POWERING CHANGE

SSE PLC ANNUAL REPORT 2021

sse

For a better world of energy

SSE has the largest renewable electricity portfolio in the UK and Ireland, providing 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, alongside providing energy products and services for businesses and other customers.

UK-listed and headquartered in Scotland, SSE is a major contributor to the UK and Ireland economies. It employs more than 10,000 people and is real Living Wage and Fair Tax Mark accredited.

Our reporting suite

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

- online at sse.com/annualreport2021
- in other SSE publications
- within another section of this report

Links to our stories in action can be found where you see these icons:

Engagement in Action

Board Principal Decision

APM 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 172 to 177**. The alternative performance measures SSE uses might not be directly comparable with similarly titled measures used by other companies.

Our cover: Jasmine Allen emerges from the nacelle of one of the turbines at Greater Gabbard wind farm, 12 miles off the coast of Suffolk. Jasmine, 21, is an apprentice in SSE Renewables and featured in SSE's 2021 brand campaign in the lead-up to COP26.

THE YEAR IN NUMBERS

OPERATING PROFIT
Adjusted

£1,506.5m

Reported

£2,743.5m

PROFIT BEFORE TAX
Adjusted

£1,064.9m

Reported

£2,516.4m

EARNINGS PER SHARE
Adjusted

87.5p

Reported

215.7p

DIVIDEND
Recommended for full-year

81p

DISPOSALS
Agreed cash proceeds to date

£1.5bn

CAPEX
Before refunds

£1,340.6m

ECONOMIC CONTRIBUTION UK/ROI

£5.2bn/ €439m

Coronavirus statement

The report covers the first full year of operations within the constraints of the coronavirus pandemic. Thanks to a highly resilient business model and the commitment and flexibility of its employees, SSE maintained the safe and reliable supply of electricity throughout the year and did not draw on furlough or rates relief in doing so. SSE Renewables, SSEN Transmission and SSE Thermal were not significantly adversely affected by the pandemic and the financial impact on the Group's other businesses was restricted to £170m for the year. Further detail of SSE's response to the coronavirus outbreak, and its impact, can be found in the following sections.

Chief Executive's review: page 6
Principal Risk assessment: page 54
Viability Statement: page 56
Financial review: page 64
Going Concern Statement: pages 73 and 133

Strategic Report

Directors' Report

Financial Statements

POWERING CHANGE WITH **STRATEGIC DELIVERY**

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. In delivering this strategy through its highly complementary business model, SSE is fulfilling its core purpose of providing energy needed today while building a better world of energy for tomorrow. The following Strategic Report charts SSE's recent progress in this pursuit and identifies the opportunities for growth and value creation that lie ahead as the world accelerates action to tackle climate change.

Strategic Report

Hydro electricity is a tried and tested source of green energy and SSE has 78 hydro stations, including this one at Sloy, providing clean, flexible power.

CHAIR'S INTRODUCTION

PROMOTING SSE'S **LONG-TERM SUCCESS**

This Strategic Report explains what SSE does and why we do it, the places we work, the people we work with, the external factors affecting the Group's operations, the societal and environmental considerations behind the Board's decisions and the value we create every day. In doing so, it builds on the disclosures we adopted in 2019/20 in response to new statutory requirements and the UK Corporate Governance Code 2018.

Progress through the pandemic

We can look back on 2020/21 as a year of unprecedented challenge in which SSE delivered on its purpose and consolidated its position as a driving force behind the transition to net zero. In the face of a global pandemic we played our part in "keeping the lights on", supporting the secure supply of electricity that was needed in the fight against coronavirus. We worked to keep our employees safe and adapted to new ways of working through successive lockdowns without drawing on government support schemes such as furlough or rates relief. I am grateful for the commitment shown by our employees throughout this difficult period. It is thanks to their effort that we have stayed true to our purpose of providing energy needed today while building a better world of energy for tomorrow.

The momentum that has been building behind SSE's strategic evolution in recent years gathered pace in 2020/21. The strategic milestones referred to elsewhere in this report, which include delivery on our capex and disposals programmes, have set us up for continued progress. Growing societal expectations on climate action, and signals of a more supportive policy environment in the UK through the Ten Point Plan and the Energy White Paper, combined with the Climate Action Plan in Ireland and a growing appetite for clean energy internationally, provide an exciting platform for growth at home and abroad.

The business and operating models described on pages 10 to 13 show the clear strategic logic of the Group's structure and business mix. From the synergies of our asset-rich core renewables and networks businesses providing the foundations of an investment-led decarbonised economy; to the well-located sites we have for lower-carbon thermal assets that will provide the system flexibility needed in the transition to net zero; and customer businesses providing valuable routes to market and solutions for consumers, we are powering change and creating value for shareholders throughout the net zero value chain.

In addition to coronavirus, 2020/21 presented other challenges for SSE to deal with, including Brexit and the resulting uncertainty over an Emissions Trading System agreement, as well as adverse weather which tested the resilience of our distribution networks.

We also sought agreement with Ofgem on a fair transmission price control settlement that needed to balance low costs for consumers with delivering net zero. In our view we managed to get that balance broadly right in terms of the overall investment levels in the settlement, but we had to agree to disagree on some of the technical financial parameters. Put simply, we do not believe they are commensurate with the level of investment risk. We asked the Competition and Markets Authority (CMA) to review this, but in the meantime we set about delivering the projects in our ambitious RIIO-T2 business plan.

Our financial performance for the year showed how our robust business mix and the quality of our assets helped limit the impact of coronavirus on SSE, although clearly we were not entirely immune. Our results reflected a period of significant operational delivery and strategic progress. We are well set financially for the future with world-class assets, a strong financial position and valuable growth options. Looking ahead, the opportunities presented by the transition to net zero put us in a strong position to create lasting value for shareholders.

Purpose and strategic focus

Through delivery of our purpose we are directly addressing the pressing issue of the transition to net zero and reflecting society's shifting priorities on climate change. It is a purpose that has proved resilient over the past year and as we emerge from the pandemic it takes on even greater importance, resonating with the public momentum that has grown behind a green economic recovery.

Meeting this purpose through a net zero-focused strategy of developing, building, operating and investing in electricity infrastructure and businesses ensures we are fully contributing to that green recovery. And we are putting our money where our mouth is, too, by taking more than £10bn of low-carbon projects to financial close since March 2020. The drive to decarbonise and electrify the economy presents opportunities for us and creates value for our immediate stakeholders and society more widely as investment stimulates the economy, creates green jobs and helps regions often far away from traditional financial centres.

Many of the key Board deliberations in 2020/21 outlined from page 108 related to achieving the best outcomes for our businesses, with progress made on growing our renewables pipeline at home and abroad, securing fair price control settlements for our regulated electricity networks and advancing lower-carbon thermal technologies.

Those decisions, their implementation by the executive management team and execution by our highly-skilled employees have all contributed to the strategic progress which, as described in the Chief Executive's review on page 6, is transforming the energy sector.

Global goals, local consequences

We place our strategy firmly within a wider global context, with delivery measured against goals that are set out on page 14 and directly aligned to four of the United Nations' Sustainable Development Goals on: climate action; affordable and clean energy; industry, innovation and infrastructure; and decent work and economic growth.

"Through delivery of our purpose we are directly addressing the pressing issue of the transition to net zero... It is a purpose that has proved resilient over the past year and as we emerge from the pandemic it takes on even greater importance."

The focus on strategic delivery was sharpened in October 2020 with the Board's commitment to an ambition to achieve net zero emissions (both direct and indirect) across all of our operations by 2050. This was further underlined when SSE was asked to be a Principal Partner at COP26, which aligns with our well-established Environment, Social and Governance (ESG) credentials and decarbonising strategy.

We see COP26 as an important opportunity to accelerate climate policy further as countries take the practical steps required to deliver on increasing levels of ambition. Also this year we became signatories to the Race to Zero campaign and signed up to a science-based target aligned to the 2016 Paris Agreement, which seeks a well-below 2°C global warming trajectory while pursuing efforts to limit it to 1.5°C.

Achieving net zero will mean some fundamental changes right across our economy and society. This change will create an abundance of opportunities for increased efficiency and economic prosperity, but is unlikely to benefit everyone equally. Without active intervention by and collaboration between regulators, governments, companies and others, there is a risk that the benefits of the energy transition are concentrated in some groups and that the costs unfairly impact others. We are alive to this risk and committed to fully playing our part in mitigating it.

We became the first company, to our knowledge, to publish a Just Transition strategy (see page 45) outlining the key principles we will apply. But we can't do it alone. We are actively seeking to collaborate on our strategy and we believe it is to the benefit of both the Company and its shareholders if there is enhanced engagement on climate-related matters. That is why the Board is proposing an enabling resolution to its 2021 Annual General Meeting that establishes a framework for an annual vote on SSE's Net Zero Transition report at future AGMs. We look forward to discussing this with shareholders and stakeholders in due course.

Stretching carbon targets. Investment in clean infrastructure. Economic contribution through the payment of Fair Tax and support of supply chains. Job creation and payment of the Living Wage. These are all examples of our purpose at work and our strategy in action. Together they build a compelling picture of SSE's ESG commitment and reflect a healthy business culture that is informed by the needs of our stakeholders.

A healthy business culture

The transparency of the disclosures made in this report speaks to a culture we describe simply as "Doing the Right Thing". It is this ethos that runs beneath our purpose, vision and strategy, and it is guided by a long-established set of core values, defined as Safety, Service, Efficiency, Sustainability, Excellence and Teamwork. Given the sometimes hazardous nature of our operations, Safety is regarded as our No. 1 value and promotion and measurement of it is given the highest priority right across the Group.

The values also form the basis of a code of ethical business conduct that considers the interests of all of SSE's stakeholders, and the importance of respectful relationships with them. The code, in the form of a "Doing the Right Thing Guide" was updated and republished in 2020 to help employees when faced with difficult ethical judgements.

Having succeeded Richard Gillingwater as Chair on 1 April 2021, I am grateful to him for leaving behind a Board of the size, stature and technical expertise that befits SSE's place in a highly complex, critical sector. We must now be alert to the societal changes that will surely come in a post-pandemic world. This will mean working with my fellow Directors in adapting our strategies and evolving our governance structures to ensure we continue to be successful in promoting SSE's long-term success.

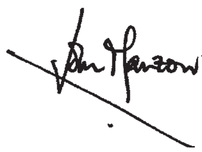
Working with stakeholders

A key function of this Annual Report is to aid understanding of how my fellow Directors and I have exercised our duties under Section 172 of the Companies Act 2006 to promote the long-term success of SSE with consideration to the views of all stakeholders.

Sustainable businesses do not operate in a vacuum; they create prosperity, they meet wider societal needs and they maintain trusted relationships with stakeholders. With this in mind, we are clear that SSE's strategy is actively meeting our social contract and our purpose is one that is ultimately seeking profitable solutions to the problems faced by people and our planet.

While Section 172 and our stakeholder interactions have been a long-standing feature of SSE's corporate reporting, our disclosure on material stakeholder issues is elevated further for 2020/21 with a standalone Section 172 Statement on page 92. This statement, the accompanying Non-Financial Reporting matrix, on page 93, and the Sustainability Report 2021 combine to demonstrate the totality of economic, social and environmental value created by SSE in 2020/21.

This Strategic Report and the associated Section 172 Statement on page 92 have been approved by the Board in line with the Companies Act 2006. As always, we welcome feedback on the report or the matters covered within it as we continue to take the Company forward, power positive change and build a better world of energy.



Sir John Manzoni
Chair, SSE plc
25 May 2021

CHIEF EXECUTIVE'S REVIEW

POWERING CHANGE **ON THE ROAD TO NET ZERO**

SSE's Chief Executive, Alistair Phillips-Davies, leads development of SSE's strategy and its execution, as agreed by the Board. He chairs the Group Executive Committee, and is the lead Executive Director for central functions such as human resources, sustainability, corporate affairs and strategy. He provides his reflections on a year of unprecedented challenge and outlines the exciting opportunities that lie ahead.

Safety is more important to SSE than ever...

The social and economic cost of the coronavirus pandemic is a reminder, should we need it, that the most important job we all have as SSE employees is to take care of our colleagues, customers and communities. Every SSE employee is empowered with the safety 'licence': if it's not safe, we don't do it.

After achieving our best ever year of safety performance in 2019/20, we built on this in 2020/21, further reducing our Total Recordable Incident Rate. In simple terms, that means fewer people were hurt – 47 down from 55 the previous year – and 271 'safe days' achieved where no injury, environmental breach, serious road traffic accident or high-potential incident occurred. In a year when the world was re-evaluating its own safety policies, our well practised procedures proved adaptable for safe working during the pandemic.

Our employees played their part in fighting coronavirus...

During what has been a very uncertain year, we've continued to be guided by our purpose: to provide energy needed today while building a better world of energy for tomorrow. This twin focus on the present and the future has characterised 2020/21 for SSE.

Very early on in the pandemic we were clear that our first priority was to support the safe and reliable supply of electricity to those who needed it, particularly those tackling coronavirus on the front lines – and I am very proud of my colleagues right across the business, but particularly those working out in the field, for the flexibility, resilience and hard work that has enabled us to do this.

To support employees through the pandemic we implemented measures to enable homeworking for non-operational staff and adopted a "flexible first" approach to help people balance radically altered work and home life patterns, including offering additional paid leave for those with caring responsibilities.

We're leading the debate on driving a green recovery...

At the same time, we recognised that there would be a need to drive economic recovery from the impacts of coronavirus, and that investment in low-carbon infrastructure could deliver a "win-win"; helping to tackle climate change while creating jobs and stimulating economies.

In May, we published our "*Greenprint for building a cleaner, more resilient economy*", which formed the basis for a year of constructive engagement with government, the regulator and industry bodies. We were therefore pleased to see the Government signal its climate action intentions in the form of the Prime Minister's Ten Point Plan for a Green Industrial Revolution, including the ambition for enough offshore wind to power every home by 2030, and the long-awaited Energy White Paper.

And we are putting our money where our mouth is...

We set out in June our plans to invest £7.5bn over a five-year period, predominantly in low-carbon infrastructure, and have made great progress on each of our flagship renewables projects. At Dogger Bank, we are building the world's largest offshore wind farm with our joint venture partners Equinor (40%), as well as Eni (20%).

The potential for Dogger Bank to create jobs and reinvigorate the north east was underlined by GE's decision to invest in a new turbine blade factory in Teesside – on the strength of the significant orders from Dogger Bank. Construction work is well under way at Seagreen, Scotland's largest offshore wind farm and the world's deepest, and at Viking, which will be one of Europe's highest-yielding onshore wind farms. Taken together these projects have already created well in excess of 1,000 skilled, green jobs and will continue to do so.

There are growth opportunities for us internationally...

We have a strong track record as a renewables developer in the UK and Ireland, and an enviable pipeline of future projects that will enable us to meet our target of trebling our renewables output by 2030. However, we see more opportunities for growth in renewables and have set out our aspiration to reach a run rate of at least 1GW of new assets a year during the second half of the decade.

Part of that will entail identifying options to bring our expertise to international markets where we see value, and we took a first step towards that when we announced plans to form a 50/50 joint venture partnership with Acciona S.A., a leading Spanish renewables developer, to enter the emerging Spanish and Portuguese offshore wind markets. We are also partnering with CIP and Danish energy company Andel Holding on the tender process in Denmark to develop the 800-1,000MW Thor wind farm off the country's west coast.

We're building a 'Transmission Network for Net Zero'...

It's clear that the UK Government's offshore wind ambitions can only be realised if there is sufficient investment in the transmission network to connect it all and transport the output to where it's needed. As we now enter the RIIO-T2 price control period, we are already getting on with delivering the network upgrades required to enable delivery of net zero. While we appealed Ofgem's final determination to the CMA on a narrow range of technical points, we are absolutely committed to delivering on our plan and see a strong case for additional

projects over and above the base case that will be key to delivering net zero.

And we are engaging with stakeholders on ED2...

If we are fully to decarbonise our economy by 2050, this will require both a significant increase in electricity demand and a fundamental shift in the way it is consumed as millions more electric vehicles, hundreds of thousands of heat pumps and embedded generation and storage come onto the system in the coming years. That means distribution networks have a critical role to play and the next price control period between 2023 and 2028, RIIO-ED2, is key to unlocking the strategic, anticipatory investment required to deliver the resilience, flexibility and responsiveness we will need.

We've consulted extensively with all stakeholders to build a robust and compelling business plan and are excited about the role we can play in the transformation journey that lies ahead.

Refocusing thermal generation for a net zero world...

As variable renewable electricity increasingly dominates the electricity systems in the UK and Ireland, SSE Thermal's fleet played an important role last year securing electricity supplies for homes and businesses when the wind did not blow and the sun did not shine.

Gas-fired electricity will continue to have a role to play for some years yet in any credible net zero pathway, but we don't envisage running any of the fleet unabated into the 2030s and have a clear ambition to decarbonise through pioneering carbon capture and storage (CCS) and hydrogen technologies.

SSE Thermal's generation plant are located in places of strategic importance to the electricity system with good proximity to industrial clusters and access to transport and storage infrastructure. Examples of this can be seen in Aberdeenshire and in the Humber where, with Equinor, we have plans to jointly develop pioneering power stations with CCS technology, and what could be the world's first major 100% hydrogen-fuelled plant.

"Our vision is to be a leading energy company in a net zero world. Our core renewables and networks businesses, as well as our complementary businesses in thermal, distributed energy and customer solutions, all have important roles to play in delivering that vision."

Construction of Keadby 2, meanwhile, is progressing well and it will be the most efficient gas plant in Europe providing a much-needed capacity boost and displacing less carbon efficient generation on the system; however, we are clear this will be the last unabated CCGT plant we build and we are already looking at options for hydrogen blending there.

Disposals have sharpened the focus on our net zero vision...

Our vision is to be a leading energy company in a net zero world. Our core renewables and networks businesses, as well as our complementary businesses in thermal, distributed energy and customer solutions, all have important roles to play in delivering that vision. Our business mix is very deliberate, highly effective, fully focused and well set to prosper on the journey to decarbonisation.

We've made great progress with our £2bn disposals programme, recycling capital from non-core assets less aligned with our vision that will help to fund growth opportunities in our core businesses and sharpen our net zero focus.

That programme continues, with agreement reached in April to sell our Contracting business and the prospective sale of our stake in SGN set to be our next material disposal (see page 16).

What we do matters and we're privileged to do it...

Above all, developments this year underline the importance of our work to provide energy needed today while building a better world of energy for tomorrow. We are delighted to be a Principal Partner of the UK Government as it prepares to host world leaders at the pivotal COP26 UN climate summit being held in Glasgow in November.

With the eyes of the world on the UK, it is a reminder that the work we are doing to decarbonise our economy and tackle climate change is vitally important – and our role in this puts us in a privileged position.

We are working hard to showcase the best the UK has to offer and engaging with a wide range of stakeholders to share our experience on the decarbonisation journey so far. There is a long way to go to deliver net zero in the next three decades – but with our clear strategic focus and expertise in low-carbon assets and infrastructure, we are extremely well placed to play an important part in this effort and create long-term value for shareholders and society along the way.

Alistair Phillips-Davies
Chief Executive
25 May 2021

OUR PURPOSE AND OUR STRATEGY

PROVIDING ENERGY TODAY, **BUILDING A BETTER TOMORROW**

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

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

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.

SSE is a purpose-led company involved principally in the generation, transmission and distribution of electricity; and also in the supply of energy and related services to customers. The delivery of SSE's purpose and execution of its strategy depend on the skills and talent of a diverse workforce, the quality of its assets and the effective identification, understanding and mitigation of risk.

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 2030 GOALS

On the road to net zero in 2050, SSE has set four interim goals aligned to the UN's SDGs for 2030.

- **Cut carbon intensity by 60%.**
- **Treble renewable energy output.**
- **Help accommodate 10m electric vehicles.**
- **Champion Fair Tax and a real Living Wage.**

SUSTAINABLE DEVELOPMENT GOALS

See pages 14 to 15 for further detail.

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 BUSINESS MODEL

Who and what we rely on

Employees

SSE's strategy and success are dependent on the shared talent, diversity and values of the people it employs.

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.

Energy customers

Consumers create demand for the energy and services SSE provides and set the tone for our purpose.

Government and regulators

SSE relies on public services and policy engagement to ensure sector frameworks are fair on both customers and investors, and able to maintain the pace needed for net zero.

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.

Suppliers, contractors, partners

SSE relies on a healthy supply chain and works with partners whose capabilities offer synergies for project development and efficient ownership structures.

Natural resources

From wind and water to produce energy, to materials used to build energy infrastructure, natural resources are essential to SSE's value creation.

Innovation and technology

SSE's innovation strategy is enabled by partnerships, talent development and digitalisation to accelerate technologies needed to achieve net zero.

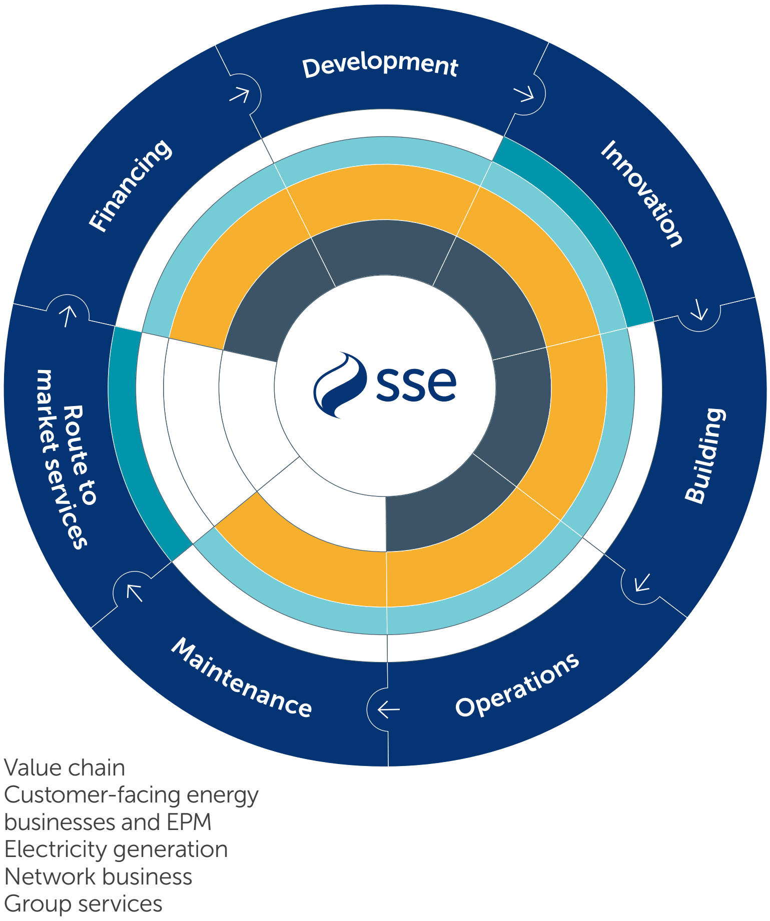
National infrastructure

SSE depends on good public services – from roads and transport to health and education – to enable its people and business activities to function and thrive.

What we do

CONTRIBUTING IN KEY PARTS OF 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 efficient group services. This business mix is strategically deployed across key parts of the energy value chain. Its businesses are engaged in early- and late-stage development, innovation, construction, operations and maintenance of low-carbon infrastructure; providing a route to market for clean energy; and financing the foundation blocks of net zero through capital allocation and equity partnering.



Our competitive advantages

Energy businesses

Development
- Project design and optimisation
- Site selection, consenting and permitting
- Community engagement and funding
- Financial modelling
- Regulatory and political management
- Bidding capability
- Value engineering
- Supply chain knowledge and relationships
- Financial partnering

Innovation
- Engineering technology centres of excellence
- Technology and digital solutions for cost-effective offshore renewables
- R&D in pumped hydro storage, CCS and hydrogen

Building
- Large capital project management
- Project controls
- Supply chain relationships, procurement and engagement on jobs and sustainability
- Multi-contracting expertise
- Engineering expertise

Operations
- In-house operation expertise of sites across all turbine technologies
- Asset optimisation
- JV relationship management
- Customer service and metering

Maintenance
- In-house maintenance expertise of sites across all turbine technologies
- Turbine engineering experience
- Risk-based maintenance expertise

Route to market services
- Energy supply
- Trading and optimisation
- Power Purchase Agreements
- Marketing and customer solutions
- Risk management
- Bid management and auction strategy
- Business development

Financing
- Project finance expertise
- Equity partnering and sell-downs

Networks businesses

Development
- Network and business planning
- Customer and stakeholder engagement
- Consenting and permitting
- Regulatory strategy

Innovation
- Accelerating the low-carbon transition
- Dedicated innovation teams leveraging regulatory funding to R&D
- Co-creation with partners to develop whole-system solutions
- Managing trials to test and scale new solutions

Building
- Large capital project management
- Supply chain relationships and procurement
- Connections management

Operations and maintenance
- Operations and field logistics
- Fault restoration
- Asset management and maintenance
- Crisis and risk management (e.g. storms)
- Distribution System Operator services
- Customer service and communications

Financing
- Regulatory finance

Group services

Development
- Regulatory and policy understanding
- Strategic insight and direction
- Sustainability and ESG credentials

Innovation
- Cross-cutting engagement on innovation in policy and markets
- Data, digitalisation and systems

Building
- Governance of large capital projects

Operations
- Robust corporate governance, compliance, reporting and BU support through shared services

Financing
- Capital allocation and disposals
- Raising finance and treasury

The value we create

Employees
RETENTION RATE
92.1%

Shareholders and debt providers
DIVIDEND
81p

Energy customers
COMBINED CUSTOMER NUMBER
1.16m

Government and regulators
POSITIVE STAKEHOLDER OUTCOMES
Constructive engagement enables SSE to create jobs, help energy consumers, pay dividends and tackle climate change.

NGOs, communities, society
TOTAL JOBS SUPPORTED
43,560

Suppliers, contractors, partners
SUPPLY CHAIN SPEND
£2.4bn

Natural resources
SCOPE 1 AND 2 EMISSIONS CUTS
14%

Innovation and technology
JOINT INDUSTRY PARTNERSHIPS
32

National infrastructure
GDP CONTRIBUTION UK/ROI
£5.2bn/€439m

OUR OPERATING MODEL

A HIGHLY COMPLEMENTARY MIX OF **NET ZERO-FOCUSED BUSINESSES**

Core

Energy businesses

SSE Renewables

What it does
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, power purchase agreements, and government support schemes for renewable energy.

Delivery and growth page 83

Networks businesses

SSEN Transmission

What it does
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.

Delivery and growth page 79

SSEN Distribution

What it does
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.

Delivery and growth page 81

Renewables and networks are key to enabling a net zero economy, have significant growth potential and, importantly, they fit together. With common skills and capabilities, there is a strong strategic logic to them forming the low-carbon electricity core of SSE. SSE will only retain other businesses where they are highly complementary to that core and contribute to the transition to net zero.

Complementary

SSE Thermal

What it does
Generates electricity from thermal sources in a reliable way, supporting balancing of the electricity systems in GB and Ireland. In addition, SSE Thermal's **Gas Storage** business holds around 40% of the UK's underground capacity.

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.

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.

How it is remunerated
Through the wholesale energy market, Capacity Market and ancillary services market.

