

Risk-informed decision making

Managing SSE's risks

The execution of SSE's strategy and the creation of value from the opportunities arising from net zero are dependent on the effective identification, understanding and mitigation of the Group's Principal Risks.

Throughout 2022/23 SSE has met and managed unprecedented challenge in the markets in which it operates. As highlighted in the Chair's Statement on [pages 4 and 5](#), issues such as safety programmes, affordability, sectoral risks (such as extremely volatile commodity prices and inflationary pressures), extreme weather and climate change have featured heavily in strategic risk discussions.

While managing these external challenges, SSE has continued to make substantial progress on the execution and delivery of its Net Zero Acceleration Programme (NZAP), with in excess of £2.8bn of capital investment including acquisitions delivered during the course of the year. Supporting a just transition through continuing to create options for investment and growth by boosting energy security, supporting communities and creating green jobs, coupled with its balanced mix of businesses, uniquely positions SSE for the transition to net zero and resilience against volatility. These factors along with the ongoing geopolitical crisis in Ukraine having a significant impact on energy affordability and security of supply concerns, formed the basis of the full

review of SSE's Principal Risks that took place during the financial year.

SSE's risk management process is comprised of four main stages summarised in the diagram below. Continued maturity and refinement of our risk management framework ensures that it remains aligned with SSE's strategy and this year included the review and redrafting of the Group Risk Management Policy which is available to view on [sse.com](#).

SSE's sector review on [pages 12 to 15](#) provides more detail on the range of external factors that influenced the risk exposures to the Group over the course of the 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 (please see [page 124](#) for SSE's decision making context). 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 government policy and aims to do so in a

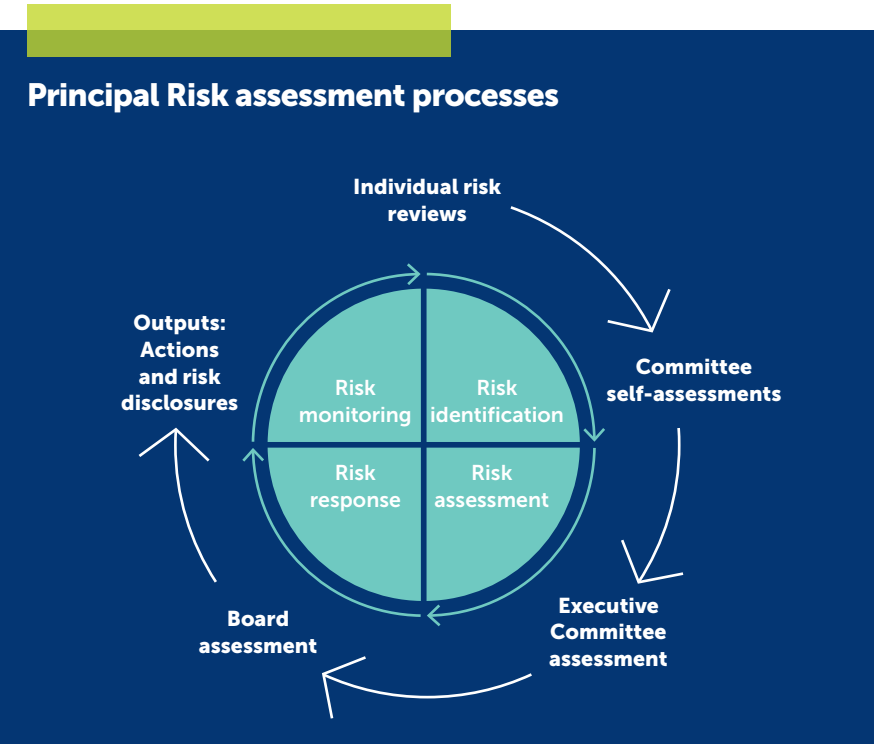
way that reflects the expectations of SSE's key stakeholder groups.

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, proximity and potential impacts of SSE's Group Principal Risks are regularly assessed by the oversight committees and the Business Unit executive committees with appropriate mitigations implemented where necessary.

Overseeing risk

The Group Executive Committee and its subcommittees (as detailed on [page 122](#)) 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 effective mitigations 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 process that results in considered and objective outputs and a robust assessment of the Principal Risks. The outputs from these committee assessments are then presented to the Group Executive Committee for full review.



Group Principal Risks

As reflected throughout the Strategic Report, this year exposures to a number of external factors, particularly those driven by macro-economic and geopolitical events, have increased materially. This, in turn, has increased the residual exposures of a number of the Group Principal Risks set out on the following pages, primarily Energy Affordability, Cyber Security and Resilience, Portfolio Exposure and Political and Regulatory Change.

The graphic below illustrates SSE's 11 Group Principal Risks positioned to highlight the residual risk impact scores against residual likelihood scores following completion of the Principal Risk Self Assessment process.

Change to individual risk rating



* 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 – Political and Regulatory Change and Portfolio Exposure.

This year, due to the pace of change in the markets in which SSE operates, an additional assessment of the Principal Risks was undertaken by the relevant subject matter experts and the Group Executive Committee during the last quarter of the financial year. The output of this was then considered, with any emerging risks or additional material changes resulting from this being proposed to the Board.

2022/23 Review Outcome

Following the 2022/23 annual review process, the number of Principal Risks to the Group remains at 11 with two revisions of note. The previously named Group Principal Risk of 'Commodity Prices' has

been redefined and renamed 'Portfolio Exposure'. The second revision relates to the previously named Group Principal Risk of 'Politics, Regulation and Compliance' which has been redefined and renamed 'Political and Regulatory Change', both of these revisions have been made in order to better reflect and articulate the risk exposures to the Group.

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. While no new emerging Principal Risks have been identified this year

important revisions have been made to the descriptions of each of the Principal Risks to take account of key changes and corresponding mitigations that were introduced during the year.

Full details of the Group Principal Risks are available on [pages 72 to 77](#). Key developments that have influenced the risk exposures to the Group have also been highlighted in detail throughout the Strategic Report.