joint ventures and associates. On disposal or closure of a previously acquired investment or business, any attributed goodwill will be included in determining the profit or loss on disposal.

Allowances and certificates

Allowances and certificates consist of purchased carbon emissions allowances and generated or purchased obligations certificates. These allowances and certificates will be utilised in settlement of environmental obligations incurred by the Group's Generation and Business and Domestic Energy Supply businesses.

The EU Emissions Trading Scheme (EU ETS) has been in operation since 1 January 2005, with the Group operating under the established EU ETS carbon pricing system since that date. Since 1 January 2021, following Brexit, the UK Government has established a UK Emissions Trading Scheme (UK ETS) to replace the EU ETS with the Group's UK generation assets now operating under the UK ETS carbon pricing system. Carbon allowances purchased are recorded at cost within intangible assets. Forward carbon contracts are measured at fair value with gains or losses arising on re-measurement being recognised in the income statement. A liability is recognised based on the level of emissions recorded. Up to the level of allowances held, including forward carbon contracts, the liability is measured at the cost of purchase. When the carbon emission liability exceeds the carbon allowances held, the difference is measured at market value selling price. Subsequent movements in market value are prospectively recognised in operating profit.

The carbon allowance intangible asset is surrendered at the end of the compliance period to the extent requested reflecting the consumption of the economic benefit and is recorded as being utilised. As a result, no amortisation is booked but an impairment charge may be recognised should the carrying value of allowances exceed market or fair value.

Under the Renewable Obligations Certificates (ROCs) scheme, certificates obtained from own generation are awarded by a third party, Ofgem. ROCs can be traded with third parties and are ultimately used by suppliers to demonstrate to Ofgem that they have met their obligation to source a set proportion of the electricity they supply from renewable sources. The value of a ROC to a supplier comprises two elements: the "buy-out" price which is set annually in advance of the compliance period by Ofgem; and the "recycle" price which is determined after the compliance period by Ofgem. The recycle price element is estimated at the balance sheet date based on assumptions at that point in time around likely levels of renewable generation and supply over the remaining compliance period, and is therefore subject to possible future variation.

Where ROCs are self-generated or purchased to fulfil the Group's liability under the renewables obligation, they are recorded at market value at the point of generation or purchased within intangible assets. Following disposal of the Group's Energy Services business in January 2020, the Group now holds ROCs in excess of the Group's renewables obligation. Due to limited evidence of liquidity or net settlement for ROC trades, we have determined that any purchased ROCs in excess of the Group's renewables obligation are recorded at the lower of cost or net realisable value within inventories. Similarly, the fair value of any forward contracts entered into at the balance sheet date for the purchase or sale of ROCs in future periods are not recognised, as there is insufficient liquidity for net settlement. The Group's liability under the renewables obligation is recognised based on electricity supplied to customers, the obligation level set by Ofgem and the prevailing market price.

The intangible assets are surrendered at the end of the compliance period reflecting the consumption of economic benefit and release of the associated liability. As a result, no amortisation is recorded during the period.

Research and development

Expenditure on research activities is charged to the income statement as incurred.

Expenditure on development activities is capitalised as intangible assets if the project or process is considered to be technically and commercially feasible and the Group intends to complete the project or process for use or for sale. Development projects include wind farm developments, thermal generation and gas storage projects, prospective gas production assets and other developments relating to proven technologies. Costs incurred in bringing these projects to the consent stage include options over land rights, planning application costs and environmental impact studies and may be costs incurred directly or part of the fair value exercise on acquisition of an interest in a project. At the point that the project reaches the consent stage and is approved by the Board, the carrying value of the project is transferred to property, plant and equipment as assets under construction. Once in operation, depreciation will be charged over the expected useful life of the asset. The asset is derecognised on disposal, or when no future economic benefits are expected to arise.

Other intangible assets

Other intangible assets that have been acquired separately by the Group are stated at cost less accumulated amortisation and impairment losses. Expenditure on internally generated brands or customer lists are expensed as incurred. Expenditure on internally developed software assets and application software licences includes contractors' fees and directly attributable labour and overheads. Amortisation is charged to the income statement on a straight-line basis over the estimated useful life of these assets. The amortisation periods utilised are as follows:

	Years
Brands	10
Customer lists	Contract term
Developed software assets and application software licences	3-15

The useful lives of all the intangible assets are reviewed annually and amended, as required, on a prospective basis. Intangible assets are derecognised on disposal, or when no future economic benefits are expected from their use.

Property, plant and equipment (note 14)

Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairments. The cost of self-constructed assets includes the cost of materials, direct labour and other directly attributable costs. Where the asset is a qualifying asset, for which a considerable period of time is required to prepare the asset for use or sale, borrowing costs will be capitalised as part of the asset's cost. Where an item of property, plant and equipment comprises major components having different useful lives, the components are accounted for as separate items of property, plant and equipment, and depreciated accordingly. An item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Accompanying information continued

A1. Basis of consolidation and significant accounting policies continued

A1.2 Significant accounting policies continued

Right of use assets

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Where a modification to a lease agreement decreases the scope of the lease, the carrying amount of the right of use asset is adjusted and a gain or loss is recognised in proportion to the decrease in scope of the lease. All other modifications to lease agreements are accounted for as a reassessment of the lease liability with a corresponding adjustment to the right of use asset.

Hydro civil assets

The Group is obliged under the Reservoirs Act 1975 to maintain its hydro infrastructure network, including its dams, tunnels and other hydro civil engineering structures (hydro civil assets). All items of property, plant and equipment within hydro civil assets, with the exception of land, are subject to depreciation.

In accordance with the transition provisions of IFRS 1 "First-time Adoption of IFRS", the Group identified the carrying value of these assets at privatisation and has treated this value as deemed cost. Following this assessment, the assets, and all subsequent enhancement and replacement expenditure, has been subject to depreciation over a useful economic life of 75 years. All subsequent maintenance expenditure is chargeable directly to the income statement.

Depreciation

Depreciation is charged to the income statement to write off cost, less residual values, on a straight line basis over their estimated useful lives. Heritable and freehold land is not depreciated. Depreciation policy, useful lives and residual values are reviewed at least annually, for all asset classes to ensure that the current method is the most appropriate. Depreciation commences following the asset commissioning period and when the asset is available for commercial operation. The estimated useful lives for assets depreciated on a straight line basis are as follows:

	Years
Wholesale specific assets	
Hydro civil assets (classified within Renewable power generation assets)	75 to 100
Thermal and hydro power stations including electrical and mechanical assets (classified within Thermal power generation assets)	20 to 60
Onshore wind farms (classified within Renewable power generation assets)	20 to 25
Offshore wind farms (classified within Renewable power generation assets)	20 to 25
Gas storage facilities (classified within other assets)	25 to 50
Overhead lines, underground cables and other network assets (classified within Distribution or Transmission network assets)	5 to 80
Office buildings (classified within land & buildings)	30 to 40
Fixtures, IT assets, vehicles and mobile plant (classified within other assets)	3 to 15

Assets held under leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease agreement.

Subsequent expenditure

It is the Group policy to capitalise qualifying replacement expenditure and depreciate it over the expected useful life of the replaced asset. Replaced assets are derecognised at this point and the costs recorded as costs of disposal. Where an item of property, plant and equipment is replaced and it is not practicable to determine the carrying amount of the replaced part, the cost of the replacement adjusted for inflation will be used as an approximation of the cost of the replaced part at the time it was acquired or constructed.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits of the item of property, plant and equipment to which it relates. Maintenance and repair costs are expensed as incurred.

Derecognition

An item of property, plant or equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains and losses on disposals are determined by comparing the proceeds received with the carrying amount of the asset and are included in the income statement. Any gain or loss on derecognition of the asset is included in the income statement in the period of derecognition.

Lease arrangements (note 21)

Lease arrangements are separately distinguished from service contracts on the basis of whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. If the Group is deemed to control the use of an identified asset, a right of use asset and a corresponding lease liability are recognised on the balance sheet.

Right of use assets are capitalised and held as part of property, plant and equipment. The accounting policy for such arrangements is described on [page 296](#).

Lease liabilities are initially measured at the present value of the future lease payments discounted using the rate implicit in the lease if that can be readily determined. If the interest rate implicit in the lease cannot be readily determined the incremental borrowing rate is used. Where the interest rate implicit in the lease is not readily determinable, the Group has applied the intercompany borrowing rate which is based on the Group's external medium-term borrowing rates with premia adjustments for any subsidiary specific risk factors.

In determining whether any break and/or extension clauses should be included within the lease term, the Group has considered that where an internal decision has been made to break or extend the lease agreement, that decision shall be applied in determining the appropriate lease term. Where an internal decision has not been made, and where the non-cancellable element of the lease term has longer than five years remaining, it is considered that any clauses will not be triggered as any decision beyond that date is not reasonably certain. For all leases with less than five years remaining, an assessment is made at each reporting period on a lease-by-lease basis on whether the clause is reasonably certain to be triggered. Reassessment of break and/or extension judgements made in prior periods could result in recalculation of the lease liability and adjustments to associated balances.

The lease liability is subsequently adjusted for unwind of discounting, repayments and other modifications to the underlying agreement. Lease modifications are accounted for as a separate lease where the scope of the lease increases through the right to use one or more underlying assets and where the consideration of the lease increases by an amount that is equivalent to the standalone price of the increase in scope. Where a modification decreases the scope of the lease, the carrying amount of the right of use asset is adjusted and a gain or loss is recognised in proportion to the decrease in scope of the lease. All other modifications are accounted for as a reassessment of the lease liability with a corresponding adjustment to the right of use asset.

Leases with a duration of 12 months or less and leases for assets which are deemed "low value" are expensed to the income statement on a straight-line basis over the lease term.

Impairment review (note 15)

The carrying amounts of the Group's PP&E and other intangible assets and the Group's investments in joint ventures and associates, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, or where there are indications that a previously recognised impairment loss has reduced. For PP&E assets that have previously been identified as exhibiting indications of impairment, the review of impairment will be performed annually until there is sufficient evidence to confirm that any potential impairment loss has been appropriately recognised, or until previously recognised impairment losses have been fully written back. For goodwill and other intangible assets with an indefinite life or which are not yet ready for use, the test for impairment is carried out annually. In addition, financial assets measured at amortised cost are also reviewed for impairment annually.

For assets subject to impairment testing, the asset's carrying value is compared to the asset's (or cash-generating unit (CGU)'s, in the case of goodwill), recoverable amount. The recoverable amount is determined to be the higher of the fair value less costs to sell (FVLCS) and the value-in-use (VIU) of the asset or CGU. For financial assets measured at amortised cost the impairment is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

If the carrying amount of the asset or CGU exceeds its recoverable amount, an impairment charge will be recognised immediately in the income statement. Reversals of previous impairment charges are recognised if the recoverable amount of the asset or CGU significantly exceeds the carrying amount. Previous impairments of goodwill are not reversed.

Value in use (VIU) calculations require the estimation of future cash flows to be derived from the respective assets (or CGUs) and the selection of an appropriate discount rate in order to calculate their present value. The VIU methodology is consistent with the approach taken by management to evaluate economic value and is deemed to be the most appropriate for reviews of PP&E asset and the Group's identified goodwill-related CGUs. The methodology is based on the pre-tax cash flows arising from the specific assets, underlying assets or CGUs, and discounted using a pre-tax discount rate based on the Group's cost of funding and adjusted for any specific risks. The estimation of the timing and value of underlying projected cash flows and the selection of appropriate discount rates involves management judgement. Subsequent changes to these estimates or judgements may impact the carrying value of the assets.

The fair value less costs to sell methodology also uses a present value technique, unless there is a quoted price in an active market for that asset. The methodology is based on the post-tax cash flows arising from the specific assets, underlying assets or CGUs, and discounted using a post-tax discount rate determined in the same manner as the rates used in the VIU calculations, adjusted for the relevant taxation rate.

Any impairment charge identified will initially be adjusted against the goodwill allocated to the cash-generating unit. Any excess charge will be allocated against the remaining assets of the cash-generating unit. Reversals of previous impairment charges are allocated against the carrying value of assets previously subject to an impairment charge.

Accompanying information continued

A1. Basis of consolidation and significant accounting policies continued

A1.2 Significant accounting policies continued

Inventories (note 17)

Inventories – aside from inventory purchased by the Gas Storage business for secondary trading opportunities – are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Gas inventory purchased by the Gas Storage business for secondary trading opportunities is held at fair value with reference to the forward month market price. Gains and losses on remeasurement at fair value are recognised within the Income Statement, as a "certain remeasurement" item.

Provisions (note 20)

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, it can be measured reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Decommissioning

The Group engages independent experts to estimate the cost of decommissioning its Renewable, Thermal and Gas Storage assets every three years. In the intervening years, management updates the external valuation based on factors arising since the last formal valuation date. Provision is made for the net present value of the estimated cost of decommissioning gas storage facilities, wind farms and power stations at the end of the useful life of the facilities. This includes development assets, where if a present obligation exists, provision is recognised during construction and prior to commencement of operations from the site. The estimates are based on technology and prices at the balance sheet date and excludes any salvage value related to those assets. A corresponding decommissioning asset is recognised and is included within property, plant and equipment when it gives access to future economic benefits, and is depreciated on a straight-line basis over the expected useful life of the asset. Changes in these provisions are recognised prospectively. The unwinding of the discount on the provision is included in finance costs.

The Group retained a decommissioning obligation following the disposal of its Gas Production business. The decommissioning cost estimates are updated periodically by field operators based on current technology and prices. Field operators also provide estimated end of field life dates for each field, which can change based on market commodity prices.

Retirement benefit obligations (note 23)

Defined benefit pension schemes

The Group operates two defined benefit pension schemes, one of which is operated by the Company. Pension scheme assets are measured using bid market values. Pension scheme liabilities are measured using the projected unit credit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

Any increase in the present value of liabilities within the Group's defined benefit pension schemes expected to arise from employee service in the year is charged as service costs to operating profit.

Net interest costs are based on net schemes' liabilities adjusted for minimum funding requirement and pension surplus restrictions under IFRIC 14 'IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'. Actuarial gains and losses are recognised in full in the consolidated statement of comprehensive income. Pension scheme surpluses, to the extent that they are considered recoverable, or deficits are recognised in full and presented on the face of the balance sheet.

Defined contribution pension schemes

The Group also operates a number of defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. The amounts charged represent the contributions payable to the schemes in the year and are charged directly to the income statement.

Equity and equity-related compensation benefits

The Group operates a number of employee share schemes as described in the Remuneration Report. These schemes enable Group employees to acquire shares of the Company.

The exercise prices of the sharesave scheme are set at a discount to market price at the date of the grant. The fair value of the sharesave scheme option granted is measured at the grant date by use of a Black-Scholes model. The fair value of the options granted is recognised as an expense on a straight-line basis over the period that the scheme vests. Estimates are updated for non-market conditions at each balance sheet date with any adjustment in respect of the current and prior years being recognised in the income statement. The costs associated with the other main employee schemes are recognised over the period to which they relate. The charge related to the equity shares in the Company awarded under the share schemes is treated as an increase in the cost of investment held by the Company in the subsidiary companies of the Group. The disclosures on equity and equity-related compensation benefits have been removed on the grounds of materiality in relation to the Group.

Financial instruments (note 24)

The Group uses a range of financial instruments to hedge exposures to financial risks, such as interest rate, foreign exchange and energy price fluctuations in its normal course of business and in accordance with the Group's risk management policies. The Group's risk management policies are further explained in A6.

As previously noted in the 31 March 2018 Annual Report, the Group's review of the IFRS 9 hedge accounting model concluded that whilst adoption would not change the treatment of existing hedging arrangements, the changes made would not result in any additional hedge designations either. As such, the existing hedge accounting model under IAS 39 appropriately reflects our risk management activities in the financial statements. Therefore, as permitted by IFRS 9, the Group has elected to continue to apply the hedge accounting requirements of IAS 39. This policy choice will be periodically reviewed to consider any changes in our risk management activities.

Interest rate and foreign exchange derivatives

Financial derivative instruments are used by the Group to hedge interest rate and currency exposures. All such derivatives are recognised at fair value and are re-measured to fair value each reporting period. Certain derivative financial instruments are designated as being held for hedging purposes. The designation of the hedge relationship is established at the inception of the hedge and procedures are applied to ensure the derivative is highly effective in achieving its objective and that the effectiveness of the hedge can be reliably measured. The treatment of gains and losses on re-measurement is dependent on the classification of the hedge and whether the hedge relationship is designated as either a 'fair value' or 'cash flow' hedge. Derivatives that are not designated as hedges are treated as if held for trading, with all fair value movements being recorded through the income statement.

A derivative classified as a 'fair value' hedge recognises gains and losses from re-measurement immediately in the income statement. Loans and borrowings are measured at cost except where they form the underlying transaction in an effective fair value hedge relationship. In such cases, the carrying value of the loan or borrowing is adjusted to reflect fair value movements with the gain or loss being reported in the income statement.

A derivative classified as a 'cash flow' hedge recognises the portion of gains or losses on the derivative which are deemed to be effective directly in equity in the hedge reserve. Any ineffective portion of the gains or losses is recognised in the consolidated income statement. When hedged cash flows result in the recognition of a non-financial asset or liability, the associated gains or losses previously recognised in equity are included in the initial measurement of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same period in which the hedged cash flows affect the income statement.

Accompanying information continued

A1. Basis of consolidation and significant accounting policies continued

A1.2 Significant accounting policies continued

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At the point of discontinuation, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the forecast transaction affects profit or loss. On settlement, the cumulative gain or loss recognised in equity is recognised in the income statement.

Commodity derivatives

Within its regular course of business, the Group routinely enters into sale and purchase derivative contracts for commodities such as electricity, gas, coal, carbon allowances and oil. Where the contract was entered into and continues to be held for the purpose of receipt or delivery in accordance with the Group's expected sale, purchase or usage requirements, the contracts are designated as 'own use' contracts and are measured at cost. These contracts are not within the scope of IFRS 9.

Derivative commodity contracts which are not designated as own use contracts are accounted for as trading derivatives and are recognised in the balance sheet at fair value. Where a hedge accounting relationship is designated and is proven to be effective, the changes in fair value will be recognised in accordance with the rules noted above. There are currently no designated hedge relationships in relation to commodity contracts.

Other commodity contracts, where own use is not established and a hedge accounting relationship is not designated, are measured at fair value with gains and losses on re-measurement being recognised in the income statement in cost of sales.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives where the characteristics of the derivatives are not closely related to those of the host contracts.

Net investment hedges

Hedges of net investments in foreign operations are accounted in a manner similar to effective cash flow hedges. Any gain or loss on the effective portion of the hedge is recognised in equity, in the translation reserve, and any gain or loss on the ineffective portion of the hedge is recognised in the income statement. On disposal of the foreign operation, the cumulative value of any gains or losses recognised directly in equity is transferred to the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Trade receivables

Trade receivables do not carry any interest and are measured at cost less an appropriate allowance for lifetime expected credit losses.

Interest-bearing loans and borrowings

All such loans and borrowings are initially recognised at fair value including transaction costs and are subsequently measured at amortised cost, except where the loan or borrowing is the hedged item in an effective fair value hedge relationship.

Share capital

Ordinary shares are accounted for as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds received. Own equity instruments that are reacquired are deducted from equity. No gain or loss is recognised in the Group Income Statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Hybrid equity

Hybrid equity comprises issued bonds that qualify for recognition as equity. Accordingly, any coupon payments are accounted for as dividends and are recognised directly in equity at the time the payment obligation arises. This is because the coupon payments are discretionary and relate to equity. Coupon payments consequently do not have any impact on the income statement. Coupon payments are recognised in the cash flow statement in the same way as dividends to ordinary shareholders. Tax credits in relation to the coupon payments are linked to the past transactions or events that support the coupon payments and consequently the tax credits are reported in the income statement.

Hybrid debt

Hybrid debt comprises issued bonds that have a fixed redemption date and are accounted within Loans and Borrowings. Coupon payments are recognised within the income statement as a finance cost.

A2. Taxation

The Group's primary tax disclosures are included at note 10. The following tables represent enhanced disclosures adopted in order to assist stakeholder understanding of the Group's tax position and policies as part of the Group's commitment to its Fair Tax Mark accredited status.

Reconciliation of tax charge to adjusted underlying current tax

	2022 £m	2022 %	2021 £m (restated*)	2021 %
Group profit before tax	3,482.2		2,418.0	
Less: share of results of associates and jointly controlled entities	(109.8)		(43.4)	
Profit before tax	3,372.4		2,374.6	
Tax on profit on ordinary activities at standard UK corporation tax rate of 19% (2021: 19%)	640.8	19.0	451.2	19.0
Tax effect of:				
Capital allowances less than depreciation	(121.6)	(3.6)	10.8	0.4
Increase in restructuring and settlement provisions	1.1	—	(5.6)	(0.2)
Non-taxable gain on sale of assets	(14.8)	(0.4)	(229.1)	(9.6)
Fair value movements on derivatives	(393.8)	(11.7)	(116.1)	(4.9)
Pension movements	(5.8)	(0.2)	(5.9)	(0.2)
Relief for capitalised interest and revenue costs	(22.7)	(0.7)	(19.3)	(0.8)
Hybrid equity coupon payments	(9.7)	(0.3)	(8.9)	(0.4)
Expenses not deductible for tax purposes	35.3	1.0	9.7	0.4
Utilisation of tax losses brought forward	(6.2)	(0.2)	(2.1)	(0.1)
Other items	0.4	—	5.6	0.2
Impact of foreign tax rates	(6.2)	(0.2)	—	—
Permanent benefit of super-deduction capital allowances	(6.0)	(0.2)	—	—
Adjustments to tax charge in respect of previous years	(5.9)	(0.2)	(11.4)	(0.5)
Reported current tax charge and effective rate	85.4	2.5	78.9	3.2
Depreciation in excess of capital allowances	129.4	3.8	(2.8)	(0.1)
Increase in provisions	(1.1)	—	5.6	0.2
Fair value movements on derivatives	393.3	11.7	116.1	4.9
Pension movements	5.8	0.2	5.9	0.2
Relief for capitalised interest and revenue costs	22.7	0.7	19.3	0.8
Impact of higher deferred tax rates on Gas Production profits	—	—	1.2	0.1
Impact of foreign tax rates	0.1	—	—	—
Adjustments to tax charge in respect of previous years	(2.2)	(0.1)	(1.9)	(0.1)
Change in rate of UK corporation tax	244.7	7.3	—	—
Tax losses utilised	6.0	0.2	2.1	0.1
Other items	(1.3)	—	(0.1)	—
Reported deferred tax credit and effective rate	797.4	23.6	145.4	6.1
Group tax charge and effective rate	882.8	26.2	224.3	9.4

As noted at note 3 to the accounts, the Group's results are reported on an 'adjusted' basis in order to allow focus on underlying business performance. The following table explains the adjustments that are made in order to arrive at adjusted profit before tax. This is the measure utilised in calculation of the Group's 'adjusted effective rate of tax'.