Delivery and growth page 86

Customers

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).

Delivery and growth page 88

SSE Enterprise

What it does
Following the sale of its Contracting arm, SSE Enterprise is increasingly focused on **distributed energy** solutions. The business invests in, builds and connects localised flexible energy infrastructure. It offers integration, aggregation and trading capability via the Energy as a Service platform and provides digital services for buildings, cities and businesses.

Who it does it for
The public sector and commercial and industrial markets in the UK and Ireland.

How it supports net zero
Through offering grid edge services, bringing 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, CPPAs and public and private sector tenders.

Delivery and growth page 90

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.

Delivery and growth page 91

Group services

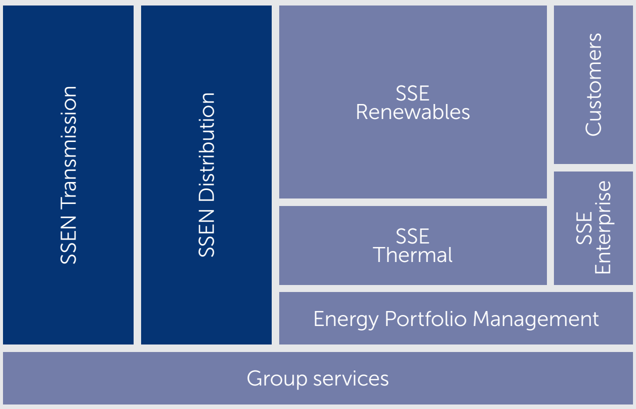
What it does
Provides cost-effective shared HR, legal, finance, IT, procurement, investor relations, corporate affairs and other services. Ensures compliance with SSE's regulatory requirements as a listed company. Develops a strategic framework that maintains the Group's focus on net zero through targeted 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 core and complementary businesses 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.

How it all fits together



OUR BUSINESS GOALS FOR 2030

MEASURES OF **PROGRESS**

SSE has four 2030 business goals linked to the UN's Sustainable Development Goals (SDGs).

In early 2019 SSE aligned its business objectives to social objectives, choosing to link four core 2030 business goals to the United Nations SDGs. These 2030 targets provide important interim milestones on the journey to net zero in 2050. Good progress was made in 2020/21 towards the achievement of these aspirations.

Cut carbon intensity by 60%

SSE made important strategic progress in 2020/21 towards achievement of its science-based 2030 goal to cut by 60% the carbon intensity of electricity generated.

With construction under way on three large-scale wind farms and the rationalisation of SSE's higher-carbon activities, SSE's transition to net zero continues apace.

SSE's last coal plant ceased operation on 31 March 2020, meaning that 2020/21 represented the first year since 2005 that SSE's generation fleet contained no electricity output from coal. Carbon intensity of electricity generated in the year was the lowest since SSE's records began. Nevertheless, more carbon reduction progress is still to be made and SSE is progressing plans with Equinor to develop carbon capture and storage generation plant at Keadby in Humberside and Peterhead in northeast Scotland, as well as what could be the world's first hydrogen-fired power station at Keadby.

In the short term, the carbon intensity of electricity generated by SSE reduced by around 11% compared to the previous year, a decrease of over 16% from the 2017/18 baseline. Year-to-year variation is to be expected based on external factors, however the long-term trajectory is clear.

SUSTAINABLE DEVELOPMENT GOALS — 13 CLIMATE ACTION

Treble renewable energy output

Good progress made in 2020/21 on the development and construction of wind farms, despite the operational challenges posed by coronavirus, gives SSE confidence that it will exceed its target of trebling renewable energy output by 2030 compared to a 2017/18 baseline.

Final investment decisions taken on projects in early 2020/21, and ongoing construction, mean SSE is now building more offshore wind than any other company in the world. SSE reached a final investment decision (FID) on Dogger Bank A and B offshore wind farms (with Dogger Bank C aiming to reach financial close later this calendar year), Seagreen, and Viking in Shetland. These projects will be, respectively, the largest offshore wind farm in the world, the largest offshore wind farm in Scotland and one of the highest-yielding onshore wind farms in Europe. Further progress was made on several other renewable projects over the year, see pages 17 and 19 for further detail.

While renewable energy output decreased between 2019/20 and 2020/21, from 11,442GWh to 10,242GWh, due to unfavourable weather conditions across both wind and hydro, 2020/21 represented an increase of 4% compared to the 2017/18 baseline.

SUSTAINABLE DEVELOPMENT GOALS — 7 AFFORDABLE AND CLEAN ENERGY

Help accommodate 10m electric vehicles

Collaboration has been key in 2020/21, with SSEN Distribution moving ahead on innovation projects with partners to support flexible markets and future infrastructure provision for the mass adoption of electric vehicles (EVs). In addition, SSE has continued with its own EV roll-out across the organisation.

Major innovation projects have included: Project LEO, which over 2020/21 continued to test demand and generation matching, flexibility and balancing across the Oxford region; Optimise Prime, a fleet electrification project which has moved into physical trials; and Skyline, a first-of-its-kind project launched in 2020/21, which will establish data sharing with the automotive and charge point industries to allow early visibility of planned domestic EV charger connections. SSEN Distribution is also a core member of the Scottish Government's Strategic EV Partnership.

Supporting the EV industry, SSE continues to increase the proportion of EV used in its own operations. Over 2020/21, the Company launched a new low-emission company car scheme and installed the infrastructure needed for the charging of operational and employee cars at SSE sites. The Company is also trialling a small fleet of fully electric vans.

SUSTAINABLE DEVELOPMENT GOALS

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Champion Fair Tax and a real Living Wage

In addition to retaining its Fair Tax Mark and Living Wage accreditations, in 2020/21 SSE became one of a handful of companies that have achieved Living Hours accreditation.

In March 2021, SSE became one of the first companies in the UK to gain Living Hours accreditation. This accreditation is timely given the insecurity of work for many people caused by the coronavirus jobs crisis. SSE also became Chair of the Living Wage Business Leadership Group in Scotland, of which it has been a member since 2014, at the end of 2020/21. The Company sits on the Living Hours Steering Group at a UK level and has taken a leading role in supporting development of a formal accreditation process for the real Living Wage in Ireland.

SSE published its Talking Tax 2020 report, offering leading transparent disclosure of its tax approach and payment of taxes. SSE met the threshold for accreditation in its annual Fair Tax Mark assessment in 2020, the seventh time it has done so.

SUSTAINABLE DEVELOPMENT GOALS

8 DECENT WORK AND ECONOMIC GROWTH

OUR STRATEGY IN ACTION

OUR STRATEGY **IN ACTION**

SSE has worked through the challenges of coronavirus to make significant progress in delivery of its strategy, from hitting project milestones to successful disposals and effective partnering and advocacy.

Streamlining the Group

EXECUTING OUR DISPOSALS PROGRAMME

In June 2020, SSE set out plans to secure proceeds of at least £2bn from disposals of assets and businesses considered to be 'non-core' on the basis they are less aligned with the transition to net zero emissions or because SSE is not the principal operator.

This continued work undertaken since 2014 to streamline the SSE Group, sharpen its focus on businesses contributing to decarbonisation, and recycle capital from mature assets into further growth and development opportunities.

Significant progress has been made towards this target during the course of 2020/21:

- In September 2020, SSE completed the sale of its 25.1% non-operating stake in Walney offshore wind farm to Greencoat Wind plc for a total consideration of £350m. The stake equated to 92MW of capacity.
- Also in September, SSE agreed to sell its 33% equity share in meter asset provider MapleCo to Equitix, receiving a total consideration of £95m.
- In October, SSE entered into an agreement to sell its 50% share in energy-from-waste ventures Multifuel Energy Limited (MEL1) and Multifuel Energy 2 Limited (MEL2) to European Diversified Infrastructure Fund III, an infrastructure fund managed by First Sentier Investors, for a total cash consideration of £995m.
- In December, the Company agreed to sell all of its interests in its portfolio of gas exploration and production (E&P) assets to Viaro Energy via its subsidiary RockRose Energy Limited for a total consideration of £120m. This transaction, subject to regulatory approval and partner consent, is expected to be complete by the end of the 2021 calendar year.
- And the 2020/21 financial year opened with the sale of SSE's Contracting business to Aurelius Group on 1 April at an enterprise value of £27.5m. As part of this transaction some 2,000 former SSE employees were transferred over to a new contracting business that is expected to have good growth prospects.

Cash proceeds from these transactions will total over £1.5bn, representing considerable progress. SSE's next material disposal will be the future divestment of SSE's 33.3% non-operating financial interest in SGN. In light of market developments, and in consideration of the RIIO-G2 price control referral to the CMA, in March 2021 SSE stated its intention to divest all of its equity stake in SGN. It now expects to commence a formal sale process in mid-summer 2021, with the intention of having an agreed sale by the end of the calendar year.

The progress of the disposals programme underlines SSE's commitment to achieving its vision of being a leading energy company in a net zero world. It leaves the Group's business mix more focused on developing, building, operating and investing in the electricity assets and businesses needed in the transition to net zero, with the proceeds helping directly to support investment in these assets.

CASH PROCEEDS FROM DISPOSALS AGREED SINCE THE START OF 2020/21

£1.5bn

Key

Build Operate Invest Develop

Project milestones

GROWING AT HOME, SEEKING OPPORTUNITIES ABROAD

SSE is committed to developing and building more assets to achieve a renewable output of 30TWh per year, or a trebling of 2017/18 levels, by 2030.

In the year that SSE Renewables set out its ambitions to expand its expertise beyond the UK and Ireland, there have been a number of key announcements for projects in its pipeline.

SSE Renewables has been at the forefront of the renewables revolution and has engaged constructively with a range of stakeholders in its pursuit to treble SSE's renewable output. SSE has engaged with key officials in the UK, Ireland and European Commission to showcase the benefits of putting renewables at the heart of net zero. This has involved constructive engagement on barriers to reaching the UK's 40GW offshore wind by 2030 target, urging the Irish Government to re-commit to delivering 1GW of new offshore wind by 2025 in the Irish Sea, and discussions on the European Offshore Renewable Strategy.

Construction is under way for what will be the world's largest offshore wind farm at Dogger Bank and SSE has used its position as a leader in the offshore wind sector to support the development of a UK supply chain, create substantial local jobs and maximise UK supply chain opportunities.

In September 2020, SSE Renewables announced that the Dogger Bank joint venture would become the first offshore wind farm in the world to install the innovative 13MW GE Haliade-X turbines. Six months later, Dogger Bank was the anchor project for GE's new blade manufacturing plant in Teesside, creating 750 new green jobs. Aberdeen's North Star Renewables was also awarded contracts worth an estimated £270m to design and deliver the service vessel fleet for Dogger Bank.

Coire Glas, the UK's largest planned pumped hydro storage scheme, was granted revised consent by the Scottish Government in October 2020, marking another step towards helping Scotland and the UK deliver their net zero ambitions. In February 2021, a study by independent researchers from Imperial College London found that just 4.5GW of new long duration pumped hydro storage with 90GWh of storage could save up to £690m per year in energy system costs by 2050.

In the Energy White Paper, the UK Government stated that long-duration storage technologies like pumped hydro storage would play an essential role in decarbonising the UK's electricity supply by integrating renewable energy and maintaining security of supply.

With many countries setting out increasingly ambitious climate change targets, the market for renewables globally is growing rapidly and SSE continues to develop options for exporting its long-held renewables expertise to new geographies. In February 2021, SSE Renewables and Acciona S.A., a leading Spanish renewable energy developer, owner and operator, announced plans to form a 50/50 joint venture to enter the emerging Spanish and Portuguese offshore wind markets.

Meanwhile, SSE Renewables is partnering with CIP and Danish energy company Andel Holding on the tender process in Denmark to develop the 800-1,000MW Thor wind farm off the country's west coast. Elsewhere, North West Europe and North America have wind potential onshore and offshore, whilst Japanese offshore wind is of interest, too.

Emerging international options present undoubted opportunities to diversify SSE's pipeline; however, capital discipline will continue to guide investment decisions.

The optimisation of existing operations is boosting the output and value of SSE Renewables' hydro fleet, and looking to the future Coire Glas could provide even more flexibility to the energy system.

OUR STRATEGY IN ACTION CONTINUED

Increasing demand for electric vehicle infrastructure creates opportunities for distribution network operators like SSE.

Positive advocacy

ENGAGING WITH GOVERNMENT ON A GREEN RECOVERY

SSE has a long-established political engagement policy which ensures the highest standards of probity and respect in its dealings with regulators, non-departmental public bodies and the institutions of government.

It makes representations to institutions of government in a politically neutral and fair way, representing its position truthfully and honestly, and reflecting the Company's purpose which puts addressing the challenge of climate change at its core.

The publication in May 2020 of SSE's *Greenprint for building a cleaner more resilient economy*, saw SSE lay out practical steps that could be taken to help instigate a green recovery and accelerate progress towards decarbonisation targets.

The Greenprint formed the basis of constructive engagement with political stakeholders in Westminster, Edinburgh, Belfast and Dublin, while as a Principal Partner of COP26 (see page 24) SSE aims to support the UK Government's efforts to drive more urgent and ambitious international action on climate change.

The UK Government is committed to making offshore wind the central pillar of net zero and in the Ten Point Plan for a Green Industrial Revolution, the Prime Minister hailed it as a major British success story. Over the next decade, Britain wants to quadruple its offshore wind capacity to 40GW, enough to power every home, and boost jobs in the sector.

Meanwhile, SSE has engaged positively with stakeholders in Westminster and Holyrood regarding the role of carbon capture and storage (CCS) in reaching net zero and is actively participating in the UK Government's process to develop pilot projects within industrial clusters. The UK Government wants to see four CCS clusters in the UK by 2030 and intends to work with industry to generate 5GW of low-carbon hydrogen production capacity by 2030.

SSE has put forward the case that CCS and hydrogen can provide vital flexible low-carbon power to help balance a renewables-led system in the transition to net zero, bridging emerging capacity gaps this decade as coal and older gas stations come to the end of their lives, and enabling wider decarbonisation and economic growth in key industrial regions across the UK.

Meanwhile SSE has called for an acceleration of the decarbonisation of transport and promotion of EV take-up by ending the sale of new petrol and diesel cars and vans by 2030. It therefore welcomed the UK Government's decision in December 2020 to set a 2030 end date, backed up by a £2.8bn support package for the automotive sector. Since this announcement, a number of leading car manufacturers have confirmed they will be fully electric by 2030.

This increased ambition opens further opportunities for SSE Enterprise and SSEN Distribution, which are facilitating the electrification of transport and heat at the heart of their business plans. Distribution networks will have a critical role in accommodating the charging points required for EVs that can make the UK's net zero ambition a reality.

> "The publication of SSE's Greenprint for building a cleaner, more resilient economy formed the basis of constructive engagement with political stakeholders."

Key

Build Operate Invest Develop

Partnering for growth

WORKING WITH OTHERS TO CREATE INCREASED VALUE

The strong interest from investors in low-carbon electricity infrastructure presents opportunities for SSE to form new financial partnerships that fit with a strategy of developing and operating – but not necessarily wholly-owning – assets.

SSE continues to regard partnering capability as vital for the future and an important means of unlocking future opportunities in its core businesses. Through SSE Renewables, in 2020/21 SSE continued its established approach to partnering to capitalise on the significant development opportunities ahead related to net zero.

In December, SSE entered into an agreement to sell a 10% stake in the first two phases of Dogger Bank wind farm to Eni for an equity consideration of £202.5m, subject to adjustments for interest on closing – with the proceeds to be used to enable delivery of its low-carbon growth plans. This transaction leaves a Dogger Bank A and B ownership structure of SSE 40%, Equinor 40% and Eni 20%.

The rationale for strategic partnering of this nature is strong. SSE is well placed to manage development risk; but selling down stakes to retain typically 30-40% equity interest in a project and working with equity partners for construction, and/or operation, brings a number of benefits:

- It allows SSE to secure developer premiums and realise value at the earliest opportunity.
- It reduces overall risk and financial exposure on large-scale projects.
- It avoids a large increase in net debt that is not earning.
- It enables SSE to bring in partners with complementary skills and access new markets and technologies.
- It appeals to the different risk appetites of different partners at different stages of the project cycle.

This approach to partnering and financing in Renewables provides further optionality to ensure SSE's enviable development pipeline is optimised. Delivering the current pipeline will add, on average, over 500MW of renewables capacity each year to 2030.

In addition, with upcoming seabed auctions and the work being done to identify opportunities to expand the portfolio internationally, SSE has clear aspirations to reach a run rate of at least 1GW of new assets a year during the second half of this decade, which will support government ambitions on net zero.

SSE also reiterated that it will consider extending the partnering approach to stakes in its core SSEN Transmission and SSEN Distribution businesses over the medium term, should it consider that the released capital could facilitate the realisation of greater growth opportunities across its core businesses.

These would be minority stakes, enabling SSE to retain the lead role in relation to governance and also operational control. And any partnership would only be entered into if it was deemed to be in the interests of customers, the electricity system as a whole, and shareholders to do so.

SSE ASPIRES TO REACH A YEARLY RUN RATE OF NEW ASSETS DURING THE SECOND HALF OF THE DECADE OF AT LEAST

1GW

Partners and specialist suppliers support SSE in the construction of major projects such as Beatrice wind farm off the coast of Caithness.

OUR STRATEGY IN ACTION CONTINUED

Keadby 2, with its new technology CCGT, will displace less efficient thermal plant on the energy system.

Pioneering CCS and hydrogen

REPURPOSING THERMAL GENERATION FOR A NET ZERO WORLD

For SSE Thermal, providing the energy needed today while building a better world of energy for tomorrow means delivering flexible and reliable power, while pioneering low-carbon solutions that will be needed in the future.

As the UK progresses to net zero, 'dispatchable' power is a fundamental requirement of a renewables-led system, providing stability to the grid through provision of flexible system services, increased system diversity and security of supply. The challenge is to find ways to reduce the carbon emissions associated with this progressively. And progress is being made on that front: in 2020/21, carbon emissions associated with SSE's thermal fleet reached the lowest level since SSE records began.

While some companies simply choose to sell their unabated plant, that does nothing to address the underlying challenge of finding low-carbon ways to generate electricity flexibly.

Achieving net zero cost-effectively will require a transition from unabated to ultra low-carbon gas-fired generation. This is expected to involve carbon capture and storage (CCS) and, in the longer term, widespread use of hydrogen as an alternative fuel to hydrocarbons. Both technologies have been identified as necessary for meeting net zero by the Committee on Climate Change and in National Grid's Future Energy Scenarios.

In terms of SSE's thermal plant, with the exception of Keadby 2, Marchwood and Great Island, SSE cannot envisage any of the fleet running into the 2030s unabated. Instead, the focus is on developing the flexible but ultra low-carbon solutions needed in a net zero world, capitalising on both SSE's considerable engineering capabilities and the excellent locations of SSE's sites close to emerging transport and storage infrastructure.

In April 2021, SSE announced a new partnership with Equinor to jointly develop two first-of-a-kind power stations in North Lincolnshire: Keadby CCS and Keadby Hydrogen, which could be the world's first 100% hydrogen-fuelled power station. And in May, SSE and Equinor announced a similar partnership to develop a further cutting-edge CCS power station at Peterhead in Aberdeenshire. These would be key projects in the Humber and north-east Scotland clusters, and are well located to underpin emerging transport and storage infrastructure, which in can in turn support broader industrial decarbonisation.

The announcement followed significant steps forward in the development of SSE's own plans for the projects through 2020/21, with progress made on applications for development consents for both Keadby CCS and Peterhead CCS.

Ultimately these projects will require supportive policy mechanisms to be put in place and the UK Government has set out a framework for delivering investment within industrial clusters which is expected to progress at pace during 2021/22. With initial successful clusters and capture projects expected to be identified by November, SSE, alongside others in the industry, is continuing to engage on its projects with the UK Government as it looks to demonstrate international leadership through its domestic decarbonisation agenda ahead of COP26.

"Dispatchable power is a fundamental requirement of a renewables-led system."

Key

Build Operate Invest Develop

Networks price controls

DELIVERING ON RIIO-T2, PLANNING FOR RIIO-ED2

In preparation for the next regulatory price control, RIIO-T2, SSEN Transmission developed a stakeholder-led business plan over an 18-month period. The plan, *A Network for Net Zero*, covers the period from April 2021 to March 2026. Similarly, SSEN Distribution is building a business plan to submit to Ofgem for RIIO-ED2, the next electricity distribution price control period, which will run from 2023-2028.

In order to develop its objectives, SSEN Transmission worked closely with a broad range of stakeholders, including consumer advocacy agencies such as Citizens Advice and Citizens Advice Scotland, to ensure delivery of a responsible and sustainable business plan that was reflective of the current and future needs of customers and GB consumers.

This was led by a thorough action plan and set out how SSEN Transmission plans to engage with stakeholders. It described key engagement principles and mapped the multiple stakeholders that use or have an interest in the business' strategy and objectives, such as but not limited to generation customers, the supply chain, consumer groups, and communities who host SSEN Transmission's infrastructure.

Based on feedback received, the final plan aimed to support both the UK and Scottish Governments' net zero emissions targets and meet the needs and expectations expressed by stakeholders through five clear, ambitious goals:

- Transport the renewable electricity that powers 10m homes.
- Aim for 100% transmission network reliability for homes and businesses.
- Every connection delivered on time.
- One third reduction in greenhouse gas emissions.
- £100m in efficiency savings from innovation.

In delivering this plan, SSEN Transmission recognises the importance of creating benefit to society through a Just Transition. While its first priority is safely to deliver a robust, efficient and reliable network to customers in the North of Scotland. In delivering this essential service, SSEN Transmission also has a responsibility to customers, employees, communities and shareholders to ensure this need is met in the most responsible way possible.

In February 2021, SSEN Distribution published its Blueprint for RIIO-ED2, *Shaping a sustainable energy future*.

This document helped provide stakeholders with a solid platform of understanding from which it could explore specific challenges, topics, or regional issues that may be of interest. A microsite was also developed, while a variety of events were held with stakeholders, both at a local and a national level.

The development of SSEN's ED2 plan has been a continuous conversation and it will oversee a critical period as the network responds to dramatic increases in electric vehicles and electric heat demand in line with government policy. Working with consultants Regen and local stakeholders, SSEN Distribution projections show an 'in area' increase of EVs and heat pumps from circa 30K each today to 5m and 2.5m respectively by 2050. Stakeholders' views are critical and with the draft business plan submitted this summer, there will be further in-depth consultation to fine tune the plan over the remainder of 2021.

SSEN TRANSMISSION'S RIIO-T2 BUSINESS PLAN AIMS FOR EFFICIENCY SAVINGS OF

£100m

While appealing against certain elements of the RIIO-T2 price control settlement, SSEN Transmission is getting on with delivering its ambitious business plan.

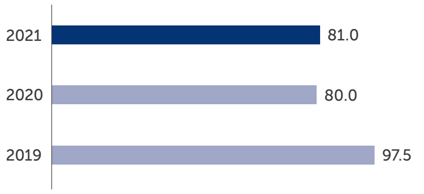
KEY PERFORMANCE INDICATORS

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

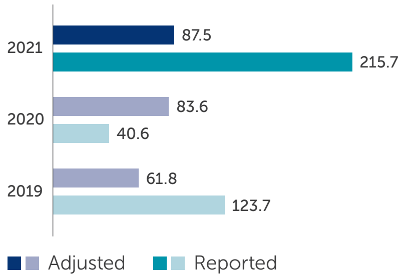
DIVIDEND PER SHARE (PENCE)



Strategic relevance: SSE's first financial objective is to remunerate shareholders' investment through the payment of dividends.

Performance: The recommended full-year dividend for 2020/21 is in line with the five-year dividend plan to 2023.

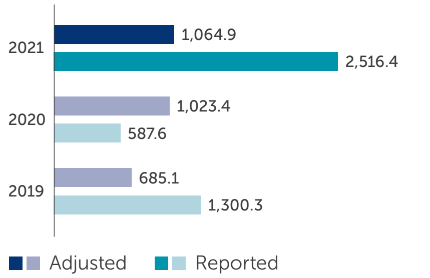
ADJUSTED APM AND REPORTED EARNINGS PER SHARE (£M)



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

Performance: Results reflect the underlying resilience of SSE's business model and the fact that the financial impact of coronavirus was held to £170m. A marked rise in reported numbers underlines the value created by the disposals programme.

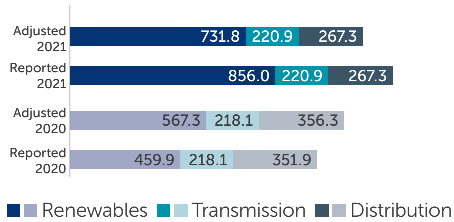
ADJUSTED APM AND REPORTED PROFIT BEFORE TAX (£M)



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

Performance: Results reflect the underlying resilience of SSE's business model and the fact that the financial impact of coronavirus was held to £170m. A marked rise in reported numbers underlines the value created by the disposals programme.

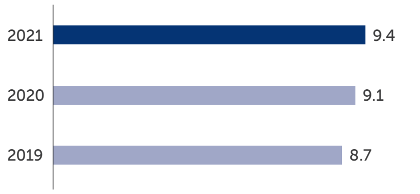
ADJUSTED APM AND REPORTED OPERATING PROFIT BY CORE BUSINESS (£M)



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 core renewables and regulated electricity networks businesses accounted for 81% of Group adjusted operating profit.

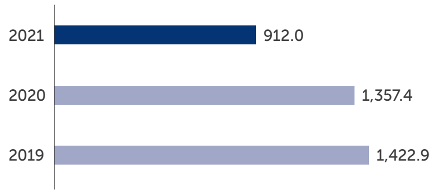
COMBINED NETWORKS REGULATED ASSET VALUE (£M)



Strategic relevance: SSE currently has an ownership interest in five economically regulated networks, each of which has a Regulated Asset Value or RAV.

Performance: Compared to 2019/20, the RAV of SSE's electricity networks businesses (i.e. excluding SGN) increased from £7.2bn to £7.4bn.

ADJUSTED APM INVESTMENT AND CAPITAL EXPENDITURE (£M)



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.

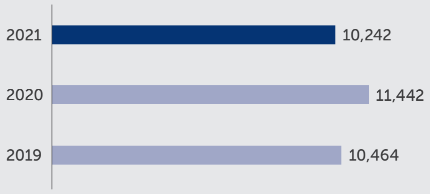
Performance: SSE has demonstrated through effective capital allocation and optimal capital recycling and partnering it can take advantage of the opportunities in its existing financial framework.

More information

SSE's social contribution: **page 32**
Financial Review: **pages 64 to 77**
Transmission Operating Review: **pages 79 to 80**
Distribution Operating Review: **pages 81 to 82**
Renewables Operating Review: **pages 83 to 85**

Non-financial KPIs

RENEWABLE OUTPUT (INC. PUMPED STORAGE) (GWH)*

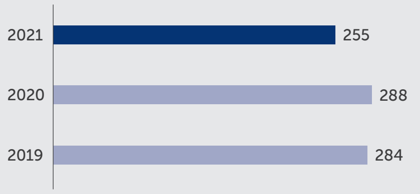


Strategic relevance: Renewables are core to SSE's business strategy, which is centred around the net zero transition. SSE has a goal of trebling its renewable output by 2030.

Performance: Whilst renewable output decreased slightly due to unfavourable weather conditions across wind and hydro, SSE Renewables' portfolio proved to be extremely resilient.

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

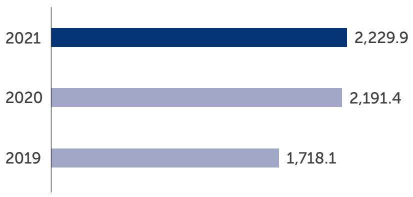
CARBON INTENSITY OF ELECTRICITY GENERATED (GCO_2E PER KWH)



Strategic relevance: As a significant generator of electricity, SSE has a responsibility to reduce its carbon intensity in line with climate science.

Performance: The carbon intensity of SSE's generated electricity decreased by 11% between 2019/20 and 2020/21, and was the lowest since SSE's records began.

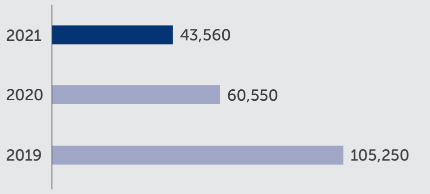
ADJUSTED APM EBITDA (£M)



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

Performance: Results reflect the underlying resilience of SSE's business model and the fact that the financial impact of coronavirus was held to £170m, at the lower end of the guided range.

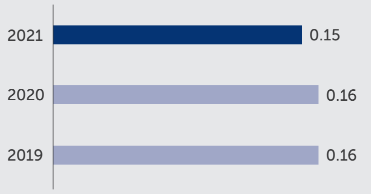
JOBS SUPPORTED IN UK AND IRELAND



Strategic relevance: SSE relies on the people that work for it in order to operate, with its activities supporting jobs in both urban and rural areas.

Performance: Through its operations in the UK and Ireland, in 2020/21 SSE supported 41,400 and 2,160 jobs respectively. Figures for 2019/20 have now been restated to exclude SSE Energy Services.

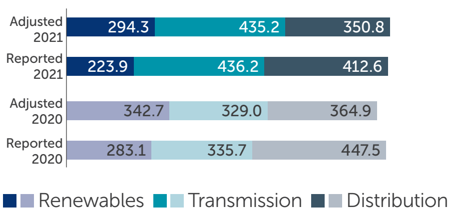
TOTAL RECORDABLE INJURY RATE PER 100,000 HOURS WORKED (EMPLOYEES AND CONTRACTORS COMBINED)



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: Against the backdrop of a challenging year, SSE's TRIR has decreased to 0.15, making 2020/21 SSE's best year on record for safety performance.

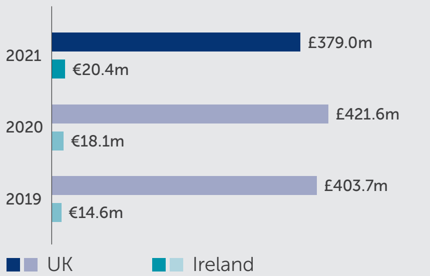
INVESTMENT AND CAPITAL EXPENDITURE BY CORE BUSINESS, BEFORE REFUNDS (£M)



Strategic relevance: The main focus of SSE's investment and capital expenditure is on renewable energy and regulated electricity networks.

Performance: SSE invested £1.08bn in its core businesses, representing 80% of its total capital and investment expenditure for the year.

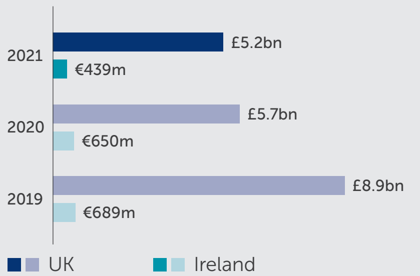
TAXES PAID IN THE UK/IRELAND



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: Taxes paid in the UK decreased slightly in 2020/21 and increased in the Republic of Ireland.

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 continued to make a strong economic contribution in the UK and Ireland. Figures for 2019/20 have now been restated to exclude SSE Energy Services.

SECTOR REVIEW

OUR OPERATING ENVIRONMENT

The energy sector has demonstrated tremendous resilience in the face of challenges brought about by the coronavirus pandemic. It has been tested rigorously since March 2020 and traditional energy demand patterns have been disrupted, underlining the need for a flexible, resilient system to reach net zero.

Net zero

TIME TO DELIVER ON CLIMATE PLANS

Countries representing 70% of the global economy have committed to net zero. There is now a need to move from ambition to action.

SSE is proud to be a Principal Partner of COP26. It will be the most important climate summit since COP21 and critical for global action on climate change. In September 2020, China joined a growing number of countries in adopting a mid-century net zero goal, and Joe Biden's electoral victory ensured that the United States rejoined the Paris Agreement, with his climate envoy, John Kerry, calling COP26 the "last best chance" to avert a climate catastrophe. If the summit is to be a success, these declarations must be translated into deliverable climate action plans.

Late 2020 saw a significant number of energy and climate policy announcements in both the UK and Ireland. In November, the UK Prime Minister published his Ten Point Plan for a Green Industrial Revolution setting out plans to quadruple the UK's offshore wind capacity and deliver 5GW of hydrogen production capacity by 2030. This was followed in December by the Energy White Paper which set the direction of travel for UK energy policy, and subsequently, the publication of the Climate Change Committee's Sixth Carbon Budget analysis.

In the US, the Biden Administration has committed to a Plan for Clean Energy Revolution and Environmental Justice which proposes ensuring the US achieves a 100% clean energy economy and reaches net zero emissions no later than 2050. There have also been significant policy developments in the European Union, including the pathway to climate neutrality by 2050. Last year, the European Commission published strategies on energy system integration, hydrogen and offshore renewable energy. And in response to the coronavirus pandemic, a political agreement was reached on a €672.5bn Recovery and Resilience Fund, of which a minimum of 37% should support climate objectives.

SSE finds itself firmly on the right side of the climate argument, with a net zero-focused strategy that is playing a major role in decarbonising the economy and creating lasting value for shareholders and society.

Chief Executive Alistair Phillips-Davies and Group Energy and Commercial Director Martin Pibworth mark SSE's Principal Partnership of COP26.

Capital flow

A PIVOTAL MOMENT FOR ESG INVESTMENT

Against the backdrop of the pandemic and calls to "build back better", it has been widely acknowledged that 2020 was a pivotal year for sustainable investment in which there is some evidence that Environmental, Social and Governance (ESG) portfolios have performed with resilience.

ESG investment is growing. According to 2021 data from the European Fund and Asset Management Association, in Europe, net assets in ESG funds grew to €1.2 trillion in 2020, up 37.1% from 2019 and compared to a 4.8% increase for non-ESG funds. Renewable energy funds saw the highest growth – 604% – since 2016.

It appears that coronavirus has redirected the focus of investors and led to greater scrutiny of businesses' ESG credentials. Understandably, there has been heightened investor focus on social factors such as employee welfare, supply chain issues and the wider societal benefits generated by job creation.

In the UK, European Union and US, rhetoric around a green recovery has been backed up by credible policy changes, or comprehensive stimulus plans with a climate focus. Amid an increase in capital flow to ESG funds, fund managers are taking increasingly proactive stances on climate risk.

This is significant at a time when the European Union is seeking to implement the EU Taxonomy to direct capital flows towards green activities and scale up sustainable investment. In November 2020, the Chancellor of the Exchequer announced that the UK would also create a new green investment taxonomy and become the first country in the world to make TCFD-aligned disclosures fully mandatory across the economy by 2025.

SSE has reported in line with the TCFD framework since 2020 (see pages 40 and 41) and looks forward to disclosing material issues that align with the UK's proposed green taxonomy when the requirements are known.

NET ASSETS IN EUROPEAN ESG FUNDS

€1.2tr

Innovation and technology

TRANSFORMING THE ENERGY SYSTEM

Advances in technology, larger turbine capacities and efficient financing have made wind power one of the cheapest forms of power generation in many countries.

SSE Renewables is showcasing such technologies on projects like its Dogger Bank joint venture where the groundbreaking 13MW GE Haliade-X turbine, the most powerful offshore wind turbine in operation today, is being debuted.

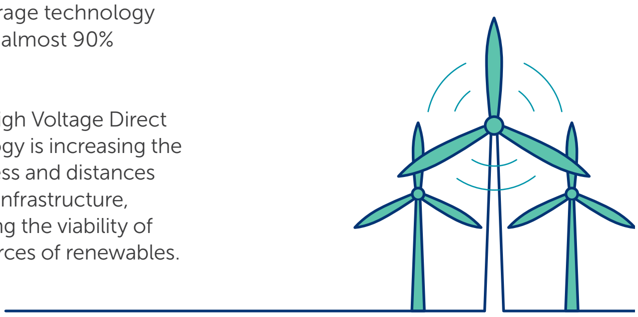
The key role for flexible low-carbon thermal generation in the transition to net zero is also becoming clear due to its ability to decarbonise multiple sectors. The Prime Minister's Ten Point Plan included a commitment to deploy two carbon capture clusters by the mid-2020s, and a further two clusters by 2030.

Thermal power stations with carbon capture and storage (CCS) technology or fired by hydrogen will be a cost-effective way of meeting growing peak and seasonal electricity demands. The UK can be a global leader in low-carbon thermal with its existing gas infrastructure and skills and making use of its potential storage capacity in the North Sea.

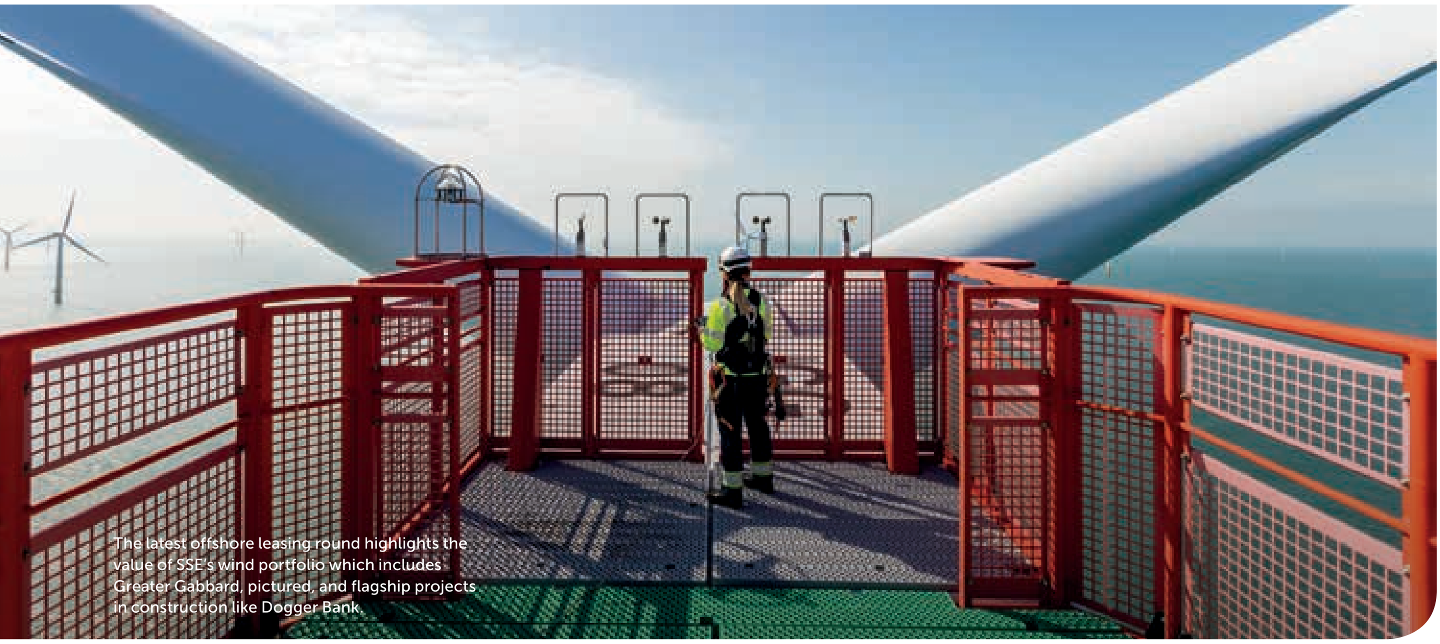
Additionally, fast reductions in battery costs are improving the outlook for EVs. Rapid innovation in battery storage technology has seen costs plummet almost 90% since 2010.

In electricity networks, High Voltage Direct Current (HVDC) technology is increasing the capacity, cost effectiveness and distances covered by transmission infrastructure, which is, in turn, improving the viability of offshore and remote sources of renewables.

In all of this, SSE applies an innovation strategy that has at its core a philosophy of partnering with sector specialists in order to gain access to the technologies, experience and skills that its individual businesses need to help them accelerate projects in support of net zero.



SECTOR REVIEW CONTINUED



The latest offshore leasing round highlights the value of SSE's wind portfolio which includes Greater Gabbard, pictured, and flagship projects in construction like Dogger Bank.

Markets and regulation

A RAPIDLY EVOLVING ENERGY LANDSCAPE

Delivering net zero will require traditional electricity market design to be refreshed and more considered market structures will need to be implemented for the long term. Welcome efforts by the UK Government to address market design continue against the backdrop of events in 2020/21, which demonstrate the rapid pace at which the sector is evolving.

In February 2021, the Crown Estate announced the results of Offshore Wind Leasing Round 4 with six proposed new offshore wind projects in England and Wales. The successful bids represented record high levels for seabed, signalling the attractiveness of UK offshore development. While unsuccessful in this round, SSE continues to hold the largest offshore wind development pipeline in the UK and Republic of Ireland at 7GW – and the value of these options is now clearer than ever.

The UK's target for 40GW of offshore wind by 2030 is a challenge that will require an equally ambitious approach to seabed auctions. Both RenewableUK and WindEurope have shared their concerns regarding the auction process, noting that insufficient sites were made available to meet demand while the record high bids involved will result in greater costs for developers and ultimately consumers. High demand is driven in part by oil majors seeking to diversify their portfolios, with more than 55% of Round 4 capacity won by oil major-backed consortia.

If consumers and developers alike are to reap the benefits of the booming offshore wind market, then a coordinated approach to developing the required amount of offshore grid infrastructure will be crucial. In August 2020, BEIS and Ofgem initiated the Offshore Transmission Network Review with workstreams reviewing near-, medium- and long-term opportunities.

Additionally, the UK-EU Trade and Cooperation Agreement includes provisions for cooperation in the development of offshore energy, with a focus on the North Sea, while the European Commission has proposed a framework under the revised TEN-E Regulation for long-term offshore grid planning, involving regulators and the Member States in each sea basin.

SSEN Transmission, meanwhile, was greatly encouraged by the broad support for its stakeholder-led business plan throughout Ofgem's consultative process on its Draft Determinations for RIIO-T2 and cautiously welcomed Ofgem's movement on a number of fronts in its Final Determination in December 2020. There are, however, till some concerns.

While the bulk of the price control settlement matched SSEN Transmission's ambition, the financial parameters did not. An appeal was lodged – echoed by the rest of the industry and now progressing with the CMA – that is technical in nature, centring on the cost of equity, which does not reflect market conditions, and the flawed outperformance wedge as well as exposure to under recovery of TNUoS and loss of appeals rights.

Further afield, widespread blackouts in Texas in early 2021 exposed vulnerabilities of outdated market systems and sparked a conversation regarding what can happen with low levels of regulation and resilience. A failure to prepare for severe weather events and adequately invest in critical infrastructure highlighted the importance of anticipatory investment, system planning and the value of necessary regulation.

Meteorological impact

ADAPTING TO CHANGING WEATHER PATTERNS

SSE must ensure its operations are resilient and can adapt to changing weather patterns that are emerging with climate change. Changes in rainfall and wind patterns can determine the output levels of SSE Renewables' generation assets. Extreme weather events can also impact the resilience of SSEN's electricity networks and lead to variations in energy demand which affect SSE's customer businesses.

The interconnectivity of international commodity markets and national energy systems – particularly between GB, Ireland and continental Europe – adds an additional layer of complexity to the impact of weather events on wholesale energy prices and SSE's earnings.

While it is vital that governments and businesses act to mitigate the impact of climate change, both must simultaneously implement climate adaptation strategies as climate-related events become increasingly frequent.

Events in Texas in February 2021 demonstrated the vulnerability of energy systems to extreme weather and the importance of investment in infrastructure to boost resilience in the face of a changing climate. In the same month, SSE's teams in the North of Scotland region contended with some of the worst weather conditions in over a decade which brought significant localised challenges.

SSE has established crisis management and business continuity plans in place to help mitigate the impact of severe weather events that pose a risk to critical national energy infrastructure.

SSE's expert teams closely monitor meteorological events which enables rapid response and early mobilisation when required to support energy consumers and ultimately strategic business goals. This work includes:

- Predicting how forecast temperatures might affect energy demand and whether daily temperature fluctuations will require a response from generation assets.
- Weather forecasting to inform the purchasing decisions of SSE's energy portfolio managers, improving procurement operations.
- Determining short-, medium- and long-term wind forecasts and electricity output from renewables assets.
- Gauging how rainfall patterns will impact hydro-electric generation output and storage capacity.
- Forecasting extreme and unseasonal weather such as high winds, snow and rainfall that could affect the resilience of distribution and transmission infrastructure.

Climate adaptation

The issue of climate adaptation has been at the heart of the UK Government's advocacy policies for COP26 and SSE welcomed the UK's Adaptation Communication to the UNFCCC in December 2020. Additionally, in February 2021, the European Commission published the EU Strategy on Adaptation to Climate Change as part of the EU Green Deal.

For SSE, boosting resilience and assessing climate adaptation requirements is an essential aspect of its sustainability work. SSE is particularly supportive of the Commission's proposals to use better data to inform necessary climate adaptation preparations and the recognition of climate adaptation as a priority for a green-led recovery from coronavirus.

In February 2021, SSEN Distribution had to contend with some of the worst weather conditions in over a decade.

OUR STAKEHOLDERS

WORKING FOR AND **WITH STAKEHOLDERS**

Constructive engagement with stakeholders underpins SSE's ability to create value for shareholders and society in a sustainable way through the fulfilment of its purpose and delivery of its strategy.

The role of stakeholder engagement

SSE recognises that a sustainable strategy is one which is reflective of stakeholder views and input.

It therefore promotes an open and transparent approach to stakeholder engagement, which is supported by accountability at both Group and Business Unit level for demonstrating how stakeholder interests have been considered in long-term plans and day-to-day decision making.

This approach derives from the following definition of stakeholder engagement in SSE:

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 10 to 11 and set out in detail on the following pages.

Employees

We engage to 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.

Shareholders and debt providers

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

We engage to support an accessible low-carbon energy system that represents value for customers' money.

Input to SSE:
Customer priorities and expectations.

Value created:
Reliable and inclusive provision of services.

Government and regulators

We engage to ensure fair energy sector frameworks for energy customers and investors that support progress to net zero at the required pace.

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

We engage to support the achievement of shared goals with social 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

We engage to support the greatest all-round value from our investments.

Input to SSE:
Quality goods and services and investment.

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

Engagement methods, impact and influence

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, 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 2020/21 are covered on pages 30 to 31.

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 provided on pages 11, 22 to 23 and overleaf.

The full impact of 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 104, which confirms that consideration of SSE's purpose, vision, strategy and values, and its interconnectivity with stakeholders should drive appropriate outcomes. Situations will continue to exist where not every stakeholder interest can be addressed in full, however stakeholder regard continues to the fullest extent possible.

With stakeholder considerations long-embedded in SSE's definition of a healthy business culture, evidencing the influence of stakeholder perspectives remains a focus across the Annual Report and SSE's Sustainability Report.

STRATEGY IN ACTION

Multi-dimensional stakeholder engagement influences the direction of SSE's strategy and the choices it makes to create value for shareholders and society (see pages 16 to 21).

ENGAGEMENT IN ACTION

SSE works directly with its key stakeholders to understand and respond to material issues (see pages 39, 45, 48, 51, 52, 53, 105 and 116).

BOARD PRINCIPAL DECISION

Responsible leadership and considered decision-making require the integration of stakeholder views and an understanding of stakeholder outcomes (see pages 107 to 109, 124 and 127).

OUR STAKEHOLDERS CONTINUED

Stakeholder group	Engagement methods in 2020/21
Employees	**Group engagement** • Virtual multi-channel approach for two-way conversations on strategy, culture and pandemic ways of working. • Two Group-wide employee surveys to understand sentiment and lockdown impact. • Data from exit surveys when employees leave SSE. • Management-led engagement and business-specific updates including MD 'town hall' events. • Formal methods for trade unions engagement and negotiation. **Board engagement (see pages 114 to 116)** • Involvement in SSE's multi-channel Group approach and business-specific events. • Complementary and focused work of SSE's Non-Executive Director for Employee Engagement. • Continuous feedback on employee sentiment and the support being provided.
Shareholders and debt providers	**Group engagement** • Response to incoming investor queries by Investor Relations. • Engagement with Environmental, Social and Governance (ESG) ratings agencies to improve disclosures and allow stakeholders to better assess SSE's performance. **Board engagement (see page 105)** • Virtual engagements including one-to-one investor meetings, roadshows and investor conferences. • Monthly reporting of investor and financial market sentiment. • Formal communication of financial results, quarterly trading statements and requisite regulatory announcements. • Modified approach to the AGM 2020 shaping the platform for the AGM 2021.
Energy customers	**Group engagement** • Dedicated panels to ensure perspectives of vulnerable customers are considered. • Specific forums to engage with large business customers. • Virtual stakeholder workshops and publications to seek feedback on business plans and projects. • Engagement with governments and regulators on key issues affecting energy customers as a result of the pandemic. **Board engagement** • Updates on customer performance from the SSEN Distribution, SSEN Transmission and Customers Business Units. • Feedback on business plans which included input from customers.
Government and regulators	**Group engagement** • Engagement with ministers and other government and regulatory officials in regular meetings, round tables and working groups by dedicated teams. • Contributions to consultations regarding the development of regulation and policies which impact upon SSE and its customers. • Ongoing constructive dialogue with Ofgem on RIIO-T2 and RIIO-ED2 price control periods. **Board engagement** • Oversees advocacy priorities to be executed by SSE's management team and direct formal engagement where appropriate. • External soundings and market research to inform strategic decision-making. • Engagement with external advisers through strategic review work and supporting sessions.
NGOs, communities and civil society	**Group engagement** • Promotion of key sustainable development frameworks, such as the UN's Sustainable Development Goals. • Partnerships with key NGOs which deliver social and environmental benefits, including with the Fair Tax Foundation and the Living Wage Foundation. • Sharing learnings and gaining feedback on SSE's new Just Transition strategy. • Community consultation events to gather feedback on projects and business plans. **Board engagement** • Review of commitments set under the UN's Sustainable Development Goals and supporting strategic plans. • Updates on community funds including repurposing during coronavirus. • Consideration of the community and locational benefits of large capital project investment.
Suppliers, contractors and partners	**Group engagement** • Meetings with strategic suppliers to discuss material issues for both companies through SSE's Supplier Relationship Management (SRM) programme. • Creation of a Critical Contracts working group to hold direct engagements with suppliers, at a Business Unit and Category level, relating to Brexit and coronavirus concerns and claims. • Collaboration with suppliers and government on attracting inward investment. • Supply chain webinars to highlight opportunities in key development projects. • Development of successful ways of working protocols with joint venture partners. • Sharing best practice and aims of sustainability strategies and goals, including direct input into SSE's new Sustainable Procurement Code. **Board engagement** • Executive Director meetings with strategic partners and suppliers. • Regular updates on joint venture project strategy and progress. • A dedicated briefing on sustainable supply chains from SSE's Procurement and Sustainability teams.

Material issues raised in 2020/21	Measuring value created	Engagement in action
• Safety, health and wellbeing policies and practice. • Employee benefits and support, flexible employee guidelines and ways of working. • Senior leader visibility and engagement. • Inclusion and diversity. • Employee voice and making a difference within SSE. • Support for 'doing the right thing'. • Pay progression and development opportunities • Clear and simple communication.	• Engagement survey results (see page 48) • Retention rate (see page 46) • Workforce diversity (see pages 46 and 49) • SHE performance (see page 45) • Learning and development (see page 46)	Listening and responding during the pandemic (see page 48) Non-Executive Director for Employee Engagement (see page 116)
• Financial performance, credit rating and dividends. • Political and regulatory risk. • Investment and capex plans, including focus on SSE's networks and renewables businesses. • ESG performance.	• Dividend plan (see page 70) • EPS (see page 68) • ESG scores, undertaken by third-party assessments (see page 35) • AGM engagement (see page 105)	AGM 2020 and AGM 2021 (see page 105) A business first: SSE's strategy for a Just Transition (see page 45)
• Affordable and accessible energy. • Responsiveness to need and vulnerability. • Quality customer service. • Using energy efficiently. • Impact of industry change.	• Energy not supplied on Transmission network (see page 79) • Customer interruptions on electricity customer Distribution network (see page 81) • Customer accounts and market share (see pages 88 to 90)	Providing priority services to vulnerable customers (see page 51)
• Safe continuation of critical national infrastructure construction projects through coronavirus. • 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 System Operator (DSO). • Increasing UK offshore wind supply chain content. • Carbon pricing and support mechanisms for net zero. • The UK's future relationship with the EU.	• Support of government efforts through SSE's pandemic response to ensure provision of critical energy supply and services (see pages 44 to 53) • Open and constructive engagement in government and regulatory policy development in support of net zero ambitions (see page 24)	Engaging with government on a green recovery (see page 18)
• Environmental protection and decarbonisation. • Customer vulnerability and fuel poverty. • A just and fair net zero transition. • Employment standards, including Living Wage and inclusion and diversity. • How SSE shares value with local communities and wider society. • Responsible behaviour of large businesses.	• Environmental performance (see pages 36 to 43) • GDP contributed and jobs supported (see page 44) • Taxes paid (see page 44) • Community investment (see page 53)	Providing emergency funding in a time of need (see page 53)
• 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. • Working collaboratively with joint venture partners with clear responsibilities.	• Supply chain spend (see pages 11 and 52) • Supplier feedback (see page 52) • Joint venture investment (see pages 70 and 76)	Working with supply chain partners to cut carbon (see page 39) A new Sustainable Procurement Code (see page 52)

A SUSTAINABLE APPROACH

PROVIDING SOLUTIONS FOR PEOPLE AND PLANET

SSE understands that a purpose-led business is one that offers profitable solutions to the world's problems; and in fulfilling its purpose, it is more likely to be a sustainable business in the long run. In building a better world of energy for tomorrow, SSE seeks to meet its goal of creating value simultaneously for both shareholders and society.

ABSOLUTE EMISSIONS (SCOPE 1 AND 2)

7.6MtCO$_2$e

RENEWABLES IN CONSTRUCTION AND OPERATION

5.8GW

RENEWABLES CONNECTED TO SSEN TRANSMISSION'S NETWORK

6.7GW

MEDIAN GENDER PAY GAP (UK)

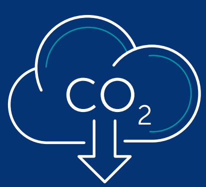
18.3%

NUMBER OF SAFE DAYS

271

RENEWABLES COMMUNITY FUNDS

£10.2m



A key social impact of any company is on the lives of its employees which is why, as set out on pages 45 to 50, SSE is committed to fair and decent work.