	2022 £m	2021 £m (restated*)
Profit before tax	3,482.2	2,418.0
Add/(less):		
Exceptional items and certain re-measurements	(2,390.6)	(1,503.7)
Share of tax from jointly controlled entities and associates before exceptional items and certain re-measurements	46.3	22.3
Depreciation charge on fair value uplifts	20.6	20.6
Adjustment to Gas Production decommissioning provision	13.1	—
Interest income/(charge) on pension scheme assets/(liabilities)	(7.6)	(8.3)
Adjusted profit before tax <small>APM</small>	1,164.0	948.9

Accompanying information continued

A2. Taxation continued

Reconciliation of tax charge to adjusted underlying current tax continued

The adjusted current tax charge can therefore be reconciled to the adjusted profit before tax as follows:

	2022 £m	2022 %	2021 £m	2021 %
Adjusted profit before tax	1,164.0			
Tax on profit on ordinary activities at standard UK corporation tax rate	221.2	19.0	180.3	19.0
Tax effect of:				
Capital allowances in excess of depreciation	(80.3)	(6.9)	(31.4)	(3.3)
Non-taxable gain on sale of assets	(9.5)	(0.8)	(47.7)	(5.0)
Non-qualifying depreciation	12.0	1.0	10.6	1.1
Adjustment for profit on internal trading	1.7	0.1	1.9	0.2
Increase in restructuring and settlement provisions	1.1	0.1	(2.7)	(0.3)
Pension movements	(5.8)	(0.5)	(6.8)	(0.7)
Relief for capitalised interest and revenue costs	(9.9)	(0.9)	(4.8)	(0.5)
Hybrid equity coupon payments	(9.7)	(0.8)	(8.9)	(0.9)
Expenses not deductible for tax purposes	4.2	0.4	4.4	0.5
Permanent benefit of super-deduction capital allowances	(6.1)	(0.5)	–	–
Losses carried back to earlier years	(0.8)	(0.1)	1.7	0.2
Adjustments to tax charge in respect of previous years	(6.7)	(0.6)	(12.0)	(1.3)
Impact of foreign tax rates	(5.7)	(0.5)	–	–
Other	1.4	0.2	1.3	0.1
Adjusted current tax charge and effective rate [APM]	107.1	9.2	85.9	9.1

The above reconciling adjustments differ from those analysed in the Group tax charge reconciliation above because they include SSE's share of associates and joint ventures, and are based on adjusted profit before tax.

The majority of the Group's profits are earned in the UK, with the standard rate of UK corporation tax being 19% for the year to 31 March 2022 (2021: 19%). The Group's Gas Production business, which is presented as a discontinued operation in the current year (until the business was disposed on 14 October 2021) and prior year, is taxed at a UK corporation tax rate of 30% plus a supplementary charge of 10% (combined 40%). Profits earned by the Group in the Republic of Ireland are taxable at either 12.5% or 25%, depending upon the nature of the income.

Capital allowances are tax reliefs provided in law for the expenditure the Group makes on property, plant and equipment. The rates are determined by Parliament annually and spread the tax relief due over a number of years. This contrasts with the accounting treatment for such spending, where the expenditure on property, plant and equipment is treated as an asset with the cost being depreciated over the useful life of the asset, or impaired if the value of such assets is considered to have reduced materially.

The different accounting treatment of property, plant and equipment for tax and accounting purposes means that the taxable income of the Group is not the same as the profit reported in the financial statements. The substantial reversals of impairments and impairments undertaken in previous years in relation to certain property, plant and equipment assets, result in the depreciation or impairment charge to profit for the year differing to the amount of capital allowances due to the Group.

Short term temporary differences arise on items such as provisions for restructuring costs and onerous contracts, and retirement benefit obligations, because the treatment of such items is different for tax and accounting purposes. These differences usually reverse in the year following that in which they arise, as is reflected in the deferred tax charge in these financial statements. Where interest charges or other costs are capitalised in the accounts, tax relief is either given as the charges are incurred or when the costs are taken to the income statement.

As explained at Accompanying Information A1 and A6 [A], the Group measures its operating and financing derivatives at fair value under IFRS 9. As a result of the Group's subsidiaries applying the HMRC's "disregard regulations", the re-measurement movements have no current tax effect impacting only the deferred tax position.

As detailed at note 22 and explained in the Accompanying Information A1 [A], the Group has issued Hybrid equity securities which are treated as a component of equity. While the coupon payments relating to these securities are treated as distributions to the holders of the equity instruments, tax relief is allowed on the amount paid in the year. These tax credits are linked to the past transactions or events that support the coupon payments and consequently the tax credits are reported in the income statement.

A3. Related undertakings

A3.1.1. Subsidiary undertakings

Details of the Group's subsidiary undertakings at 31 March are as follows:

Company	Country of incorporation	Registered address (key)	2022 Holding %	2021 Holding %	Principal activity
Abernedd Power Company Limited	England and Wales	B	100.0	100.0	Holding Company
Aichi Offshore Wind Power No. 1 G.K.	Japan	AJ	80.0	–	Renewable Development
Aichi Offshore Wind Power No. 2 G.K.	Japan	AJ	80.0	–	Renewable Development
Airtricity Windfarm Finance Limited	Ireland	C	100.0	100.0	Holding Company
Arklow Offshore Phase II Company Limited	Ireland	C	100.0	100.0	Dormant
Beithe (HK) Limited	Hong Kong	AF	100.0	100.0	Holding Company
Beithe AG	Switzerland	Z	100.0	100.0	Holding Company
Berwick Bank A Limited (formerly Berwick Bank Wind Limited)	England and Wales	B	100.0	100.0	Power Generation
Berwick Bank Holdings A Limited (formerly Berwick Bank Wind Holdings Limited)	England and Wales	B	100.0	100.0	Holding Company
Berwick Bank B Limited	England and Wales	B	100.0	–	Renewable Development
Berwick Bank Holdings B Limited	England and Wales	B	100.0	–	Holding Company
Berwick Bank C Limited (formerly Marr Bank Wind Limited)	England and Wales	B	100.0	100.0	Power Generation
Berwick Bank Holdings C Limited (formerly Marr Bank Wind Holdings Limited)	England and Wales	B	100.0	100.0	Holding Company
Berwick Bank Wind Farm Limited	England and Wales	B	100.0	–	Renewable Development
Bhlaraidh Wind Farm Limited	Scotland	A	100.0	100.0	Power Generation
Bindoo Windfarm (ROI) Limited	Ireland	C	100.0	100.0	Power Generation
Brickmount Limited	Ireland	C	100.0	100.0	Power Generation
Building Automation Solutions Limited	England and Wales	D	100.0	100.0	Dormant
Coire Glas Hydro Pumped Storage Limited	Scotland	A	100.0	100.0	Power Generation
Comhlacht Gaoithe Teoranta	Ireland	C	100.0	100.0	Power Generation
Coomacheo Wind Farm Limited	Ireland	C	100.0	100.0	Power Generation
Coomatallin Windfarm (ROI) Limited	Ireland	C	100.0	100.0	Power Generation
Curragh Mountain Windfarm Limited	Ireland	C	100.0	100.0	Power Generation
Dedondo Limited	Ireland	C	100.0	100.0	Power Generation
Dromada Windfarm (ROI) Limited	Ireland	C	100.0	100.0	Power Generation
Drumnahough Wind Farm Designated Activity Company	Ireland	C	100.0	100.0	Power Generation
Enshunada Offshore Wind Power No. 1 G.K.	Japan	AJ	80.0	–	Renewable Development
Fibre Fuel Limited	England and Wales	B	100.0	100.0	Dormant
Fibre Power (Slough) Limited	England and Wales	B	100.0	100.0	Power Generation
Fusion Heating Limited	Northern Ireland	W	100.0	100.0	Energy Related Services
Galway Wind Park Phase 3 Designated Activity Company	Ireland	C	100.0	100.0	Renewable Development
Ganderoy Limited	Ireland	C	100.0	100.0	Power Generation
Gartnaneane Limited	Ireland	C	100.0*	100.0*	Power Generation
Glenora Wind Farm Designated Activity Company	Ireland	C	100.0	–	Renewable Development
Goto-Fukue Offshore Wind Power G.K.	Japan	AJ	80.0	–	Renewable Development
Green Wind Energy (Wexford) Limited	Ireland	C	100.0*	100.0*	Renewable Development
Griffin Wind Farm Limited	Scotland	A	100.0	100.0	Power Generation
Hadyard Hill Wind Farm Limited	Scotland	A	100.0	100.0	Power Generation
Hydro Electric Pension Scheme Trustees Limited	Scotland	A	100.0	100.0	Dormant
Izu Islands Offshore Wind Power No. 1 G.K.	Japan	AJ	80.0	–	Renewable Development
Keadby Developments Limited	England and Wales	B	100.0	100.0	Dormant
Keadby Generation Limited	England and Wales	E	100.0	100.0	Power Generation
Keadby Wind Farm Limited	England and Wales	B	100.0	100.0	Power Generation
Leanamore Wind Farm Limited	Ireland	C	100.0	100.0	Power Generation
Lenalea Wind Farm Designated Activity Company	Ireland	C	100.0	100.0	Renewable Development
Limerick West Windfarm Limited	Ireland	C	100.0	100.0	Power Generation
Littleton Pastures Solar Limited	England and Wales	B	100.0	–	Power Generation
March Winds Limited	Ireland	C	100.0	100.0	Power Generation
Medway Power Limited	England and Wales	B	100.0	100.0	Power Generation
Meentycat Limited	Ireland	C	100.0	100.0	Power Generation
Milane Holdings Limited	Ireland	C	100.0	100.0	Dormant
Minami-Izu Offshore Wind Power No. 1 G.K.	Japan	AJ	80.0	–	Renewable Development
Mullananol Wind Farm (ROI) Limited	Ireland	C	100.0	100.0	Power Generation

Accompanying information continued

A3. Related undertakings continued

A3.1.1. Subsidiary undertakings continued

Company	Country of incorporation	Registered address (key)	2022 Holding %	2021 Holding %	Principal activity
Niigata Offshore Wind Power No.1 G.K.	Japan	AJ	80.0	—	Renewable Development
Oki Islands Offshore Wind Power G.K.	Japan	AJ	80.0	—	Renewable Development
Optimal Power Networks Limited (formerly Forbury Assets Limited)	England and Wales	B	100.0	100.0	Construction of utility projects
Platin Power Limited	Ireland	C	100.0	100.0	Dormant
Power from Waste Limited	England and Wales	B	100.0	100.0	Dormant
Richfield Windfarm (ROI) Limited	Ireland	C	100.0	100.0	Power Generation
Scottish and Southern Energy Power Distribution Limited	Scotland	A	100.0	100.0	Holding Company
Scottish Hydro Electric Power Distribution plc	Scotland	A	100.0	100.0	Power Distribution
Scottish Hydro Electric Transmission plc	Scotland	A	100.0	100.0	Power Transmission
Sheskin South Renewables Power Designated Activity Company	Ireland	C	100.0	—	Renewable Development
Slough Domestic Electricity Limited	England and Wales	B	100.0	100.0	Dormant
Slough Electricity Contracts Limited	England and Wales	B	100.0	100.0	Electricity Contracting
Slough Energy Supplies Limited	England and Wales	B	100.0	100.0	Dormant
Slough Heat & Power Limited	England and Wales	B	100.0	100.0	Power Generation
Slough Utility Services Limited	England and Wales	B	100.0	100.0	Distribution of Electricity
Southern Electric Power Distribution plc	England and Wales	B	100.0	100.0	Power Distribution
SSE Airtricity Limited	Ireland	C	100.0	100.0	Energy Supply
SSE Airtricity Distributed Energy Limited	Ireland	C	100.0	100.0	Power Distribution
SSE Airtricity Energy Services (NI) Limited	Northern Ireland	F	—	100.0	Energy Supply
SSE Airtricity Energy Services Limited	Ireland	C	100.0	100.0	Energy Supply
SSE Airtricity Energy Supply (NI) Limited	Northern Ireland	F	100.0	100.0	Energy Supply
SSE Airtricity Gas Limited	Ireland	C	100.0	100.0	Energy Supply
SSE Airtricity Gas Supply (NI) Limited	Northern Ireland	F	100.0	100.0	Energy Supply
SSE Airtricity Utility Solutions Limited	Ireland	C	—	100.0	Utility Contracting
SSE Battery Salisbury Limited	England and Wales	B	100.0	—	Power Generation
SSE Beatrice Offshore Windfarm Holdings Limited	Scotland	A	100.0	100.0	Holding Company
SSE Contracting Group Limited	England and Wales	B	100.0	100.0	Holding Company
SSE Contracting Limited	England and Wales	B	—	100.0	Contracting
SSE Cumarsáid Teoranta	Ireland	C	100.0	100.0	Telecommunications
SSE DE Battery Holdco Limited	England and Wales	B	100.0	—	Holding company
SSE E&P UK Limited	Scotland	A	—	100.0	Gas Production
SSE Energy Supply Limited	England and Wales	B	100.0	100.0	Energy Supply
SSE Enterprise Limited	England and Wales	B	100.0	100.0	Corporate Services
SSE EPM Limited	England and Wales	B	100.0	100.0	Energy Trading
SSE Galloper Offshore Windfarm Holdings Limited	England and Wales	B	100.0	100.0	Holding Company
SSE Generation Ireland Limited	Ireland	C	100.0	100.0	Power Generation
SSE Generation Limited	England and Wales	B	100.0	100.0	Power Generation
SSE Group Limited	Scotland	A	100.0	100.0	Dormant
SSE Heat Networks (Battersea) Limited	England and Wales	B	100.0	100.0	Dormant
SSE Heat Networks Limited	Scotland	A	100.0	100.0	Utility Services
SSE Hornsea Limited	England and Wales	B	100.0	100.0	Gas Storage
SSE Insurance Limited	Isle of Man	G	100.0	100.0	Insurance
SSE Maple Limited	England and Wales	B	100.0	100.0	Investment Holding
SSE Medway Operations Limited	England and Wales	B	100.0	100.0	Holding Company
SSE Micro Renewables Limited	Scotland	A	100.0	100.0	Energy Related Services
SSE Multifuel Generation Holdings Limited	England and Wales	B	100.0	100.0	Holding Company
SSE OWS Glasgow Limited	Scotland	A	100.0	100.0	Property Holding
SSE Pacifico K.K.	Japan	AJ	80.0	—	Renewable Development
SSE Production Services Limited	England and Wales	B	100.0	100.0	Maintenance Services
SSE Renewables (Ireland) Limited	Ireland	C	100.0	100.0	Holding Company
SSE Renewables Developments (Germany) GmbH	Germany	AA	100.0	100.0	Renewable Development
SSE Renewables Generation Ireland Limited	Ireland	C	100.0	100.0	Power Generation
SSE Renewables Holdings (Europe) Limited	Ireland	C	100.0	100.0	Holding Company
SSE Renewables Holdings (UK) Limited	Northern Ireland	F	100.0	100.0	Holding Company
SSE Renewables Holdings Germany GmbH	Germany	H	100.0	100.0	Dormant
SSE Renewables Holdings Limited	Ireland	C	100.0	100.0	Holding Company
SSE Renewables International Holdings	Scotland	A	100.0	100.0	Holding Company

Company	Country of incorporation	Registered address (key)	2022 Holding %	2021 Holding %	Principal activity
SSE Renewables Limited	Scotland	A	100.0	100.0	Holding Company
SSE Renewables (Netherlands) Holdings B.V.	Netherlands	AL	100.0	–	Holding Company
SSE Renewables North America Inc.	United States	AH	100.0	–	Renewable Development
SSE Renewables North America Offshore Wind LLC.	United States	AH	100.0	–	Renewable Development
SSE Renewables Off Shore Limited	Ireland	C	100.0	100.0	Holding Company
SSE Renewables Offshore Windfarm Holdings Limited	Scotland	A	100.0	100.0	Holding Company
SSE Renewables Onshore Windfarm Holdings Limited	Northern Ireland	F	100.0	100.0	Holding Company
SSE Renewables Poland Holdings Limited	Scotland	A	100.0	–	Holding Company
SSE Renewables Poland sp z.o.o. (formerly Virtomille Investments sp z.o.o.)	Poland	AI	100.0	–	Renewable Development
SSE Renewables Services (UK) Limited	Northern Ireland	F	100.0	100.0	Renewable Development
SSE Renewables UK Limited	Northern Ireland	F	100.0	100.0	Power Generation
SSE Renewables Wind (Ireland) Holdings Limited	Ireland	C	100.0	100.0	Holding Company
SSE Renewables Wind Farms (Ireland) Limited	Ireland	C	100.0	100.0	Power Generation
SSE Renewables Wind Farms (UK) Limited	Scotland	A	100.0	100.0	Power Generation
SSE Retail Limited	Scotland	A	100.0	100.0	Energy Related Services
SSE Seabank Investments Limited	England and Wales	B	100.0	100.0	Dormant
SSE Seabank Land Investments Limited	England and Wales	B	100.0	100.0	Dormant
SSE Services plc	England and Wales	B	100.0	100.0	Corporate Services
SSE Southern Group Trustee Limited	England and Wales	B	100.0	100.0	Dormant
SSE Stock Limited	Scotland	A	100.0	100.0	Stock Holding
SSE Sunflower Offshore Wind Holdco B.V.	Netherlands	AL	100.0	–	Renewable Development
SSE Thermal Energy Holdings Limited	England and Wales	B	100.0	100.0	Holding Company
SSE Thermal Energy Operations Limited	England and Wales	B	100.0	100.0	Power Generation
SSE Thermal Generation (Scotland) Limited	Scotland	A	100.0	100.0	Power Generation
SSE Thermal Generation Holdings Limited	England and Wales	B	100.0	100.0	Holding Company
SSE Toddleburn Limited	Scotland	A	100.0	100.0	Power Generation
SSE Trading Limited	England and Wales	B	100.0	100.0	Energy Trading
SSE Tulip Offshore Wind Holdco B.V.	Netherlands	AL	100.0	–	Renewable Development
SSE Trustees Limited	England and Wales	B	100.0	100.0	Dormant
SSE Utility Services Limited	England and Wales	B	100.0	100.0	Dormant
SSE Utility Solutions Limited	England and Wales	B	100.0	100.0	Utility Services
SSE Venture Capital Limited	Scotland	A	100.0	100.0	Investment Holding
SSE Viking Limited	England and Wales	B	100.0	100.0	Renewable Development
SSE(SE) Quest Trustee Limited	England and Wales	B	100.0	100.0	Dormant
SSEPG (Operations) Limited	England and Wales	B	100.0	100.0	Power Generation
Strathy Wind Farm Limited	Scotland	A	100.0	100.0	Power Generation
Sure Partners Limited	Ireland	C	100.0	100.0	Renewable Development
Tealing Solar Park Limited	England and Wales	B	100.0	100.0	Power Generation
TESGL Limited	England and Wales	D	100.0	100.0	Building Energy Management
The Energy Solutions Group Bidco Limited	England and Wales	D	100.0	100.0	Dormant
The Energy Solutions Group Midco Limited	England and Wales	D	100.0	100.0	Dormant
The Energy Solutions Group Topco Limited	England and Wales	D	100.0	100.0	Dormant
Tournafulla Windfarm (ROI) Limited	Ireland	C	100.0	100.0	Power Generation
Viking Energy (Scottish Partnership)	Scotland	I	100.0	100.0	Renewable Development
Viking Energy Wind Farm LLP	Scotland	AK	100.0	100.0	Renewable Development
Wakayama-West Offshore Wind Power No. 1 G.K.	Japan	AJ	80.0	–	Renewable Development
Wakayama-West Offshore Wind Power No.2 G.K.	Japan	AJ	80.0	–	Renewable Development

All shares in subsidiary companies are ordinary share capital, unless otherwise stated.

* 100% of voting rights held.

Accompanying information continued

A3. Related undertakings continued

A3.1.1. Subsidiary undertakings continued

Statutory audit exemptions

SSE plc parent company has provided guarantees under section 479C of the Companies Act 2006 over the liabilities of the following companies, which are therefore exempt from audit under the requirements of s479A-479C of the Companies Act 2006.

Company	Registered number
Fibre Power (Slough) Limited	02902170
SSE Bhlaraidh Wind Farm Limited	SC663027
SSE Enterprise Limited	10060563
SSE Retail Limited	10060563
SSE Maple Limited	10604848
SSE Medway Operations Limited	02647585
SSE Micro Renewables Limited	SC386017
SSE Production Services Limited	02499702
SSE Renewables Wind Farms (UK) Limited	SC654502
SSE Seabank Investments Limited	02631512
Tealing Solar Park Limited	08783684
Slough Utility Services Limited	03486590

A3.1.2. Partnerships

Company	Country of incorporation	Registered address (key)	2022 Holding %	2021 Holding %	Principal activity
The Glasa LLP	Scotland	A	—	90.0	Renewable Development

A3.1.3 Joint arrangements (incorporated)

Company	Country of incorporation	Registered address (key)	2022 Holding %	2021 Holding %	Principal activity
AtlasConnect Limited	Scotland	A	50.0	50.0	Dormant
Baglan Pipeline Limited	England and Wales	L	50.0	50.0	Dormant
Beatrice Offshore Windfarm Holdco Limited	Scotland	A	40.0	40.0	Holding Company
Beatrice Offshore Windfarm Limited	Scotland	A	40.0	40.0	Power Generation
Brims Tidal Array Limited	Scotland	M	—	50.0	Renewable Development
Cloosh Valley Wind Farm Designated Activity Company	Ireland	N	25.0	25.0	Power Generation
Cloosh Valley Wind Farm Holdings Designated Activity Company	Ireland	N	25.0	25.0	Holding Company
Clyde Windfarm (Scotland) Limited**	Scotland	A	50.1	50.1	Power Generation
DB Operational Base Limited	England and Wales	K	40.0	40.0	Warehousing and storage facilities
Digital Reach Partners Limited	Scotland	A	50.0	—	Other Communication Projects
Doggerbank Offshore Wind Farm Project 1 Holdco Limited	England and Wales	B	40.0	40.0	Holding Company
Doggerbank Offshore Wind Farm Project 1 Projco Limited	England and Wales	B	40.0	40.0	Renewable Development
Doggerbank Offshore Wind Farm Project 2 Holdco Limited	England and Wales	B	40.0	40.0	Holding Company
Doggerbank Offshore Wind Farm Project 2 Projco Limited	England and Wales	B	40.0	40.0	Renewable Development
Doggerbank Offshore Wind Farm Project 3 Holdco Limited	England and Wales	B	40.0	50.0	Holding Company
Doggerbank Offshore Wind Farm Project 3 Projco Limited	England and Wales	B	40.0	50.0	Renewable Development
Dunmaglass Wind Farm Limited	Scotland	A	50.1	50.1	Power Generation
Everwind Limited	Ireland	Y	49.0	49.0	Power Generation
Gatroben Offshore Developments 1 Limited	England and Wales	B	40.0	—	Renewable Development
Gatroben Offshore Developments 2 Limited	England and Wales	B	40.0	—	Renewable Development
Gatroben Offshore Developments 3 Limited	England and Wales	B	40.0	—	Renewable Development
Greater Gabbard Offshore Winds Limited	England and Wales	B	50.0	50.0	Power Generation
Green Energy Company Limited	Ireland	O	47.5	47.5	Dormant
Green Way Energy Limited	Ireland	O	50.0	50.0	Holding Company

Company	Country of incorporation	Registered address (key)	2022 Holding %	2021 Holding %	Principal activity
Kerry Power Limited	Ireland	O	49.0	49.0	Power Generation
Marchwood Power Limited	England and Wales	P	50.0	50.0	Power Generation
Marron Activ8 Energies Limited	Ireland	X	45.0	45.0	Energy Related Services
Midas Energy Limited	Ireland	O	49.0	49.0	Power Generation
Neos Networks Limited	Scotland	A	50.0	50.0	Telecommunications
NNXYZ Limited	England and Wales	B	50.0	50.0	Telecommunications
North Falls Offshore Wind Farm Holdco Limited	England and Wales	B	50.0	50.0	Holding company
North Falls Offshore Wind Farm Limited	England and Wales	B	50.0	50.0	Renewable Development
PriDE (Serp) Ltd	England and Wales	Q	—	50.0	Estate Maintenance and Improvement
Scohoco 1 Limited	Scotland	A	40.0	—	Holding company
Scoprojco 1 Limited	Scotland	A	40.0	—	Renewable Development
Scotia Gas Networks Limited	England and Wales	R	—	33.3	Gas Distribution
Scotland Gas Networks plc	Scotland	AC	—	33.3	Gas Distribution
Seabank Power Limited	England and Wales	S	50.0	50.0	Power Generation
Seagreen 1A (Holdco) Limited	England and Wales	B	49.0	49.0	Holding company
Seagreen 1A Limited	England and Wales	B	49.0	49.0	Renewable Development
Seagreen Alpha Wind Energy Limited	England and Wales	B	49.0	49.0	Renewable Development
Seagreen Bravo Wind Energy Limited	England and Wales	B	49.0	49.0	Renewable Development
Seagreen Holdco 1 Limited	England and Wales	B	49.0	49.0	Holding company
Seagreen Wind Energy Limited	England and Wales	B	49.0	49.0	Renewable Development
SGN Belvedere Limited	England and Wales	R	—	33.3	Property
SGN Brighton Limited	England and Wales	R	—	33.3	Property
SGN Commercial Services Limited	England and Wales	R	—	33.3	Energy Related Services
SGN Connections Limited	England and Wales	R	—	33.3	Gas Distribution
SGN Contracting Limited	England and Wales	R	—	33.3	Energy Related Services
SGN Epsom Limited	England and Wales	R	—	33.3	Property
SGN Greenwich Limited	England and Wales	R	—	33.3	Property
SGN Kennington Limited	England and Wales	R	—	33.3	Property
SGN Lessona Limited	England and Wales	R	—	33.3	Holding company
SGN MidCo Limited	England and Wales	R	—	33.3	Holding company
SGN Motspur Park Limited	England and Wales	R	—	33.3	Property
SGN Natural Gas Limited	England and Wales	R	—	33.3	Gas Distribution
SGN Old Kent Road Limited	England and Wales	R	—	33.3	Property
SGN Place Limited	England and Wales	R	—	33.3	Holding company
SGN PledgeCo Limited	England and Wales	R	—	33.3	Holding company
SGN Property Holdings Limited	England and Wales	R	—	33.3	Property
SGN Property Services Limited	England and Wales	R	—	33.3	Property
SGN Rotherhithe Limited	England and Wales	R	—	33.3	Property
SGN Smart Limited	England and Wales	R	—	33.3	Gas Distribution
SGN Southampton Limited	England and Wales	R	—	33.3	Property
Southern Gas Networks plc	England and Wales	R	—	33.3	Gas Distribution
SSE Slough Multifuel Holdco Limited	England and Wales	B	50.0	100.0	Holding company
SSE Slough Multifuel Limited	England and Wales	B	50.0	50.0	Power Generation
Stronelairg Wind Farm Limited	Scotland	A	50.1	50.1	Power Generation

** 50.1% of voting rights held.

A3.1.4 Associates

Company	Country of incorporation	Registered address (key (I))	2022 Holding %	2021 Holding %	Principal activity
Murphy Asset Services Limited	England and Wales	AD	—	16.6	Holding Company
Shetland Land Lease Limited	England and Wales	T	—	20.0	Development Company
St Clements Services Limited	England and Wales	U	25.0	25.0	Utilities Software

Accompanying information continued

A3. Related undertakings continued

A3.1.5 Registered address key

Reference	Company registered address
A	Inveralmond House, 200 Dunkeld Road, Perth PH1 3AQ
B	No 1 Forbury Place, 43 Forbury Road, Reading RG1 3JH
C	Red Oak South, South County Business Park, Leopardstown, Dublin 18
D	Ocean Court, Caspian Road, Atlantic Street, Altrincham, WA14 5HH
E	Keadby Power Station, Trentside, Keadby, Scunthorpe, North Lincs DN17 3AZ
F	3rd Floor, Millennium House, 17-25 Great Victoria Street, Belfast, BT2 7AQ
G	Tower House, Loch Promenade, Douglas, Isle of Man
H	Büro München, Elektrastrasse 6, 81925, München, Germany
I	The Gutters' Hut, North Ness Business Park, Lerwick, Shetland ZE1 0LZ
J	Dunedin House Auckland Park, Mount Farm, Milton Keynes, Buckinghamshire, MK1 1BU
K	City Point, 65 Haymarket Terrace, Edinburgh, EH12 5HD
L	16 Axis Way, Mallard Way, Swansea Vale, Swansea, SA7 0AJ
M	The Vision Building, 20 Greenmarket, Dundee, DD1 4QB
N	6th Floor, South Bank House, Barrow Street, Dublin 4
O	Lissarda Industrial Park, Lissarda, Macroom, County Cork
P	Oceanic Way, Marchwood Industrial Park, Marchwood, Southampton SO40 4BD
Q	Capital Tower, 91 Waterloo Road, London, SE1 8RT
R	St Lawrence House, Station Approach, Horley, Surrey RH6 9HJ
S	Severn Road, Hallen, Bristol, BS10 7SP
T	18th Floor, 10 Upper Bank Street, Canary Wharf, London, E14 5BF
U	4-6 Church Walk, Daventry, NN11 4BL
V	5 Horwick Place, London, England, SW1P 1WG
W	Unit 14 Maryland Industrial Estate, Ballygowan Road, Belfast
X	Dunoge, Carrickmacross, Co. Monaghan, Ireland
Y	Gorthleahy, Macroom, Co Cork, Ireland
Z	c/o Fiduservice SA, Route de Beaumont 20, 1701 Freiburg, Switzerland
AA	c/o CMS Hasche Sigle, Stadthausbrücke 1-3, 20355 Hamburg
AB	Windmill Hill Business Park, Whitehill Way, Swindon, Wiltshire SN5 6PB
AC	Axis House 5 Lonehead Drive, Newbridge, Edinburgh, Scotland, EH28 8TG
AD	Hiview House, Highgate Road, London, United Kingdom, NW5 1TN
AE	CMS Edinburgh, Saltire Court, 20 Castle Terrace, Edinburgh EH1 2EN
AF	Rm 1901, 19/F, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong
AG	Hiview House, Highgate Road, London, NW5 1TN
AH	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware, 19808
AI	Towarowa no.28, suite 00-839, Warsaw, Poland
AJ	Roppongi Grand Tower, 3-2-1 Roppongi, Minato-ku, Tokyo, Japan
AK	Stewart Building Esplanade, Lerwick, Shetland, Scotland, ZE1 0LL
AL	Hofplein 20, Rotterdam, 3032 AC, Netherlands

A4. Joint ventures and associates

The Directors have assessed that the investments in the following equity accounted joint ventures and associates are of a sufficiently material impact to warrant additional disclosure on an individual basis. Details of on the financial position and financial results of the Group:

Company	Principal activity	Country of incorporation	Class of shares held	Proportion of shares held %	Group interest %	Year end date	Consolidation basis
Scotia Gas Networks Limited	Gas Distribution	UK	Ordinary	–	33.3	31 March	Equity
Seabank Power Limited	Power Generation	UK	Ordinary	50.0	50.0	31 December	Equity
Marchwood Power Limited	Power Generation	UK	Ordinary	50.0	50.0	31 December	Equity
Clyde Windfarm (Scotland) Limited	Power Generation	UK	Ordinary	50.1	50.1	31 March	Equity
Beatrice Offshore Windfarm Limited	Power Generation	UK	Ordinary	40.0	40.0	31 March	Equity
Dunmaglass Wind Farm Limited	Power Generation	UK	Ordinary	50.1	50.1	31 March	Equity
Stronelaig Wind Farm Limited	Power Generation	UK	Ordinary	50.1	50.1	31 March	Equity
Neos Networks Limited	Telecoms	UK	Ordinary	50.0	50.0	31 March	Equity

Summary information for material joint ventures and associates from unaudited financial statements is as follows:

	Seabank Power Limited 2022 £m	Marchwood Power Limited 2022 £m	SSE Slough Multifuel Limited 2022 £m	Clyde Windfarm (Scotland) Limited 2022 £m	Seagreen Offshore Windfarm Limited 2022 £m	Beatrice Offshore Windfarm Limited 2022 £m	Dunmaglass Wind Farm Limited 2022 £m	Stronelairg Wind Farm Limited 2022 £m	Neos Networks Limited 2022 £m	Other 2022 £m	Total continuing operations 2022 £m	SGN discontinued operation 2022 £m
Revenue	260.9	97.6	—	270.9	—	111.6	59.6	142.0	156.8	42.7	1,142.1	181.3
Other income	—	—	—	—	—	281.3	—	—	—	—	281.3	—
Depreciation and amortisation	(5.7)	(32.2)	—	(29.8)	—	(90.6)	(8.0)	(14.1)	(84.0)	(30.5)	(294.9)	(33.3)
Other operating costs	(235.6)	(21.2)	—	(48.9)	—	(84.3)	(10.8)	(25.3)	(102.6)	(16.5)	(545.2)	(85.0)
Operating profit	19.6	44.2	—	192.2	—	218.0	40.8	102.6	(29.8)	(4.3)	583.3	63.0
Interest expense	(0.1)	(6.6)	—	(18.3)	—	(69.0)	(6.2)	(12.5)	(24.0)	(13.5)	(150.2)	(46.9)
Profit before tax	19.5	37.6	—	173.9	—	149.0	34.6	90.1	(53.8)	(17.8)	433.1	16.1
Corporation tax	(9.8)	(7.6)	—	(54.2)	—	(55.8)	(13.8)	(25.4)	(4.0)	—	(170.6)	(259.3)
Profit after tax	9.7	30.0	—	119.7	—	93.2	20.8	64.7	(57.8)	(17.8)	262.5	(243.2)
Recognised in other comprehensive income												
Actuarial gain on retirement benefit schemes	—	—	—	—	—	—	—	—	—	—	—	6.3
Taxation	—	—	—	—	—	—	—	—	—	—	—	(7.1)
Cash flow hedges	—	—	7.2	—	—	131.9	—	—	—	267.1	406.2	(1.9)
Taxation	—	—	(1.4)	—	—	(25.1)	—	—	—	(50.4)	(76.9)	4.8
Total comprehensive income/(loss)	9.7	30.0	5.8	119.7	—	200.0	20.8	64.7	(57.8)	198.9	591.8	(241.1)
SSE share of profit (based on % equity)	4.8	15.0	—	60.0	—	37.3	10.4	32.5	(29.0)	(20.3)	110.7	(81.0)
Dividends paid to shareholders	—	29.2	—	105.9	—	183.2	21.7	47.5	4.4	—	391.9	—
Non-current assets	105.8	194.2	177.3	599.5	2,253.8	2,018.7	186.3	350.1	445.5	3,716.5	10,047.7	—
Current assets	58.0	39.7	4.6	110.8	6.1	44.0	23.7	52.6	79.4	41.4	460.3	—
Cash and cash equivalents	29.0	21.5	4.9	69.9	73.7	130.7	13.8	47.5	20.0	93.7	504.7	—
Current liabilities	(4.4)	(38.2)	(7.2)	(16.9)	(151.1)	(167.3)	(4.2)	(18.1)	(145.0)	(200.9)	(753.3)	—
Non-current liabilities	(64.8)	(100.4)	(146.9)	(429.2)	(2,129.3)	(1,892.8)	(135.5)	(253.5)	(278.4)	(3,402.9)	(8,833.7)	—
Net assets	123.6	116.8	32.7	334.1	53.2	133.3	84.1	178.6	121.5	247.8	1,425.7	—
Group equity interest	50%	50%	50%	50.1%	49%	40%	50.1%	50.1%	50%	—	—	—
Net assets	123.6	116.8	32.7	334.1	53.2	133.3	84.1	178.6	121.5	247.8	1,425.7	—
Group's share of ownership interest	61.8	58.4	16.4	167.4	26.1	53.4	42.1	89.5	60.7	99.4	675.2	—
Other adjustments	(11.7)	0.8	56.5	25.2	220.2	(53.4)	69.2	224.4	(5.4)	38.5	564.3	—
Carrying value of group's equity interest	50.1	59.2	72.9	192.6	246.3	—	111.3	313.9	55.3	137.9	1,239.5	—

Accompanying information continued

A4. Joint ventures and associates continued

	Seabank Power Limited 2021 £m	Marchwood Power Limited 2021 £m	Multifuel Energy Limited 2021 £m	Clyde Windfarm (Scotland) Limited 2021 £m	Walney (UK) Offshore Windfarms Limited 2021 £m	Batrice Offshore Windfarm Limited 2021 £m	Dunmaglass Wind Farm Limited 2021 £m	Stronelaig Wind Farm Limited 2021 £m	Neos Networks Limited 2021 £m	Other 2021 £m	Total continuing operations 2021 £m	SGN discontinued operation 2021 £m
Revenue	144.6	88.0	53.7	135.7	57.8	87.5	26.7	51.0	133.2	65.5	843.7	1,235.4
Other income	–	–	–	–	–	256.2	–	–	–	–	256.2	–
Depreciation and amortisation	(11.6)	(2.2)	(17.9)	(29.4)	(22.9)	(89.0)	(7.8)	(13.9)	(70.6)	(38.7)	(304.0)	(184.7)
Other operating costs	(115.9)	(47.6)	(9.0)	(37.5)	(27.5)	(74.6)	(6.4)	(18.6)	(71.8)	(16.6)	(425.5)	(531.7)
Operating profit	17.1	38.2	26.8	68.8	7.4	180.1	12.5	18.5	(9.2)	10.2	370.4	519.0
Interest expense	(0.2)	(7.7)	(18.9)	(17.9)	(1.1)	(75.2)	(6.1)	(12.3)	(22.6)	(24.1)	186.1	(189.3)
Profit before tax	16.9	30.5	7.9	50.9	6.3	104.9	6.4	6.2	(31.8)	(13.9)	184.3	329.7
Corporation tax	(3.9)	(6.8)	(1.6)	(11.5)	(1.2)	(23.2)	(1.6)	(1.8)	–	(1.3)	(52.9)	(63.9)
Profit after tax	13.0	23.7	6.3	39.4	5.1	81.7	4.8	4.4	(31.8)	(15.2)	131.4	265.8
Recognised in other comprehensive income	–	–	–	–	–	–	–	–	–	–	–	–
Actuarial gain on retirement benefit schemes	–	–	–	–	–	–	–	–	–	–	–	(68.1)
Taxation	–	–	–	–	–	–	–	–	–	–	–	13.3
Cash flow hedges	–	–	–	–	–	75.1	–	–	–	(13.7)	61.4	17.4
Taxation	–	–	–	–	–	(14.3)	–	–	–	1.7	(12.6)	(3.3)
–	–	–	–	–	–	60.8	–	–	–	(12.0)	48.8	(40.7)
Total comprehensive income/(loss)	13.0	23.7	6.3	39.4	5.1	142.5	4.8	4.4	(31.8)	(27.2)	180.2	225.1
SSE share of profit (based on % equity)	6.5	11.9	3.2	19.7	1.3	32.7	2.4	2.2	(15.9)	(18.5)	45.5	88.6
Dividends paid to shareholders	17.0	16.6	–	66.1	–	56.4	15.8	28.9	4.4	–	205.2	38.3
Non-current assets	107.5	228.5	–	612.0	–	1,994.1	191.4	353.9	535.1	2,885.8	6,908.3	7,901.3
Current assets	39.7	36.6	–	53.6	–	478.7	9.8	20.7	67.9	111.6	818.6	215.5
Cash and cash equivalents	25.7	3.9	–	35.5	–	95.2	5.1	22.7	18.5	123.8	330.4	283.6
Current liabilities	(5.7)	(26.5)	–	(7.7)	–	(495.3)	(1.7)	(14.9)	(145.8)	(246.5)	(944.1)	(441.8)
Non-current liabilities	(37.3)	(128.7)	–	(410.8)	–	(2,111.0)	(132.0)	(244.9)	(216.0)	(2,869.6)	(6,150.3)	(6,114.9)
Net assets	129.9	113.8	–	282.6	–	(38.3)	72.6	137.5	259.7	5.1	962.9	1,843.7
Group equity interest	50%	50%	–	50.1%	–	40%	50.1%	50.1%	50%	–	–	33.3%
Net assets	129.9	113.8	–	282.6	–	(38.3)	72.6	137.5	259.7	5.1	962.9	1,843.7
Group's share of ownership interest	65.0	56.9	–	141.6	–	(15.3)	36.3	68.9	129.9	–	483.3	614.5
Other adjustments	(19.7)	1.9	–	49.0	–	(6.3)	80.1	250.4	61.3	118.0	534.7	11.0
Carrying value of group's equity interest	45.3	58.8	–	190.6	–	(21.6)	116.4	319.3	191.2	118.0	1,018.0	625.5

In addition to the above at 31 March 2022, the Group was owed the following loans from its principal joint ventures: Marchwood Power Limited £39.1m (2021: £47.1m); Clyde Windfarm (Scotland) Ltd £127.1m (2021: £127.1m); Dunmaglass Wind Farm Limited £46.5m (2021: £46.5m); Stronelaig Wind Farm Limited £88.2m (2021: £88.2m) Neos Networks Limited £90.2m (2021: £60.9m); Seagreen Offshore Windfarm Ltd £271.7m (2021: £4.1m) and Slough Multifuel Limited £62.5m (2021: £nil).

This represents 99% (2021: 86.2%) of the loans provided to equity-accounted joint ventures and associates.

Doggerbank A, B & C joint ventures are predominately project financed in the earlier phases of construction. The carrying value of the equity and debt investment in these joint ventures is £97.5m at 31 March 2022.

A5. Related party transactions

The immediate parent and ultimate controlling party of the Group is SSE plc (incorporated in Scotland). Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

Trading transactions

The following transactions took place during the year between the Group and entities which are related to the Group, but which are not members of the Group. Related parties are defined as those in which the Group has control, joint control or significant influence over.

	2022 Sale of goods and services £m	2022 Purchase of goods and services £m	2022 Amounts owed from £m	2022 Amounts owed to £m	2021 Sale of goods and services £m	2021 Purchase of goods and services £m	2021 Amounts owed from £m	2021 Amounts owed to £m
Joint ventures:								
Seabank Power Ltd	51.9	(49.1)	—	—	75.2	(86.7)	0.1	(16.8)
Marchwood Power Ltd	104.3	(229.3)	—	(7.6)	45.3	(142.3)	0.6	(11.2)
Scotia Gas Networks Ltd	42.9	(10.1)	—	—	29.9	(13.1)	17.3	(1.1)
Clyde Windfarm (Scotland) Ltd	4.6	(259.3)	0.1	(74.2)	4.3	(116.1)	0.1	(38.2)
Beatrice Offshore Windfarm Ltd	5.0	(163.7)	0.9	(20.6)	5.3	(43.7)	1.1	(5.3)
Stronelaig Windfarm Ltd	2.1	(138.5)	—	(36.7)	1.9	(44.7)	—	(17.1)
Dunmaglass Windfarm Ltd	1.0	(57.9)	—	(13.7)	0.9	(22.2)	—	(6.6)
Neos Networks Ltd	31.2	(27.1)	52.2	(13.8)	38.0	(26.3)	41.4	(1.4)
Other Joint Ventures	54.3	(196.3)	15.8	(23.8)	22.5	(193.8)	54.8	(1.9)
Associates	—	—	—	—	—	(16.2)	—	—

The transactions with Seabank Power Limited and Marchwood Power Limited relate to the contracts for the provision of energy or the tolling of energy under power purchase arrangements. Scotia Gas Networks Limited ('SGN') operates the gas distribution networks in Scotland and the South of England. The Group's gas supply activity incurs gas distribution charges while the Group also provides services to SGN in the form of a management services agreement for corporate and shared services. On 2 August 2021, the Group announced it had agreed to sell its 33.3% stake in SGN. The Group assessed that the investment met the criteria to be classified as held for sale on 11 June 2021 when an Exclusivity Agreement was signed by the acquiring consortium. Accordingly, from 11 June 2021 the Group ceased to equity account for SGN. On 22 March 2022 the Group completed its disposal of its interest in SGN.

The amounts outstanding are trading balances, are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties. Aggregate capital loans to joint ventures and associates are shown in note 16.

A6. Financial risk management

This note presents information about the fair value of the Group's financial instruments, the Group's exposure to the risks associated with those instruments, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further qualitative disclosures are included throughout these consolidated financial statements.