A SUSTAINABLE APPROACH CONTINUED

A sustainable, resilient approach

The 2020/21 financial year was dominated by the coronavirus pandemic which is transforming the way society and the economy operates, and will continue to have profound long-term social, economic and environmental implications.

SSE's well-established approach to sustainability, with clear environmental and social objectives, underpinned by robust stakeholder relationships, served the Company well during the public health crisis. This has meant that, in the face of a particularly challenging year, SSE continued to create and share considerable value with shareholders and society – from making a £5.6bn contribution to the UK and Irish economies, to creating hundreds of new jobs since the start of April 2020, to cutting carbon emissions to its lowest level since measurements began in 2001.

As society emerges from the worst of the pandemic, there is a unique opportunity for a green and resilient economic recovery through investment in net zero, which is being pursued by both the UK and Irish governments.

Aligning societal and business objectives through the SDGs

The UN's 17 Sustainable Development Goals (SDGs) framework is the global blueprint for a sustainable future. SSE believes that all organisations – whether they are governments, businesses or civil society – have a role to play in achieving them.

Since 2019, SSE has aligned its business strategy to the SDGs most material to its business. SSE believes that this approach is good for its business and for society. It enables SSE to find profitable solutions to some of society's greatest challenges.

The SDGs SSE defines as "highly material" to its business and to which it aligns its strategy and operations are: SDG13 Climate action; SDG7 Affordable and clean energy; SDG9 Industry, innovation and infrastructure; and SDG8 Decent work and economic growth. SSE's 2030 Goals for the company, which are linked to executive remuneration, are aligned to these highly material SDGs (see pages 14 to 15).

In addition, SSE defines a further four SDGs as material to its business: SDG10 Reduced inequalities; SDG12 Responsible consumption and production; SDG14 Life below water; and SDG15 Life on land.

SSE's **Sustainability Report 2021**, the sister document to the Annual Report 2021, is structured entirely around SSE's contribution to these highly material, and material, SDGs.

SSE's long-term commitment to sustainability

Environmental
Social

- **2008** – SSE acquires Airtricity, and with it a leading wind portfolio and renewables expertise
- **2010** – SSE sets target to reduce carbon intensity by 50% by 2020, compared to 2006 levels
- **2011** – Clyde, Europe's biggest onshore wind farm at the time, goes into operation
- **2013** – SSE becomes the largest FTSE company to become an accredited UK Living Wage employer
- **2014** – SSE becomes the first FTSE company to gain the Fair Tax Mark accreditation
- **2016** – SSE becomes the first large corporate in Ireland to pay employees the Irish Living Wage
- **2016** – SSE becomes the first FTSE company to publish its UK gender pay gap
- **2017** – SSE launches largest ever Green Bond by a UK company
- **2017** – SSE launches Inclusion and Diversity Strategy with Equal Approach

As well as linking SSE's progress to a key global blueprint, the goals provide an important interim 2030 milestone on the journey to net zero in 2050.

Using external frameworks to guide disclosure

Alongside comprehensive stakeholder input, external frameworks, common standards and Environmental, Social and Governance (ESG) platforms are key to identifying and prioritising SSE's material sustainability impacts. They also allow SSE assess its relative performance on sustainability issues.

SSE is also a signatory to the United Nations Global Compact (UNGC), incorporating the Ten Principles of the UNGC into its approach to business, and aligning disclosures and KPIs in its Sustainability Report to international non-financial reporting standards, including the Global Reporting Initiative (GRI) and, from 2021, the Sustainability Accounting Standards Board (SASB).

SSE also actively engages with key investor ESG ratings agencies and investor-led initiatives, including S&P's Corporate Sustainability Assessment (CSA), the water and carbon programmes in the CDP global disclosure framework, Workforce Disclosure Initiative (WDI), Morgan Stanley Capital International, Vigeo Eiris, Sustainalytics, Bloomberg Gender-Equality Index and the FTSE4Good Index. Detail of SSE's performance in these ratings can be found at sse.com/sustainability.

Over 2020/21, an ongoing debate on the global standardisation of non-financial reporting disclosures continued with key developments including the IFRS proposal for a new Sustainability Standards Board and a statement of intent on alignment of the five framework- and standard-setting institutions. SSE is continuing to monitor the dialogue around standardising non-financial reporting disclosures and will respond constructively when consensus emerges. In the meantime, it will seek to provide disclosures consistent with all the main standard-setting bodies.

More information

Group policies, guides, assurance documents and other reports can be found on **sse.com/sustainability**.

SSE's Non-Financial Information Statement is on **page 93**.

"A long-term commitment to sustainability recognises the constant need to pre-empt and adapt to social and environmental impacts of business activity. That's why SSE sought to develop its understanding of the social consequences of net zero over 2020/21."

Rachel McEwen
Chief Sustainability Officer

2018

SSE meets its 2020 carbon intensity reduction target early

2019

Construction begins at Keadby 2, Europe's most efficient gas plant

SSE sets four 2030 Goals, aligned to the UN's Sustainable Development Goals

SSE secures the most low-carbon contracts in the UK's third Contracts for Difference Allocation Round

2020

SSE meets TCFD reporting recommendations in full, ahead of the 2022 deadline

SSE closes its last remaining coal power station

2021

Targets approved by the Science Based Targets Initiative for the SSE Group and for SSEN Transmission (**page 39**)

SSE commits to being net zero by 2050 at the latest (**page 36**)

SSE becomes a Principal Partner for COP26 in 2021 (**page 37**)

SSE becomes first company, to its knowledge, to publish a Just Transition strategy (**page 45**)

SSE becomes one of a handful of UK companies with Living Hours accreditation (**page 47**)

Mixed progress is made on SSE's senior level gender balance targets (**page 49**)

PROTECTING THE **ENVIRONMENT**

As the world's political leaders prepare for important climate negotiations at COP26 in Glasgow later in 2021, an accelerated transition to net zero presents an opportunity for a green and resilient recovery from coronavirus. SSE's strategy is focused on supporting this transition in a way that creates and shares value with shareholders and society. SSE is committed to open and transparent disclosure to allow its stakeholders to assess properly its environmental performance.

Driving climate action

SSE recognises the serious threat that climate change poses to the natural world and, therefore, to people and the economy. Despite the coronavirus pandemic, the climate emergency has continued to dominate the public and political agenda over 2020/21.

Mandating climate-related financial disclosures in the UK

In November 2020, the UK Government announced that it would be mandating climate-related financial disclosures, and that from 2022 all publicly listed UK companies with a premium listing will be required to report in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

The TCFD recommendations set an important framework for understanding and analysing climate-related risks and opportunities, and SSE is committed to regular and transparent reporting to these requirements. The information in this Annual Report, along with disclosures in its Sustainability Report 2021, represents SSE's third TCFD disclosure. A summary table that highlights how SSE meets the TCFD recommendations and signposts to where additional information can be found is provided on pages 40 and 41.

In light of the upcoming mandated TCFD reporting, in February 2021, it was agreed that the Group Risk Committee will now govern SSE's TCFD processes and disclosures.

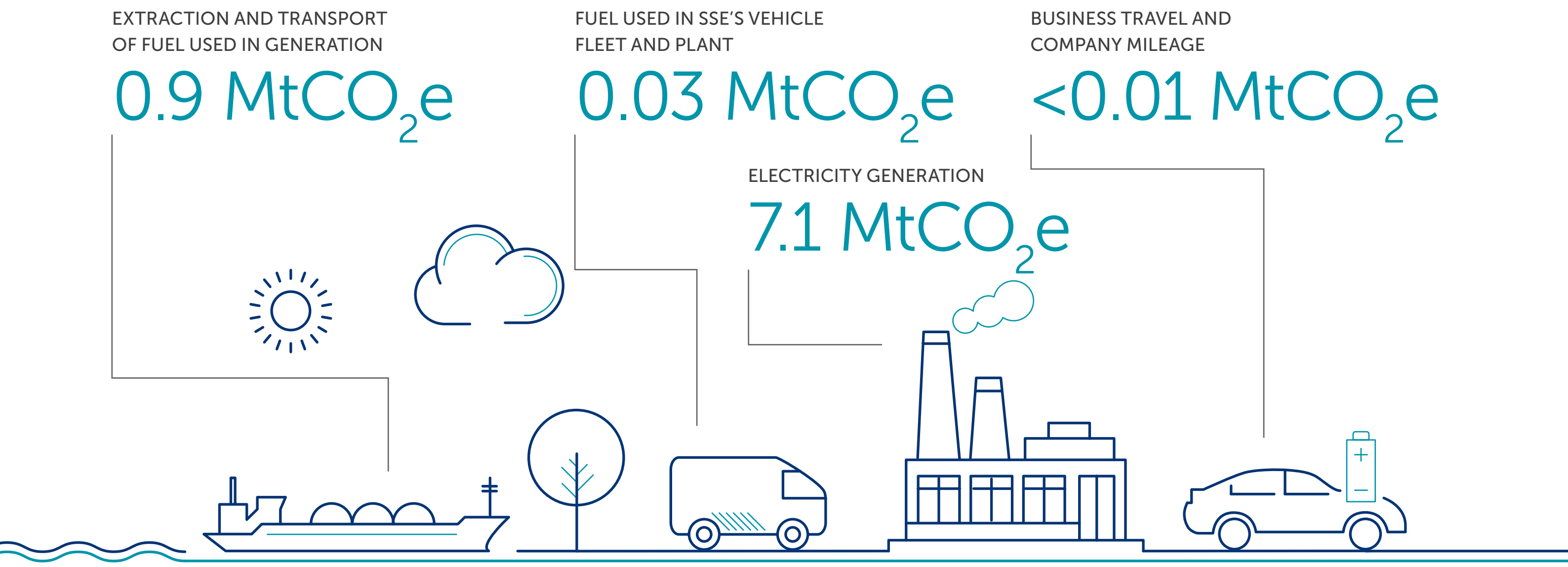
Additional information can be found in SSE's CDP Climate Change Programme submission, for which SSE received an 'A-' for its 2020 disclosure. All of these disclosures are available at sse.com/sustainability.

SSE's 2050 climate ambition

With the UK's net zero legislation in place since 2019 and Ireland's Climate Action Bill announced in March 2021, SSE believes its most significant contribution is to align with the Paris Agreement goal and aim to achieve net zero greenhouse gas emissions by 2050 at the latest.

In October 2020, the SSE plc Board committed to the long-term ambition of achieving net zero carbon emissions across all its operations by 2050 at the latest, covering both SSE's direct and indirect emissions, or its scope 1, 2 and 3 greenhouse gas emissions. At the same time SSE joined the 'Race to Zero', a global campaign which aims to rally leadership and support from businesses, cities, regions and investors to achieve net zero emissions by 2050 at the latest.

Greenhouse gas emissions in SSE's value chain*



* Due to rounding, figures do not add up to SSE's total carbon emissions data point disclosed on page 38.

Underpinning its 2050 ambition to be net zero, SSE has a series of 2030 science-based targets, aligned with the Paris Agreement. These targets set out SSE's medium-term emissions pathway, more detail is provided on page 39.

There are three elements to SSE's net zero plan: to reduce carbon in SSE's operations; to deliver low-carbon infrastructure in the energy sector (renewables, thermal and networks); and to support the value chain in the transition to net zero through electrification, suppliers and customers.

Advocating for climate action

SSE believes that bold and decisive policy-making can unlock the kind of investment needed to deliver net zero ambitions, tackle climate change and help spur a green recovery from the coronavirus crisis. Its constructive approach to public advocacy in 2020/21 was typified by the publication of SSE's 'Greenprint' in May 2020. The objective of this document was to support the UK Government with practical proposals that could help stimulate economic activity and support jobs and investment. It was followed by a similar document in the Republic of Ireland.

Extensive engagement followed the publication of these proposals, focusing on five core areas of policy development: a net zero power system; strategic investment in electricity networks; a clean industrial revolution; leading the charge on electric vehicles; and, green buildings for green jobs. Subsequently, SSE warmly welcomed the Prime Minister's Ten Point Plan for a Green Industrial Revolution published in November 2020.

SSE is a Principal Partner of the UK's presidency of COP26 and will seek to use its decade-long experience of the transition to net zero as a practical example in support of further, accelerated international action.

Proposed climate resolution

SSE believes that both the company and its investors will benefit from enhanced engagement on climate-related issues. Having worked closely with investor group Climate Action 100+ over 2020/21, SSE is therefore proposing an enabling resolution to its 2021 Annual General Meeting (AGM) that will establish a framework for annual votes on its Net Zero Transition report at future AGMs. More information around the key considerations taken by the Board in agreeing the proposed climate resolution can be found on page 111.

Financing the net zero transition

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. As a result, SSE has deliberately pursued a strategy of issuing green bonds to finance its investment plans. In March 2021, it issued its fourth green bond in five years, reaffirming its position as the largest issuer of green bonds from the UK corporate sector. It remains the only UK corporate to offer up multiple green bonds and the latest issuance brings the total outstanding to £2bn.

Furthermore, in March SSE published a new framework through which it can issue its first sustainability-linked bond. Unlike a green bond, where proceeds are ringfenced for qualifying low-carbon investments, a sustainability-linked bond would set a coupon based on a commitment from the company to achieve strategic, sustainability-related KPIs.

SSE's key climate-related risks and opportunities

SSE has assessed the climate impact on its operations from the physical risks of increased extreme weather events or changes in average weather trends to the potential transition risks from policy, technology or market change. SSE has identified the climate-related risks and opportunities that are most material to the business as a result of the potential impact they may have. SSE provides extensive detail in its Sustainability Report 2021, alongside detailed discussion around impacts and mitigation measures.

The key climate risks identified were the physical impacts of extreme or changing weather conditions on renewable and network operations; alongside transition risks related to renewable wholesale prices and the resilience of network assets to changing policy. The opportunities relate to the role that renewables, transmission, thermal and networks play in supporting the transition to net zero by 2050 at the latest.

EMISSIONS ARISING FROM SSE'S ELECTRICITY NETWORKS

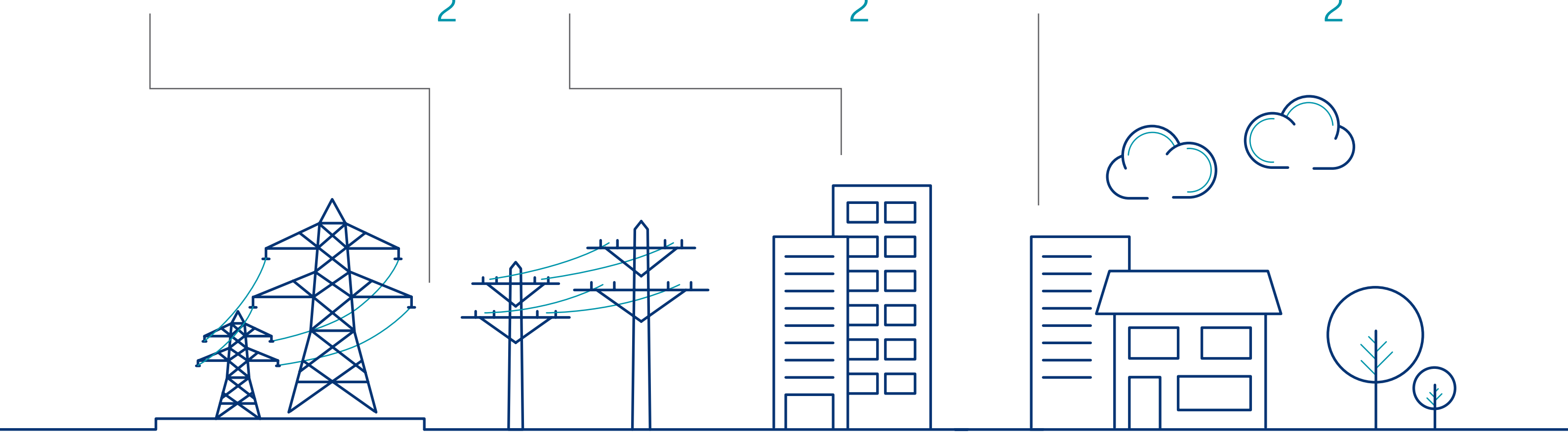
0.6 $MtCO_2e$

ENERGY CONSUMPTION IN SSE'S ASSETS

0.1 $MtCO_2e$

GAS USED BY SSE'S CUSTOMERS

2.4 $MtCO_2e$



A SUSTAINABLE APPROACH CONTINUED

Carbon performance summary

	Unit	**2020/21**	2019/20
Total carbon emissions[1]	Million tCO_2e	**11.03[A]**	12.49*
Scope 1 carbon emissions – total (UK/Ire)	Million tCO_2e	**7.10[A] (6.00/1.10)**	8.26[B] (7.35/0.91)
Scope 2 carbon emissions – total (UK/Ire)	Million tCO_2e	**0.54[A] (0.54/<0.01)**	0.64* (0.64/<0.01)
Scope 3 carbon emissions – total (UK/Ire)	Million tCO_2e	**3.39[A] (2.66/0.73)**	3.59* (2.81/0.78)
Carbon intensity of electricity generated	gCO_2e per kWh	**255[A]**	288[B]
Total renewable generation output[2] – total (UK/Ire)	GWh	**9,649 (8,295/1,354)**	10,753 (9,221/1,532)
Total non-renewable generation output – total (UK/Ire)	GWh	**18,045 (15,612/2,433)**	17,761 (15,325/2,436)
Total generation output – total (UK/Ire)	GWh	**27,694 (24,014/3,680)**	28,514 (24,546/3,968)

This table, taken in conjunction with the energy use information in the Resource use summary on page 43, represents SSE's disclosures in line with the UK Government Streamlined Energy and Carbon Reporting requirements.

1 SSE's GHG and Water reporting criteria detail the emission sources included in SSE's carbon emissions data and is available at sse.com/sustainability.
2 Totals include pumped storage and biomass output, and exclude GB constrained off wind.
(A) This data was subject to external independent assurance in 2021. For the limited assurance opinion see sse.com/sustainability.
(B) This data was subject to external independent assurance in 2020. For the limited assurance opinion see sse.com/sustainability.
* In 2020/21, additional data points and minor amendments to methodologies has resulted in some 2019/20 figures being restated. For the limited assurance opinion see sse.com/sustainability.

SSE's carbon emissions performance

In 2020/21, SSE's total carbon emissions consisted of 64% scope 1 emissions, 5% scope 2 emissions and 31% scope 3 emissions. SSE's total carbon emissions (scope 1, 2 and 3) decreased by around 12% between 2019/20 and 2020/21. While carbon emissions reduced across all three scopes, the most material contributing factor to this decrease was a result of the change in the generation mix of SSE's thermal generation plant. Carbon emitted from the generation of electricity contributes 99% of SSE's scope 1 emissions.

1. The thermal generation mix changed in 2020/21 following the closure of SSE's final coal-fired power station, Fiddler's Ferry, in March 2020. This led to a corresponding reduction in the carbon emissions from SSE's thermal generation plant which meant that SSE's electricity generation emissions fell by 14% (from 8.21$MtCO_2e$ to 7.06$MtCO_2e$); and
2. With no coal generation output less electricity was required to operate the thermal generation plant and as a result scope 2 emissions relating to electricity use in power stations reduced by around 45%.

In addition to the change in thermal generation mix, the carbon factors SSE used to calculate its emissions fell as a direct result of the decarbonisation of the GB electricity grid which impacted emissions associated with electricity consumption in buildings and operations and the associated electricity network losses in both the transmission and distribution networks.

This means that SSE made good progress towards one of its key science-based targets to cut by 40% carbon emission associated with its scope 1 and 2 activity between 2017/18 and 2030. Between 2017/18 and 2020/21 those emissions have fallen by over 3$MtCO_2e$ (from 11.07$MtCO_2e$ to 7.64$MtCO_2e$), representing a 31% fall.

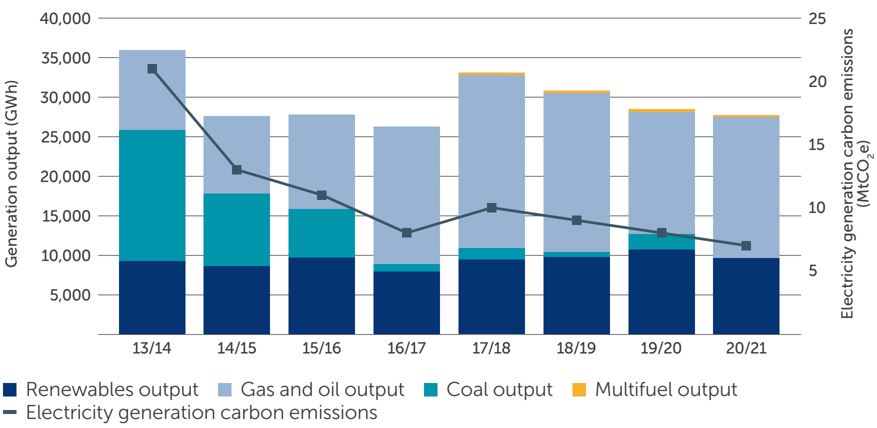
SSE's carbon intensity performance

The carbon intensity of SSE's generated electricity decreased to 255gCO_2e/kWh in comparison to 288gCO_2e/kWh the previous year.

While SSE's carbon emissions from thermal generation fell between 2019/20 and 2020/21, thermal generation output was higher in 2020/21 than in the previous year, reflecting the important role thermal generation plays in providing flexible and dispatchable generation when renewable output is low on the electricity system.

In the same period, output from SSE's renewable generation portfolio fell to 9.7TWh in 2020/21, from 10.8TWh the previous year (inc. pumped storage and biomass). This was due to reduced wind and hydro output because of lower wind and rain.

GENERATION OUTPUT AND ELECTRICITY GENERATION CARBON EMISSIONS



Overall, this means that SSE is making good progress towards its second key science-based target which is to cut the carbon intensity of electricity generation by 60% by 2030 from a 2017/18 baseline. Since 2017/18, SSE has reduced its carbon intensity by 16% from over 300gCO_2e/kWh to 255gCO_2e/kWh.

Science-based carbon targets

In April 2020, SSE set medium-term carbon targets, approved by the Science Based Targets Initiative (SBTi), aligned to the Paris Agreement and a 'well below two-degree' pathway. These targets are aligned to climate science and meet the strict SBTi criteria which requires that they cover scope 1, 2 and 3 emissions. Detail of these four carbon targets and where to find information on performance is outlined in the pull-out box.

In line with the requirements of the SBTi, SSE Group will review its targets in advance of the five-year review period or if there is material change to SSE's business activities that impacts its carbon emissions, or which ever happens first. This review of targets will be completed in accordance with the latest scientific evidence and criteria.

In August 2020, SSEN Transmission had its own series of carbon targets approved by the SBTi, making it the first electricity networks company globally to receive external accreditation for a science-based target in line with a 1.5°C pathway. These carbon targets can be found in SSEN Transmission's Sustainability Report 2019/20.

SSEN Distribution became the first UK Distribution Network Operator to commit publicly to setting science-based targets, in January 2021. It will announce its science-based targets as part of its upcoming draft business plan for RIIO-ED2 in July 2021.

SSE Group SBTi-approved carbon targets:

Reduce the carbon intensity of electricity generated by 60% by 2030, from 2017/28 baseline

See 'SSE's carbon intensity performance' section, on **page 38**

Reduce absolute scope 1 and 2 GHG emissions by 40% by 2030 from a 2017/18 base year

See 'SSE's carbon emissions performance' section, on **page 38**

Reduce absolute GHG emissions from use of products sold by 50% by 2034 from a 2017/18 base year

See SSE's Sustainability Report 2021 for progress

Engage with 50% of suppliers by spend to set an SBT by 2024

See SSE's Sustainability Report 2021 for progress

CARBON INTENSITY OF SSE'S GENERATED ELECTRICITY

255gCO_2e/kWh

(2019/20: 288gCO_2e/kWh)

CARBON INTENSITY REDUCTION ACHIEVED FROM 2017/18 BASE YEAR

16.4%

(2017/18 base year: 305gCO_2e/kWh)

WORKING WITH SUPPLY CHAIN PARTNERS TO CUT CARBON

To deliver carbon reductions from its scope 3 activity in its supply chain, SSE must work closely with its supply chain partners. 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. Over 2020/21, SSE held 29 workshops with key suppliers to facilitate dialogue and knowledge-sharing around the setting of science-based carbon targets and the challenges and opportunities presented for various industries. SSE has been encouraged by the appetite for supplier engagement on climate-related issues and welcomes the proactive engagement from its supply chain. At 31 March 2021, 29% of SSE's suppliers (by value) had set their own science-based targets.

29

Workshops held with key suppliers sharing knowledge on science-based carbon targets

ENGAGEMENT IN ACTION

SUPPLIERS, CONTRACTORS AND PARTNERS

A SUSTAINABLE APPROACH CONTINUED

SSE's progress against the TCFD recommendations

SSE believes that high-quality climate disclosures support shareholders making long-term investment decisions. While its full TCFD reporting is outlined, once again, in its Sustainability Report, the following table outlines a summary of the TCFD disclosures made for financial year 2020/21.

Governance

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

TCFD recommended disclosures	SSE's disclosure
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.	SSE's Chief Executive has lead responsibility for climate-related issues, including at Board-level. The Board sets the Group strategy direction and, when setting strategic objectives, it considers all material influencing factors including those relating to climate change. The Group Executive Committee (GEC) implements the Group strategy set by the Board and drives climate-related performance programmes across the organisation. The Chief Sustainability Officer (CSO) advises the Board, GEC, Group Risk Committee and Business Units on climate-related matters. The Finance Director oversees SSE's progress in meeting the TCFD recommendations, supported by the CSO and the TCFD Steering Group. The TCFD Steering Group 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. This is then reviewed and approved by the Group Risk Committee.

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.

TCFD recommended disclosures	SSE's disclosure
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.	SSE's business strategy is focused on supporting the net zero transition and providing profitable solutions to the challenge of climate change. SSE annually assesses the impact of physical and transitional climate impacts on its businesses over the short, medium and long term. Comprehensive disclosure of SSE's climate-related risks and opportunities is outlined within in SSE's Sustainability Report 2021, including an outline of the potential financial impacts and the time horizons SSE uses to assess them. The Sustainability Report also provides information on how SSE considers the price of carbon in its decision making. SSE has explored its climate resilience using two key analyses: SSE's Post Paris report, published in July 2017, assessed the resilience of SSE's electricity businesses to different warming scenarios; and, in November 2019, SSE assessed the resilience of SSE's gas businesses to different climate-related scenarios in its Transition to Net Zero report.

Risk management

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

TCFD recommended disclosures	SSE's disclosure
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.	Climate change is one of SSE's Group Principal Risks, with scenarios relating to both the physical and transitional risks posed by climate change now featuring in SSE's viability assessment. Climate-related influencing factors will continue to be considered against all relevant Group Principal Risks. SSE has a specialist TCFD climate-related risk assessment process which provides the strategic framework for identifying material climate-related risk and opportunities. This is designed to ensure climate analysis is then fed into SSE's business strategy and risk management processes. SSE's Group Risk Management Framework, outlined on page 137, has been designed to help ensure SSE can address all material issues that threaten the achievement of its strategic objectives including those relating to climate change, as well as all strategic opportunities climate change may present.