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Commodity risk
- Currency risk
- Interest rate risk

The Board has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's policies for risk management are established to identify the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Exposure to commodity, currency and interest rate risks arise in the normal course of the Group's business and derivative financial instruments are entered into to hedge exposure to these risks.

Accompanying information continued

A6. Financial risk management continued

SSE has a Group wide risk committee reporting to the Group Executive Committee, which is responsible for reviewing the strategic, market, credit, operational and liquidity risks and exposures that arise from the Group's operating activities. In addition, the Group has two dedicated Energy Market risk committees reporting to the Group Executive Committee and Board respectively, with the Group Executive Sub-committee chaired by the Group Finance Director and the Board Sub-committee chaired by Non-Executive Director Tony Cocker. These Committees oversee the Group's management of its energy market exposures, including its approach to hedging.

During the year ended 31 March 2022, the Group was exposed to exceptional volatility in energy markets impacting the primary commodities to which it is exposed (Gas, Carbon and Power). The Group's approach to hedging, and the diversity of its energy portfolios (across Wind, Hydro, Thermal and Customers) has provided significant mitigation of these exposures. Exceptional rises and volatility in commodity prices have created a particular challenge in managing counter-party credit and collateral exposures and requirements, to ensure continued access to energy markets to enable hedging and prompt optimisation of SSE's energy portfolios. This market access has been successfully maintained.

Exposure to the commodity, currency and interest rate risks noted arise in the normal course of the Group's business and derivative financial instruments are entered into to hedge exposure to these risks. The objectives and policies for holding or issuing financial instruments and similar contracts, and the strategies for achieving those objectives that have been followed during the year are explained below.

A6.1 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations.

Credit risk arising from the Group's normal commercial operations is controlled by individual business units operating in accordance with Group policies and procedures. Generally, for significant contracts, individual business units enter into contracts or agreements with counterparties having investment grade credit ratings only, or where suitable collateral or other security has been provided. Counterparty credit validation is undertaken prior to contractual commitment.

Credit risk management for the Group's SSEN Transmission and SSEN Distribution businesses is performed in accordance with industry standards as set out by the Regulator and is financially controlled by the individual business units. The Group's greatest credit risks lie with the operations of the Customers business, the wholesale procurement activities conducted by Energy Portfolio Management ('EPM') under a trust arrangement and the activities carried out by the Group's Treasury function. In all cases, specific credit risk controls that match the risk profile of those activities are applied. Exposure to credit risk in the retail supply of electricity and gas to end user customers arises from the potential of a customer defaulting on their invoiced payables. The Group exposure to retail supply customers is limited to customers of the Group's Airtricity business. The creditworthiness of these customers is reviewed from a variety of internal and external information. The financial strength and creditworthiness of business customers is assessed prior to commencing, and for the duration of, their contract of supply.

Exposure to credit risk in the procurement of wholesale energy and fuel is managed by reference to agreed transaction credit limits which are determined by whether the counterparty:

- holds an investment grade credit rating; or
- can be assessed as adequately creditworthy in accordance with internal credit rules using information from other external credit agencies; or
- can provide a guarantee from an investment grade rated entity or post suitable collateral or provide other acceptable assurances in accordance with group procedures where they have failed to meet the above conditions; or
- can be allocated a non-standard credit limit approved by the relevant Risk or Treasury Committee within its authorised limits as delegated by the Group Board.

Credit support clauses and Master Netting Agreements are typically included or entered into in order to mitigate the impact to the Group against counterparty failure or non-delivery. As part of its normal activities, EPM transacts significant volumes of commodity derivative products through cleared exchanges to mitigate credit risk. Such exchanges are subject to strict regulation by the UK Financial Conduct Authority (FCA) and participants in these exchanges are obliged to meet rigorous capital adequacy requirements.

Individual counterparty credit exposures are monitored regularly and are subject to approved limits. At 31 March 2022, EPM had pledged £545.9m (2021: £201.8m) of cash collateral and letters of credit and had received £95.8m (2021: £80.1m) of cash collateral and letters of credit principally to reduce exposures on credit risk.

Bank credit exposures, which are monitored and reported on daily, are calculated on a mark-to-market basis and adjusted for future volatility and probability of default. Any issues relating to these credit exposures are presented for discussion and review by the Tax and Treasury Committee.

Cash and cash equivalents comprise cash in hand and deposits which are readily convertible to cash. These are subject to insignificant risk of change in value or credit risk.

Derivative financial instruments are entered into to cover the Group's market risks – commodity risk, interest rate risk, currency risk – and are consequently covered elsewhere in this note.

Trade receivables represent the most significant exposure to credit risk and are stated after an allowance for impairment.

A6.2 Concentrations of risk

Trade receivables recorded by reported segment held at the 31 March were:

	2022 £m	2021 £m
Continuing operations		
SSEN Transmission	7.9	7.8
SSEN Distribution	122.3	96.2
SSE Renewables	84.1	77.3
SSE Thermal	21.2	7.0
Gas Storage	1.4	1.4
Energy Customer Solutions		
Business Energy	231.3	199.3
SSE Airtricity	231.6	228.8
Distributed Energy	38.4	5.3
EPM	679.3	192.4
Corporate Unallocated	16.4	16.7
Total continuing operations	1,433.9	832.2
Held for sale assets and discontinued operations		
Gas Production	–	7.7
Contracting and Rail	–	70.2
Total discontinued operations	–	77.9
Total SSE Group	1,433.9	910.1

The Energy Customers Solution segment (Business Energy and SSE Airtricity) accounts for 32.3% (2021: 51.4%) of the Group's trade receivables from continuing operations. Trade receivables associated with the Group's 1.2 million electricity and gas customers (from continuing operations) are recorded in this segment. The Group also has significant receivables associated with its EPM activities which are generally settled within two to four weeks from invoicing. The Group's exposure to credit risk is therefore subject to diversification with no exposure to individual retail customers totalling >10% of trade receivables. The largest customer balance, due from an EPM customer (also an EPM supplier), is 7% (2021: 4%) of the total trade receivables.

The ageing of trade receivables at the reporting date was:

	2022 £m	2021 £m
Not past due	1,167.7	812.0
Past due but not individually impaired:		
0 – 30 days	185.3	58.2
31 – 90 days	60.8	27.9
Over 90 days	98.3	89.8
Less: allowance for impairment	1,512.1 (78.2)	987.9 (77.8)
Net trade receivables	1,433.9	910.1

The Group has past due debt which has not had an impairment allowance set aside to cover potential credit losses. The Group has certain procedures to pursue customers in significant arrears and believes its impairment policy in relation to such balances is appropriate.

The Group has other receivables which are financial assets totalling £4.9m (2021: £3.8m).

Accompanying information continued

A6. Financial risk management continued

A6.2 Concentrations of risk continued

The movement in the allowance for impairment of trade receivables (continuing operations only) was:

	2022 £m	2021 £m
Balance at 1 April	77.1	77.7
(Decrease)/increase in allowance for impairment	(16.8)	17.6
Impairment losses recognised	17.9	(17.5)
Transfer to held for sale	—	(0.7)
Balance at 31 March	78.2	77.1

At the end of each reporting period a review of the allowance for impairment of trade receivables is performed. Trade receivables do not contain a significant financing element, and therefore expected credit losses are measured using the simplified approach permitted by IFRS 9, which requires lifetime expected credit losses to be recognised on initial recognition. A provision matrix is utilised to estimate the lifetime expected credit losses, based on the age, status and risk of each class of receivable, which is updated periodically to include changes to both forward-looking and historical inputs.

A6.3 Liquidity risk and Going Concern

Liquidity risk, the risk that the Group will have insufficient funds to meet its liabilities, is managed by the Group's Treasury function. The Group can be exposed to significant movements in its liquidity position due to changes in commodity prices, working capital requirements, the impact of the seasonal nature of the business and phasing of its capital investment and recycling programmes.

Treasury is responsible for managing the banking and liquidity requirements of the Group, risk management relating to interest rate and foreign exchange exposures, and for managing the credit risk relating to the banking counterparties with which it transacts. Short term liquidity is reviewed daily by Treasury, while the longer term liquidity position is reviewed on a regular basis by the Board. The department's operations are governed by policies determined by the Board and any breaches of these policies are reported to the Tax and Treasury Committee and Audit Committee.

In relation to the Group's liquidity risk, the Group's policy is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

During the year, the Group's internal approach to managing liquidity was to seek to ensure that the Group had available committed borrowings and facilities equal to at least 105% of forecast borrowings over a rolling 6 month period.

The Group uses cash flow forecasts to monitor its ongoing borrowing requirements. Typically, the Group will fund any short term borrowing positions by issuing commercial paper or borrowing from committed and uncommitted bank lines and will invest in money market funds when it has a cash surplus. Details of the Group's borrowings are disclosed at note 21. In addition to the borrowing facilities listed at note 21.3, the Group has £100m of uncommitted bank lines and a £15m overdraft facility.

The refinancing requirement in the 22/23 financial year is £2.1bn, being the \$255m (£163m) US Private Placement maturing 19 April 2022; £507m of short term Commercial Paper that matures over April and May; £300m Eurobond maturing 22 September 2022; £150m of EIB loans maturing in October 2022. On 22 April 2022, subsequent to the balance sheet date, the Group announced it would redeem its \$900m and £300m debt accounted hybrid securities on 16 June 2022. The redemption of these instruments has been included in the assumed refinancing requirement within the going concern assessment. The directors are confident in the ability of the Group to maintain a funding level above 105% for the going concern assessment period based on the strong credit standing and borrowing history of the Group for both fixed debt and commercial paper, as discussed more fully below.

Given the committed bank facilities of £1.5bn maintained by the Group and the current commercial paper market conditions, the Directors have concluded that both the Group and SSE plc as parent company have sufficient headroom to continue as a going concern. In coming to this conclusion, the Directors have taken into account the Group's credit rating and the successful issuance of £12.8bn of medium to long term debt and Hybrid equity since February 2012, including £1.2bn in March and April 2022 (being £350m dual tranche 10 and 15 year private placement and €1bn (£830m) NC6 equity accounted Hybrid). The Group's period of Going Concern assessment is performed to 31 December 2023, 21 months from the balance sheet date, which is at least 12 months from the filing deadline of its subsidiary companies. As well as taking account of the factors noted, the Going Concern conclusion is arrived at after applying stress testing sensitivities to the Group's cash flow and funding projections including removal of proceeds from unconfirmed future divestments, negative and positive sensitivities on operating cash flows and uncommitted capex and other adjustments. The Group has also considered its obligations under its debt covenants. There have been no breaches of covenant in the year and the Group's projections support the expectation that there will be no breach of covenants over the period to 31 December 2023. The statement of going concern is included in the Audit Committee Report.

Treasury also manage the Group's interaction with its relationship banks (defined as those banks that support the Group's financing activities through their ongoing participation in the committed lending facilities that are maintained by the Group). These are each allocated financial limits, subject to the maintenance of a minimum credit rating of investment grade or better allocated by a recognised major ratings group. In respect of short-term cash management, counterparties are subject to review and approval according to defined criteria.

As at 31 March 2022, the value of outstanding cash collateral posted in respect of mark-to-market related margin calls on exchange traded positions was (£74.7m) (2021: £37.1m).

The contractual cash flows shown in the following tables are the contractual undiscounted cashflows under the relevant financial instruments. Where the contractual cashflows are variable based on a price, foreign exchange rate or index in the future, the contractual cashflows in the following tables have been determined with reference to the relevant price, foreign exchange rate, interest rate or index as at the balance sheet date. In determining the interest element of contractual cashflows in cases where the Group has a choice as to the length of interest calculation periods and the interest rate that applies varies with the period selected, the contractual cashflows have been calculated assuming the Group selects the shortest available interest calculation periods. Where the holder of an instrument has a choice of when to redeem, the amounts in the following tables are on the assumption the holder redeems at the earliest opportunity.

The following are the undiscounted contractual maturities of financial liabilities, including interest and excluding the impact of netting agreements:

Liquidity Risk	2022 Carrying value £m	2022 Contractual cash flows £m	2022 0-12 months £m	2022 1-2 years £m	2022 2-5 years £m	2022 >5 years £m
Financial Liabilities						
Loans and Borrowings						
Commercial paper and cash advances	506.1	(507.1)	(507.1)	—	—	—
Loans – floating	200.0	(209.7)	(1.6)	(1.6)	(4.9)	(201.6)
Loans – fixed	1,508.1	(1,913.7)	(358.9)	(240.5)	(905.4)	(408.9)
Unsecured bonds – fixed	6,425.4	(8,392.3)	(1,529.7)	(681.1)	(1,985.5)	(4,196.0)
Fair value adjustment	31.6	—	—	—	—	—
	8,671.2	(11,022.8)	(2,397.3)	(923.2)	(2,895.8)	(4,806.5)
Lease liabilities	393.5	(581.2)	(88.7)	(61.7)	(162.0)	(268.8)
	9,064.7	(11,604.0)	(2,486.0)	(984.9)	(3,057.8)	(5,075.3)
Derivative Financial Liabilities						
Operating derivatives designated at fair value	828.7	(3,079.0)	(2,790.0)	(178.0)	(111.0)	—
Interest rate swaps used for hedging	129.2	(129.0)	(55.3)	(19.0)	43.3	(98.0)
Interest rate swaps designated at fair value	246.2	(246.2)	(16.1)	(15.6)	(46.0)	(168.5)
Forward exchange contracts held for hedging	43.4	(521.8)	(347.9)	(137.2)	(36.7)	—
Forward exchange contracts designated at fair value	3.6	(208.2)	(194.4)	(13.8)	—	—
	1,251.1	(4,184.2)	(3,403.7)	(363.6)	(150.4)	(266.5)
Other financial liabilities						
Trade payables	919.7	(919.7)	(919.7)	—	—	—
	919.7	(919.7)	(919.7)	—	—	—
Total	11,235.5	(16,707.9)	(6,809.4)	(1,348.5)	(3,208.2)	(5,341.8)
Derivative Financial Assets						
Financing derivatives	(182.9)	441.3	382.4	41.6	15.6	1.7
Operating derivatives designated at fair value	(3,130.5)	3,057.3	2,597.6	311.1	148.6	—
	(3,313.4)	3,498.6	2,980.0	352.7	164.2	1.7
Net total (i)	7,922.1	(13,209.3)	(3,829.4)	(995.8)	(3,044.0)	(5,340.1)

Accompanying information continued

A6. Financial risk management continued

A6.3 Liquidity risk and Going Concern continued

Liquidity Risk	2021 Carrying value £m	2021 Contractual cash flows £m	2021 0-12 months £m	2021 1-2 years £m	2021 2-5 years £m	2021 > 5 years £m
Financial Liabilities						
Loans and Borrowings						
Loans – floating	350.0	(362.0)	(152.2)	(1.6)	(4.9)	(203.3)
Loans – fixed	1,496.8	(1,937.3)	(47.9)	(359.0)	(519.2)	(1,011.2)
Unsecured bonds – fixed	7,139.6	(9,344.5)	(956.3)	(1,534.4)	(1,935.6)	(4,918.2)
Fair value adjustment	3.2	–	–	–	–	–
	8,989.6	(11,643.8)	(1,156.4)	(1,895.0)	(2,459.7)	(6,132.7)
Lease liabilities	421.0	(622.0)	(92.7)	(86.2)	(175.9)	(267.2)
	9,410.6	(12,265.8)	(1,249.1)	(1,981.2)	(2,635.6)	(6,399.9)
Derivative Financial Liabilities						
Operating derivatives designated at fair value	138.1	(1,590.1)	(1,475.5)	(81.3)	(33.3)	–
Interest rate swaps used for hedging	164.6	(165.3)	(63.3)	(38.1)	(42.9)	(21.0)
Interest rate swaps designated at fair value	325.1	(328.1)	(20.0)	(20.0)	(57.1)	(231.0)
Forward exchange contracts held for hedging	52.0	(890.1)	(292.7)	(430.7)	(166.7)	–
Forward exchange contracts designated at fair value	11.0	(274.7)	(262.8)	(11.4)	(0.5)	–
	690.8	(3,248.3)	(2,114.3)	(581.5)	(300.5)	(252.0)
Other financial liabilities						
Trade payables	433.3	(433.3)	(433.3)	–	–	–
	433.3	(433.3)	(433.3)	–	–	–
Total	10,534.7	(15,947.4)	(3,796.7)	(2,562.7)	(2,936.1)	(6,651.9)
Derivative Financial Assets						
Financing derivatives	(240.9)	697.7	581.0	85.8	30.7	0.2
Operating derivatives designated at fair value	(344.7)	2,250.6	1,932.8	213.5	104.3	–
	(585.6)	2,948.3	2,513.8	299.3	135.0	0.2
Net total (i)	9,949.1	(12,999.1)	(1,282.9)	(2,263.4)	(2,801.1)	(6,651.7)

- (i) The Group believes the liquidity risk associated with out-of-the-money operating derivative contracts needs to be considered in conjunction with the profile of payments or receipts arising from derivative financial assets. It should be noted that cash flows associated with future energy sales and commodity contracts which are not IFRS 9 financial instruments are not included in this analysis, which is prepared in accordance with IFRS 7 "Financial Instruments: Disclosures".

A6.4 Commodity risk

The Group's Energy Portfolio Management ('EPM') business implements the hedging policy through trading in the commodity markets and manages the requirement for the delivery of the Group's physical commodity needs as part of its normal course of business. The risk management activity carried out by EPM arises from the Group's requirement to source gas, electricity or other commodities such as renewable obligation certificates for Business Energy and SSE Airticity, and to procure fuel and other commodities and provide a route-to-market for SSE Renewables, SSE Thermal, Gas Storage and the discontinued Gas Production business.

Current hedging approach

The Group has traded in three principal commodities during the year, as well as the spreads between two or more commodity prices: power (baseload and other products); gas; and carbon (emissions allowances). Each commodity has different liquidity characteristics, which impacts on the degree of hedging possible. Similarly, each of the Group's assets carries different exposures to the commodity market and thus requires a different approach to hedging. As such, the Group's current hedging approach varies by each class of asset as follows:

Asset class	Minimum hedge target	Principal commodity exposures
GB Wind	Target to hedge of less than 100% of anticipated wind energy output for the coming 12 months. From May 2021, this has been at least 90%.	Power, Gas, Carbon
Hydro	85% of forecast generation 12 months in advance of delivery.	Power, Gas, Carbon
GB Thermal	100% of expected output 6 months in advance of delivery, progressively established over the preceding 24 months.	Power, Gas, Carbon
Gas Storage	The annual auction to offer gas storage capacity contracts from Atwick for the 2020/21 (and 21/22) financial year resulted in no third party contracts being secured. The assets were commercially operated throughout the year and the business managed its exposure to changes in the spread between summer and winter prices, market volatility and plant availability.	Gas
Business Energy	Sales to contract customers are 100% hedged: at point of sale for fixed, upon instruction for flexi and on a rolling basis for tariff customers.	Power, Gas, Carbon

However, there are three principal areas where significant variations in earnings cannot be fully mitigated through hedging:

- The impact of the weather on the volume of electricity produced from renewable sources;
- The impact of operational matters such as unplanned outages; and
- The ability of flexible thermal power stations to earn extrinsic income by providing services to the electricity system and by responding to shorter-term electricity market conditions.

Hedging is carried out by each asset class trading internally with EPM to affect these hedges and EPM trading onwards with external counterparties. EPM is only able to accept internal trades when there is sufficient liquidity to offset them in the external market or they can be offset with internal trades from other asset classes. In this way, the commodity risks to which EPM is individually exposed, are minimised.

The volumetric extent to which assets are hedged are reported monthly, and to the EMRC on at least a quarterly basis. Variations to the hedging approach above will be required as markets and other factors (such as asset disposals) change. The EMRC also receives reporting on credit risk, other risk measures, and market liquidity in assessing whether any variations to the hedging approach are required.

The Group measures and manages the Commodity Risk associated with the financial and non-financial commodity contracts it is exposed to. However, only certain commodity contracts within the Group constitute financial instruments under IFRS 9. As a result, it is only the fair value of IFRS 9 financial instruments which represents the exposure of the Group's commodity price risk under IFRS 7. This is a consequence of the Group's accounting policy which stipulates that commodity contracts which are designated as financial instruments under IFRS 9 should be accounted for on a fair value basis with changes in fair value reflected in profit or equity. Conversely, commodity contracts that are not designated as financial instruments under IFRS 9 will be accounted for as 'own use' contracts. As fair value changes in own use contracts are not reflected through profit or equity, these do not represent the IFRS 7 commodity price risk. Furthermore, other physical contracts can be treated as the hedging instrument in documented cash flow hedging relationships where the hedged item is the forecast future purchase requirement to meet production or customer demand. The accounting policies associated with financial instruments are explained in the Accompanying Information section [A1](#).

Sensitivity analysis

The Group's exposure to commodity price risk according to IFRS 7 is measured by reference to the Group's IFRS 9 commodity contracts. IFRS 7 requires disclosure of a sensitivity analysis for market risks that is intended to illustrate the sensitivity of the Group's financial position and performance to changes in market variables impacting upon the fair value or cash flows associated with the Group's financial instruments.

Therefore, the sensitivity analysis provided discloses the effect on profit or loss and equity at the balance sheet date assuming that a reasonably possible change in the relevant commodity price had occurred and been applied to the risk exposures in existence at that date. The reasonably possible changes in commodity prices used in the sensitivity analysis were determined based on calculated or implied volatilities where available, or historical data.

Accompanying information continued

A6. Financial risk management continued

A6.4 Commodity risk continued

The sensitivity analysis has been calculated on the basis that the proportion of commodity contracts that are IFRS 9 financial instruments remains consistent with those at that point. Excluded from this analysis are all commodity contracts that are not financial instruments under IFRS 9.

	2022		2021	
	Base Price (i)	Reasonably possible increase/decrease in variable	Base Price (i)	Reasonably possible increase/decrease in variable
Commodity prices				
UK gas (p/therm)	313	+/-190	44	+/-20
UK power (£/MWh)	250	+/-119	53	+/-24
UK carbon (£/tonne)	76	+/-73	72	+/-11
EU emissions (€/tonne)	79	+/-76	43	+/-11
UK oil (US\$/bbl)	260	+/-145	59	+/-11
IRL power (€/MWh)	310	+/-120	53	+/-24

- (i) The base price represents the average forward market price over the duration of the active market curve used to calculate the sensitivity analysis. The volatility assumptions used to determine the reasonably possible increase/decrease in market prices have been determined based on a calculation by SSE EPM and models simulations and calibrates the volatility assumption using a look-back on market prices over the previous five year period.

The impacts of reasonably possible changes in commodity prices on profit after taxation based on the rationale described are as follows:

	2022 Impact on profit and equity (£m)	2021 Impact on profit and equity (£m)
Incremental profit/(loss)		
Commodity prices combined – increase	2,349.8	428.5
Commodity prices combined – decrease	(2,349.8)	(428.5)

The sensitivity analysis provided is hypothetical and is based on the exposure to energy-related commodities, and their corresponding valuation under IFRS 9, that the Group has at each period end. This analysis should be used with caution as the impacts disclosed are not necessarily indicative of the actual impacts that would be experienced given it does not consider all interrelationships, consequences and effects of such a change in those prices.

A6.5 Currency risk

The Group publishes its consolidated financial statements in Sterling but also conducts business in foreign currencies. As a result, it is subject to foreign currency exchange risk arising from exchange rate movements which will be reflected in the Group's transaction costs or in the underlying foreign currency assets of its foreign operations.

The Group's policy is to use forward contracts, swaps and options to manage its exposures to foreign exchange risk. All such exposures are transactional in nature, and relate primarily to procurement contracts, commodity purchasing and related freight requirements, commodity hedging, long term plant servicing and maintenance agreements, and the purchase and sale of carbon emission certificates. The policy is to seek to hedge 100% of its currency requirements arising under all committed contracts excepting commodity hedge transactions, the requirements for which are significantly less predictable. The policy for these latter transactions is to assess the Group's requirements on a rolling basis and to enter into cover contracts as appropriate.

The Group has foreign subsidiary operations with significant Euro-denominated net assets. The Group's policy is to hedge its net investment in its foreign operations by ensuring the net assets whose functional currency cash flows are denominated in Euros are matched by borrowings in Euros. For the acquired net assets whose functional cash flows are in Sterling, the Group will ensure Sterling denominated borrowings are in place to minimise currency risk.

Significant exposures are reported to, and discussed by, the Tax and Treasury Committee on an ongoing basis and additionally form part of the bi-annual Treasury report to the Audit Committee.

At the balance sheet date, the total nominal value of outstanding forward foreign exchange contracts that the Group has committed to is:

	2022 £m	2021 £m
Forward foreign exchange contracts	4,176.4	4,395.5

The Group's exposure to foreign currency risk was as follows:

	2022				2021		
	SEK (million)	€ (million)	\$ (million)	CHF (million)	SEK (million)	€ (million)	\$ (million)
Loans and borrowings	–	1,719.0	3,625.0	–	–	4,125.0	1,719.0
Purchase and commodity contract commitments	1,694.8	17.8	713.3	58.3	2,383.4	518.1	27.9
Gross exposure	1,694.8	1,736.8	4,338.3	58.3	2,383.4	4,643.1	1,746.9
Forward exchange/ swap contracts	1,694.8	1,736.8	3,163.8	58.3	2,383.4	3,443.0	1,746.9
Net exposure (in currency)	–	–	1,174.5	–	–	1,200.1	–
Net exposure (in £m)	–	–	990.7	–	–	1,021.8	–

This represents the net exposure to foreign currencies, reported in pounds Sterling, and arising from all Group activities. All sensitivity analysis has been prepared on the basis of the relative proportions of instruments in foreign currencies being consistent as at the balance sheet date. This includes only monetary assets and liabilities denominated in a currency other than Sterling and excludes the translation of the net assets of foreign operations but not the corresponding impact of the net investment hedge.

The sensitivity analysis is indicative only and it should be noted that the Group's exposure to such market rate changes is continually changing. The calculations are based on linear extrapolations of rate changes which may not reflect the actual result which would impact upon the Group.

A 10% change in foreign currency exchange rates would have had the following impact on profit after taxation, based on the assumptions presented above:

	Equity		Income Statement	
	At 31 March 2022 £m	At 31 March 2021 £m	At 31 March 2022 £m	At 31 March 2021 £m
US Dollars	–	–	–	–
Euro	89.2	90.0	–	1.9
SEK	–	–	–	–
CHF	–	–	–	–
	89.2	90.0	–	1.9

The impact of a decrease in rates would be an identical reduction in the annual charge.

A6.6 Interest rate risk

Interest rate risk derives from the Group's exposure to changes in the value of an asset or liability or future cash flows through changes in interest rates.

The Group's policy is to manage this risk by stipulating that a minimum of 50% of Group borrowings be subject to fixed rates of interest, either directly through the debt instruments themselves or through the use of derivative financial instruments. The floating rate borrowings are provided by banks including the European Investment Bank (EIB). Such instruments include interest rate swaps and options, forward rate agreements and, in the case of debt raised in currencies other than Sterling, cross currency swaps. These practices serve to reduce the volatility of the Group's financial performance.

Although interest rate derivatives are primarily used to hedge risk relating to current borrowings, under certain circumstances they may also be used to hedge future borrowings. Any such pre-hedging is unwound at the time of pricing the underlying debt, either through cash settlement on a net present value basis or by transacting offsetting trades. The floating rate borrowings mainly comprise cash advances from the European Investment Bank (EIB), however the Group is currently carrying a surplus cash position of £1.0bn.

The impact of a change in interest rates is dependent on the specific details of the financial asset or liability in question. Changes in fixed rate financial assets and liabilities, which account for the majority of cash, loans and borrowings, are not measured at fair value through the income statement. In addition to this, changes to fixed-to-floating hedging instruments which are recorded under cash flow hedge accounting also do not impact the income statement. Changes in variable rate instruments and hedging instruments and hedged items recorded under fair value hedge accounting are recorded through the income statement. The exposure measured is therefore based on variable rate debt and instruments.

Accompanying information continued

A6. Financial risk management continued

A6.6 Interest rate risk continued

The net exposure to interest rates at the balance sheet date can be summarised thus:

	2022 Carrying amount £m	2021 Carrying amount £m
Interest bearing/earning assets and liabilities:		
– fixed	(8,543.6)	(9,804.2)
– floating	328.9	1,721.7
	(8,214.7)	(8,082.5)
Represented by:		
Cash and cash equivalents	1,049.3	1,600.2
Derivative financial liabilities	(199.3)	(272.1)
Loans and borrowings	(8,671.2)	(8,989.6)
Lease liabilities	(393.5)	(421.0)
	(8,214.7)	(8,082.5)

Following from this, the table below represents the expected impact of a change of 100 basis points in short term interest rates at the reporting date in relation to equity and income statement. The analysis assumes that all other variables, in particular foreign currency rates, remain constant. An increase in exchange rates would be a change to either the income statement or equity. The assessment is based on a revision of the fair value assumptions included in the calculated exposures in the previous table.

All sensitivity analysis has been prepared on the basis of the proportion of fixed to floating instruments being consistent as at the balance sheet date and is stated after the effect of taxation.

The sensitivity analysis is indicative only and it should be noted that the Group's exposure to such market rate changes is continually changing. The calculations are based on linear extrapolations of rate changes which may not reflect the actual result which would impact upon the Group.

	2022 £m	2021 £m
Income statement	2.5	(0.9)

The impact of a decrease in rates would be an equal reduction in the annual charge. There is no impact on equity as the analysis relates to the Group's net exposure at the balance sheet date. Contracts qualifying for hedge accounting are, by definition, part of the Group's covered position.

A7. Fair value of financial instruments

A7.1 Fair value of financial instruments within the group

The fair values of the primary financial assets and liabilities of the Group together with their carrying values are as follows:

	2022 Amortised cost (i) £m	2022 FVTPL/ FVTOCI (ii) £m	2022 Total carrying value £m	2022 Fair value £m	2021 Amortised cost (i) £m	2021 FVTPL/ FVTOCI (ii) £m	2021 Total carrying value £m	2021 Fair value £m
Financial assets								
Current								
Trade receivables	1,433.9	–	1,433.9	1,433.9	832.2	–	832.2	832.2
Other receivables	4.9	–	4.9	4.9	3.8	–	3.8	3.8
Cash collateral and other short term loans	83.8	–	83.8	83.8	2.7	–	2.7	2.7
Cash and cash equivalents	1,049.3	–	1,049.3	1,049.3	1,600.2	–	1,600.2	1,600.2
Derivative financial assets	–	2,941.8	2,941.8	2,941.8	–	470.9	470.9	470.9
	2,571.9	2,941.8	5,513.7	5,513.7	2,438.9	470.9	2,909.8	2,909.8
Non-current								
Unquoted equity investments	–	8.7	8.7	8.7	–	3.6	3.6	3.6
Loan note receivable	136.4	–	136.4	136.4	115.9	–	115.9	115.9
Loans to associates and jointly controlled entities	736.9	–	736.9	736.9	554.3	–	554.3	554.3
Derivative financial assets	–	371.7	371.7	371.7	–	114.7	114.7	114.7
	873.3	380.4	1,253.7	1,253.7	670.2	118.3	788.5	788.5
	3,445.2	3,322.2	6,767.4	6,767.4	3,109.1	589.2	3,698.3	3,698.3
Financial liabilities								
Current								
Trade payables	(919.7)	–	(919.7)	(919.7)	(433.3)	–	(433.3)	(433.3)
Outstanding liquid funds	(9.1)	–	(9.1)	(9.1)	(39.8)	–	(39.8)	(39.8)
Loans and borrowings	(1,118.7)	–	(1,118.7)	(1,162.4)	(864.7)	–	(864.7)	(880.2)
Lease liabilities	(72.1)	–	(72.1)	(72.1)	(72.9)	–	(72.9)	(72.9)
Derivative financial liabilities	–	(701.5)	(701.5)	(701.5)	–	(238.7)	(238.7)	(238.7)
	(2,119.6)	(701.5)	(2,821.1)	(2,864.8)	(1,410.7)	(238.7)	(1,649.4)	(1,664.9)
Non-current								
Loans and borrowings	(7,520.9)	(31.6)	(7,552.5)	(8,133.7)	(8,121.7)	(3.2)	(8,124.9)	(9,373.1)
Lease liabilities	(321.4)	–	(321.4)	(321.4)	(348.1)	–	(348.1)	(348.1)
Derivative financial liabilities	–	(549.6)	(549.6)	(549.6)	–	(452.1)	(452.1)	(452.1)
	(7,842.3)	(581.2)	(8,423.5)	(9,004.7)	(8,469.8)	(455.3)	(8,925.1)	(10,173.3)
	(9,961.9)	(1,282.7)	(11,244.6)	(11,869.5)	(9,880.5)	(694.0)	(10,574.5)	(11,838.2)
Net financial liabilities	(6,516.7)	2,039.5	(4,477.2)	(5,102.1)	(6,771.4)	(104.8)	(6,876.2)	(8,139.9)

(i) Financial assets and liabilities that are measured at amortised cost.

(ii) Financial assets and liabilities that are measured at either Fair Value through Profit and Loss (Derivative Financial Assets and Liabilities) or Fair Value through Other Comprehensive Income (Unquoted Equity Investments)

Accompanying information continued

A7. Fair value of financial instruments continued

A7.1 Fair value of financial instruments within the group continued

A7.1.1 Basis of determining fair value

Certain assets and liabilities have been classified and carried at amortised cost on inception in line with IFRS 9 criteria. The carrying value of these assets are approximately equivalent to fair value due to short term maturity aside from loans and borrowings which are subject to longer maturity dates.

All other financial assets and liabilities are measured at either Fair Value through Profit and Loss ('FVTPL') or Fair Value through Other Comprehensive Income ('FVTOCI'). Fair values for energy derivatives are based on unadjusted quoted market prices, where actively traded. For energy derivatives that are not actively traded, interest rate instruments, foreign currency hedge contracts and cross currency swap contracts associated with foreign currency denominated long-term fixed rate debt, the fair values are determined by reference to closing rate market prices for similar instruments. Fair values for unquoted equity instruments are derived from venture capital or growth equity firm valuation statements.

The fair values are stated at a specific date and may be different from the amounts which will actually be paid or received on settlement of the instruments. The fair value of items such as property, plant and equipment, internally generated brands or the Group's customer base are not included as these are not considered financial instruments.

A7.2 Fair value hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from unadjusted quoted market prices for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

	2022 Level 1 £m	2022 Level 2 £m	2022 Level 3 £m	2022 Total £m
Financial assets				
Energy derivatives	884.1	2,246.4	—	3,130.5
Interest rate derivatives	—	176.8	—	176.8
Foreign exchange derivatives	—	6.1	—	6.1
Loan note receivable	—	—	136.4	136.4
Unquoted equity investments	—	—	8.7	8.7
	884.1	2,429.3	145.1	3,458.5
Financial liabilities				
Energy derivatives	—	(828.7)	—	(828.7)
Interest rate derivatives	—	(376.1)	—	(376.1)
Foreign exchange derivatives	—	(46.3)	—	(46.3)
Loans and borrowings	—	(31.6)	—	(31.6)
	—	(1,282.7)	—	(1,282.7)

There were no significant transfers out of level 1 into level 2 and out of level 2 into level 1 during the year ended 31 March 2022.

	2021 Level 1 £m	2021 Level 2 £m	2021 Level 3 £m	2021 Total £m
Financial assets				
Energy derivatives	68.8	275.9	—	344.7
Interest rate derivatives	—	217.6	—	217.6
Foreign exchange derivatives	—	23.3	—	23.3
Loan note receivable	—	—	115.9	115.9
Unquoted equity investments	—	—	3.6	3.6
	68.8	516.8	119.5	705.1
Financial liabilities				
Energy derivatives	—	(138.1)	—	(138.1)
Interest rate derivatives	—	(489.7)	—	(489.7)
Foreign exchange derivatives	—	(63.0)	—	(63.0)
Loans and borrowings	—	(3.2)	—	(3.2)
	—	(694.0)	—	(694.0)

There were no significant transfers out of level 1 into level 2 and out of level 2 into level 1 during the year ended 31 March 2021.

A8. Hedge accounting

A8.1 Cash flow hedges

The Group designates contracts which qualify as hedges for accounting purposes either as cash flow hedges or fair value hedges. Cash flow hedges are contracts entered into to hedge a forecast transaction or cash flow risk generally arising from a change in interest rates or foreign currency exchange rates and which meet the effectiveness criteria prescribed by IFRS 9. The Group's accounting policy on cash flow hedges is explained in the Accompanying Information section A1.

The following table indicates the contractual maturities of the expected transactions and the qualifying cash flow hedges associated. Non-Sterling denominated contractual cash flows have been converted at the forward foreign exchange rate.

Cash flow hedges	2022						2021					
	Carrying amount	Expected cash flows	2022 0-12 months	2022 1-2 years	2022 2-5 years	2022 >5 years	Carrying amount	Expected cash flows	2021 0-12 months	2021 1-2 years	2021 2-5 years	2021 >5 years
Interest rate swaps:												
Assets	5.7	6.1	—	2.3	3.4	0.4	0.1	0.2	—	(0.1)	—	0.3
Liabilities	—	—	—	—	—	—	(8.4)	(8.5)	—	(1.9)	(5.5)	(1.1)
	5.7	6.1	—	2.3	3.4	0.4	(8.3)	(8.3)	—	(2.0)	(5.5)	(0.8)
Cross currency swaps:												
Assets	160.5	169.9	27.8	96.5	45.6	—	137.1	142.3	4.5	17.0	123.0	(2.2)
Liabilities	(132.7)	(127.9)	(54.2)	(19.0)	(47.7)	(7.0)	(157.0)	(151.1)	(7.6)	(98.6)	(49.1)	4.2
	27.8	42.0	(26.4)	77.5	(2.1)	(7.0)	(19.9)	(8.8)	(3.1)	(81.6)	73.9	2.0
Forward exchange contracts:												
Assets	0.6	9.6	9.6	—	—	—	11.7	169.6	169.6	—	—	—
Liabilities	(43.4)	521.8	348.0	137.1	36.7	—	(52.6)	(890.1)	(292.7)	(430.7)	(166.7)	—
	(42.8)	531.4	357.6	137.1	36.7	—	(40.9)	(720.5)	(123.1)	(430.7)	(166.7)	—

A8.2 Net investment hedge

The Group's net investment hedge consists of debt issued in the same currency (€) as the net investment in foreign subsidiaries with € denominated functional currencies being the Airtricity Supply business and the thermal plants and wind farms in Ireland. The hedge compares the element of the net assets whose functional cash flows are denominated in € to the matching portion of the € borrowings held by the Group. This therefore provides protection against movements in foreign exchange rates.

Gains and losses in the hedge are recognised in equity and will be transferred to the income statement on disposal of the foreign operation (2022: £9.4m gain, 2021: £37.3m gain). Gains and losses on the ineffective portion of the hedge are recognised immediately in the income statement (2022: £nil, 2021: £nil).

Company balance sheet As at 31 March 2022

	Note	2022 £m	2021 £m
Assets			
Equity investments in joint ventures and associates	3	12.7	139.2
Loans to joint ventures and associates	3	129.2	226.8
Investments in subsidiaries	4	1,883.6	2,004.5
Trade and other receivables	5	9,365.5	8,386.5
Derivative financial assets	11	64.6	68.1
Retirement benefit assets	10	517.5	543.1
Non-current assets		11,973.1	11,368.2
Trade and other receivables	5	720.1	902.6
Current tax asset	7	3.8	3.8
Cash and cash equivalents	8	1,006.7	1,564.7
Derivative financial assets	11	112.0	149.5
Current assets		1,842.6	2,620.6
Total assets		13,815.7	13,988.8
Liabilities			
Loans and other borrowings	8	968.7	714.7
Trade and other payables	6	2,035.3	2,146.8
Provisions	13	84.0	20.3
Derivative financial liabilities	11	70.6	83.4
Current liabilities		3,158.6	2,965.2
Loans and other borrowings	8	5,284.7	5,723.8
Deferred tax liabilities	7	65.0	49.1
Provisions	13	242.9	–
Derivative financial liabilities	11	301.1	399.4
Non-current liabilities		5,893.7	6,172.3
Total liabilities		9,052.3	9,137.5
Net assets		4,763.4	4,851.3
Equity:			
Share capital	9	536.5	524.5
Share premium		835.1	847.1
Capital redemption reserve		49.2	49.2
Hedge reserve		13.3	(14.2)
Retained earnings		2,278.3	1,972.3
Equity attributable to ordinary shareholders of the parent		3,712.4	3,378.9
Hybrid equity	9	1,051.0	1,472.4
Total equity		4,763.4	4,851.3

Result for the year

The profit for the year attributable to ordinary shareholders dealt with in the financial statements of the Company was £902.9m (2021: £1,726.0m) including an exceptional gain on the disposal of SGN of £1,024.8m, offset by a loss on the disposal of the Company's investment in Gas Production of £263.5m.

These financial statements were approved by the Board of Directors on 24 May 2022 and signed on their behalf by

Gregor Alexander,
Finance Director

Sir John Manzoni,
Chairman

SSE plc
Registered No: SC117119

Company statement of changes in equity

For the year ended 31 March 2022

Statement of changes in equity

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedge reserve £m	Retained earnings £m	Total attributable to ordinary shareholders £m	Hybrid capital £m	Total £m
At 1 April 2021	524.5	847.1	49.2	(14.2)	1,972.3	3,378.9	1,472.4	4,851.3
Profit for the year	–	–	–	–	852.2	852.2	50.7	902.9
Other comprehensive income	–	–	–	27.5	(48.0)	(20.5)	–	(20.5)
Total comprehensive income for the year	–	–	–	27.5	804.2	831.7	50.7	882.4
Dividends to shareholders	–	–	–	–	(862.3)	(862.3)	–	(862.3)
Scrip dividend related share issue	12.0	(12.0)	–	–	355.7	355.7	–	355.7
Issue of shares	–	–	–	–	6.3	6.3	–	6.3
Distributions to Hybrid equity holders	–	–	–	–	–	–	(50.7)	(50.7)
Redemption of Hybrid equity	–	–	–	–	(4.6)	(4.6)	(421.4)	(426.0)
Credit in respect of employee share awards	–	–	–	–	20.8	20.8	–	20.8
Investment in own shares (i)	–	–	–	–	(14.1)	(14.1)	–	(14.1)
At 31 March 2022	536.5	835.1	49.2	13.3	2,278.3	3,712.4	1,051.0	4,763.4

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Hedge reserve £m	Retained earnings £m	Total attributable to ordinary shareholders £m	Hybrid capital £m	Total £m
At 1 April 2020	523.1	875.6	49.2	(3.6)	966.7	2,411.0	1,169.7	3,580.7
Profit for the year	–	–	–	–	1,726.0	1,726.0	46.6	1,772.6
Other comprehensive income	–	–	–	(4.4)	6.9	2.5	–	2.5
Total comprehensive income for the year	–	–	–	(4.4)	1,732.9	1,728.5	46.6	1,775.1
Dividends to shareholders	–	–	–	–	(836.4)	(836.4)	–	(836.4)
Scrip dividend related share issue	1.4	(1.4)	–	–	39.0	39.0	–	39.0
Distributions to Hybrid equity holders	–	–	–	–	–	–	(46.6)	(46.6)
Issue of Hybrid equity	–	–	–	–	–	–	1,051.0	1,051.0
Redemption of Hybrid equity	–	–	–	–	(1.7)	(1.7)	(748.3)	(750.0)
Credit in respect of employee share awards	–	–	–	–	19.7	19.7	–	19.7
Investment in own shares (i)	–	(27.1)	–	–	24.6	(2.5)	–	(2.5)
Adjustment in relation to historic remeasurement of financial instruments, net of tax (ii)	–	–	–	(6.2)	27.5	21.3	–	21.3
At 31 March 2021	524.5	847.1	49.2	(14.2)	1,972.3	3,378.9	1,472.4	4,851.3

(i) Investment in own shares is the purchase of own shares less the settlement of Treasury shares for share save schemes.

(ii) Following review of the recognition of certain derivative financial instruments at inception, a revision to the Retained Earnings, Loans and Borrowings and the Hedge Reserve has been recorded during the prior year. This revision arose through review of the Company's contractual exposure on certain swap arrangements, as well as mark-to-market charges on inception previously recognised through the Income Statement. The cumulative effect on opening reserves on 1 April 2020 is an increase of £21.3m, and the single largest line item impacted was Loans and Borrowings which decreased by £58.8m.

Notes to the Company financial statements

For the year ended 31 March 2022

1. Principal accounting policies

1.1 General information

SSE plc (the Company) is a company domiciled in Scotland. The address of the registered office is given on the back cover. The Company financial statements present information about the Company as a separate entity and not about the Group.