Metrics and targets

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

TCFD recommended disclosures	SSE's disclosure
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 uses a suite of metrics to track progress against key targets. The key targets SSE uses to manage climate-related risks and opportunities are its four core 2030 business goals and its series of Science Based Targets Initiative (SBTi)-approved carbon targets. SSE publicly reports on its scope 1, 2 and 3 GHG emissions and the carbon intensity of electricity generated, alongside progress against the targets outlined above, in its Annual Report and Sustainability Report, as well as in other relevant publications. Performance against SSE's 2030 Goals is linked to executive remuneration and, as part of assessing performance, SSE provides detailed progress updates against the Goals in its Remuneration Committee Report in the Annual Report and Sustainability Report. The metrics used to assess key climate-related risks and opportunities and to quantify their potential financial impact are summarised in the Sustainability Report.

Key developments in 2020/21

- Board consideration of net zero in strategic development and Principal Decisions, see pages 106 to 109.
- Group Risk Committee now governs SSE's TCFD process and disclosures, see page 37.
- Board approves decision to propose a management sponsored climate resolution at the 2021 AGM, see pages 37 and 111.
- Board approved net zero advocacy priorities, see page 111.

Key developments in 2020/21

- SSE reassessed its climate-related risks and opportunities, see SSE's Sustainability Report 2021.
- SSE has quantified the potential financial impact of these risks and opportunities, see SSE's Sustainability Report 2021.
- SSE announced new ambition to achieve net zero carbon emissions across all its operations by 2050 at the latest, see pages 36 and 37.
- SSE issued its fourth Green Bond, proceeds of which were allocated to the refinancing of part of SSEN Transmission's programme of critical investments in infrastructure, see page 37.

Key developments in 2020/21

- SSE's Climate Change Group Principal Risk was assessed as part of its Group Risk Management process, see page 57.
- SSE received an 'A-' for its disclosure the CDP Climate Change programme, which provides detail on how SSE identifies and manages climate-related risks and opportunities, see sse.com/sustainability for the submission.

Key developments in 2020/21

- SSE's total carbon emissions reduced by around 12%, see page 38.
- The carbon intensity of SSE's generated electricity fell by 11%, see page 38.
- SSE set SBTi-approved carbon targets, see page 39.
- SSEN Transmission set SBTi-approved carbon targets, see page 39.
- SSEN Distribution made a commitment to set science-based targets as part of its regulated business plan for the period 2023-2028, see page 39.
- Assessed executive performance against 2030 Goals, see page 152.

SSE's TCFD timeline

June 2017
TCFD Recommendations published

July 2017
SSE publishes its first carbon scenarios report, *Post-Paris*

November 2017
SSE commits to meet TCFD recommendations by 2021

May 2018
SSE sets a new target to reduce carbon intensity of electricity by 50% by 2030, from a 2018 base

March 2019
SSE sets four core 2030 business Goals, directly aligned to the UN's SDGS, aimed at addressing climate change

June 2019
SSE publishes its first comprehensive TCFD report within its Sustainability Report

November 2019
SSE's second carbon scenario analysis, Transition to Net Zero, is published

April 2020
SSE sets new science-based carbon targets, which includes increasing its carbon intensity reduction target to 60%

June 2020
Climate change is defined as a SSE Group Principal Risk

July 2020
SSE discloses its second TCFD report in its Sustainability Report, and believes it has met the recommendations in full

November 2020
SSE sets new ambition to achieve net zero carbon emissions across all its operations by 2050 at the latest

A SUSTAINABLE APPROACH CONTINUED

Responsible resource use

It is understood that the consequence of human activity on the natural environment through consumption and the resulting habitat loss and species decline is as great a risk to people as climate change. In its transition to net zero, SSE seeks actively to manage its environmental footprint in a way that minimises adverse environmental impacts and, where possible, it seeks to add environmental value too.

Managing water use

SSE depends on water in various ways across its operations, from use in electricity generation to an amenity in its buildings, and it seeks to use water in a sustainable way. None of SSE's thermal and hydro-electric generation assets impact on water stressed areas, as defined by the relevant environmental regulators.

In 2020/21, total water abstracted by SSE fell to 26,030 million m^3 from 27,757 million m^3 the previous year. This was largely due to a reduction in water passing through SSE's hydro-electric generation plant as a result of lower levels of rainfall compared to the previous year.

The vast majority (97%) of water abstracted in 2020/21 was used in SSE's hydro-electric generation operations. This water passes through turbines to generate electricity and is returned to the environment almost immediately. Total water abstracted is often used by SSE's stakeholders to judge its environmental impact and allow a comparison across businesses and sectors. SSE believes that this indicator taken in isolation can reflect negatively on hydro-electricity generators. To help stakeholders better understand a more proportionate environmental impact, SSE's abstraction volume excluding hydro-electric generation has also been provided in the table below.

Total water consumed also fell over this period, by almost 29%. This was due to a change in the generation mix and the different types of cooling water used by SSE's thermal generation activities.

SSE's energy consumption

SSE acts to reduce energy use and thereby cut carbon from its assets through a combination of physical improvements and building user engagement. Between 2019/20 and 2020/21, the energy SSE purchased for use in its assets (offices, depots, power stations and data centres) fell by almost 30%, from 334GWh to 234GWh. This was largely as a result of a reduction in electricity used to operate SSE's thermal generation plant, as a result of the closure of SSE's last coal-fired power plant.

Despite the coronavirus pandemic resulting in the majority of SSE's employees working from home, energy consumption in its facility managed offices didn't decrease as significantly as might be expected due to the need to continue to maintain buildings to meet heating and ventilation industry and government guidelines for the safe operation of buildings during the pandemic.

During 2020/21, SSE also invested in a range of energy efficiency measures and in particular delivered 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.

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 buildings. This investment programme has assisted in the delivery of a 42% reduction in carbon emissions since 2017/18.

SSE is a member of the Climate Group's EP100 initiative to encourage businesses to improve energy productivity and has pledged to cut carbon from its offices and depots by 20% by 2030 from a 2018 baseline. SSE is also a member of the EV100 pledge to move to an electric vehicle fleet by 2030.

Managing air emissions

In 2020/21, SSE's thermal generation sites emitted 4,103 tonnes of nitrogen oxides (NOx), compared 6,080 tonnes the previous year – a reduction of 33%. In addition, emissions of sulphur dioxide (SO_2) fell considerably by 44%, to 1,372 tonnes from 2,464 tonnes the previous year. Both of these reductions were as a result of the closure of SSE's last remaining coal-fired generation plant in March 2020.

In 2019/20, SSE's sulphur hexafluoride (SF_6) emissions fell slightly to 295kg from 318kg the previous year. In 2020/21, SSE's electricity networks businesses reviewed the methodology used to report SF_6 data, therefore 2019/20 data has been restated.

SF_6 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'. You can read more about what SSE is doing to increase the use of alternative technologies in its Sustainability Report 2021.

Data assurance and environmental metrics

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 and guided by environmental regulations where appropriate.

Resource use summary

	Unit	2020/21	2019/20
Water use			
Total water abstracted	Million m^3	**26,030**(A)	27,757(B)
Total water abstracted (exc. Hydro-electric generation)	Million m^3	**830**	722
Total water returned	Million m^3	**26,027**(A)	27,751(B)
Total water consumed	Million m^3	**3.6**(A)	6.9(B)
Energy use*			
Purchased heat from non-renewable sources – UK/Ire	GWh	**3.6/0.14**	3.4/0.15
Purchased electricity from renewable sources – UK/Ire	GWh	**89.4/0.9**	96/1.5
Purchased electricity from non-renewable sources – UK/Ire	GWh	**140.4/0**	233/0
Fuel used in vehicle fleet and plant (inc. fixed generation) – UK only	GWh	**94.63**	120.01
Electricity transmission and distribution networks substation electricity use – UK only	GWh	**43.6**	42.14
Air emissions			
Sulphur dioxide (SO_2) – thermal generation	Tonnes	**1,372**	2,464
Nitrogen oxide (NOx) – thermal generation	Tonnes	**4,103**	6,080
Sulphur hexafluoride (SF_6) – thermal generation and electricity transmission and distribution activities**	kg	**295**	318

* This information, taken in conjunction with the carbon performance summary table on page 38, represents SSE's disclosures in line with the UK Government Streamlined Energy and Carbon Reporting requirements.

** Due to changes in methodologies in data collection in SSE's electricity transmission and distribution businesses, 2019/20 data has been restated. Detail of how data is collected can be found in SSE's GHG and Water reporting criteria, available at sse.com/sustainability.

(A) This data was subject to external independent assurance in 2021. For the limited assurance opinion see sse.com/sustainability.

(B) This data was subject to external independent assurance in 2020. For the limited assurance opinion see sse.com/sustainability.

As part of efforts to decarbonise SSE's generation fleet, Peterhead is unlikely to be running in its current, unabated, form into the 2030s.

CREATING **SOCIAL IMPACT**

Change of the scale and nature needed to achieve net zero brings social consequences, impacting people – employees, consumers, suppliers, communities and wider society – in many different ways. SSE has a responsibility to influence those impacts as it transitions out of high-carbon activities at the same time as seizing the opportunities to increase value and share economic prosperity from the transition into a net zero world. A Just Transition to net zero will mean that the actions and investments required to decarbonise energy systems attract long-term public support and legitimacy.

GDP and tax contribution

The way that SSE invests in the decarbonisation of the UK and Irish economies contributes to society by adding economic value, supporting jobs and contributing to the public purse through tax revenues.

Contributing to UK and Irish GDP

By investing across the UK and Ireland, SSE supports thousands of jobs and contributes billions of pounds to these economies each year. SSE's £7.5bn capex plan across the five years to FY25 is on track, with construction well under way at flagship SSE Renewables projects including Seagreen, Viking and the world's largest offshore wind farm at Dogger Bank. The Company is therefore playing an important role in supporting the green economic recovery from the coronavirus pandemic.

SSE has commissioned professional services firm PwC to calculate the size of its economic contribution in the UK and Ireland each year since 2011/12. Over this 10 year period, the PwC analysis shows that SSE has contributed £100bn (in current prices) to the UK and Irish economies.

The 2020/21 PwC analysis showed that SSE contributed £5.2bn to the UK economy and €439m to the Irish economy, supporting a total of 43,560 jobs across these countries. This compares to a £5.7bn (£7.7bn including SSE Energy Services) contribution to the UK economy and a €650m contribution to the Irish economy in 2019/20.

The PwC reports on SSE's economic contribution for 2020/21 and all previous years of analysis can be found on sse.com/sustainability/reporting.

Paying a fair share of tax

The reliance on public services to keep people safe and support workers during the coronavirus pandemic demonstrates the importance of the social contract between companies and society to pay their fair share of tax. In 2014 SSE became the first FTSE 100 company to be accredited with the Fair Tax Mark, an independent standard for tax fairness and transparency. It has remained committed to paying its fair share of tax in the right place, at the right time, and providing open and transparent disclosure on its tax approach through its annual 'Talking Tax' report. Its latest report, 'Talking Tax 2020: Proud to pay our part', was published in November 2020.

2020/21 UK and Irish GDP and tax contribution*

IRELAND CONTRIBUTION TO GDP

€439m

2019/20: €650m

IRELAND JOBS SUPPORTED

2,160

2019/20: 3,740

TAX PAID IN IRELAND

€20.4m

2019/20: €18.1m

UK CONTRIBUTION TO GDP

£5.2bn

2019/20: £5.7bn

UK JOBS SUPPORTED

41,400

2019/20: 56,810

TAX PAID IN THE UK

£379m

2019/20: £421.6m

* 2019/20 contribution excludes contribution from SSE Energy Services.

A BUSINESS FIRST: SSE'S STRATEGY FOR A JUST TRANSITION

Royal London Asset Management and Friends Provident Foundation submitted a question in advance of the 2020 AGM asking SSE to consider adopting a formal Just Transition strategy. SSE committed to doing so in its response and continued to engage with the investors as the strategy developed. The investors proved both influential and helpful in shaping SSE's thinking around the Just Transition and how it could best be formalised and communicated. Furthermore, direct engagement with a wide group of stakeholders including trade unions at a company and national level continues to support the development of the strategy and its priority actions.

In November 2020, SSE published its Just Transition strategy which outlines SSE's principles for integrating social impacts of delivering net zero. This strategy has been described as the world's first business strategy for a Just Transition.

Ongoing and constructive dialogue continues with a broad range of stakeholders. Active engagement has already taken place at 10 different stakeholder conferences, including four with the investor community, since November. SSE also supported the launch of the Investor Coalition for a Just Transition, led by the Grantham Institute alongside investors and trade unions.

ENGAGEMENT IN ACTION

SHAREHOLDERS AND DEBT PROVIDERS

SSE HAS PRESENTED ITS JUST TRANSITION STRATEGY AT

10

stakeholder conferences since November 2020

SSE is one of the UK's biggest taxpayers, ranking 16th in the PwC 2020 Total Tax Contribution survey of the 100 Group, published in December 2020, in terms of taxes borne. Over 2020/21, SSE paid £379m of tax in the UK, compared with £421.6m in the previous year. Information on why there was a reduction in taxes paid can be found on page 76.

In 2020/21 SSE also paid €20.4m of taxes in Ireland, compared to €18.1m the previous year. Ireland is the only country outside the UK in which it has any trading operations.

Employees

A primary social impact of any company is made through the people it employs. SSE has a long-standing commitment to fair and decent work for the people that work for the company, whether that's directly or on SSE's behalf.

Taking care of physical and mental health

From March 2020, SSE's immediate safety and health priority was the management of the coronavirus crisis and associated risks. This demonstrated why a robust health and safety culture is so important for businesses, with SSE able to build on existing approaches to ensure that it took care of employees and was able to implement quickly new measures and provide new guidance.

SSE's message to all employees is "If it's not safe, we don't do it", with key aim that everyone who works for the Company or on its behalf gets home safe each day. SSE's safety performance over 2020/21 is provided in the Safety, Health and Environment Advisory Committee Report on pages 140 to 143.

SSE has emphasised the importance of parity of focus between mental and physical health, with initiatives including Mental Health First Aiders, employee assistance counselling, additional counselling through a partnership with Nuffield Health, and access to a range of wellbeing programmes, as well as muscular-skeletal treatments and a range of subsidised and participatory physical exercise programmes.

In response to the potential increase in stress levels and isolation as a result of the majority of employees working from home on a full-time basis, new initiatives were also introduced over 2020/21 for employees. This included online workout sessions, online learning on topics from mental health to resilience and coping with change, mindfulness conference calls and weekly virtual wellbeing cafes.

A SUSTAINABLE APPROACH CONTINUED

SSE also granted 10 days of emergency leave to help employees having to cope with caring responsibilities during the pandemic.

Employee absence levels over 2020/21 have been at a historic low, with an average of 5.9 days lost per head over the year, a 35% improvement from the year before. For 2021/22, SSE has set a target of 6.7 days lost per head, reflecting improvements and the impact of coronavirus in terms of suppressing other types of sickness absence, with flexibility and working from home seen as a key driver of the reduction in absence levels.

A growing and changing workforce

Providing energy needed today while building a better world of energy for tomorrow has enabled SSE to grow its workforce through its core businesses during this challenging period and not draw on government coronavirus worker support schemes. The company has not made any coronavirus-related redundancies and has worked with trade union partners to ensure all employees are kept on normal pay.

SSE's headcount grew from 12,133 at the end of 2019/20 to 12,489 at the end of 2020/21. 1,529 people joined SSE over the year (2019/20: 1,428) and retention of SSE's workforce also increased significantly during 2020/21 compared to 2019/20, from 88% to 92.1%, which has largely been attributed to the pandemic and consequential labour market instability. 95% of SSE employees are on permanent contracts, consistent with previous years.

Major SSE Renewables infrastructure projects in development and construction are driving a significant increase in recruitment, with core staffing in this business expected to grow by at least another 10% over 2020/21. Implementation of SSEN Transmission's RIIO-T2 business plan, "A Network for Net Zero", is also expected to significantly increase headcount within this business.

SSE's focus on its core networks and renewables businesses, supported by businesses complementary to that core, means that it is continuing with planned disposals of other non-core business areas. In 2019/20, this included the sale of SSE Energy Services which resulted in around 8,000 SSE employees moving to OVO Energy Services Ltd. On 1 April 2021, SSE announced that it had entered into an agreement to sell its Contracting business to the Aurelius investment group. This will mean around 1,900 employees will transfer to the new contracting business outside of SSE, where SSE believes the business will be better able to fulfil its potential for customers and employees.

Developing skills

The energy sector faces the challenge of maintaining traditional skills and capabilities, whilst also developing those needed for the transformation to net zero. To achieve this, SSE has developed training plans aligned to its strategic objectives; delivering inclusive, accessible, modern learning that builds capability, develops talent and skills, and supports long-term, rewarding careers.

Over 2020/21, SSE invested £15.8m in internal and external learning and development activities (2019/20: £18.6m). The majority of this investment, £9m, was to support 470 people in early career programmes, including apprenticeships, Technical Skills Trainees, graduates and employability programmes. Early career positions are valued by SSE and the wider industry, demonstrated by the continued support during a time of significant labour market uncertainty.

Safety measures taken during the coronavirus pandemic paused non-critical training, condensed in-person courses, and increased virtual and digital delivery sessions. This resulted in a reduction in the average number of formal training hours per full-time SSE employee from 24.9 hours in 2019/20 to 9.0 hours in 2020/21. Additional support was provided by promoting an 'everyday learning' culture and an increase of self-led digital learning assets, with over 140 new items added to SSE's 'My Learning' portal. Formal training was reinforced with coaching conversations and mentoring. The self-led learning and informal arrangements are not captured in the average number of training hours per employee.

SSE's HR and Strategy teams continue to work closely to identify company-wide core capabilities, as well as with each of SSE's businesses to determine specific skills, training, learning and recruitment needs. More information on SSE's learning and training programmes can be found in the Sustainability Report 2021.

EMPLOYEE STATISTICS FOR 2020/21*

DIRECT EMPLOYEE HEADCOUNT

12,489

2019/20: 12,133

EMPLOYEE GENDER SPLIT (MALE/FEMALE)

9,190/3,299

2019/20: 9,088/3,045

EMPLOYEE GENDER SPLIT (% MALE/FEMALE)

73.6/26.4

2019/20: 74.9/25.1

CONTINGENT WORKER HEADCOUNT

1,950

2019/20: 2,335

EXTERNAL RECRUITMENT (HEADCOUNT)

1,529

2019/20: 1,428

TOTAL RETENTION/TURNOVER RATE (%)

92.1/7.9

2019/20: 88.0/12.0

VOLUNTARY TURNOVER RATE (%)

3.6

2019/20: 6.5

MEAN/MEDIAN LENGTH OF SERVICE (YEARS)

10.7/7.7

2019/20: 11.1/8.4

EMPLOYEES ON PERMANENT CONTRACTS (%)

95.0

2019/20: 95.4

* Employee data for 2020/21 and 2019/20 excludes SSE Energy Services employees and includes SSE's Contracting business. Further information on how SSE has defined these metrics can be found within the Sustainability Report 2021.

Reinforcing a healthy ethical culture

An organisation's culture is a key determinant of its long-term success. SSE's revised "Doing the Right Thing: guide to good business ethics", published in early 2020/21 and available on sse.com/sustainability, is SSE's code of conduct which supports the adoption of the right values, attitudes and behaviours to contribute to an ethical business culture at SSE. The guide applies to all SSE employees as well those that work on its behalf. It covers topics including fair competition, business separation, engagement with politicians and regulators, modern slavery, safeguarding the environment, managing data and cyber security. SSE also has mandatory ethics and compliance training modules which all employees are required to complete.

For the first time in 2019/20, SSE undertook a culture health-check to understand how employee sentiment, provided from the employee engagement survey, aligned with a range of additional metrics, such as employee turnover rates, sickness rates, safety metrics and wellbeing figures. This is reported to the Board biannually as a cultural dashboard. See pages 112 and 113 for information on the Board's focus on SSE's workplace culture.

Speaking up against wrongdoing

Empowering people to speak up against wrongdoing is a central element of SSE's approach to good business ethics and doing the right thing. This can be done through an independent whistleblowing channel, called SafeCall, as well as through SSE's internal channels. The effectiveness of SSE's whistleblowing arrangements are reviewed twice yearly by the GEC and the Board.

Over calendar year 2020, there were 66 reports of wrongdoing made through SSE's speak up channels, a decrease from 88 in 2019 which is understood to be driven by changes in working caused by the coronavirus pandemic. A breakdown of these reports, including how they were made, what they related to and the outcomes of investigation can be found in the Sustainability Report 2021.

Preventing bribery and corruption

Corruption and criminality, including bribery, fraud and other financial crime, are unacceptable in all circumstances. SSE takes proactive steps to mitigate this risk occurring in its direct or supply chain operations. This includes a robust approach to governance, mandatory training and an established policy framework. SSE's "Doing the Right Thing" guide to ethical behaviour and its Group Corruption and Financial Crime Prevention Policy are available on sse.com/sustainability.

SSE's Anti-Corruption and Financial Crime Committee (ACFCC) reports into the Group Risk Committee and is chaired by SSE's Finance Director. It oversees work across the Company to strengthen controls and ensure a robust and proactive approach to the corruption and financial crime compliance program. The ACFCC is supported by the Anti-Financial Crime Steering Group and Crime Prevention and Investigation Steering Group.

At the end of 2020/21, 95% of SSE employees were certified in the company's 'Anti-Money Laundering and Financial Sanctions' eLearning module, 90% were certified in the 'Bribery and Anti-Corruption' eLearning module and 93% were certified in the 'Fraud Awareness' eLearning module.

Of the total 66 reports of potential wrongdoing made over calendar year 2020, 26% (17 reports) related to 'Dishonest behaviour' (2019: 25%) which includes reports relating to fraud, theft, integrity, corruption and bribery. All of these reports were investigated fully by appropriate areas of the business, with outputs reviewed by SSE's Group Security and Investigation Team prior to closure on the Whistleblowing Register. Of the 17 reports: two resulted in dismissals, one was subsequently investigated as a grievance; eight were investigated but with the case not proven; three resulted in an initial investigation establishing that there was insufficient evidence to proceed further; and three cases could not be investigated due to insufficient information to establish the nature, cause, location or otherwise of the allegation being provided.

Mitigating the risk of modern slavery

Modern slavery in any form is unacceptable in any circumstances. SSE undertakes steps to mitigate the risk of modern slavery in its direct and supply chain operations and in 2020/21 commissioned human rights experts Stronger Together to undertake a gap analysis of SSE's approach to preventing human rights violations and modern slavery against best practice. Using the result of this process with Stronger Together, SSE has developed a new Modern Slavery Action Plan for 2021-23, focused on five key areas of focus: Tier 1 and beyond; Due diligence; Awareness and education; Response and doing the right thing; and Messaging and comms. This Action Plan is underpinned by robust governance, with the SSE Human Rights Steering Group now reporting directly to the Risk Committee, as well as to the GEC and to the Board annually.

Detail on the gap analysis carried out by Stronger Together, SSE's Modern Slavery Action Plan and an update of SSE's activity over 2020/21 to mitigate the risk of human rights abuses within its direct and supply chain operations will be found within its Modern Slavery Statement 2021 which will be located on the sse.com homepage.

Guaranteeing standards: a real Living Wage and Living Hours

SSE has been a Living Wage accredited employer in the UK since 2013 and paid the Living Wage in Ireland since 2016, with "Champion the real Living Wage" as one of the Company's 2030 Goals (see page 15). In late 2020/21, SSE gained accreditation as a Living Hours employer.

Leading workforce reporting

SSE supports and encourages an investor-led approach to the standardisation of workforce disclosure to enable meaningful information to be reported and used to compare the approaches of different organisations. SSE has therefore been one of the leading companies providing detailed and open disclosure to the Workforce Disclosure Initiative (WDI).

SSE was shortlisted for the 'WDI award' and 'Contingent workforce data' award at the 2020 WDI Awards, with a special mention in the 'COVID-19 transparency', 'Workforce action' and 'Most transparent' categories.

A SUSTAINABLE APPROACH CONTINUED

Living Hours is a new accreditation from the Living Wage Foundation in the UK which recognises that people cannot earn a real Living Wage unless fair wages are also accompanied by secure and sufficient hours of work. SSE will work over 2021/22 to begin rolling this initiative out across its UK supply chain, as it has done with the Living Wage since 2014.

Listening to the employee voice

The core strand of SSE's employee voice strategy is the all-employee engagement survey. Typically these run annually, but were run more regularly during the coronavirus crisis period to capture employee sentiment on a number of key themes, including communication, strategy, leadership and wellbeing. This feedback has influenced employee-focused decisions on ways of working, communication and wellbeing. SSE's September 2020 employee engagement survey had a participation rate of 82% and an engagement score of 82%. This was 3% above the utilities sector benchmark and 8% above the UK benchmark.

Over the past year, SSE has enhanced its employee voice strategy with the addition of exit surveys. The exit survey aligns to SSE's overall approach to gathering employee engagement insights through its employee engagement survey, and therefore allows a comparison of top/bottom scoring answers for ex-employee sentiment on the company. The results are enabling SSE to gather meaningful and robust insights into why people leave the company, informing actions which aim to improve the employee experience.

In the context of the coronavirus pandemic, employee voice has been a particularly important consideration for the Board. Dame Sue Bruce DBE, SSE's non-Executive Director for Employee Engagement, undertook enhanced direct engagement with colleagues, using virtual technologies and covering multiple Business Units and geographies. See pages 114 to 116.

Engagement with union partners

Everyone that works for SSE has the fundamental right to freedom of association, including the right to join a trade union. In 2020/21, 53.9% of SSE's total direct workforce were covered by collective bargaining agreements.

The Joint Agreement, covering 46.9% of SSE employees, is the main collective bargained agreement for SSE employees. It is negotiated through the Joint Negotiating and Consultative Committee (the JNCC) which comprises SSE and its four recognised trade union partners: Unite, Unison, Prospect and the GMB. The full JNCC met eight times over 2020/21 to discuss terms, conditions and arrangements on employees' behalf.

There has been greater communication than ever between SSE and its union partners due to the coronavirus pandemic with weekly update calls held between senior managers and full-time officials and Joint Business Committees meeting on a monthly basis.

LISTENING AND RESPONDING DURING THE PANDEMIC

SSE's listening tools have been key in shaping the approach to employee support and Group-wide communications. A pulse survey conducted in May 2020 was the start point in identifying employees' concerns and priorities as the pandemic took hold. The research followed an overnight switch to a predominately working from home model, with those deemed critical workers continuing in their critical operational roles with enhanced health and safety measures in place.

The survey was completed by around 8,000 employees and set out clear requests for IT capability, increased health and wellbeing support, a desire to remain connected to SSE and anxiety over the future. In addition, clear guidelines on working arrangements were called for given the additional responsibilities that were being experienced by employees through home schooling and family care.