1.2 Basis of preparation

The financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including Financial Reporting Standard 101, "Reduced Disclosure Framework".

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own income statement and related notes.

It has also taken advantage of the following disclosure exemptions available under FRS 101.

- A Cash flow statement and related notes;
- Related party disclosures;
- Disclosures in respect of capital management; and
- The effects of new but not yet effective IFRSs.

As the consolidated financial statements of SSE plc include the equivalent disclosure, the Company has also taken advantage of the exemptions, under FRS 101, available in respect of the following disclosure:

- Certain disclosures required by IFRS 13 Fair value measurement and the disclosures required by IFRS 7 Financial instrument disclosures.

The Company previously assessed that, on the basis of materiality, the disclosures required under IFRS 2 Share-based Payment should be removed. The Company has assessed that at 31 March 2022 these disclosures continue to be immaterial to the Company's financial statements.

Going concern

The Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future (further details are contained in A6 Accompanying Information of the consolidated financial statements). The financial statements are therefore prepared on a going concern basis.

Basis of measurement

The financial statements of the Company are prepared on the historical cost basis except for derivative financial instruments, available-for-sale financial assets and assets of the Company pension scheme which are stated at their fair value, and liabilities of the Company pension scheme which are measured using the projected unit credit method. The directors believe the financial statements present a true and fair view. The financial statements of the Company are presented in pounds sterling.

Critical accounting judgements and estimation uncertainty

In the process of applying the Company's accounting policies, management necessarily makes judgements and estimates that have a significant effect on the amounts recognised in the financial statements. Changes in the assumptions underlying the estimates could result in a significant impact to the financial statements. The Group's key accounting judgement and estimation areas are noted in note 4.1 of the consolidated financial statements, with the most significant financial judgement areas as specifically discussed by the Audit Committee being highlighted separately. In particular, note 4.1(ii), Retirement Benefit Obligations, and the related disclosures in note 23 of the consolidated financial statements are relevant to the Company.

Significant accounting policies

The significant accounting policies applied in the preparation of these individual financial statements are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated.

Investments

Investments in subsidiaries are carried at cost less any impairment charges.

Interests in joint arrangements and associates

Associates are those investments over which the Company has significant influence but neither control nor joint control.

The Company's joint ventures and associates are stated at cost less any impairment.

Applicable Group accounting policies

The following significant accounting policies are consistent with those applied for the Group consolidated financial statements:

- Equity and equity-related compensation benefits (Supplementary information [A1.2](#))
- Defined benefit pension scheme (Supplementary information [A1.2](#))
- Taxation (Supplementary information [A1.2](#))
- Financial instruments (Supplementary information [A1](#) and [A6](#))

2. Supplementary financial information

2.1 Auditor remuneration

The amounts paid to the Company's auditor in respect of the audit of these financial statements was £0.4m (2021: £0.4m).

Amounts paid to the Company's auditor in respect of services to the Company other than the audit of the Company's financial statements have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

2.2 Employee numbers

The average number of people employed by the Company (including Executive Directors) during the year was 3 (2021: 3).

The costs associated with the employees of the Company, who are the Executive Directors of the Group, are borne by Group companies. No amounts are charged to the Company.

2.3 Directors' remuneration and interests

Information concerning Directors' remuneration, shareholdings, options, long term incentive schemes and pensions is shown in the Remuneration Report on [pages 168 to 199](#). No Director had, during or at the end of the year, any material interest in any other contract of significance in relation to the Group's business.

3. Investments in associates and joint ventures

	2022			2021		
	Equity £m	Loans £m	Total £m	Equity £m	Loans £m	Total £m
Share of net assets/cost						
At 1 April	139.2	226.8	366.0	12.7	196.8	209.5
Additions	–	29.3	29.3	–	42.0	42.0
Disposal	(126.5)	(118.8)	(245.3)	–	–	–
Repayment of shareholder loans	–	(8.1)	(8.1)	–	(12.0)	(12.0)
Transfer from subsidiary	–	–	–	126.5	–	126.5
At 31 March	12.7	129.2	141.9	139.2	226.8	366.0

The disposal recognised during the year of £245.3m relates to the disposal of Company's investment in SGN, which completed on 22 March 2022.

4. Subsidiary undertakings

Details of the Company's subsidiary undertakings are disclosed in the Accompanying Information section ([A3](#)).

Investment in subsidiaries

	2022 £m	2021 £m
At 1 April	2,004.5	2,112.9
Decrease in existing investments (i)	(120.9)	(108.4)
At 31 March	1,883.6	2,004.5

- (i) The overall decrease in investments held by the Company primarily relates to the net of: the transfer of SSE Generation Limited investment to another Group company and the equity shares in the Company awarded to the employees of the subsidiaries of the Group under the Group's share schemes, which are recognised as an increase in the cost of investment in those subsidiaries as directed by IFRIC 11 (2022: £18.8m; 2021: £18.1m (both before tax)). Additionally, the Company disposed of its Gas Production investment on 14 October 2021, which was carried at a nil value. The decrease in the prior year also includes the transfer of SGN from Beithe AG to SSE plc and the subsequent reduction in the carrying value of Beithe AG (£126.5m).

5. Trade and other receivables

The balances of current and non-current trade and other receivables in the current and prior financial year predominantly consists of amounts owed by subsidiary undertakings. At 31 March 2022 the Company assessed its exposure to expected credit losses on related party receivables under IFRS 9 and held a provision against future losses of £126.5m (2021: £61.0m).

6. Trade and other payables

The balances of current trade and other payables in the current and prior financial year predominantly consists of amounts due to subsidiary undertakings.

Notes to the Company financial statements continued

For the year ended 31 March 2022

7. Taxation

Current tax asset

	2022 £m	2021 £m
Corporation tax asset	3.8	3.8

Deferred taxation

The following are the deferred tax liabilities and assets recognised by the Company and movements thereon during the current and prior reporting periods:

	Fair value gains/ (losses) on derivatives £m	Retirement benefit obligations £m	Other £m	Total £m
At 31 March 2020	(66.8)	101.5	4.3	39.0
Charge/(credit) to income statement	9.9	0.1	(5.0)	5.0
Charge/(credit) to equity	5.2	1.6	(1.7)	5.1
At 31 March 2021	(51.7)	103.2	(2.4)	49.1
Charge/(credit) to income statement	(10.2)	(0.2)	(0.2)	(10.6)
Charge/(credit) to equity	5.2	26.4	(5.1)	26.5
At 31 March 2022	(56.7)	129.4	(7.7)	65.0

Certain deferred tax assets and liabilities have been offset, including the asset balances analysed in the tables above. The following is an analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2022 £m	2021 £m
Deferred tax liabilities	129.4	103.2
Deferred tax assets	(64.4)	(54.1)
Net deferred tax (asset)/liability	65.0	49.1

The deferred tax assets/liabilities disclosed include the deferred tax relating to the Company's pension scheme liabilities.

8. Loans and borrowings

	2022 £m	2021 £m
Current		
Other short-term loans	968.7	714.7
	968.7	714.7
Non-current		
Loans	5,284.7	5,723.8
	5,284.7	5,723.8
Total loans and borrowings	6,253.4	6,438.5
Cash and cash equivalents	(1,006.7)	(1,564.7)
Unadjusted Net Debt	5,246.7	4,873.8
Add/(less):		
Hybrid equity (note 9)	1,051.0	1,472.4
Adjusted Net Debt and Hybrids	6,297.7	6,346.2

Cash and cash equivalents (which are presented as a single class of assets in the face of the balance sheet) comprise cash at bank and short term highly liquid investments with a maturity of three months or less.

8.1 Borrowing facilities

The Company has an established €1.5bn Euro commercial paper programme (paper can be issued in a range of currencies and swapped into sterling) and as at 31 March 2022 there was £506.1m commercial paper outstanding (2021: £nil). The Company also has £1.5bn of revolving credit facilities (see note 21.1). These facilities continue to provide back-up to the commercial paper programme and, as at 31 March 2022 these facilities were undrawn.

Analysis of borrowings

	2022 Weighted average interest rate	2022 Face value	2022 Fair value	2022 Carrying amount	2021 Weighted average interest rate	2021 Face value £m	2021 Fair value £m	2021 Carrying amount £m
Current								
Other short term loans – non-amortising (ii)	0.8%	507.1	507.5	506.1	—	—	—	—
US Private Placement 16 April 2022	4.3%	162.7	197.8	162.7	—	—	—	—
5.875% Eurobond Repayable 22 September 2022	5.9%	300.0	306.1	299.9	—	—	—	—
4.25% Eurobond repayable 14 September 2021	—	—	—	—	4.3%	300.0	305.0	299.8
2.375% €500m Eurobond repayable 10 February 2022 (iv)	—	—	—	—	2.4%	415.0	424.6	414.9
Total current borrowings		969.8	1,011.4	968.7		715.0	729.6	714.7
Non-Current								
US Private Placement 16 April 2022	—	—	—	—	4.3%	162.7	193.5	162.6
US Private Placement 28 April 2023	2.8%	35.0	35.4	34.9	2.8%	35.0	36.3	34.7
US Private Placement 6 September 2023	2.9%	120.0	120.1	119.4	2.9%	120.0	124.0	119.2
US Private Placement 16 April 2024	4.4%	204.1	250.6	204.0	4.4%	204.1	253.8	203.9
5.875% Eurobond repayable 22 September 2022	—	—	—	—	5.9%	300.0	323.5	299.6
1.75% €700m Eurobond repayable 8 September 2023 (v)	1.8%	514.6	524.0	514.3	1.8%	514.6	538.5	514.1
1.25% Eurobond Repayable 16 April 2025 (vi)	1.3%	531.4	533.4	531.4	1.3%	531.4	557.1	531.4
0.875% €600m Eurobond Repayable 8 September 2025	0.9%	510.9	504.3	504.2	0.9%	510.9	527.0	508.4
US Private Placement 8 June 2026	3.1%	64.0	63.8	63.3	—	—	—	—
US Private Placement 8 June 2026	3.2%	247.1	258.7	244.3	—	—	—	—
Between two and five years		2,227.1	2,290.3	2,215.8		2,378.7	2,553.7	2,373.9
Bank Loans – non-amortising (i)	0.8%	100.0	100.4	100.0	0.8%	100.0	100.4	100.0
US Private Placement 8 June 2026	—	—	—	—	3.1%	64.0	67.7	62.9
US Private Placement 6 September 2026	—	—	—	—	3.2%	247.1	265.8	243.7
US Private Placement 6 September 2027	3.2%	35.0	34.8	34.6	3.2%	35.0	37.2	34.5
1.375% €650m Eurobond repayable 4 September 2027 (viii)	1.4%	591.4	588.7	590.2	1.4%	591.4	631.8	590.0
8.375% Eurobond repayable on 20 November 2028	8.4%	500.0	659.0	497.2	8.4%	500.0	732.1	496.8
1.750% Eurobond Repayable 16 April 2030 (ix)	1.8%	442.9	439.6	442.9	1.8%	442.9	485.3	442.9
6.25% Eurobond repayable on 27 August 2038	6.3%	350.0	473.3	347.4	6.3%	350.0	539.5	347.3
4.75% \$900m NC5.5 Hybrid maturing 16 September 2077 (vii)	4.8%	725.4	727.6	725.1	4.8%	730.0	752.2	729.0
3.625% NC5.5 Hybrid maturing 16 September 2077	3.6%	300.0	301.6	299.9	3.6%	300.0	307.3	299.6
Over five years		3,044.7	3,325.0	3,037.3		3,360.4	3,919.3	3,346.7
Fair value adjustment (iii)		—	—	31.6		—	—	3.2
Total non-current borrowings		5,271.8	5,615.3	5,284.7		5,739.1	6,473.0	5,723.8
Total borrowings		6,241.6	6,626.7	6,253.4		6,454.1	7,202.6	6,438.5

(i) Balances include term loans and EIB debt and is a mixture of fixed and floating rate debt.

(ii) Balances include Commercial Paper and facility advances (£506.1m of Commercial Paper outstanding at 31 March 2022).

Notes to the Company financial statements continued

For the year ended 31 March 2022

8. Loans and borrowings continued

8.1 Borrowing facilities continued

- (iii) The fair value adjustment relates to the change in the carrying amount of the borrowings as a result of fair value hedges that are in place. The movement in the fair value adjustment is recognised in the income statement with a corresponding movement on the hedging instrument also being recognised in the income statement.
- (iv) The 2.375% €500m Eurobond maturing 10 February 2022 has been swapped to Sterling giving an effective interest rate of 3.53%.
- (v) The 1.75% €700m Eurobond maturing 8 September 2023 has been swapped to Sterling giving an effective interest rate of 3.16%.
- (vi) The 1.250% €600m eurobond maturing 16 April 2025 has been swapped to Sterling giving an effective interest rate of 2.43%.
- (vii) The 4.75% \$900m NC5.5 Hybrid maturing 16 September 2077 has been swapped to Euros (\$605m) and Sterling (\$295m) giving an effective interest rate of 2.25% and 3.29% respectively.
- (viii) The 1.375% €650m eurobond maturing 4 September 2027 has been swapped to Sterling giving an effective interest rate of 2.56%.
- (ix) The 1.750% €500m eurobond maturing 16 April 2030 has been swapped to Sterling giving an effective interest rate of 2.89%.

9. Equity

Share capital

	Number (millions)	£m
Allotted, called up and fully paid:		
At 1 April 2020	1,046.3	523.1
Issue of shares (i)	2.8	1.4
At 31 March 2021	1,049.1	524.5
Issue of shares (i)	24.0	12.0
At 31 March 2022	1,073.1	536.5

The Company has one class of ordinary share which carries no right to fixed income. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

- (i) Shareholders were able to elect to receive ordinary shares in place of the final dividend of 56.6p per ordinary share (in relation to year ended 31 March 2021) and the interim dividend of 25.5p (in relation to the current year) under the terms of the Company's scrip dividend scheme. This resulted in the issue of 22,201,443 and 1,782,473 new fully paid ordinary shares respectively (2021: 1,918,977 and 883,408). In addition, the Company issued 0.6m (2021: 0.9m) shares during the year under the savings-related share option schemes (all of which were settled by shares held in Treasury) for a consideration of £6.3m (2021: £10.4m).

Of the 1,073m shares in issue, 5.5m are held as treasury shares. These shares will be held by the Group and used to award shares to employees under the Sharesave scheme in the UK.

During the year, on behalf of the Company, the employee share trust purchased 0.9m shares for a total consideration of £14.1m (2021: 0.9m shares, consideration of £12.9m) to be held in trust for the benefit of employee share schemes. At 31 March 2022, the trust held 6.3m shares (2021: 7.7m) which had a market value of £110.0m (2021: £112.5m).

Capital redemption reserve

The capital redemption reserve comprises the value of shares redeemed or purchased by the Company from distributable profits.

Hedge reserve

The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedge derivative instruments related to hedged transactions that have not yet occurred.

Hybrid equity

	2022 £m	2021 £m
EUR 600m 2.375% perpetual subordinated capital securities	—	421.4
GBP 600m 3.74% perpetual subordinated capital securities	598.0	598.0
EUR 500m 3.125% perpetual subordinated capital securities	453.0	453.0
	1,051.0	1,472.4

In April 2022 SSE plc issued a €1bn NC6 equity accounted Hybrid bond @ 4% to re-finance the dual tranche debt accounted Hybrid bonds whose first call date occurs on 16 September 2022 although SSE will take advantage of the 3 month par call option on these Hybrid bonds meaning the bonds will be repaid on 16 June 2022. The €1bn equity accounted Hybrid bond was left in Euros with the proceeds used to cover the portion of the maturing Hybrid that was swapped to Euros and a portion of the costs associated with the acquisition of the European onshore renewables development platform from Siemens Gamesa Renewables Energy.

10. Retirement benefit obligations

Defined benefit scheme

The Company has a funded final salary pension scheme ('Scottish Hydro Electric Pension Scheme') which provides defined benefits based on final pensionable pay. The scheme is subject to an independent valuation at least every three years. The future benefit obligations are valued by actuarial methods on the basis of an appropriate assessment of the relevant parameters.

Pension summary:

Scheme type	Net actuarial gain/(loss) recognised in respect of the pension asset in the statement of comprehensive income		Net pension asset	
	2022 £m	2021 £m	2022 £m	2021 £m
Scottish Hydro Electric	(24.6)	8.6	517.5	543.1
Net actuarial (loss)/gain	(24.6)	8.6	517.5	543.1

IFRIC 14 surplus restrictions

The value of Scottish Hydro Electric Pension Scheme assets recognised was previously impacted by the asset ceiling test which restricts the surplus that can be recognised to assets that can be recovered through future refunds or reductions in future contributions to the schemes, and may increase the value of scheme liabilities where there are minimum funding liabilities in relation to agreed contributions.

In 2016/17 the Group agreed with the trustees to the Scottish Hydro Electric pensions scheme an amendment to the scheme rules to clarify that the Company has a clear right to any surplus upon final winding up of the scheme. This amendment removes the previous restriction on recognition of any surplus. The net pension asset of the Scottish Hydro Electric Scheme at 31 March 2022 was equal to £517.5m (2021: £543.1m).

The individual pension scheme details based on the latest formal actuarial valuations are as follows:

	Scottish Hydro Electric
Latest formal actuarial valuation	31 March 2021
Valuation carried out by	Hymans Robertson
Value of assets based on valuation	£2,050.5m
Value of liabilities based on valuation	£1,782.2m
Valuation method adopted	Projected Unit
Average salary increase	RPI +0.5%
Average pension increase	RPI
Value of fund assets/accrued benefits	115.1%

10.1 Pension scheme assumptions

The scheme has been updated to 31 March 2022 by qualified independent actuaries. The valuations have been prepared for the purposes of meeting the requirements of IAS 19. The major assumptions used by the actuaries in the scheme were:

	At 31 March 2022	At 31 March 2021
Rate of increase in pensionable salaries	4.2%	3.7%
Rate of increase in pension payments	3.7%	3.2%
Discount rate	2.7%	2.0%
Inflation rate	3.7%	3.2%

The assumptions relating to longevity underlying the pension liabilities at 31 March 2022 are based on standard actuarial mortality tables, and include an allowance for future improvements in longevity. The assumptions, equivalent to future longevity for members in normal health at age 65, are as follows:

	At 31 March 2022 Male	At 31 March 2022 Female	At 31 March 2021 Male	At 31 March 2021 Female
Currently aged 65	22	24	23	24
Currently aged 45	24	27	25	27

Notes to the Company financial statements continued

For the year ended 31 March 2022

10. Retirement benefit obligations continued

10.1 Pension scheme assumptions continued

The impact on the scheme's liabilities of changing certain of the major assumptions is as follows:

	At 31 March 2022		At 31 March 2021	
	Increase/ decrease in assumption	Effect on scheme liabilities	Increase/ decrease in assumption	Effect on scheme liabilities
Rate of increase in pensionable salaries	0.1%	+/-0.1%	0.1%	+/-0.1%
Rate of increase in pension payments	0.1%	+/-0.9%	0.1%	+/-1.0%
Discount rate	0.1%	+/-1.0%	0.1%	+/-0.9%
Longevity	1 year	+/-2.0%	1 year	+/-1.8%

These assumptions are considered to have the most significant impact on the scheme valuations. The reduction in sensitivity is due to the conversion of the longevity swap to buy-in during the year.

Asset buy-in

On 1 October 2019, the Scottish Hydro Electric Pension Scheme entered into an asset buy-in, transferring the risk of volatility in the assumptions used to calculate the obligation for 1,800 pensioners and 567 dependents (covering c£800m of the scheme's liabilities) to a third party. The asset buy-in is valued under the accounting principles of IFRS 13 and is considered a Level 3 instrument in the fair value hierarchy. This is in addition to a previous buy-in completed during the year ended 31 March 2018 when c£250m of the scheme's assets and liabilities related to 617 pensioners and 190 dependents were transferred to a third party. The Company has now insured against volatility in obligations related to all pensioners to third parties (insurer PIC) and is now only exposed to valuation fluctuations related to active and deferred members.

10.2 Valuation of pension scheme

	Quoted £m	Unquoted £m	Value at 31 March 2022 £m	Quoted £m	Unquoted £m	Value at 31 March 2021 £m
Equities	39.5	–	39.5	50.3	–	50.3
Government bonds	719.1	–	719.1	660.9	–	660.9
Insurance contracts	–	713.5	713.5	–	780.3	780.3
Other investments	448.9	–	448.9	482.6	–	482.6
Total fair value of plan assets			1,921.0			1,974.1
Present value of defined benefit obligation			(1,403.5)			(1,431.0)
Surplus in the scheme			517.5			543.1
Deferred tax thereon (i)			(129.4)			(103.2)
Net pension asset			388.1			439.9

(i) Deferred tax is recognised at 25% (2021: 19%) on the surplus.

10.3 Movements in the defined benefit asset obligations and assets during the year:

	2022			2021		
	Assets £m	Obligations £m	Total £m	Assets £m	Obligations £m	Total £m
At 1 April	1,974.1	(1,431.0)	543.1	1,845.6	(1,311.4)	534.2
Included in income statement						
Current service cost	–	(12.9)	(12.9)	–	(11.4)	(11.4)
Past service cost	–	–	–	–	(1.7)	(1.7)
Settlements and curtailments	–	–	–	(0.6)	0.6	–
Interest income/(cost)	38.8	(27.9)	10.9	41.5	(29.2)	12.3
	38.8	(40.8)	(2.0)	40.9	(41.7)	(0.8)
Included in other comprehensive income						
Actuarial (loss)/gain arising from:						
Demographic assumptions	–	13.1	13.1	–	(8.1)	(8.1)
Financial assumptions	–	72.5	72.5	–	(161.1)	(161.1)
Experience assumptions	–	(90.6)	(90.6)	–	5.8	5.8
Return on plan assets excluding interest income	(19.6)	–	(19.6)	172.0	–	172.0
	(19.6)	(5.0)	(24.6)	172.0	(163.4)	8.6
Other						
Contributions paid by the employer	1.0	–	1.0	1.1	–	1.1
Benefits paid	(73.3)	73.3	–	(85.5)	85.5	–
	(72.3)	73.3	1.0	(84.4)	85.5	1.1
Balance at 31 March	1,921.0	(1,403.5)	517.5	1,974.1	(1,431.0)	543.1

10.4 Pension scheme contributions and costs

Charges/(credits) recognised:

	2022 £m	2021 £m
Current service cost (charged to operating profit)	12.9	11.4
Past service cost	–	1.7
	12.9	13.1
Charged/(credited) to finance costs:		
Interest from pension scheme assets	(38.8)	(41.5)
Interest on pension scheme liabilities	27.9	29.2
	(10.9)	(12.3)

The return on pension scheme assets is as follows:

	2022 £m	2021 £m
Return on pension scheme assets	19.2	213.5

Employer financed retirement benefit (EFRB) pension costs

The decrease in the year in relation EFRB was £1.1m (2021: increase of £5.8m). This is included in employee related provisions.

Further discussion of the pension scheme assets, liabilities, policies, risk and strategy can be found in note 23 of the Group consolidated financial statements.

Notes to the Company financial statements continued

For the year ended 31 March 2022

11. Financial instruments

For financial reporting purposes, the Company has classified derivative financial instruments as financing derivatives. Financing derivatives include all fair value and cash flow interest rate hedges, non-hedge accounted (mark-to-market) interest rate derivatives, cash flow foreign exchange hedges and non-hedge accounted foreign exchange contracts. Non-hedge accounted contracts are treated as held for trading.

The derivative financial assets and (liabilities) are represented as follows:

	2022 £m	2021 £m
Derivative financial assets		
Non-current	64.6	68.1
Current	112.0	149.5
	176.6	217.6
Derivative Liabilities		
Non-current	(301.1)	(399.4)
Current	(70.6)	(83.4)
Total derivative liabilities	(371.7)	(482.8)
Net liability	(195.1)	(265.2)

Information on the Group's Financial risk management and the fair value of financial instruments is available at [A6 and A7](#).

12. Commitments and contingencies

Guarantees, indemnities and other contingent liabilities

SSE plc has provided guarantees on behalf of subsidiary, joint venture and associated undertakings as follows:

	2022			2021	
	SSE on behalf of subsidiary £m	SSE on behalf of joint operations and ventures £m	SSE on behalf of 3rd parties £m	Total £m	Total £m
Bank borrowing	604.6	—	—	604.6	754.6
Performance of contracts (i)	3,542.1	976.7	121.9	4,640.7	4,199.2

Subsidiaries have provided guarantees on behalf of the Company as follows:

	2022 £m	2021 £m
Bank borrowing	1,286.5	1,494.7

(i) Included within the performance contracts above are guarantees of Enil (2021: Enil) relating to discontinued operations.

Around £367m of guarantees have been provided during the year in connection with Doggerbank Offshore Windfarm Project 3 Projco Limited and additional £110m of guarantees have also been provided during the year in connection with various entities relating to the Seagreen Offshore Wind Farm projects. The £150m drawdown facility with the European Investment Bank, guaranteed by SSE plc on behalf of Scottish Hydro Electric Transmission plc was repaid.

The Company has previously provided unlimited guarantees on behalf of subsidiary undertakings in relation to ten contracts in respect of performance of work and any liabilities arising. Two unlimited guarantees were provided on behalf of SSE Renewables Developments (UK) Limited, a wholly owned subsidiary of the Company, both in favour of Total Gas and Power Infrastructure Limited in respect of a Share Purchase Agreement and payment obligations for Seagreen Wind Energy Limited SSE Services Plc, a wholly owned subsidiary of the Company, has provided a guarantee to Group Trustee Independent Trustees in respect of Southern Electric Group of the Electricity Supply Pension Scheme in respect of funding required by the Scheme. SSE Contracting Limited, formerly a wholly owned subsidiary, has provided a guarantee to Tay Street Lighting (Leeds) Ltd, Tay Valley Lighting (Newcastle & North Tayside) Ltd and Tay Valley Lighting (Stoke on Trent) Ltd in respect of provision and maintenance of public street lighting and illuminated traffic signage. SSE E&P (UK) Limited, formerly a wholly owned subsidiary of the Company, has provided a guarantee to Hess Limited in respect of decommissioning liabilities. SSE E&P (UK) Limited has also provided a guarantee to Britoil Limited and Arco British Limited in respect of the acquisition of the Sean Field. SSE E&P (UK) Limited has also provided a guarantee to Perenco UK Limited in respect of a Sale and Purchase Agreement for the Minerva, Apollo and Mercury Fields. Scottish Hydro Electric Transmission Plc, a wholly owned subsidiary of the Company, has provided a guarantee to ABB Limited in connection with the use of HVDC Replica Control Panels for Caithness-Moray Project.

Where the Company enters into financial guarantee contracts to guarantee indebtedness of the other companies within its group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make payment under the guarantee.

13. Provisions

	Decommissioning £m	Other legal & restructuring ¹ £m	Total £m
At 1 April 2020	–	7.0	7.0
Charged in the year	–	20.4	20.4
Released during the year	–	(1.5)	(1.5)
Utilised during the year	–	(5.6)	(5.6)
At 31 March 2021	–	20.3	20.3
Charged in the year	251.3	57.2	308.5
Utilised during the year	(1.9)	–	(1.9)
At 31 March 2022	249.4	77.5	326.9
At 31 March 2022			
Non-current	241.8	51.0	242.9
Current	7.6	26.5	84.0
	249.4	77.5	326.9
At 31 March 2021	–	–	–
Non-current	–	20.3	20.3
Current	–	20.3	20.3

1 The Company has represented the category of its provision to change the category from 'Other' to 'Legal & Restructuring' to better reflect the provisions held by the Company.

Decommissioning provision

Provision has been made for the estimated net present value of decommissioning Gas Production assets (retained as part of the disposal agreement for this business). Estimates are based on the forecast remediation or clean-up costs at the projected date of decommissioning and are discounted for the time value of money. Within the agreement for the disposal of its Gas Production assets to Viaro Energy on 14 October 2021 (see note 12), the Company agreed to retain 60% (£238.2m) of the decommissioning provision within the business. £13.1m has been provided for decommissioning since the completion of the disposal due to post disposal movements in inflation and discounting assumptions. It is expected that the costs associated with decommissioning of these Gas Production assets will be incurred between 2022 and 2037.

Legal & restructuring provisions

The Company holds provision related to reorganisation of the Group and certain provisions arising on disposal of subsidiaries or investments. In the year the Company recognised a charge of £35.0m for a tax indemnity provided to RockRose Energy Limited following the disposal of SSE E&P Limited on 14 October 2021. The tax indemnity is expected to be settled in the next 12-24 months. In the year the Company also recognised a provision for transaction costs associated with the disposal of its investment in SGN. These costs are expected to be settled in the next financial year.

Independent auditor's report to the members of SSE plc

Opinion

In our opinion:

- SSE plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2022 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of SSE plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 March 2022 which comprise:

Group	Parent company
Consolidated income statement for the year ended 31 March 2022	
Consolidated statement of comprehensive income for the year then ended	
Consolidated balance sheet as at 31 March 2022	Balance sheet as at 31 March 2022
Consolidated statement of changes in equity for the year then ended	Statement of changes in equity for the year then ended
Consolidated cash flow statement for the year then ended	
Related notes 1 to 26 and A1 to A8 to the group financial statements, including a summary of significant accounting policies	Related notes 1 to 13 to the company financial statements including a summary of significant accounting policies

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and UK adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the group and parent in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting the audit.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group and parent company's ability to continue to adopt the going concern basis of accounting included:

- Confirming our understanding of management's Going Concern process as well as the review controls in place over the preparation of the group's Going Concern model and the memoranda on going concern;
- Engaging early with management to ensure all key matters were considered in their assessment;
- Obtaining management's board approved forecast cash flows, covenant forecasts and sensitivities prepared by management to 31 December 2023, ensuring the same forecasts are used elsewhere within the group for accounting estimates and that the forecasts were consistent with the accelerated climate commitments made in November 2021. We tested for arithmetical accuracy of the models as well as checking the net debt position at the year-end date which is the starting point for the model. We assessed the reasonableness of the cashflow forecast by analysing management's historical forecasting accuracy. We also ensured climate change considerations were factored into future cash flows. We performed reverse stress testing to understand how severe the downside scenarios would need to result in negative liquidity or a covenant breach and how plausible were the scenarios. The EY assessment included consideration of all maturing debt through to 31 March 2024;
- We assessed management ability to raise new external funding by reviewing the strength of subscriptions to the €1bn April 22 bond issue and the interest in, and rates attached to the £350m Private placement in March 22. We engaged with specialist debt advisory colleagues to assess SSE's on going attractiveness to lenders and their ability to continue to raise new debt;
- Reviewing management's assessment of mitigating options potentially available to the group to reduce cash flow spend in the Going Concern period, to determine their plausibility and whether such actions could be implemented by management. We have obtained support to determine whether these were within the control of management and evaluated the impact of these mitigations in light of our understanding of the business and its cost structures;

- Read the borrowing facilities agreements to assess their continued availability to the group and to ensure completeness of covenants identified by management;
- Reviewed market data for indicators of potential contradictory evidence to challenge the company's going concern assessment including review of profit warnings within the sector and review of industry analyst reports. We held discussions with the Audit Committee to confirm the going concern position prepared by management; and
- We considered whether management's disclosures in the financial statements sufficiently and appropriately reflect the going concern assessment and outcomes.

The audit procedures performed in evaluating the director's assessment were performed by the Group audit team, and specialist colleagues from our capital debt advisory team. We also considered the financial and non-financial information communicated to us from our component teams for sources of potential contrary indicators which may cast doubt over the going concern assessment.

Our key observations

The group is forecast to continue to be profitable and generate positive cashflows during the going concern period. The group is forecast to raise new debt to maintain adequate liquidity and headroom within its covenants. The strength of the ability of the group to raise new funds is evidenced by the successful issue of a £350m private placement in March 22 and a €1bn Hybrid bond in April 22 and continued strong credit rating agency positions. Our reverse stress test scenario indicated that the group would need to be exposed to severe downside events impacting profitability and cash flows in order to breach liquidity or covenants. The severe downside scenario assumed full repayment of debt maturing over the going concern period, no new refinancing over the going concern period, no uncommitted disposal proceeds, a central contingency against budget performance, offset by mitigating actions within managements control. Management consider such a scenario to be highly unlikely, however, in such unlikely event management consider that the impact can be mitigated by further cash and cost saving measures which are within their control, or through external fund raising, or a combination of both during the going concern period.

The group's principal source of funding (the revolving credit facility) extends beyond the going concern period (to 2025/2026). Having considered the severe downside and reverse stress test scenarios, we have not identified a plausible scenario where the Group would be unable to maintain cash flow liquidity and covenant headroom during the going concern period.

We found the capital commitments in the cash flow forecasts to be aligned with the accelerated climate commitments made in November 2021.

Going concern conclusion

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern for a period to 31 December 2023.

In relation to the group and parent company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Overview of our audit approach

Audit scope	<ul style="list-style-type: none"> • We performed an audit of the complete financial information of 19 components, audit procedures on specific balances for a further 16 components and specified procedures for 3 components. • The components where we performed full or specific audit procedures accounted for 98% of adjusted profit before tax, 96% of Revenue and 93% of Total assets.
Key audit matters	<ul style="list-style-type: none"> • Impairment and reversal of impairment of certain power stations and gas storage assets; • Group and parent pension obligations; • Accounting for estimated revenue recognised; • Accounting for the SSE disposal programme.
Materiality	<ul style="list-style-type: none"> • Overall Group materiality of £57.9m which represents 5% of adjusted profit before tax.

An overview of the scope of the parent company and group audits

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group-wide controls, changes in the business environment and other factors such as recent Internal Audit results when assessing the level of work to be performed at each entity.

Independent auditor's report to the members of SSE plc continued

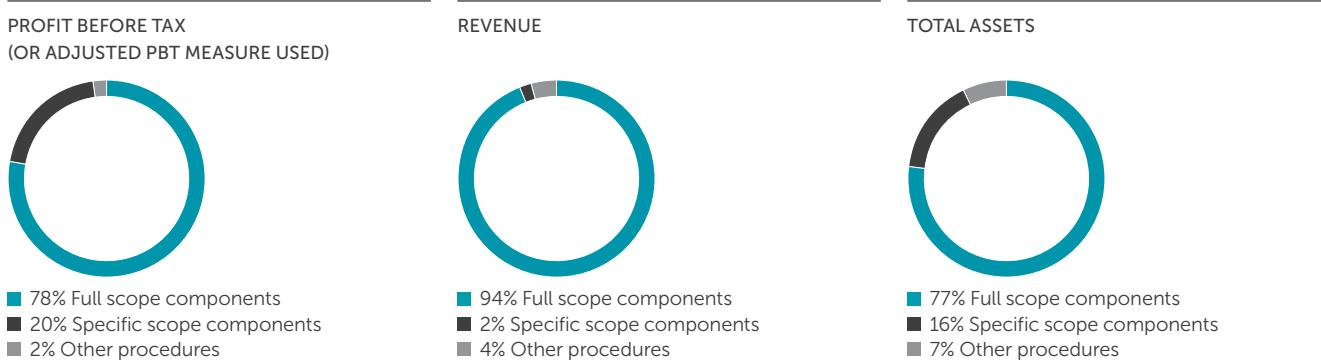
In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 149 (2021: 131) reporting components of the Group, we selected 35 (2021: 37) components (including the parent entity) covering entities within the UK and Ireland, which represent the principal business units within the Group. Separate procedures were performed in relation to the acquisition accounting in Japan by the Primary team.

Of the 35 components selected, we performed an audit of the complete financial information of 19 (2021: 20) components ("full scope components") which were selected based on their size or risk characteristics. For the remaining 16 (2021: 17) components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 98% (2021: 95%) of the Group's adjusted profit before tax, 96% (2021: 94%) of the Group's Revenue and 93% (2021: 93%) of the Group's Total assets. For the current year, the full scope components contributed 78% (2021: 56%) of the Group's adjusted profit before tax, 94% (2021: 92%) of the Group's Revenue and 77% (2021: 83%) of the Group's Total assets. The specific scope component contributed 20% (2021: 39%) of the Group's adjusted profit before tax, 2% (2021: 2%) of the Group's Revenue and 16% (2021: 10%) of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group. We also instructed 3 locations to perform specified procedures over certain aspects of Cash & Bank, Goodwill and Equity Investments in associates and JCE, due to significant balances held within each location.

Of the remaining 114 (2021: 97) components that together represent 2% (2021: 5%) of the Group's adjusted profit before tax, none are individually greater than 1% (2021: 1%) of the Group's adjusted profit before tax. For these components, we performed other procedures, including analytical review, intercompany eliminations and obtaining audit evidence to respond to any potential risks of material misstatement to the group financial statements.

The charts below illustrate the coverage obtained from the work performed by our audit teams.



Changes from the prior year

There have been minimal changes in scoping from the prior year. Both SGN and E&P have been removed reflecting the disposals of each entity. There have been some modifications to specific scope entities to reflect higher levels of trading within certain entities compared to the prior period to maintain appropriate coverage.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the 19 full scope components, audit procedures were performed on 2 of these directly by the primary audit team. For the 17 full scope and 16 specific scope components, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

The majority of full and specific scope components were led by the lead audit engagement partner, Annie Graham. For the remaining entities there were regular calls held between the lead audit engagement partner and component partners, with either file reviews performed by the primary team over audit documentation that has not been retained within the group audit file, or retention of key audit documentation on the group audit file.

This has been the first audit conducted by EY that was not fully remote due to COVID-19 restrictions. Other than the Irish Airtricity entities in scope, all other entities in scope were based within Scotland (Perth and Glasgow), where lead audit partner Annie Graham visited UK divisions throughout the year-end audit. The majority of management meetings continued to be held remotely across both the UK and Ireland.

These visits involved discussion of audit approach, attending planning and closing meetings (some of which were held virtually), meeting with local management and reviewing relevant audit working papers on risk areas. The primary team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed relevant working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Climate change

There has been increasing interest from stakeholders as to how climate change will impact SSE plc. The energy sector has a critical role to play in decarbonisation, by removing carbon from electricity which in turn will support other sectors. SSE operates principally within the UK and Ireland and both are seeking to achieve net zero across their economies by 2050. The UK Government's Net Zero Strategy outlines plans to decarbonise the UK's power system by 2035 and Ireland's Climate Action Plan 2021 is targeting up to 81% emission reduction from electricity by 2030.

SSE's long-term net zero ambitions are supported by a series of interim targets approved by the Science Based Targets Initiative (SBTi), as referenced by SSE within [page 54](#).

Following on from COP26, in November 2021 SSE plc published new accelerated science-based targets on the 1.5°C power sector pathway, committing to a £12.5bn five-year investment plan. SSE intend to cut absolute scope 1 and 2 emissions by 72.5% between 2017 and 2030 and are targeting net zero for scopes 1 and 2 by 2040, providing the appropriate policy mechanisms are in place to support security of supply for customers.

The Group has determined that the most significant future impacts from climate change on its operations will be from variable wind generation risk caused by changes in climate patterns, storm damage network risk through increased severity of extreme weather events, accelerated gas closure risk through climate change and wind-capture market risk where the average wholesale power prices are lower as a result of more zero marginal cost wind generation coming on to the electricity system. These are explained on [pages 42 to 55](#) in the required Task Force for Climate related Financial Disclosures and on [pages 68 to 81](#) in the principal risks and uncertainties, which form part of the "Other information," rather than the audited financial statements. Our procedures on these disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated.

As explained in note 2 within Accounting judgments and estimation uncertainty governmental and societal responses to climate change risks are still developing, and are interdependent upon each other, and consequently financial statements cannot capture all possible future outcomes as these are not yet known. The degree of certainty of these changes may also mean that they cannot be taken into account when determining asset and liability valuations and the timing of future cash flows under the requirements of IAS 36. Budgets and forecasts for SSE plc reflect the £12.5bn investment programme announced by SSE in November 2021. In notes 15 and 20 to the financial statements supplementary sensitivity disclosures reflecting the impact of climate with regards to valuation of property, plant and equipment, impairment assessment of goodwill and valuation of decommissioning provisions and the impact of reasonably possible changes in key assumptions have been provided and significant judgements and estimates relating to climate change have been described within the aforementioned notes. We have ensured the completeness of climate consideration as part of our impairment audit procedures, including those referred to within our impairment KAM below.

In order to respond to the impact of climate change, we ensured we had the appropriate skills and experience on the audit team. Our audit team included professionals with significant experience in climate change and energy valuations. Our audit procedures were carried out by the group and component teams, with the component teams working under the direction of the group team.

Our audit effort in considering climate change was focused on ensuring that the effects of material climate risks disclosed on [pages 42 to 55](#) have been appropriately reflected in asset values and useful life and associated disclosures where values are determined through modelling future cash flows, being Impairment considerations over Intangible assets and PP&E, and in the timing and nature of liabilities recognised, being decommissioning provisions. Details of our procedures and findings on impairment are included in our key audit matters below. We also challenged the Directors' considerations of climate change in their assessment of going concern and viability and associated disclosures.

In addition, in connection with our audit of the financial statements, we read the Other information in the annual report and Accounts and, in doing so, considered whether the Other information is materiality inconsistent with the financial statements, or our knowledge obtained in the audit or otherwise appeared to be materially misstated.

Whilst the group have stated their commitment to the Paris Agreement to achieve net zero emissions by 2050, and also to their acceleration plan of their net zero ambitions which plans a 5 year, 10 year and 30 year roadmap, there may still be some areas in which the group currently unable to determine the full future economic impact on their business model, operational plans and customers to achieve this and therefore as set out above the potential impacts are incorporated to the extent of management's best estimate at 31 March 2022.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditor's report to the members of SSE plc continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Impairment or reversal of impairment of certain power stations & gas storage assets (Impairment reversal 2022: £428.9m, Impairment charge 2021: £58.1m)</p> <p>Refer to the Audit Committee Report (page 157); Accounting policies (page 222); and note 15.2 of the Consolidated Financial Statements (page 264)</p> <p>Forecast based estimate: Certain power stations and gas storage assets are at risk of impairment or impairment reversal. This is due to a number of global and national factors reducing or increasing their value in use or fair value less cost of sale, triggering an impairment assessment. Our risk focussed on the following power stations: Peterhead, Keadby, Medway Marchwood, Great Island, Tarbet power plants and Aldborough and Atwick gas storage assets.</p> <p>The key assumptions include future power prices, price volatility, forecast power demand, carbon prices, discounting, useful economic life and operating expenditure.</p> <p>The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows as a result of the above factors.</p> <p>In the current year the risk has moved from impairment to impairment reversals.</p>	<p>Scoping: Testing was performed over this risk area, covering both full and specific scope components (covering six components), which represented 100% of the risk amount.</p> <p>All audit work in relation to this key audit matter was undertaken by the component audit teams, with oversight from the group audit team.</p> <p>We obtained management's assessment of potential impairment indicators in accordance with IAS 36 for powerplants and for gas storage assets.</p> <p>Audit procedures included: We have understood management's process and methodology for assessing assets for indicators of impairment, including indicators of reversal and, where applicable, we have understood management's modelling of value in use cash flows including the source of the key input assumptions.</p> <p>We checked the historical accuracy of management's forecasting and verified that the assumptions are consistent with those used in other areas.</p> <p>We considered prior period impairments for indication of reversal. This involved considering indicators of reversal, focussed on demand and gas prices, review of historic impairment charges now requiring reversal in full and consideration of future assumptions impacting reversal considerations.</p> <p>We involved three EY specialists in our assessment: a specialist with energy industry experience; a discount rate specialist and a specialist with experience of assessing forward energy prices. Using our sector experience and our specialists, we assessed any unusual or unexpected trends identified within the cashflows year on year and assessed the impact on the overall forecasted position.</p> <p>We understood the basis for refinements to useful economic life assessment. We considered incremental repairs and capital expenditure required for the extensions and obtained management's assessment of the technical feasibility of the extensions and reviewed the extension to the revised contracted power period.</p> <p>We embedded modelling expertise within the audit team to assess the appropriateness of the model parameters and clerical accuracy of the models used.</p> <p>We applied sensitivities to management's models to evaluate headroom, including sensitivities relating to climate change reflecting useful life assessment versus climate commitments and price and margin sensitivities.</p> <p>Key assumptions: Using our sector experience and our specialists we benchmarked to industry sources, where appropriate, the directors' judgement on the key assumptions including, power prices, forecast power demand, carbon prices and, discount rates.</p> <p>We verified that the assumptions are consistent with those used in other areas.</p> <p>Disclosures: We assessed the accuracy and adequacy of the disclosures in line with IAS 36, ensuring key assumptions are included and that the disclosures adequately reflect the risks inherent in the valuation of non-current assets and the impact of changes in assumptions on the reversal of impairment booked or headroom remaining.</p>	<p>We confirmed that the impairment reversal of £331.4m recognised by management for all Power Plants listed except Tarbert and £97.3m for Gas Storage assets was appropriate and was driven predominately by increased market driven demand and price assumptions and was correctly recorded in the current period.</p> <p>We communicated that the pricing assumptions applied were appropriate. We concluded that the 3 year extension in useful economic life on Keadby plant and 1 year extension on Medway plant was supportable and that the appropriate costs of which were reflected in the impairment models. The other assumptions were in line with EY assessment of expected future price movements and we highlighted the significant headroom on the power plant assets.</p> <p>We also noted that we are satisfied with the adequacy of disclosure within the group financial statements including climate related disclosures.</p>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Group and parent pension obligation (2022: £584.9m, 2021: £357.0m) Refer to the Audit Committee Report (page 156 [1]); Accounting policies (page 222 [2]); and note 23 of the group financial statements (page 282 [3])</p> <p>Subjective valuation: Small changes in the assumptions and estimates used to value the group and parent company pension obligations (before deducting scheme assets) would have a significant effect on the carrying value of those pension obligations.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the group's and parent company's pension obligation has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.</p> <p>Additional focus in FY22 has been given to the results of the SHEPS pension triennial valuation completed in 2021.</p> <p>The financial statements (note 4.1(ii)) disclose the estimation uncertainty identified by the group and company.</p> <p>There has been no change in this risk from the prior year, however additional procedures have been performed to consider the results of the triennial valuation for SHEPS.</p>	<p>Scoping: We performed audit procedures over this risk area centrally by the group team, which covered 100% of the risk amount.</p> <p>Our procedures included:</p> <p>Assessing management process: We have understood management's process and methodology for calculating the pension liability for each scheme, including discussions with management's external actuaries, walkthrough of the processes, understanding the key inputs and the design and implementation of key controls. We performed a fully substantive audit approach rather than testing the operating effectiveness of key controls.</p> <p>For the SHEPS scheme we checked the member data used in the triennial valuation for consistency with that of the IAS 19 valuation and understood the difference in basis for key assumptions which we found to be in line with our expectations.</p> <p>Assessing management experts: We have assessed the independence, objectivity and competence of the group's external actuaries, which included understanding of the scope of services being provided and considering the appropriateness of the qualifications of the external actuary.</p> <p>Assessing source data: We tested a sample of the membership data used by the actuaries to the group's records. We performed an additional sample for source data used for the SHEPS triennial valuation to ensure consistency of source data used.</p> <p>Benchmarking assumptions: With the support of our pension actuarial specialists, we assessed the appropriateness of the assumptions adopted by the directors by comparing them to the expectations of our pension actuarial specialists which they derived from broader market data.</p> <p>Disclosure: We considered the adequacy of IAS 19 disclosures, including presentation of commitments associated with deficit recovery plans and in respect of sensitivity of the defined benefit obligation to changes in the key assumptions.</p>	<p>We conclude that management's actuarial assumptions are appropriate and sit in the centre of our independently determined range. We are satisfied with the adequacy of disclosure within the financial statements.</p>