Targeted actions were agreed and implemented, including: the ability to order the necessary IT; the roll-out of Office 365 training including on its collaborative functionality; flexible working patterns and caring days; and the publication of a comprehensive health and wellbeing guide for employees to promote good physical and mental health, covering everything from healthy eating and exercise, to remote management and communications advice. In an effort to increase employee reach, the communication style has been a combination of written intranet articles, targeted emails, employee (including all-company) calls and virtual contacts. The impact of SSE's response has in turn been assessed through additional employee focus groups including the programme of engagement conducted by the non-Executive Director for Employee Engagement and a Great Place to Work pulse survey.

In May 2021, 400 days after the first day of the UK national lockdown, SSE also announced that it was providing employees with a £400/€450 thank you for their contribution through the pandemic.

ENGAGEMENT IN ACTION

EMPLOYEES

Providing employee benefits

SSE provides employees with a wide range of benefits, detailed on careers.sse.com/employee-benefits. This includes flexible working arrangements, market-leading maternity benefits, all-employee shareplans, a holiday purchase scheme, cycle-to-work schemes and technology loans. In 2020/21, 98% of employees returned to work after maternity leave (84% in 2017, before SSE's current maternity benefits were introduced). A total of 73%/66% of UK/Ireland employees participated in the company's Share Incentive Plan and 46%/21% of UK/Ireland employees participated in the Sharesave programme (77%/38% and 24%/16% respectively in 2019/20).

Working towards inclusion and diversity

SSE wants its business to be welcoming to all employees and to have a workplace culture that is inclusive to everyone. The company has therefore been implementing its 2017-2021 Inclusion Strategy, jointly developed with experts EAInclusion (previously called Equal Approach), which it refers to as its 'IN, ON and UP' approach. This strategy focuses on bringing all kinds of different people 'IN' to SSE, encouraging them to stay 'ON', and supporting them to progress 'UP' by ensuring processes, practices and policies are wholly inclusive.

Significant progress has been made in the key areas targeted by the strategy:

- **IN:** Gender bias language reviews of all job adverts; inclusive hiring training for all hiring managers; open advertising of roles (78% of all roles in 2020/21); and flexible working offered in job adverts (89% of all roles in 2020/21);
- **ON:** Roll-out of agile working practices; Inclusion and Diversity Working Groups in most businesses; six employee-led communities formed under the banner "Belonging in SSE"; inclusion training for employees (95% of employees were certified at the end of 2020/21); and market-leading maternity benefits.
- **UP:** Inclusion and diversity training for all; the creation of an Inclusive Leadership Development Programme (93 participants over 2020/21); greater focus on inclusion and diversity by the Board (see page 127).

Gender balance at senior levels

Gender split of:	Unit	2020/21 target	2020/21	2019/20	2018/19
Group Executive Committee[1]	Male/female headcount in group[3] (% female shown in brackets)	–	6/2 (25%)	7/2 (22%)	7/2 (22%)
Group Executive Committee[1] and direct reports (excl. admin employees)		**30% female**	39/13 (25%)	48/12 (20%)	44/10 (19%)
Group Executive Committee[1], its sub-committees and Business Unit Executive Committees[2]		**25% female**	67/26 (28%)	62/23 (27%)	53/17 (24%)
Roles at £70,000 or above (indexed to 1 April 2017)		**20% female**	518/100 (16%)	524/108 (17%)	477/91 (16%)

1 In the context of gender reporting, the Group Executive Committee (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 Figures for all BU Executive committees includes relevant attendees and the relevant Committee Secretary. Duplication of individuals have been removed.
3 Data is correct as at 31 March in each financial year, with the exception of the 'Group Executive Committee, its sub-committees and Business Unit Executive Committees' in 2018/19 which is correct as at 1 April 2019. SSE's revised operating model was implemented on 1 April 2019 and was embedded throughout that financial year.

In SSE's 2020 employee engagement pulse survey, 84% of employees said they believe that their managers support diversity and inclusion, and recognise and respect the value of human difference. This is 7% above the utilities sector benchmark and 4% above the UK benchmark.

Further information on SSE's inclusion and diversity initiatives is detailed within SSE's Sustainability Report 2021.

Striving for gender balance

SSE is concerned at the lack of diversity in the energy sector and specifically within the Company. For seven years it has focused on promoting greater gender balance at every level as part of its wider inclusion and diversity strategy. While there are signs of improvement, SSE operates in an environment where 69% of its job applicants are male, and delivering gender equality is proving to be a long-term challenge. This is therefore an area of increased focus for the Board and GEC.

At 31 March 2021, four of SSE's 11 Board members are women, meaning that SSE is one of 68 FTSE 100 companies that has met or exceeded the Hampton-Alexander Review target of 33% women on Boards. SSE was ranked 52nd out of FTSE 100 by Hampton Alexander in 2020, a move up from 65th in 2019. SSE is however still below its own internal target to have a three-year rolling average of 33% women on its Board, showing that this target will take time to reach despite good progress. More information about the diversity of the SSE Board and SSE's Board-level gender target is on page 121.

In 2018, in response to the Hampton-Alexander Review and in recognition of the challenges of its recommendations for the Company due to a very small pipeline of women at the most senior levels, SSE established a series of broader supporting pathway targets for greater gender balance at senior levels to be reached by the end of 2020/21. As shown in the table on this page, there has been mixed progress towards these targets.

The Hampton-Alexander Review targets 33% female representation within the Group Executive Committee and its Direct Reports by 2020. SSE is fully supportive of this target, but has always understood that, with a low starting point, it would take SSE longer to reach this target. SSE now has 25% senior female representation at this level. This does not however achieve the Hampton-Alexander recommendation or SSE's own target of 30%. SSE's Board and GEC are fully committed to increasing gender balance at this level.

A SUSTAINABLE APPROACH CONTINUED

SSE surpassed its target to have 25% female representation on its GEC, its sub-committees and Business Unit Executive Committees, reaching 28% female representation at the end of 2020/21. Whilst this is positive, SSE intends to make further progress in this area.

SSE has focused on ensuring it has effective inclusive recruitment processes. The percentage of women applying for and being offered senior roles in SSE has increased since 2018/19: from 10% female applications to 17% in 2020/21; and from 6% female offer rates to 18% in the same timeframe. Despite this, and alongside some wider restructuring of the business, the Company did not meet its target to have 20% women out of all people earning £70,000 or above (indexed to 1 April 2017).

SSE believes that important progress has been made on establishing a more inclusive culture through its 'IN, ON and UP' strategy, but knows much remains to be done and understands that the diversity of its senior leaders will take time to change.

Having completed a significant restructuring of the business portfolio, the Board and GEC are committed to agreeing a future set of ambitions and delivery plans that increase the overall gender diversity and wider difference across leadership and senior management positions, with clear initiatives in place to achieve this.

SSE's gender pay gap

SSE has published its UK gender pay gap since 2016. SSE's UK median and mean gender pay gap as at 5 April 2021 were 18.3% and 16.5% respectively. This compares to 18.4% and 17.1% respectively as at 5 April 2020.

Whilst SSE publishes its headline gender pay gap statistics within its Annual Report, further data and detailed information on the action SSE is taking to reduce its gender pay gap and promote gender diversity at every level of the organisation can be found within the Sustainability Report.

Creating an inclusive SSE for ethnic and racial diversity

The lived experiences of black and ethnic minorities received global focus over the course of 2020. SSE listened to its employees who shared their reactions to last year's Black Lives Matter movement and worked with them to design the best way the Company could offer support and help raise awareness for all.

In September 2020, SSE launched a new employee led "Belonging in SSE Black and Ethnic Minority Community", one of a suite of new communities, the shared aims of which are to:

- Bring people together – by encouraging open and constructive employee-led discussion, allowing people to connect, communicate and collaborate.
- Access latest thinking – by employees sharing relevant and topical insights and knowledge, as well as external articles, studies and thinking.
- Support each other – by offering peer to peer support and advice amongst those with similar lived experiences.
- Educate each other – by shining a light on the realities of others who may be different to ourselves.

Alongside this, SSE has encouraged employees to share their lived experiences in short "By Colleague, For Colleague" personal stories on internal channels to increase shared understanding. This has been accompanied by senior leadership blogs sharing thoughts and experiences around inclusion and difference.

Consumers

The provision of energy to homes and businesses across GB and the island of Ireland is an essential service. SSE's relationship with the end consumer can be a direct one, as a supplier of energy or a distributor of electricity. While the relationship between SSE's electricity generation businesses and its Transmission business might be less direct, the interests of the end user are key. From driving down the costs of generating electricity from renewables, the careful balancing of consumer interests in the Transmission business plan to the creation of local flexible electricity grids that engage all users, SSE's businesses can do much to deliver value for consumers.

New challenges for energy affordability and vulnerability

The coronavirus pandemic has demonstrated the complex and transient nature of consumer vulnerability. Significant financial challenges have been brought to many of SSE's customers and it has shown how important it is to remain flexible, agile and continually evolve to meet customers' needs.

SSEN Distribution serves over 3.8m customers and adapted its service provision quickly to support customers in 2020/21:

- SSEN's industry-leading customer vulnerability mapping tool was enhanced in 2020/21 with the addition of a new social indicator showing levels of Universal Credit uptake to complement existing data on low-income and long-term unemployment. The mapping tool was shared widely with partners to inform and support more accurate coronavirus responses.
- A new joint Priority Services Register (PSR) Scotland website was launched in collaboration with Scottish Water and SP Energy Networks to offer a PSR one-stop-shop across Scotland, making it easier for partners to promote and customers to sign up.
- A focus on energy efficiency continued, with the trebling of referrals from SSEN to energy efficiency agencies in Scotland and England.
- SSEN Distribution's partnerships to support vulnerable customers helped 2,754 households in 2020/21. Furthermore, SSEN Distribution extended its energy adviser programme with Citizens Advice Scotland for a further 12 months and enhanced its Citizens Advice Hampshire and NHS Home and Well partnership to specifically target support for people coming out of hospital.

PROVIDING PRIORITY SERVICES TO VULNERABLE CUSTOMERS

ENGAGEMENT IN ACTION
ENERGY CUSTOMERS

In response to coronavirus, SSEN Distribution worked to maintain customers' power supply, with additional efforts focused on supporting those most vulnerable and isolated. Extensive customer engagement has been ongoing to raise awareness of an extension to SSEN's Priority Services Register to include those who were instructed to self-isolate for a 12-week period and a dedicated team was established to proactively call customers who may be at risk of social isolation during the lockdown period.

The frontline healthcare response was also prioritised, with connections accelerated for temporary hospitals and research centres, and a dedicated phone line set up for hospitals, health centres and care homes to ensure optimisation of incident response. SSEN Distribution's customer care team and Safety, Health and Environmental (SHE) teams were recognised for their efforts in February this year when they received the "Keeping us Connected" award from Utility Weekly – a one-off award for excellence in the face of the pandemic.

MORE THAN

6,000

welfare calls made to SSEN Distribution's most vulnerable customers

SSE Airtricity supplies green electricity, natural gas and essential services to homes and businesses across Ireland. The safety and wellbeing of employees, customers and communities is its number one priority, with 2020/21 characterised by the ongoing response to customer needs through the coronavirus pandemic:

- Disconnection activity was suspended for domestic customers and enhanced payment arrangements were offered to help ease worries about energy bills.
- Extra supports were for shielding customers and those who could not purchase credit for pre-paid-meters.
- SSE Airtricity worked to keep energy costs low and, despite a recent price increase due to increased external costs, SSE Airtricity customers continue to pay less for their energy than before the pandemic outbreak as a result of a summer price decrease and winter price freeze in 2020.
- SSE Airtricity continued to expand its products and services through enhanced partnerships, such as the introduction of a Green Home Upgrade partnership with An Post and the growth of the Solar for Schools Project with Microsoft Ireland.

More information on action taken to support customers can be found within the Sustainability Report 2021.

Designing smarter and fairer distribution networks

The emergence of a digital electricity grid will be key to reducing carbon emissions locally. It also creates opportunities for consumers to manage their energy, with the potential of reducing energy costs. SSE is concerned to ensure however, that these benefits of smart grids are shared widely. Currently access to smart services such as flexibility payments, time-of-use tariffs and electric vehicle tariffs, is limited to a relatively small group of early technology adopters. SSEN Distribution recognises that the benefits of a smarter energy system should be accessible to all and is an important component of achieving a Just Transition to net zero.

'Smart and Fair?' is an ongoing research programme led by the Centre for Sustainable Energy and supported by SSEN Distribution which explores social justice in the future energy system. The Phase 1 Report, published in September 2020, investigated how this can be achieved without leaving consumers behind. An analytical framework and methodology – called a Capability Lens – was developed to measure the impact of changes to the energy system on a diverse group of customers. The research programme has made several recommendations to Ofgem, the UK Government, consumer advocates and energy practitioners (network companies and suppliers), with key findings adopted by the Just Transition Commission's final recommendations to the Scottish Government.

Phase 2 will improve the analytical tools, pilot interventions to widen participation and analysis of the value of the smart energy market to a range of different stakeholders. It will determine whether the analytical framework can be used 'in reverse' to develop profiles of communities, types of smart energy offerings and model types of interventions that may be required.

A NEW SUSTAINABLE PROCUREMENT CODE

SSE recognises the key role its supply chain partners play in achieving its sustainability goals. It therefore provided its strategic suppliers with the opportunity to review and provide comment on its new Sustainable Procurement Code and accompanying Supplier Guidance (both available on sse.com/sustainability/policies-assurances) ahead of publication.

Reaching out to SSE's strategic supply partners, input was requested on overarching themes, principles and specific requirements outlined in the documents. Ten suppliers provided detailed feedback which was subsequently integrated into the documents, with agreement to continue engagement on this topic to understand potential areas of collaboration to fulfil common sustainability goals.

DETAILED FEEDBACK FROM

10

strategic suppliers helped shape SSE's Sustainable Procurement Code

ENGAGEMENT IN ACTION

SUPPLIERS, CONTRACTORS AND PARTNERS

Suppliers

SSE depends upon a sustainable, vibrant and varied supply chain to deliver its business strategy. Ensuring that its standards and values are supported and upheld by its suppliers and contractors is central to the social impact SSE makes.

Renewing SSE's sustainable procurement strategy

The ISO 20400 Sustainable Procurement Guidance was identified as the most appropriate framework to structure a renewed and invigorated approach to managing sustainability risks and opportunities in SSE's supply chain. Following an independent gap analysis against the ISO 20400 standard by supply chain experts Action Sustainability in early 2020, over the course of 2020/21 SSE has developed and begun implementation of a three-part plan designed to advance its approach to sustainable procurement to a mature state. Detail of this plan is provided in the Sustainability Report 2021.

Core activities undertaken during 2020/21 to advance SSE's approach to sustainable procurement included:

- An extensive assessment of social and environmental risks across all purchasing categories to identify where the most material risks lie and enabling proactive risk mitigation.
- Creation of advanced sustainability-focused pre-qualification and tender question sets and KPI measures, designed to target shared opportunities as well as risk.
- Development of a new Sustainable Procurement Code and linked Supplier Guidance document (replacing SSE's Responsible Procurement Charter) which are aligned to the UN's Sustainable Development Goals (SDGs) material to SSE's business.
- A proposal to work with supply chain partners on SSE's major projects to quantify and enhance the social value of SSE's major project investment.
- Partnership with the Supply Chain Sustainability School to enable SSE and its supply chain to access high-quality training, wider resources and networks focused on sustainability.

Supporting local supply chains on offshore wind projects

For more than a decade, SSE has demonstrated its commitment to developing sustainable, domestic supply chains for its major infrastructure projects. SSE reached financial investment decisions on just under £10bn of renewables projects in 2020/21, with SSE's share representing around £4.5bn. The opportunities for supporting and creating UK supply chains and jobs as a result of these projects, in particular Seagreen and Dogger Bank offshore wind farms, has been a major strategic focus for the organisation.

The most significant development, in March 2021, was the announcement that GE Renewable Energy plans to open a new blade manufacturing plant on Teesside in the North East of England to support the growing offshore wind market in the UK and Europe and to produce blades for its Haliade-X turbine that will power Dogger Bank. The significant order of Haliade-X offshore wind turbines from Dogger Bank wind farm was a decisive factor in GE Renewable Energy's decision to greenlight the new manufacturing plant, delivering a long-term renewable energy jobs boost to the region. The blade factory is expected to create up to 750 direct and up to 1,500 indirect jobs locally.

Communities

SSE's long-standing approach to community engagement and investment has enabled it to build strong relationships with communities in the areas where it operates.

Implementing responsible developer principles

SSE's business strategy depends upon its ability to develop and execute major infrastructure projects from new electricity transmission lines to wind farms. The successful development of such projects requires good community relationships with the people who live near the projects.

SSE's approach to community liaison has been built over the past 10 years with a Large Capital Project governance process to ensure rigour and careful management of risk as projects develop. Stakeholder engagement is an important part of that process, with SSE's approach being defined by early and transparent engagement through the statutory planning process. Through construction, dedicated community liaison officers work closely with community representatives and local authorities to ensure minimum disruption as components are delivered and construction progresses.

Through the coronavirus pandemic, methods of community liaison were adapted, with new digital platforms implemented to engage effectively with stakeholders remotely. Feedback has demonstrated improved inclusion of communities who may have struggled to attend in-person events due to childcare, distance or work commitments.

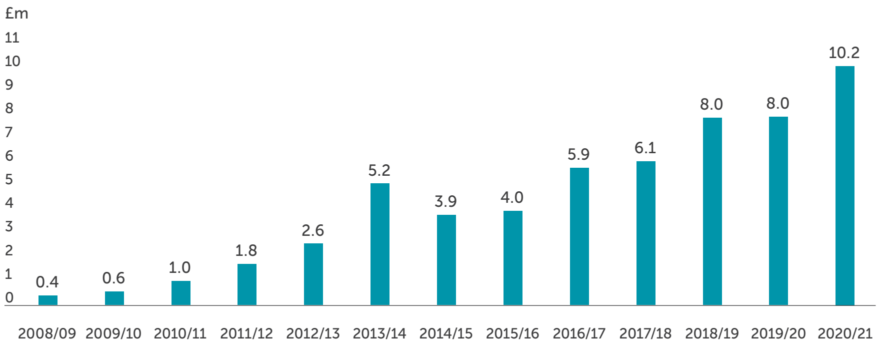
In the future, the model is expected to develop further as stakeholders confirm they value some face-to-face engagement. To continue meeting their needs, a mix of in-person and digital engagement methods will be used, keeping costs and limited stakeholder resources in mind.

Direct funding for community projects

The principle of sharing the economic value of renewables projects with local communities is one SSE has been committed to since 2008. SSE Renewables' community investment funds provide an important source of funding to communities close to its assets, many of which are in rural areas across the UK and Ireland. Over 2020/21, £10.2m of community investment grants were administered by SSE Renewables to finance 980 projects across the UK and Ireland. Total fund payments between 2008 and 2050 are expected to be at least £250m, adjusted for inflation. This includes the Viking wind farm fund, with expected payments to the Shetland community over the lifetime of the wind farm totalling £70m (nominal) – the largest UK community fund linked to renewable energy.

In addition to the SSE Renewables funds, SSEN Distribution operates the Resilient Communities Fund (RCF) which helps communities to build resilience for emergency events and protect the welfare of vulnerable community members. Since 2015, the RCF has provided £2.8m to 540 not-for-profit community groups and charities in SSEN's electricity distribution network areas in central southern England and the North of Scotland. Over 2020/21, the fund was used to support communities' responses to the coronavirus pandemic, with over £320k granted through the RCF and an additional £40k granted to Citizens Advice Scotland and Citizens Advice Hampshire to help them transition to home working and develop their capacity and resilience to deliver the increased demand for remote services.

RENEWABLES COMMUNITY FUNDS*



* Total community grants administered by SSE Renewables, which includes grant giving from JV partners.

PROVIDING EMERGENCY FUNDING IN A TIME OF NEED

SSE has supported communities quickly and flexibly throughout the pandemic. Early in 2020, SSE engaged communities near its renewable assets to understand how the community investment could best support them to respond to immediate challenges. Based on the communities' suggestion, emergency funding was made available with over £2m provided in emergency grants to assist community responses throughout the pandemic. More than 250 communities were supported to manufacture PPE, retain community assets and to provide essential services for vulnerable residents.

Beyond the granting of emergency funds, SSE's Community Investment Team engaged existing grant holders and determined how best to support them during the pandemic. The grant award period for over 100 existing grants was extended and additional funding was made available to 38 groups to help them respond to consequences of the pandemic, for example providing youth support services and training for the self-employed.

SSE is now engaging with communities to ensure they are supported as they seek to stabilise and thrive during the recovery period.

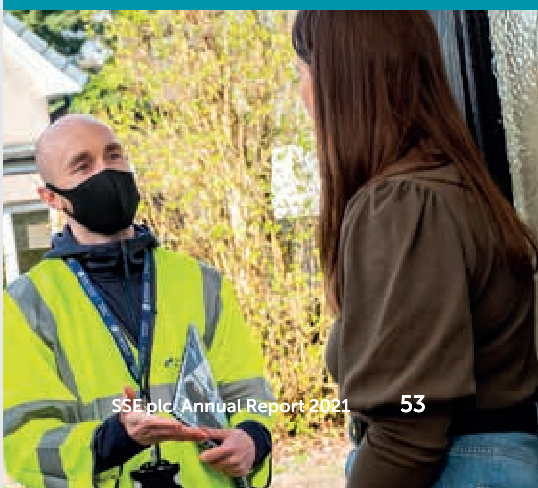
SSE HAS MADE MORE THAN

£2m

available since March 2020 to support communities with their coronavirus pandemic response

ENGAGEMENT IN ACTION

NGOs, COMMUNITIES AND CIVIL SOCIETY



RISK-INFORMED DECISION MAKING

MANAGING SSE'S **PRINCIPAL RISKS**

The execution of SSE's strategy and delivery of its purpose is 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 137 of the Directors' Report continued to inform strategic decision-making in 2020/21. This, combined with a resilient business model, helped the Group manage and minimise the human, operational and financial impacts of coronavirus and to meet its objective of supporting the reliable supply of electricity to those who needed it, particularly those tackling the pandemic.

In addition to coronavirus, SSE managed and assessed the potential risks associated with a number of other external factors throughout the year. Brexit gave rise to a high degree of economic, regulatory and political change. SSE was well prepared and the direct impacts were limited, but it continues to manage the resulting uncertainty over carbon pricing and the establishment of a standalone UK Emissions Trading System agreement.

SSE also appealed to the CMA on a narrow range of technical points against Ofgem's final RIIO-T2 price control determination, seeking to balance affordability for energy consumers with the need to attract the investment needed for the transition to net zero.

Against this backdrop SSE continued to deliver significant strategic progress through its disposals and capex programmes. The Group has been streamlined and £1.5bn of proceeds have been announced through the sale of non-core assets and construction is under way on a number of predominantly low-carbon infrastructure projects including the world's largest offshore wind farm at Dogger Bank.

The above factors, along with the likely longer-term impacts of the coronavirus pandemic in the UK, Ireland and abroad and all other influencing factors 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 in order 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 and whether they consider them to have become more or less material during the year. In 20/21 this commentary covered both changes specifically related to coronavirus and those changes that are not related to the pandemic impacts. Consideration is also given to potential emerging risks and whether or not 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 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.

2020/21 review outcome

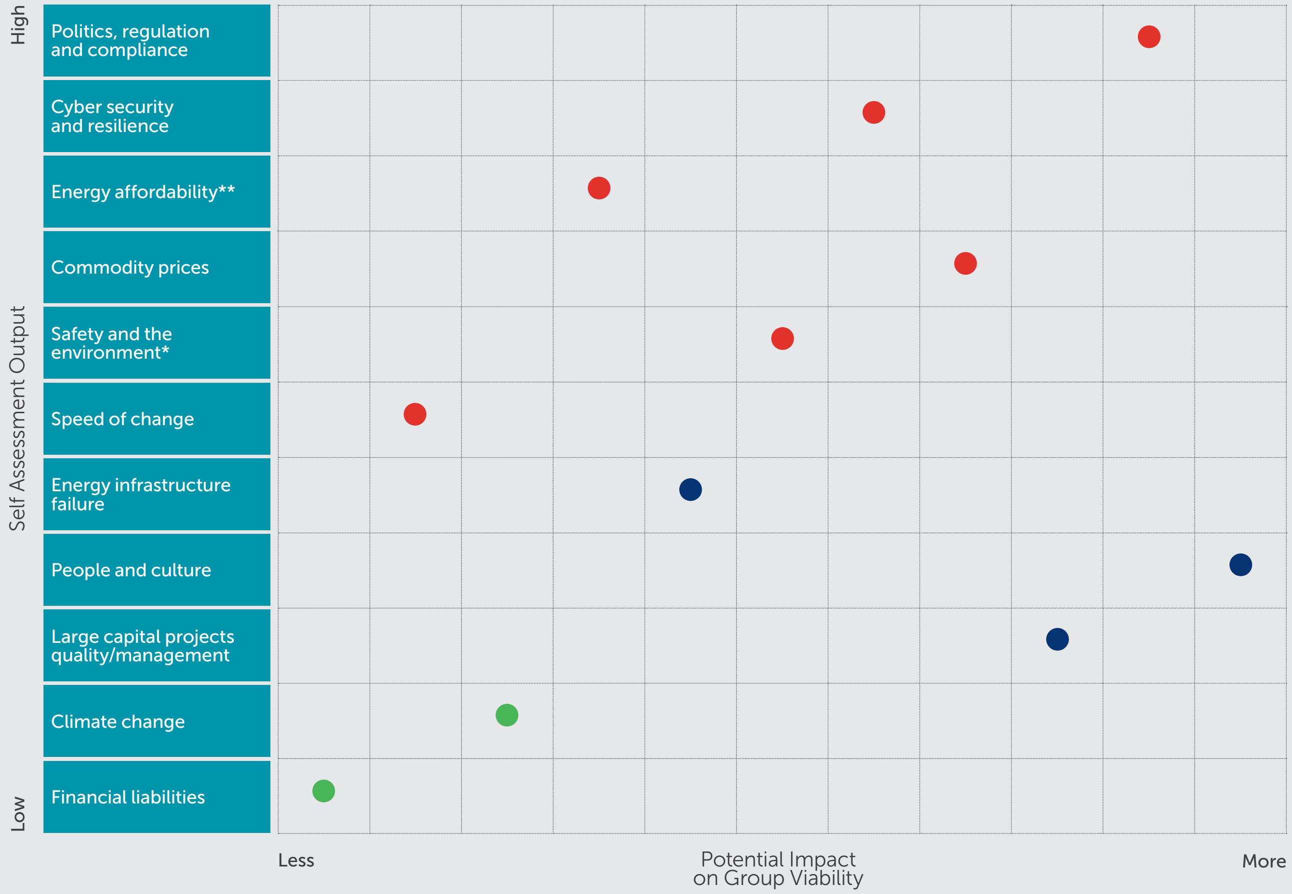
Following the 2020/21 annual review process, the number of Principal Risks to the Group remains at 11 but there are two revisions of note.

The "Large Capital Projects Quality" risk has been redefined and renamed "Large Capital Projects Management". This broadens the risk definition in response to changes in the operating environment and reflects the increase in value of SSE's Large Capital Projects portfolio over the next 10 years.