Independent auditor's report to the members of SSE plc continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Accounting for estimated revenue recognition (2022: £492.7m, 2021: £325.0m)	<p>Scope: This balance relates to one component, Business Energy. Testing was performed covering 100% of the balance in Business Energy which accounts for 68% of the unbilled balance at 31 March 2022.</p> <p>All audit work in relation to this key audit matter was undertaken by the component audit teams with oversight from the group audit team.</p>	We have performed our procedures over revenue within the Business Energy business and we are satisfied that the accrued revenue recognised by management in relation to unbilled revenue is appropriately recognised.
Subjective estimate: 68% of the unbilled revenue is recognised within the Business Energy division and is based on estimates of values and volumes of electricity and gas supplied between last meter date and year end date.	<p>Audit methodology: Our response to the assessed risk included understanding the process for estimating unbilled revenue, testing selected IT general and application key controls, substantive audit procedures and revenue data analytics.</p> <p>Tests of detail: We agreed the opening unbilled accrued income to the closing 31 March 2021 balance sheet.</p>	
The method of estimating such revenues is complex, judgemental and significant for UK business customers and requires estimates and assumptions in relation to: 1. the volumes of electricity and gas supplied to the customers between the meter reading and year-end; 2. the value attributed to those volumes in the range of tariffs; and 3. embedded impairment risk over the unbilled revenue.	<p>We agreed the volume data for customer usage of energy in the year used in the calculation to external settlement systems and agreed the volume data in relation to customer billings for the year to SSE's internal billing systems to assess for consistency and to understand remaining estimation risk.</p> <p>We have tested the unbilled unit pricing by agreeing historical pricing to sample bills, sensitising the pricing to understand the impact of different pricing assumptions, tested a sample of billing dates from the listing to confirm billing frequency and agreeing to post year end billing prices.</p>	
As a result of the estimation uncertainty this has been identified as a significant risk.	<p>We have understood and tested the historical accuracy of management's forecasting of unbilled revenue by comparing estimates to final billed and settlement amounts.</p>	
There has been no change in this risk from the prior year.	<p>We considered contra indicators to management's assumptions by assessing the impact of macro economic conditions on demand and consumption volatility and benchmarked assumptions in the underlying unbilled calculations to external publications from the industry.</p>	
	<p>Analytical review: We set expectations as to the likely level of total unbilled revenue, and compared this with actual unbilled revenue, obtaining explanation for significant variances.</p>	
We compared the unbilled revenue estimation to benchmark expectation. Benchmark expectation was derived from the external settlements data combined with billing frequency at an MPAN (Meter Point Administration Number) level, usage and price movement from last billing date to year end. We have analysed and assessed explanations for variances arising from the benchmark expectation. We also tested the appropriateness of manual adjustments made by management.	<p>Disclosure: We assessed the adequacy of the group's disclosures about the degree of estimation and judgement involved in arriving at the estimated revenue.</p>	

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Accounting for the SSE disposal programme (2022 continuing exceptional loss £17.6m, discontinuing exceptional gain £576.5m);, 2021 exceptional gain: £976.0m)	<p>Scope: Testing was performed across the primary and component teams for 77% of the disposal programme. The SGN divestment, and any held for sale considerations were audited by the group audit team.</p> <p>Where audit work in relation to this key audit matter was undertaken by the component audit teams, this was supported with oversight from the group audit team.</p>	<p>We conclude that the accounting for the current year disposals is appropriate.</p>
Refer to the Audit Committee Report (page 157); Accounting policies (page 294); and note 12 of the group financial statements (page 252)		<p>We are satisfied that the contingent consideration recognised is appropriate.</p>
Subjective estimate: SSE announced a £2bn disposal programme in FY21, which has continued into FY22.	<p>Audit procedure performed: Disposals in the current period We obtained and read the signed Share Purchase Agreements (SPA) and any subsequent amendments in relation to each of the disposals.</p>	<p>We are satisfied that the group financial statements appropriately disclose these transactions.</p>
There is a significant risk in relation to the appropriate accounting for the disposals as a result of the complexity in the final negotiated deal, specifically considering any risk regarding complex terms per the SPA or non-cash consideration elements, warranty provisions and any transitional services arrangements arising.	<p>We identified key matters within these agreements that could have a potential impact on the calculation of the disposal proceeds and the resulting gain/loss on disposal, including transitional services arrangements. We ensured key matters were agreed to supporting evidence and appropriately reflected in the gain/loss calculation.</p>	
The risk is focussed on the following key areas:	<p>We agreed the cash consideration received to the SPA and traced cash receipts to bank accounts.</p>	
Disposals in the current period:	<p>Where disposed of in the current year, we verified that the initial held for sale date was appropriate and appropriate accounting commenced upon this date.</p>	
<ul style="list-style-type: none"> • E&P (divestment of 100% ownership) • SGN (divestment of remaining 33% ownership) • Contracting (divestment of 100% ownership) • Doggerbank C (divestment of 10% of ownership) 	<p>We verified that the balances that related to the entity were deconsolidated from the group financial statements at the date of disposal.</p>	
Disposals in the prior period with ongoing material contingent or deferred consideration:	<p>This included verifying that the assets and liabilities disposed of were adjusted accordingly to reflect closing adjustments in line with the SPA.</p>	
<ul style="list-style-type: none"> • Seagreen (divestment of 51% ownership) • Slough Multifuel (divestment of 50% ownership) 	<p>Where a change in control was identified we have assessed this under IFRS 10 and IFRS 11 to ensure that appropriate classification and accounting treatment has been applied.</p>	
This risk has been amended in the current year to reflect ongoing disposals and significant contingent or deferred consideration assessments.	<p>We have assessed non-cash consideration terms within the deals and assessed the appropriateness of the accounting for contingent consideration recognised at 31 March 2022.</p>	
	<p>We have checked that the completion obligations and warranties and any disposal costs have been correctly accounted for within the gain/loss on sale calculations.</p>	
	<p>Past disposals: We have re-assessed management's assumptions and received an update on key matters which could change the original assessment of contingent consideration for past disposals.</p>	

There are no significant changes from the KAMs disclosed in the prior year audit report, other than modification of the disposal programme to focus on the current year disposals and the consideration of a wider scope with regards to impairment and to include impairment reversals.

Independent auditor's report to the members of SSE plc continued

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £57.9m (2021: £54.1m), which is 5% (2021: 5%) of adjusted profit before tax. We believe that adjusted profit before tax provides us with consistent measure of underlying year-on-year performance as it excludes the impact of non-recurring items as well as recurring items (namely movement on operating and financing derivatives) which can significantly fluctuate year-on-year and do not provide a true picture of the profit benchmark that would affect the decisions of the users of the financial statements.

We determined materiality for the Parent Company to be £95.0m (2021: £97.0m), which is 2% (2021: 2%) of Net Assets. The materiality has been capped at the group materiality of £57.9m.

Starting basis	<ul style="list-style-type: none"> Profit before tax – £3,482.2m
Adjustments	<ul style="list-style-type: none"> Movement on operating and financing derivatives – (£2,121.4m) Non-recurring exceptional items – (£269.2m) JV Tax – £46.3m Variance from forecast to actual PBT – £21.1m
Materiality	<ul style="list-style-type: none"> Totals £1,159m adjusted profit before tax Materiality of £57.9m (5% of materiality basis)

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2021: 50%) of our planning materiality, namely £28.9m (2021: £27.0m). We have set performance materiality at this percentage due to the differences identified during the prior year audit.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £4.9m to £15.9m (2021: £3.9m to £7.9m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £2.9m (2021: £2.7m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages [1 to 203](#), including the strategic report and the directors' report set out on [pages 1 to 111](#) and [112 to 203](#) respectively, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Corporate Governance Statement

We have reviewed the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group and company's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on [page 92](#);
- Directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on [page 86](#);
- Director's statement on whether it has a reasonable expectation that the group will be able to continue in operation and meets its liabilities set out on [page 203](#);
- Directors' statement on fair, balanced and understandable set out on [page 153](#);
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on [page 68 and 161](#);
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on [page 161](#); and
- The section describing the work of the audit committee set out on [page 152](#).

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on [page 203](#), the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent auditor's report to the members of SSE plc continued

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant are IFRS, FRS101, the Companies Act 2006 and UK Corporate Governance Code and relevant tax compliance regulations in the jurisdictions in which the group operates. We also considered non-compliance of regulatory requirements, including the Office of Gas and Electricity Markets (Ofgem) and regulations levied by the UK Financial Conduct Authority and Prudential Regulatory Authority. We have spoken with the SSE head of regulation to confirm our understanding.
- We understood how SSE plc is complying with those frameworks by making enquiries of management, internal audit, those responsible for legal and compliance procedures and the company Secretary. We verified our enquiries through our review of board minutes and papers provided to the Audit Committee.
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business to understand where it considered there was susceptibility to fraud. We also considered performance targets and their propensity to influence on efforts made by management to manage earnings. We considered the programmes and controls that the group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved: journal entry testing, with a focus on manual consolidation journals and journals indicating large or unusual transactions based on our understanding of the business; enquiries of legal counsel, group management, internal audit, business area management at all full and specific scope management; and focused testing. In addition, we completed procedures to conclude on the compliance of the disclosures in the annual report and accounts with all applicable requirements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Other matters we are required to address

- Following the recommendation from the audit committee we were appointed by the company on 18 July 2019 to audit the financial statements for the year ending 31 March 2020 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 3 years, covering the years ending 31 March 2020 to 31 March 2022.
- The audit opinion is consistent with the additional report to the audit committee.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Annie Graham (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
Glasgow
24 May 2022

Consolidated segmental statement For the year ended 31 March 2022

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				
Total revenue	£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	–	–	–
Total operating costs	£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
EBITDA	£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
EBIT	£m	215.5	473.5	689.0	(39.5)	18.0	(21.5)
Volume	TWh/ mTherms	10.7	9.0	19.7	12.6	218.0	
WACOF/E/G	£/MWh/p/th	13.9	–		85.4	72.0	
Customer numbers	'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
Continuing operations		
Transmission	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.
Distribution	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.
Renewables	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.
Thermal	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.

Consolidated segmental statement continued
For the year ended 31 March 2022

Business area	Reported segments	Description
Energy Customer Solutions	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.
Distributed Energy	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.
EPM & I	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.
Discontinued operations		
EPM & I	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.
Gas Distribution	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 companies¹. 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 ventures². 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.

Consolidated segmental statement continued For the year ended 31 March 2022

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.

Consolidated segmental statement continued
For the year ended 31 March 2022

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
Business Energy			
CSS Supply – Business Energy		2,323.5	(21.5)
Total Business Energy in SSE Financial Statements		2,323.5	(21.5)
Generation Business			
Renewables			
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
Total Renewables in SSE Financial Statements		776.2	568.1
Thermal			
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)	–
Total Thermal in SSE Financial Statements		1,129.2	306.3

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.

CSS audit opinion

Opinion

We have audited the financial statements of SSE plc (the Company) for the year ended 31 March 2022, which comprise the Consolidated Segmental Statement (CSS), Basis of preparation, Reconciliation of CSS to the Annual Report of SSE plc and the related disclosure notes. The financial reporting framework that has been applied in their preparation is a special purpose framework comprising the financial reporting provisions of Ofgem's Standard condition 16B of Electricity Generation licences and Standard 19A of Electricity and Gas Supply Licences.

In our opinion, the accompanying CSS of the Company for the year ended 31 March 2022 is prepared, in all material respects, in accordance with the requirements of Standard condition 16B of Electricity Generation licences and Standard 19A of Electricity and Gas Supply Licences and the basis of preparation on [pages 347 to 351](#).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) including '*ISA (UK) 800 (Revised) Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*'. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the CSS, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of 19 months through to 31 December 2023.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Emphasis of matter – basis of accounting and restriction on distribution and use

We draw attention to [pages 347 to 351](#) of the CSS, which describe the basis of accounting. The CSS is prepared to assist the Company in complying with the financial reporting provisions of the contract referred to above. As a result, the CSS may not be suitable for another purpose. Our report is intended solely for the Company, in accordance with our engagement letter dated 10 May 2022, and should not be distributed to or used by parties other than the Company. Our opinion is not modified in respect of this matter.

Other information

The other information comprises the information included in the annual report, other than the CSS and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the CSS does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the CSS itself. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

Management is responsible for the preparation of the CSS in accordance with the financial reporting provisions of Section Z of the contract, and for such internal control as management determines is necessary to enable the preparation of CSS that are free from material misstatement, whether due to fraud or error.

In preparing the CSS, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

CSS audit opinion continued

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are IFRS, FRS 101, the Companies Act 2006, the UK Corporate Governance Code and relevant tax compliance regulations in the jurisdictions in which the group operates. We also considered non-compliance of regulatory requirements, including the Office of Gas and Electricity Markets (Ofgem) and regulations levied by the UK Financial Conduct Authority and Prudential Regulatory Authority. We have spoken with the SSE head of regulation to confirm our understanding.
- We understood how SSE plc is complying with those frameworks by making enquiries of management, internal audit, those responsible for legal and compliance procedures and the company Secretary. We verified our enquiries through our review of board minutes and papers provided to the Audit Committee.
- We assessed the susceptibility of the Company's CCS to material misstatement, including how fraud might occur by meeting with management from various parts of the business to understand where it considered there was susceptibility to fraud. We also considered performance targets and their propensity to influence on efforts made by management to manage earnings. We considered the programmes and controls that the group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved: journal entry testing, with a focus on manual consolidation journals and journals indicating large or unusual transactions based on our understanding of the business; enquiries of legal counsel, group management, internal audit, business area management at all full and specific scope management; and focused testing. In addition, we completed procedures to conclude on the compliance of the disclosures in the annual report and accounts with all applicable requirements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Other matter

We have reported separately on the statutory financial statements of SSE plc.

Ernst & Young LLP

Glasgow

24 May 2022

Shareholder information

Shareholder enquiries

The Company's register of members is maintained by our appointed Registrar, Link Group. Shareholders with queries relating to their shareholdings should contact Link directly:

Link Group
10th Floor,
Central Square
29 Wellington Street
Leeds
LS1 4DL

Telephone: 0345 143 4005
Email: SSE@linkgroup.co.uk

Financial calendar

Publication of Annual Report	17 June 2022
Q1 Trading Statement	21 July 2022
AGM	21 July 2022
Ex-dividend date for final dividend	28 July 2022
Record date for final dividend	29 July 2022
Final date for Scrip elections	25 August 2022
Payment date	22 September 2022
Notification of Close Period by	30 September 2022
Results for six months to 30 September	16 November 2022

Website

SSE maintains its website, www.sse.com, to provide ease of shareholder access to information about the Company and its performance. It includes a dedicated Investors section where you can find electronic copies of Company reports and further information about shareholder services including:

- share price information;
- dividend history and trading graphs;
- the Scrip dividend scheme;
- telephone and internet share dealing; and
- downloadable shareholder forms.

Digital news

SSE uses a dedicated news and views website (available at www.sse.com/news-and-views) and Twitter (www.twitter.com/sse) to keep shareholders, investors, journalists, employees and other interested parties up-to-date with news from the Company.

Sustainable communications

SSE's sustainable communications strategy aims to reduce the volume of paper being used in its communications with shareholders and other stakeholders. Shareholders are able to access a wide range of shareholder documentation, including Annual Reports, the Notice of Annual General Meeting and useful forms through the Investors section of SSE's website, www.sse.com/investors. We encourage shareholders to accept electronic formats as the default method for accessing shareholder documentation and dividend information.

All new shareholders are automatically registered as opting to access shareholder documentation through the 'Investors' area of our website. These shareholders receive a notification, by post, when new relevant documentation has been placed on the website. Shareholders who wish to opt for printed documentation and communication should confirm this in writing to Link Group.

Shareholder portal

www.sse-shares.com

This free online service, provided by Link Group, allows shareholders to easily manage their share portfolios, including:

- View, update and calculate the market value of their shareholdings.
- Change address details and dividend payment instructions.
- View share price histories and trading graphs of listed companies.

E-communications programme

You can also choose to go a step further and sign-up to SSE's eCommunication programme which allows you to receive notification of the availability of new shareholder documentation.

Simply register on our shareholder portal www.sse-shares.com. You will require your Investor Code (IVC), which can be found on any recent shareholder communications from SSE.

Where delivery of an email fails, we will attempt to contact you by post to update your details. Keep us informed of changes to your email address through our shareholder portal www.sse-shares.com.

Dividends

The Company typically pays dividends twice yearly. Interim dividends are paid in March, and final dividends are paid in September once approved by shareholders at the AGM. With significant focus on payment methods for dividends in recent years, in terms of efficiency, cost and security, SSE plc made the decision that from September 2019, it would no longer be paying dividends by cheque. All dividends are now credited to a shareholder's nominated UK bank/building society account. If you haven't already registered your UK bank/building society account details with Link Registrar or would like to amend the details on your account, you can do this by:

- logging in to the dedicated Shareholder Portal at www.sse-shares.com; or
- calling Link on 0345 143 4005* and speaking to one of the team.

If you do not have a UK bank or building society account, your dividends can be paid directly into a bank account outside of the UK using the International Payment service. Please visit <https://ww2.linkgroup.eu/ips> for further information.

Scrip dividend

Alternatively, shareholders may want to join the Scrip dividend scheme and receive future dividends in the form of additional new shares. Further details of the Scrip dividend scheme can be found at www.sse.com/investors/shareholder-services/dividends-and-scripscheme/. You should still complete a bank mandate to enable future dividend payments should you ever withdraw from the Scrip scheme.

Share dealing

Share dealing services are available from Link Share Dealing Services.

Telephone dealing

For information on the telephone dealing service call 0371 664 0445*

Lines are open Monday-Friday, 8.00am – 4.30pm

Please have your Investor Code (IVC) ready.

Shareholder information continued

Internet dealing

For information on the internet dealing service log on to: <https://www2.linkgroup.eu/share-deal/>. Information provided on these services should not be construed as a recommendation to buy, sell or hold shares in SSE plc, nor to use the services of Link Share Dealing Services. Link Share Dealing Services is a trading name of Link Market Services Trustees Limited which is authorised and regulated by the Financial Conduct Authority. If you live in a country where the provisions of such services would be contrary to local laws or regulations, this should be treated for information only.

Dissentient shareholders

Scottish and Southern Energy plc (now known as SSE plc) was formed in 1998 following the merger of Scottish Hydro Electric plc and Southern Electric plc. The terms of the offer through which the merger was effected was that for every Southern Electric plc ordinary share held, shareholders received one Scottish and Southern Energy plc (now SSE plc) ordinary share. A number of shareholders did not respond to the original merger offer, resulting in subsequent tracing communications over the following years. In 2017, more than 12 years after the formation of SSE, a complete tracing programme was initiated through the asset reunification company Capita Employee Benefits (Consulting) Limited (Capita Tracing), to locate dissentient shareholders and reunite them with their funds. The steps agreed were designed to enable the best possible outcome for dissentient shareholders and provided clear details of the actions required to claim their asset entitlement. Following the completion of all reasonable steps over £2m (in a combination of shares and accrued dividends) was returned to dissentient shareholders. As required by the Companies Act 2006, the remainder totalling over £9m was transferred to the Chancery Division of the High Court of Justice. Unclaimed monies can still be claimed through direct application to the Chancery Division of the High Court of Justice. The process for making such an application was provided to outstanding claimants and further details are provided at www.sse.com/investors/shareholder-services/useful-information/southern-electric-unclaimed-dividends/.



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The outer cover of this report has been laminated with a biodegradable film. Around 20 months after composting, an additive within the film will initiate the process of oxidation.

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