The emerging risk "Joint Venture and Partner Management" previously identified during 2019/20 was retained by the Board. The importance of joint ventures and partner management continues to increase in SSE as its Business Units pursue their strategic and business objectives in association with other companies and organisations, in some cases in international markets. An additional review of this emerging risk will be undertaken by the Group Risk Committee in Q2 of the financial year 21/22.

Important revisions have also been made to the descriptions of each of the other 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 57 to 63.

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.

SSE operates in fast-moving markets that are under normal circumstances subject to a high degree of political, regulatory and legislative intervention. It is therefore essential that SSE's Risk Management Framework is dynamic and flexible, allowing decision makers to focus on material risk information that may have an impact, whether positive or negative, on strategic objectives.

The Board and Group Executive Committee look for as complete a perspective as possible when assessing the Principal Risks that face the Group. The graphic above illustrates SSE's 11 Group Principal Risks positioned on a relative basis against the output of the Principal Risk Self Assessment process (based on changes in the context and prevalence of each risk) and the potential impact on Group Viability based on critical risk scenarios developed with business experts.

In addition, Principal Risks that were considered by their oversight committees to have increased in materiality during the year are shown in red, those that have not changed significantly are shown in blue and those that have reduced in materiality are shown in green.

RISK-INFORMED DECISION MAKING 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; with consideration of 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 SSEN 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 is focused on creating value in a sustainable way from developing, building, operating and investing in the energy infrastructure and businesses needed in the transition to net zero. This provides a complementary portfolio of business activities whilst keeping the depth of focus on a single sector – energy.
- SSE has a clear understanding of the risks and opportunities in the Great Britain and Ireland energy markets and these markets therefore continue to provide the Group's geographic focus, with any expansion into other markets being subject to especially rigorous scrutiny.
- Safety is SSE's first value and it has no appetite for risks brought on by unsafe actions, nor does it have any appetite for risks brought on by insecure actions including those relating to cyber security. In areas where SSE is exposed to risks for which it has little or no appetite, even though it has implemented high standards of control and mitigation, the nature of these risks mean that they cannot be eliminated completely.

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

1. Risks should be consistent with SSE's core purpose, financial objectives, strategy and values;
2. Risks should only be accepted where 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 and for ensuring that risks are managed effectively across the Group.

Viability Statement

SSE is a purpose-led company involved principally in the generation, transmission and distribution of electricity; and also in the supply of energy and related services to customers. Its 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. 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 41 of the UK Corporate Governance Code the Board has formally assessed the prospects of the Company over the next 3 financial years to the period ending March 2024. The Directors have determined that as this time horizon aligns with the Group's current capital programme and is within the strategy planning period, a greater degree of confidence over the forecasting assumptions modelled can be established.

In making this statement the Directors have considered the resilience of the Group taking into account its current position, the impacts of the coronavirus outbreak, the Principal Risks facing the Group and the control measures in place to mitigate each of them. In particular the Directors recognise the significance of the strong balance sheet, and total committed lending facilities of £1.5bn – with £200m committed to October 2025 and £1.3bn committed to March 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 £2.5bn of funding since April 2020 including the issuance of a dual tranche £500m Eurobond in March 2021, its fourth Green bond in 5 years.

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 already agreed disposals of non-core assets expected to yield over £1.5bn in net proceeds, of which over £1.4bn cash proceeds have been received 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 (for Energy Infrastructure Failure); changes to key government energy policies (for Politics, Regulation & Compliance); and the impact of the loss of key systems (for Cyber Security and Resilience).

Scenarios are stress tested against forecast available financial headroom which this year also considered sensitivities resulting from the coronavirus pandemic. Further details can be found in A6.3 (Accompanying Information to the Financial Statements in the Annual Report and Accounts). 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, 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 2024.

GROUP PRINCIPAL RISKS

Key

Build Operate Invest Develop

Climate Change

Oversight:
Group Executive Committee

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.

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 around the products and services that SSE provides.

Material influencing factors most impacted by coronavirus:
- Fast developing stakeholder needs and expectations in relation to efficient, innovative and flexible products and services.
- 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.

Strategic link:

Key developments:
- In its role as a principal partner to the UK Government at COP26, SSE will strive to continue to build its reputation as a responsible UK-listed company, delivering in the public interest and a key enabler of net zero ambitions. More information on COP26 can be found in the Sustainability Report.
- In November 2020, SSE became the first company to publish its Just Transition Strategy. This strategy outlines SSE's 20 principles for achieving a socially just transition to net zero and details these in action. More information on SSE's Just Transition strategy is available on sse.com.

Key developments associated with coronavirus:
- In May 2020, SSE published "A Greenprint for building a cleaner, more resilient economy". The publication highlights SSE's policy proposals to build a greener more resilient economy while driving progress to net zero. Continued focus on SSE's vision to be a leading energy company in a net zero world and its strategic objectives ensure that it is best placed to play its part in long-term economic recovery. Further details are available on page 18.

Key mitigations:
- Policy Link: SSE Climate Change Policy.
- SSE provides transparent disclosures to allow its stakeholders to properly assess its performance in managing climate related issues. The Group believes it met the TCFD reporting recommendations in full in 2020 ahead of the UK Government 2022 deadline.
- 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.
- In March 2019, SSE's Remuneration Committee took the decision that from 2019/20 onwards 20% of the total Annual Incentive Plan (AIP) for Executive Directors would be determined by the progress made in meeting SSE's four 2030 Business Goals which are focused on addressing the challenge of climate change.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Commodity Prices

Oversight:
Group Risk Committee

What is the risk?
The risk associated with the Group's exposure to fluctuations in both the physical volumes and price of key commodities, including electricity, gas, CO_2 permits, oil and related foreign exchange values.

Material influencing factors:
- Weather associated seasonal fluctuations in demand, supply and generation capabilities – which may not be in line with historical trends, and which may or may not be associated with climate change – both in GB and globally. Further detail is available on page 27 of the Strategic Report.
- Generation technology advancements.
- Global and domestic political change, including the impacts of Brexit and the implications of a second Scottish Independence Referendum.
- European generation outputs and availability.
- International and national agreements on climate change.
- International flows of fuel.

Material influencing factors most impacted by coronavirus:
- Fluctuations in foreign exchange values.
- Fluctuations in the global supply and demand of fuel.
- Global economic growth.
- Geopolitical events.

Strategic link:

Key developments:
- Managing the impacts of geopolitical events including those relating to Brexit.

Key developments associated with coronavirus:
- Managing the impacts of a continued significant reduction in energy demand.
- Managing the impacts of significant fluctuations in commodity prices and foreign exchange values.

Key mitigations:
- 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 this report.
- The Energy Markets Risk Committee monitors the effectiveness of Group hedging arrangements.
- 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.

Cyber Security and Resilience

Oversight:
Group Risk Committee

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

Material influencing factors:
- Software or hardware issues, including telecoms network and connectivity and power supplies.
- 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.

Material influencing factors most impacted by coronavirus:
- Geopolitical events.
- Malicious cyber attack.

Strategic link:

Key developments:
- Continuation of work to ensure the successful technological separation of systems associated with divestments, including the sale of SSE Energy Services to Ovo, in a secure manner without interruption to services.

Key developments associated with coronavirus:
- 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.
- Continued maintenance of secure onsite systems and facilities in preparation for the gradual return to the office environment of those staff currently working from home.

Key mitigations:
- Policy Link: SSE Cyber Security Policy and SSE Data and Information 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.

Key

Build | Operate | Invest | Develop

Energy Affordability

Oversight:
Group Executive Committee

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.

Material influencing factors:
- Technology changes and innovations.
- Supply chain cost management.
- Public policies, including those aimed at reducing carbon emissions and energy consumption.
- Accessibility to energy and related services for all.
- Required investment in the upgrading of the UK's energy infrastructure to achieve net zero.
- Political interventions.

Material influencing factors most impacted by coronavirus:
- Macro-economic impacts on household and business incomes.
- Fluctuations in the cost of fuels.
- Supplier and customer failures and related bad debt.

Strategic link:

Key developments:
- Ensuring energy consumers are provided with affordable energy and accessible energy services throughout and following the transition to net zero are key objectives of SSE's Just Transition strategy published in November 2020.

Key developments associated with coronavirus:
- Following the outbreak of coronavirus in the UK in March 2020, and in line with the commitments of the C-19 Business Pledge, SSE adapted its approach to grant funding to make funds immediately available to communities who required them. By June 2020 over £1m had been provided to 250 communities to support the emergency response to the pandemic.

Key mitigations:
- Policy Link: SSE Sustainability Policy
- During the financial year, SSEN attained the British Standard for inclusive service provision (BS 18477) for the sixth year in a row. This recognition, from business standards company BSI, is achieved through rigorous assessments to ensure SSEN's policies, procedures and services are accessible and fair to all customers.
- 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.
- SSE continues to advocate its belief that modernisation of the energy market is best delivered by a cost-effective privatised system that is properly regulated.

Energy Infrastructure Failure

Oversight:
Group Executive Committee

What is the risk?
The risk of national energy infrastructure failure, whether in respect of assets owned by SSE or those owned by others which SSE relies on, that prevents the Group from meeting its obligations.

Material influencing factors:
- Severe adverse weather that causes damage or interrupts energy supply or generation.
- Government policy regarding the operation of the energy network which relates to security of supply.
- Transition to net zero.
- Failures in any aspect of the GB national critical infrastructure.
- Continuing access to the European energy markets and continued inclusion of Northern Ireland in the all-island Single Electricity Market.

Material influencing factors most impacted by coronavirus:
- Appropriate asset management and necessary upgrading works of both generation and network assets.
- Malicious attack on the GB energy infrastructure.
- Energy network balancing mechanisms.
- Continued availability of competent personnel.
- Continued availability of key systems.

Strategic link:

Key developments:
- Continued progress in developing and building electricity network flexibility and infrastructure to facilitate net zero.

Key developments associated with coronavirus:
- The successful implementation and continuation of comprehensive crisis management and business continuity plans designed to protect and ensure the ongoing security of energy supplies. The frontline healthcare response was prioritised, with connections accelerated for temporary hospitals and research centres, and a dedicated phone line set up for hospitals, health centres and cares homes to ensure optimisation of incident response.
- SSE's electricity networks business continues to use its well established Priority Services Register to provide additional support to vulnerable customers, working closely with local agencies to ensure those who are vulnerable, or shielding can be reached as quickly as possible in the event of an electricity network fault. A dedicated team was also established to proactively call customers who may have been at risk of social isolation during the periods of lockdown.

Key mitigations:
- Policy Link: Business Unit Asset Management Policies.
- 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).

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Financial Liabilities

Oversight:
Group Risk Committee

What is the risk?
The risk that funding is not available to meet SSE's financial liabilities, including those relating to its defined benefit pension schemes, as these fall due under both normal and stressed conditions without incurring unacceptable costs or risking damage to its reputation.

Material influencing factors:
- Ongoing commitment to an Investment Grade credit rating.

Material influencing factors most impacted by coronavirus:
- 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.

Strategic link:

Key developments:
- Proceeds in the region of £1.5bn have been announced towards the £2bn planned disposal programme target set in June 2020.

Key developments associated with coronavirus:
- In spite of the impact on the macro economy caused by the pandemic, in March 2021 SSE issued its fourth Green bond in 5 years with the issuance of a dual tranche £500m Eurobond. SSE is the UK's largest corporate issuer of green bonds and is the only UK corporate to launch multiple green bonds. During the year SSE also set out a new framework for issuing innovative sustainability-linked bonds in the future.

Key mitigations:
- Policy Link: SSE Financial Management Policy.
- Committed borrowings and facilities are available at all times equal to at least 105% of forecast borrowings over a rolling 6 month period.
- SSE seeks to maintain a diverse and innovative portfolio of debt to avoid over-reliance on any one market. This allows it to build relationships with, and create competition between, debt providers.
- Each of SSE's defined benefit pension schemes has a Board of Trustees which acts independently of the Group.

Large Capital Projects Management

Oversight:
Group Large Capital Projects Committee

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 15 to 30 years within forecast timescales and budgets.

Material influencing factors:
- Appropriate contractual arrangements.
- 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 those impacts associated with Brexit.

Material influencing factors most impacted by coronavirus:
- Availability of competent contractors.

Strategic link:

Key developments:
- Following an independent assessment against ISO 20400 by supply chain experts Action Sustainability in early 2020, SSE has developed and begun implementation of a three-part plan designed to mature its approach to sustainable procurement. For further details please see the Sustainability Report.

Key developments associated with coronavirus:
- Despite the challenges associated with the pandemic the Group reached Final Investment Decisions (FID) on a number of significant projects including the Seagreen 1 and Dogger Bank A and B offshore windfarms.

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.

Key

Build Operate Invest Develop

People and Culture

Oversight:
Group Executive Committee

What is the risk?
The risk that SSE is unable to attract, develop and retain an appropriately skilled, diverse and responsible workforce and leadership team, and maintain a healthy business culture which encourages and supports ethical behaviours and decision-making.

Material influencing factors:
- Rewarding employee contributions through fair pay and benefits.
- Recognition of the value and benefit of having an inclusive and diverse workforce.
- A responsible employer ethos. 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.

Material influencing factors most impacted by coronavirus:
- The health and wellbeing of all employees. For full details please see the Sustainability Report.
- Clear and well structured employee communications.

Strategic link:

Key developments:
- "Championing the real living wage" is one of SSE's 2030 goals and it has been accredited Living Wage employer in the UK since 2013 and since 2016 in Ireland. In March 2021 SSE gained accreditation as a Living Hours employer, this is a new accreditation, currently in a pilot phase, from the Living Wage Foundation in the UK which recognises that people cannot earn a real Living Wage unless fair wages are also accompanied by secure and sufficient work. Further details are available in the Sustainability Report and on page 47 of this Report.

Key developments associated with coronavirus:
- In May 2020 a pulse survey completed by around 8,000 employees was conducted in order to understand employee's immediate concerns and priorities in the new working environment. Targeted actions were agreed and implemented, including: flexible working patterns and caring days; and reminders of the available support offered by the employee assistance programme. Further surveys have been conducted throughout the year the results of which will be used to inform how SSE plans future ways of working.

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 in the Sustainability Report and on pages 126 to 127 of the Directors' Report.
- 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. Full details are available in the Sustainability Report.
- "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.
- The Audit Committee reviews all key accounting judgements made as part of the preparation of the Annual Report and Accounts.
- SSE's business leaders are required to undertake regular succession planning reviews. At a Group level, SSE continues to develop its approach to the management of talent.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Politics, Regulation and Compliance

Oversight:
Group Risk Committee

What is the risk?
The risk from changes in obligations arising from operating in markets which are subject to a high degree of regulatory, legislative and political intervention and uncertainty.

Material influencing factors:
- Changes to regulatory frameworks.
- International and national agreements such as the 2015 Paris Agreement on Climate Change and The Climate Change Act 2008.

Material influencing factors most impacted by coronavirus:
- Government intervention into the structure of the energy sector.
- Constitutional uncertainty, including relating to any second independence referendum in Scotland.
- Changes in financial, employment, safety and consumer legislation and regulation and the impact of these changes on business as usual activities.

Strategic link:

Key developments:
- Publication of the Prime Minister's 'Ten point plan for a green industrial revolution' setting out increased policy ambition to drive a green recovery and the long-awaited Energy White Paper.

Key developments associated with coronavirus:
- SSE's Greenprint published in May 2020 outlines SSE's green recovery policy proposals, highlighting 5 priority areas it believes the UK to focus on in order to build a greener, more resilient economy while driving progress to net zero. These priorities are: net zero by 2040; strategic investment in networks; clean industrial revolution; leading the charge on EVs; and, green buildings for green jobs. Further details are available on page 18 of the Strategic Report.

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 Statement that sets out principles for any employees who make representations to institutions of governments or to legislatures on the Company's behalf.
- The Group puts in place dedicated project teams to manage all aspects of significant regulatory and legislative change including those relating to Brexit.
- There is regular engagement with the Board and Group Executive Committee on political and regulatory developments which may impact SSE's operations or strategy. Further details are available on page 111 of the Directors' Report.

Safety and the Environment

Oversight:
Group Safety, Health and Environment Committee

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

Material influencing factors:
- Clear and appropriately communicated safety processes.
- 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.

Material influencing factors most impacted by coronavirus:
- 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.

Strategic link:

Key developments:
- During the year 271 Safe Days were achieved, compared to 247 the previous year; in addition the Total Recordable Injury Rate (TRIR) fell to 0.15 per cent per 100,00 hours worked. Further details are available on page 142 of the Directors' Report.

Key developments associated with coronavirus:
- Following its deployment in early 2020, SSE's Business Continuity Framework has been used to manage the Group's response to the pandemic. All employees who can do so continue to work from home. Coronavirus testing was introduced at an early stage when needed for critical workers whose attendance on site was essential to ensure continued operations and, hygiene and social distancing measures were established and maintained in order to ensure safe working conditions.

Key mitigations:
- Policy Link: SSE Safety and Health Policy and SSE Environment Policy.
- Safety is the Group's number one value with Board oversight being provided by the Safety Health and Environment Advisory Committee.
- Crisis management and business continuity plans are in place across the Group. These are tested regularly and are designed for the management of, and recovery from, significant safety and environmental events.
- 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.
- Full environmental impact assessments are carried out for all major projects, to ensure adverse environmental impacts are well understood and minimised.

Key

Build | Operate | Invest | Develop

Speed of Change

Oversight:
Group Executive Committee

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.

Material influencing factors:
- 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.

Material influencing factors most impacted by coronavirus:
- The size, scale and number of change programmes underway, including those relating to regulatory or legislative requirements.
- Geopolitical events.
- Governance and decision-making frameworks within the Group.

Strategic link:

Key developments:
- In February 2021 – as part of SSE's strategy to seek to bring its expertise in renewables to international markets where it sees value – it was announced that SSE Renewables and Acciona S.A., a leading Spanish Renewable energy developer, owner and operator, had signed an exclusivity agreement regarding plans for the formation of a 50/50 joint venture to enter the emerging Spanish and Portuguese offshore wind markets.

Key developments associated with coronavirus:
- In order to ensure the safety of its employees and to implement social distancing measures required in response to the coronavirus outbreak, around two thirds of SSE's workforce continue to work from home on a full-time basis. SSE's ability to sustain this significant change in working arrangements with minimal impact on productivity is a result of the major financial investment and the wider efforts over previous years to provide modern, flexible working for its employees.

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 104 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.

Emerging Risk: Joint Venture and Partnership Management

Oversight:
Group Executive Committee

Overview:
An essential tenet of SSE's Risk Management process is the consideration of potential emerging risks and whether or not any of those identified has the potential to become a Group Principal Risk in the medium to long term. As such, following the 2020/21 review process the emerging risk "Joint Venture and Partner Management" was updated and retained. The Group Executive and Group Risk Committees will continue to be monitored over the course of the year.

What is the risk?
The reshaped SSE Group features an increasing number of significant Joint Ventures (operated and non-operated) both in the UK and Ireland and in other carefully selected geographic locations. SSE must ensure that joint venture structures, governance and operations are robust in order to protect the investments made.

Key mitigations:
- Policy Link: SSE Joint Venture Management Policy
- The Group Risk Committee will undertake an additional detailed review of this emerging risk in Q2 of FY 21/22. The output of this review will be reported to the Group Executive Committee for further consideration.

FINANCIAL REVIEW

PERFORMING THROUGH **A CHALLENGING YEAR**

Despite a year of exceptional challenges faced by the global economy, the following pages reflect a period of significant strategic progress for SSE and value creation for its shareholders.

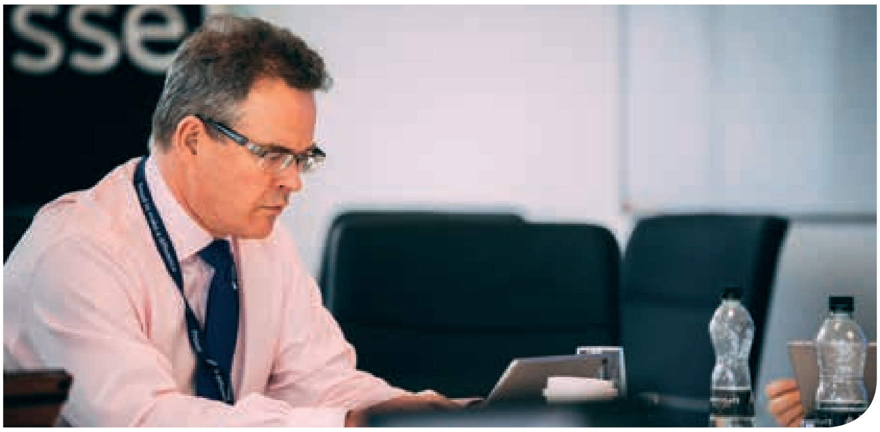
We can be very proud of the performance delivered in 2020/21. Against the backdrop of a global pandemic, we delivered strong earnings, made significant strategic progress and developed value-creating opportunities associated with net zero right across the energy value chain.

The resilience of SSE's business model and the commitment of our employees have helped us weather the coronavirus storm with the financial impact on the Group restricted to £170m.

We saw strong underlying performance in our core renewables and networks businesses and, while the long-term implications from the pandemic remain uncertain, the ongoing cost is likely to felt largely in SSE Enterprise and SSE Business Energy, and any future impact will be assumed within normal business performance.

Those core renewables and networks businesses accounted for £1,220m of adjusted operating profit – around 80% of the Group total of £1,506m, which itself was up 1% year-on-year. A marked increase in Group reported operating profit, up 185% at £2,743m, reflects mark-to-market gains on derivatives but also underlines the value we have created for shareholders through our disposals programme. As well as sharpening the Group's net zero focus, strategically-driven disposals in the region of £1.5bn have been announced and we expect to exceed our £2bn target on completion of the sale of SGN.

In addition to well-executed disposals, we showed in 2020/21 that our increasing developer focus opens opportunities for creating value through effective financial partnering in renewables. The sale of stakes in Dogger Bank A and B raised just over £200m, we partnered with Total at



"These results provide a platform for us to pursue the opportunities we see arising from the transition to net zero."

Seagreen and we expect to sell a stake in Dogger Bank C during the first half of the financial year. We have been clear that we would also consider, in time, extending a partnering approach potentially through sales of minority stakes in our regulated electricity networks businesses.

The £7.5bn capital investment and expenditure plan, meanwhile, is on track and we expect the run rate for capex to increase in 2021/22 and 2022/23 to around £2bn in each year. Success of the capex plan can be seen in the excellent progress being made on Dogger Bank, Seagreen and Viking wind farms. Thanks to these flagship renewables projects, we are building more offshore wind than anyone else in the world. At the same time, our regulated networks businesses are pushing ahead with plans to support the transition to net zero in the RIIO-T2 and RIIO-ED2 regulatory price control periods.

On the basis that financial performance in 2020/21 met the Board's expectations, we have recommended a full-year dividend of 81.0p and we are targeting RPI increases over the next two financial years, as set out in our 2023 dividend plan.

Combined, these results provide a platform for us to pursue the opportunities we see arising from the transition to net zero. We have options available to us to make the most of those opportunities and the best interests of shareholders will continue to be met through effective capital allocation, optimal capital recycling and partnering, and sound financial management.

Gregor Alexander
Finance Director
25 May 2021

Group Financial Review

This Group Financial Review sets out the financial performance of the SSE Group for the year ended 31 March 2021. See also the separate sections on Group Financial Outlook 2021/22 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

	Adjusted		Reported	
	March 2021 £m	March 2020 £m	**March 2021 £m**	March 2020 £m
Operating profit	**1,506.5**	**1,488.4**	**2,743.5**	**963.4**
Net Finance costs	(441.6)	(465.0)	(227.1)	(375.8)
Profit before Tax	**1,064.9**	**1,023.4**	**2,516.4**	**587.6**
Current Tax charge	(107.8)	(114.2)	(224.3)	(121.5)
Effective current tax rate (%)	10.1	11.2	9.4	20.7
Profit after Tax on continuing operations	**957.1**	**909.2**	**2,292.1**	**466.1**
Profit/(Loss) after Tax on discontinued operations	–	–	**30.7**	**(478.6)**
Profit/(Loss) after Tax	**957.1**	**909.2**	**2,322.8**	**(12.5)**
Less: hybrid equity coupon payments	(46.6)	(46.5)	(46.6)	(46.5)
Profit/(Loss) after Tax attributable to ordinary shareholders[1]	**910.5**	**862.7**	**2,276.2**	**(59.0)**
EPS (pence)	**87.5**	**83.6**	**218.7**	**(5.7)**
Number of shares for basic/reported and adjusted EPS (million)	1,040.9	1,032.5	1,040.9	1,032.5
Shares in issue 31 March (million)	1,043.0	1,039.4	1,043.0	1,039.4

1 After distributions to hybrid capital holders.

Dividend per Share

	March 2021	March 2020
Interim Dividend (pence)	24.4	24.0
Final Dividend (pence)	56.6	56.0
Full Year Dividend (pence)	81.0	80.0

FINANCIAL REVIEW CONTINUED

Operating profit performance 2020/21
Business-by-business segmental

	Adjusted		Reported	
	March 2021 £m	March 2020 £m	**March 2021 £m**	March 2020 £m
Operating profit/(loss)				
SSEN Transmission	220.9	218.1	220.9	218.1
SSEN Distribution	267.3	356.3	267.3	351.9
Electricity networks total	**488.2**	**574.4**	**488.2**	**570.0**
Investment in SGN	173.0	202.3	88.6	80.8
Economically-regulated networks total	**661.2**	**776.7**	**576.8**	**650.8**
SSE Renewables	**731.8**	**567.3**	**856.0**	**459.9**
Thermal Generation	160.5	152.7	775.3	15.5
Gas Storage	(5.7)	3.7	2.8	(1.4)
Thermal Energy Total	**154.8**	**156.4**	**778.1**	**14.1**
Business Energy (GB)	(24.0)	9.2	(3.9)	(18.5)
SSE Airtricity (NI and Ire)	44.0	48.8	50.0	42.8
Customer Solutions Total	**20.0**	**58.0**	**46.1**	**24.3**
Energy Portfolio Management	**18.4**	**(60.3)**	**608.5**	**(94.5)**
Enterprise	**(21.3)**	**8.1**	**(106.7)**	**(2.0)**
Corporate Unallocated	(58.4)	(17.8)	(15.3)	(89.2)
Total operating profit from continuing operations	**1,506.5**	**1,488.4**	**2,743.5**	**963.4**
Net finance costs	(441.6)	(465.0)	(227.1)	(375.8)
Profit before tax from continuing operations	**1,064.9**	**1,023.4**	**2,516.4**	**587.6**
Discontinued operations:				
Gas Production Assets	33.0	25.8	33.0	(265.5)
SSE Energy Services – sold Jan 2020	–	32.7	–	(205.0)
Total operating profit/(loss) from discontinued operations	**33.0**	**58.5**	**33.0**	**(470.5)**

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 consistently applied and a reconciliation of adjusted operating profit by segment to reported operating profit by segment can be found in Note 6.2 to the Financial Statements.

Segmental EBITDA results are included in Note 6.3 to the Financial Statements.

Impact from coronavirus

Coronavirus has had a significant impact on every company operating in the UK and Ireland, but, relative to other companies, SSE has been resilient in the face of the pandemic and it has not prevented the Group from making progress on its strategy.

Correspondingly, in line with the expectations set out in the June 2020 Preliminary Full-Year Results, financial performance in the Group's Transmission, Renewables and Thermal businesses has not been significantly adversely impacted by coronavirus. However, as reported throughout the year, the pandemic has caused greater challenges for SSE's other businesses. The full-year impact on operating profit is estimated to be £170m, slightly below the estimate provided in SSE's March Notification of Closed Period and mainly due to better than expected demand in Distribution.

The adjusted financial metrics include the effect of coronavirus, with estimated adverse impacts for each business area as follows:

- In **SSEN Distribution**, operating profit has been reduced by approximately £40m, principally due to reduced DUoS revenue resulting from reduced customer demand although reduced connection activity also contributed. It is expected that around £34m of this decrease will be recoverable through tariff adjustments in 2022/23 under established regulatory arrangements in relation to uncollected DUoS revenue.
- In **SSE Business Energy**, operating profit has been impacted by approximately £80m due to a combination of reduced demand, increased bad debts and £24m of losses incurred on early settlement of excess commodity hedges with negative mark-to-market valuations.
- In **SSE Enterprise**, the Contracting and Rail and, to a lesser extent Telecoms, businesses have been impacted by approximately £40m due, primarily, to a reduced contracting order book and lower overall activity.
- In **SGN**, reduced activity has led to approximately a £5m share of unproductive costs.
- For **Corporate Unallocated**, incremental and unproductive costs incurred are estimated at £5m.

While the long-term economic implications from the coronavirus pandemic are still uncertain, SSE expects the ongoing impact to the Group from the pandemic to be restricted to the performance of SSE Business Energy and SSE Enterprise and it will therefore be assumed within normal business performance from 2021/22.

Operating profit – including coronavirus impact

Adjusted and reported operating profit/losses in SSE's business segments for the 12 months to 31 March 2021 are as set out below; comparisons are with the same 12 months to 31 March 2020 unless otherwise stated.

SSEN Transmission: Adjusted and reported operating profit increased by 1% to £220.9m, compared to £218.1m, with increases in phasing of allowed revenue and increased connection activity being offset by increased operational costs and depreciation charges driven by the significant capital investment made in this business in recent years.

SSEN Distribution: Adjusted operating profit decreased by 25% to £267.3m, compared to £356.3m, mainly due to the reduction in volumes across non-domestic tariffs reflecting the impact of national and regional lockdowns but also due to reduced new connections activity and increased depreciation charges driven by prior year capital investment. In addition, phasing of changes in tariffs and volumes between reporting periods has meant an over-recovery of £37m in 2019/20 was replaced with a £28m net under-recovery in 2020/21. We have estimated that approximately £34m of this was coronavirus related and, under the established regulatory arrangements in relation to uncollected DUoS revenue, future tariffs will be adjusted for any historic over or under recoveries.

In the prior year, reported operating profit included a non-recurring £4.4m exceptional charge for restructuring expenses.

Investment in SGN: Adjusted operating profit decreased by 14% to £173.0m, compared to £202.3m, due to a combination of reduction in non-recurring commercial income from the disposal of surplus land, cost increases driven by changes in the charging methodology and reduced activity from coronavirus leading to higher unproductive costs being incurred.

The decreases to adjusted operating profit were largely offset by a £37.1m reduction in SSE's share of SGN interest, tax and IFRS 9 remeasurements. As a result, reported operating profit was £88.6m compared to £80.8m.

SSE Renewables: Adjusted operating profit increased by 29% to £731.8m, compared to £567.3m. 2020/21 includes developer profits totalling £226m resulting from the disposal of a 51% stake in the Seagreen offshore wind farm development on 3 June 2020 and a 10% stake in the Dogger Bank A and B offshore wind farm development on 26 February 2021. Excluding these, operating profit decreased due to a combination of the Walney disposal and adverse weather conditions reducing output by 10% on prior year, partially offset by higher plant availability and higher achieved power prices.

Reported operating profit was £856.0m compared to £459.9m. In addition to the factors outlined above, this reflects an exceptional gain resulting from the disposal of the Group's financial interest in the Walney offshore wind farm of £188.8m, and a fair value gain of £25.7m arising on revaluation of the retained 49% investment in the Seagreen offshore wind farm development. In addition, joint venture share of interest and tax charges decreased by £22.0m compared to the prior year.

Thermal Generation: Adjusted operating profit increased by 5% to £160.5m, compared to £152.7m. Strong operational performance in the year, combined with higher utilisation to stabilise the energy system in periods of low generation or high demand, and a £20.4m developer profit on the non-exceptional disposal of a 50% sale in Slough Multifuel on 2 April 2020 entirely offset the £51m of non-recurring GB Capacity Market reinstatement income received in the prior year.

Reported operating profit increased to £775.3m, compared to £15.5m, due to the above factors and in addition: an exceptional gain on disposal of £669.7m on the sale of Multifuel Energy; a fair value gain of £21.3m arising on revaluation of the retained 50% investment in Slough Multifuel; a £58.1m exceptional impairment charge recognised for Great Island CCGT plant following reductions in forward price curves and reductions in forecast electricity demand in Ireland; and a £112.3m net exceptional charge recognised in 2019/20 for Fiddlers Ferry coal station following the decision to close the plant in March 2020.

FINANCIAL REVIEW CONTINUED

Gas Storage: An adjusted operating loss of £(5.7)m was recognised in the year, compared to an adjusted operating profit of £3.7m in the prior period. As with the prior year, this year's auction of storage capacity resulted in no contracted sales, with SSE therefore continuing to run the plant on a merchant basis. The adjusted operating loss recognised reflects market conditions during the year as well as higher levels of gas retained in storage over the year end.

Reported operating profit was £2.8m as a result of a £8.5m revaluation gain on gas held in storage at the period end to fair market price.

SSE Business Energy: Adjusted operating loss was £(24.0)m, compared to an adjusted operating profit of £9.2m in the prior year. As previously noted coronavirus reduced customers' demand for electricity and related services, increased the levels of bad debt and led to a loss of approximately £24m being incurred on early settlement of excess commodity hedges with negative mark-to-market valuations. This more than offset the underlying increase in profitability from improvements in margin discipline.

The reported operating loss was £(3.9)m, compared to £(18.5)m, due to the above factors and in addition a £20.1m release during 2020/21 from the £27.7m exceptional charge relating to bad debts arising from coronavirus that was previously recognised in 2019/20. Whilst the original charge reflected the Group's best estimate of the incremental bad debt exposure caused by the coronavirus pandemic at that date, higher cash collections in recovery of debt were achieved during the year largely due to government support schemes and other factors.

SSE Airtricity: Adjusted operating profit was £44.0m, compared to £48.8m, reflecting a delay in increasing tariffs despite increased non-commodity costs from October 2020 onwards.

Reported operating profit was £50.0m, compared to £42.8m, due to the above factors and also including the release in full of a £6.0m exceptional provision relating to bad debts arising from coronavirus that was previously recognised in 2019/20.

Energy Portfolio Management (EPM): Adjusted operating profit was £18.4m, compared to an adjusted operating loss of £(60.3)m. The 2019/20 result reflected the last of the losses related to gas positions closed out in 2018. As previously stated, EPM was expected to earn a small adjusted operating profit from 2020/21 onwards through service provision to those SSE businesses requiring access to the energy markets.

The adjusted and reported operating result for both the current and prior period includes the previously separately presented "Gas Production (continuing)" results. The associated hedges contributed a net £20.4m of income for EPM during the year and have now fully unwound.

Reported operating profit was £608.5m, compared to a reported operating loss of £(94.5)m, mainly due to a higher net remeasurement gain in the period on forward commodity contracts. This net remeasurement gain reflects settlement of previously out of the money commodity contracts and gains on unsettled forward commodity contracts, which were entered into during 2019/20 and 2020/21 in line with the Group's hedging approach, that will be settled predominantly within the next 12-18 months.

SSE Enterprise: Adjusted operating loss was £(21.3)m, compared to an adjusted operating profit of £8.1m, mainly reflecting the impact coronavirus has had on activity within the Contracting and Rail business in particular.

Reported operating loss in the year was £(106.7)m, compared to £(2.0)m in the prior year due to the factors above as well as an exceptional impairment charge of £51.2m relating to Contracting and Rail assets and liabilities following classification as held for sale and a £21.8m exceptional charge arising from the Group's investment in the Neos Networks Joint Venture (previously SSE Telecoms). These exceptional charges include impairment charges recognised within adjusted operating losses as part of SSE's Interim Results for the six months to 30 September 2020 as they did not meet SSE's exceptional item criteria at that time.

Corporate Unallocated: Adjusted operating loss of £(58.4)m, compared to £(17.8)m and reflecting a change in the recovery of corporate costs following the sale of SSE Energy Services on 15 January 2020 as well as a small impact from coronavirus.

Reported operating loss was £(15.3)m, compared to a loss of £(89.2)m. In the current year, an exceptional gain on disposal of £70.4m was recognised relating to MapleCo Meter Asset Provider offset by a further £24.2m charge from the disposal of SSE Energy Services from further IT separation costs and property impairments. In the prior year, exceptional charges recognised related to both the disposal of SSE Energy Services of £48.8m and exceptional IT write-offs and redundancy provisions totalling £41.2m.

Investment in Gas Production – held for sale (discontinued operations): The assets held for sale had a reported operating profit of £33.0m, compared to a loss of £(265.5)m, which is excluded from SSE's adjusted results. Revenue had significantly decreased as a result of lower gas prices in recent years; however, increases in gas prices in recent months have resulted in increased revenue during the year. However, the prior year reported result also included a £291.3m exceptional impairment to reduce the carrying value of the business to its expected recoverable value from disposal. As the business remains held for sale, depreciation has not been charged during 2020/21, compared to a depreciation charge of £31.1m recognised prior to held for sale classification in 2019/20.

Adjusted Earnings per share

Adjusted Earnings per share – including coronavirus impact

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, 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 depreciation on fair value adjustments, non-recurring joint venture refinancing costs, exceptional items and certain remeasurements, 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 2021, SSE's adjusted earnings per share on continuing operations was 87.5p, after the negative impact on pre-tax operating profit from coronavirus estimated at £170m in the year to 31 March 2021 (or around 13 pence on adjusted EPS). This compares to 83.6p for the year to 31 March 2020 and reflects the developer profits recognised by SSE Renewables and reduction in the EPM-related losses offset by the impact from coronavirus as outlined above.

Group financial outlook – 2021/22 and beyond

Key points

- SSE remains committed to its five-year dividend plan to March 2023.
- SSE is not providing full guidance for 2021/22 at this stage but expects the ongoing impact to the Group from the coronavirus pandemic to be mainly restricted to the performance of Enterprise and Business Energy, where it will be assumed within normal business performance and no longer separately reported.
- Completion of the agreed disposals of non-core assets in SSE's Contracting and Rail business, and SSE's Gas Production assets, expected by the end of June 2021 and the end of this calendar year respectively.
- Expected to commence a disposal process for all of SSE's interest in SGN during mid-summer 2021, with the intention of having an agreed sale by the end of the calendar year.
- Capital expenditure and investment is expected to total around £2bn in 2021/22 (net of project finance development expenditure refunds).
- Continuing to target a ratio of net debt to EBITDA at the lower end of a 4.5 to 5 times range between 2021/22 and 2024/25.
- SSE remains committed to delivering its £7.5bn capital investment plan to 2025; indeed much of this is now contracted, but there is considerable potential for future growth above and beyond.
- As emerging opportunities in SSE's core businesses become clearer in the coming months, SSE expects to be able to provide an update on its capital investment plans in November.

Maintaining a strong balance sheet and creating value

SSE'S programme to securing value from disposals of non-core assets

Since 2014, SSE has undertaken a series of targeted disposals of non-core assets and businesses as part of its strategy to simplify the SSE Group; sharpen its focus on businesses supporting the transition to net zero emissions; recycle capital from mature assets; realise value from development and operation of assets; and establish partnerships to support investment in new assets. In total, since 2014, these have secured proceeds in excess of £4.9bn.

In June 2020, the Group announced a target to achieve disposal proceeds from non-core assets in excess of £2bn. Since this announcement, agreement has been reached to divest a number of non-core businesses and assets, which is expected to yield over £1.5bn of proceeds with over £1.4bn cash proceeds received to date. The following agreed disposals are expected to complete during the next financial year:

- SSE's Contracting and Rail business, with the sale process expected to be completed by the end of June 2021; and
- SSE's Gas Production assets, with the sale process expected to be completed by the end of this calendar year.

SGN is expected to be the next material disposal. Whilst the business has a stable foundation that is set to benefit from increased hydrogen usage in the future, it is a financial investment for SSE, run largely independently and the synergies with the Group's low-carbon electricity businesses are less clear. As SSE set out in its March Pre-Close Statement, it is planning to divest all of its interest in the business and it now expects to commence a formal sale process in mid-summer 2021 with the intention of having an agreed sale by the end of the calendar year. The market will be updated on the prospective sale in due course.

SSE'S £7.5bn capital investment plan to 2025

SSE is now in the second year of its £7.5bn capital investment plan to March 2025. During the year to 31 March 2021, SSE's investment and capital expenditure (net of project financing development expenditure refunds) totalled £912.0m. As indicated in SSE's interim results in November, this lower run rate is expected to reverse in 2021/22 when investment and capital expenditure (net of project financing development expenditure refunds) is expected to be around £2bn.

SSE remains committed to delivering its £7.5bn capital investment plan to 2025, indeed much of this is now contracted. Furthermore, the quality of SSE's net zero aligned assets and pipeline means there is considerable potential for future growth above and beyond this. For instance, the following are examples of potential opportunities not currently included in the £7.5bn plan:

- Three significant SSEN Transmission projects for which SSE plans to submit needs cases to Ofgem over the summer;
- Potential Transmission island links to Orkney and the Western Isles;
- SSE Renewables' opportunities to increase its pipeline of projects;
- Emerging options in Government-backed carbon capture and storage competitive processes; and
- SSE's distributed energy opportunities to invest in battery technology.

As these emerging opportunities become clearer in the coming months, SSE expects to be able to provide an update on its capital investment plans in November. SSE has repeatedly demonstrated through effective capital allocation and optimal capital recycling and partnering that it can take advantage of the opportunities it creates within its existing financial framework. With a wealth of assets and options, a strong financial position and strong credit rating, and the ability to partner strategically and financially, SSE has every confidence in its ability to continue to deliver on future opportunities.

Securing value from partnering

As mentioned above, SSE continues to regard partnering capability as vital for the future and an important means of unlocking future opportunities in its core businesses. Through SSE Renewables, SSE will continue its established approach to partnering to capitalise on the significant development opportunities ahead related to net zero.

SSE is well placed to manage development risk but selling down stakes to retain typically 30-40% equity interest in a project and working with equity partners for construction, and/or operation brings a number of benefits: it allows SSE to secure developer premiums and realise value at the earliest opportunity; it reduces overall risk and financial exposure on large-scale projects; it avoids a large increase in net debt that is not earning; and it appeals to the different risk appetites of different partners at different stages of the project cycle.

FINANCIAL REVIEW CONTINUED

The sale of a 10% equity stake in Dogger Bank A and B during 2020/21 showed the value SSE can create through partnering, bringing in just over £200m of cash proceeds and developer profits. It expects to progress with the sale of an equivalent equity stake in Dogger Bank C during the first half of 2021/22.

SSE has previously been clear that it would also consider, in time, extending a partnering approach potentially through sales of equity stakes in its core SSEN Transmission and SSEN Distribution businesses, should it consider that the released capital could facilitate the realisation of greater growth opportunities across its core businesses. Any sales would be of minority stakes, enabling SSE to retain the lead role in relation to governance and also operational control, but would only be pursued if deemed to be in the interests of customers, the electricity system as a whole, and shareholders to do so.

Dividend

Dividend plan

SSE's first financial objective has always been to remunerate shareholders for their investment through the payment of dividends.

Overall, financial performance in the year was in line with the Board's expectations and, on that basis, SSE is recommending a full-year dividend of 81.0p representing an average annual RPI rate of 1.2%.

SSE continues to target RPI increases in the next two financial years, measured against the average annual rate of RPI inflation, as set out in its 2023 dividend plan.

Longer term, SSE continues to believe that the core businesses of the SSE Group provide a good foundation to support dividends to shareholders. They will therefore underpin SSE's ability to create value for shareholders over the long term.

Scrip dividend scheme

The scrip dividend uptake during 2020/21 was:

- 4% for the 2019/20 final dividend;
- 5% for the 2020/21 interim dividend; and
- The interim and final scrip take-up resulted in a £39.0m saving in dividend payments.

In June 2020, SSE confirmed that it would not buy back shares even if uptake of the Scrip Dividend exceeds 20% and this remains unchanged.

Supplemental financial information

Investment and capital expenditure

Adjusted investment and capex summary

	March 2021 Share %	**March 2021 £m**	March 2020 £m
SSEN Transmission	33%	435.2	329.0
SSEN Distribution	26%	350.8	364.9
Electricity networks total	**59%**	**786.0**	**693.9**
SSE Renewables	**22%**	**294.3**	**342.7**
Thermal Generation	8%	106.5	177.0
Gas Storage	–	1.9	0.2
Thermal Energy Total	**8%**	**108.4**	**177.2**
Customer Solutions	2%	31.2	0.3
Energy Portfolio Management	–	2.1	–
Enterprise	5%	66.0	57.4
Corporate Unallocated	2%	25.8	85.9
Gas Production	2%	26.8	–
Adjusted investment and capital expenditure, before refunds	**100%**	**1,340.6**	**1,357.5**
Project finance development expenditure refunds		(428.6)	–
Adjusted investment and capital expenditure		**912.0**	**1,357.5**

Progress of capital expenditure programme

During the year to 31 March 2021, SSE's investment and capital expenditure (before project finance development expenditure refunds) totalled £1,340.6m, including £1,080.3m of investment in SSE's core renewable energy and regulated networks businesses both of which are fundamental to delivery of net zero.

Total investment and capital expenditure in the year included the following:

- Further significant investment in **electricity networks** totalling £786.0m, or 59% of SSE's total investment and capital expenditure:
  - **SSEN Transmission** continued to make excellent progress on its capital investment programme, despite the impact of the coronavirus pandemic. Significant projects completed in the year including completion of several load related schemes to upgrade the network, as well as the replacement of the Inveraray to Crossaig transmission line in Argyll. Good progress also continues to be made on the Shetland HVDC link, which remains on track for energisation in 2024.
  - **SSEN Distribution** continued its major capital investment programme across both of its networks, delivering significant improvements for customers and increasing the Regulated Asset Value (RAV). The business successfully completed major upgrades to its network including a refurbishment programme of equipment spanning 58km of overhead network in Wiltshire and Hampshire.
- The construction of SSE's flagship **renewable energy** projects continues to progress at pace, with investment during the period totalling £294.3m across a number of projects including:
  - Onshore construction of Phases A and B of Dogger Bank, the world's largest offshore wind farm;
  - Construction of the onshore substation and installation of the onshore cable for Seagreen, Scotland's largest wind farm and the world's deepest tethered project;
  - Commencing construction on Viking, which will be among the highest-yielding onshore wind farms in Europe; and
  - Other onshore projects such as Lenalea in Ireland and Gordonbush extension.
- SSE's flexible thermal fleet has continued to demonstrate its value in the transition to a renewables-led, net zero energy system and investment in thermal generation amounted to £106.5m, covering Keadby 2, which is on track to be fully commissioned in 2022, and Slough Multifuel projects.

SSE'S hedging position at 31 March 2021

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 require 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 Interim and Full-year Results Statements.

A summary of the hedging approach for each of SSE's market-based businesses at 31 March 2021 is set out in the table on the right.

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. Historically this target was set at 85%. Following an assessment of the latest market conditions and wind capture percentages for the relevant wind assets the targeted hedge percentage will now be least 90% across the year and will be adjusted as necessary going forward to reflect the changes in future market and wind capture information.

To date, target hedge levels have been achieved solely through the forward sale of electricity. Future target hedge levels will be achieved through the forward sale of either electricity, or gas and carbon equivalent (if converted to electricity). This approach aims to reduce the exposure of these wind assets to volatile spot power market outcomes whilst still providing a hedge for the vast majority of the anticipated energy and carbon commodity price exposure 12 months in advance of delivery. This updated approach will be introduced for incremental volumes as they naturally come into the hedging window, i.e. historic hedge positions will not be unwound.

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

SSE Renewables – GB wind and hydro hedging position

Since March 2019, as part of its Full-year and Interim Results, SSE has reported the hedge position in relation to its GB Wind and Hydro generation. The following table provides an update at 31 March 2021.

		2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Wind	Expected volume – TWh	4.5	4.5	4.5	4.2	5.3	6.8
	Volume hedged - %	100%	100%	100%	85%	60%	19%
	Hedge price - £MWh	£39	£39	£46	£48	£49	£47
Hydro	Expected volume – TWh	3.4	3.5	3.4	3.6	3.6	3.7
	Volume hedged - %	100%	100%	100%	83%	56%	17%
	Hedge price - £/MWh	£39	£43	£48	£50	£49	£48

For comparison purposes, for years up to and including 2020/21, volumes are based on average expected output, and the contracted hedge price is at the beginning of each financial year. 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.

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 for tariff customers.

Business Energy's sales demand volumes have been impacted by the economic uncertainty created by the coronavirus lockdown. The extent to which this will impact customers' consumption in the medium term remains uncertain. To reflect this Business Energy has adopted a more dynamic forecasting approach with an adjustment to hedging volumes as nearer term economic and consumption signals become clearer.

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 24 months. Hedging activity depends on the availability of sufficient market depth and liquidity, which can be limited, particularly for periods further into the future. As stated in its Q3 Trading Update on 2 February 2021, due to the uncertainty surrounding UK carbon pricing, SSE temporarily suspended forward hedging of the expected generation profiles of its CCGTs in GB. SSE will continue to monitor market developments, in particular developments surrounding UK carbon pricing, 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 2021, resulted in no third-party contracts being secured. As such the assets are being commercially operated and the business continues to manage its exposure to changes in the spread between summer and winter prices, market volatility and plant availability.

Gas Production: As the E&P business remains held for sale on an unhedged basis, no forward hedge activity is currently being undertaken for the likely production profiles of the business.

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, and carbon). This includes managing market conditions and liquidity and reporting and monitoring 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 liquidity and shape but this is contained within a VAR limit of £2m.

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

FINANCIAL REVIEW CONTINUED

Summarising movements on exceptional items and certain remeasurements

Exceptional items

In the year to 31 March 2021, SSE recognised a net exceptional gain of £850.3m before tax. The following table provides a summary of the key components making up the net gain position:

Exceptional Gain/(Charges)	Total £m
Disposals of non-core assets:	
Walney offshore wind farm	188.7
MapleCo meter asset provider	70.4
Multifuel Energy	669.9
Gas Production assets	–
Contracting & Rail business	(51.2)
	877.8
Fair value uplifts on loss of control:	
Seagreen offshore wind farm	25.7
Slough Multifuel	21.3
	47.0
Impairments and other exceptional (charges)/credits	
Thermal (Great Island) Plant Impairment	(58.1)
SSE Energy Services disposal costs	(24.2)
Neos Networks (formerly SSE Telecommunications) adjustment to consideration	(21.8)
Other historic true-up credits	3.5
	(100.6)
Coronavirus impact:	
Customer Solutions reversal of bad debt provisions	26.1
Total exceptional items	**850.3**

The definition of exceptional items can be found in Note 4.2 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.
In addition to the exceptional fair value uplifts on loss of control noted above were developer profits on disposal of stakes in Dogger Bank offshore windfarm development (£202.8), Seagreen offshore windfarm development (£23.3m) and Slough Multifuel (£20.4m).

As part of the Group's strategy to secure value from disposals of non-core assets, the Group recorded a net exceptional gain of £877.8m in the year from completed disposals and recognition of impairment charges on businesses classified as held for sale. The final exceptional result on sale of the Gas Production assets and the Contracting and Rail business will be recognised following completion during the 2021/22 financial year.

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 require to be recorded at their fair value as at the date of the financial statements.

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 2021 is expected to be within the next 12-18 months.

The balance sheet movement in the operating derivative mark-to-market valuation was a £590.1m increase from a net "out-of-the-money" position into a net "in-the-money" position. This movement consisted of:

- Settlement during the year of £161.0m of previously "out-of-the-money" contracts in line with the contracted delivery periods; and
- Mark-to-market gains of £429.1m on unsettled contracts entered into during the course of 2019/20 and 2020/21 in line with the Group's stated hedging policy. These mark-to-market gains reflect the volatility in commodity markets during the year due to coronavirus and weather conditions impacting gas prices in particular.

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 £8.5m positive movement in the year arose from increases in both the volume and the fair value of gas held over historic cost at the year end.

Financing derivatives

In addition to the positive movements above, a positive movement of £55.6m was recognised on financing derivatives in the year to 31 March 2021, including SSE's share of joint venture financing derivative remeasurements. These gains are predominately due to higher interest rates on cross currency swaps and interest rate swaps, offset by the impact of stronger Sterling against the Dollar and Euro on cross currency swaps linked to Eurobonds, Hybrids and US private placement debt.

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 profit before tax and earnings per share

Taking all of the above into account, reported results for the year to 31 March 2021 are significantly higher than the previous year. In addition to the £850.3m pre-tax exceptional gains and the £654.2m cumulative gain on fair value remeasurements noted above, reported results also reflect depreciation and amortisation expenses on historic fair value uplifts of £(20.6)m, interest on net pension assets/(liabilities) of £11.0m and the Group's share of joint ventures and associates' tax of £(44.5)m.

Reported results in the prior year reflected pre-tax exceptional charges of £738.7m both in relation to the reshaping of SSE, with the sale of SSE Energy Services and the closure of Fiddlers Ferry coal-fired power station, and a deterioration in market conditions. These are explained in more detail in Note 7 of the Financial Statements.

Financial management and balance sheet

Debt metrics

	March 2021 £m	September 2020 £m	March 2020 £m
Net Debt/EBITDA*	**4.6**	**N/A**	**5.7**
Adjusted net debt and hybrid capital (£m)	**(8,898.9)**	**(10,622.1)**	**(10,465.9)**
Average debt maturity (years)	7.4	6.9	6.5
Adjusted interest cover (excluding SGN) times	3.5	1.5	3.3
Adjusted interest cover (including SGN) times	3.4	1.7	3.2
Average interest rate for the period (excluding JV/assoc. interest and all hybrid coupon payments)	3.12%	3.15%	3.18%
Average cost of debt at period end (including all hybrid coupon payments)	3.75%	3.58%	3.51%

* Net debt represents the group adjusted net debt and hybrid capital. EBITDA represents the group adjusted EBITDA, less £311.8m (Mar 20 - £340.1m) for the proportion of adjusted EBITDA from equity-accounted Joint Ventures relating to off-balance sheet debt.

Net finance costs reconciliation

	March 2021 £m	March 2020 £m
Adjusted net finance costs	**441.6**	**465.0**
Add/(less):		
Lease interest charges	(35.3)	(37.6)
Notional interest arising on discounted provisions	(3.8)	(9.2)
Hybrid equity coupon payment	46.6	46.5
Adjusted finance costs for interest cover calculation	449.1	464.7

SSE Principal Sources of debt funding

	March 2021 £m	September 2020 £m	March 2020 £m
Bonds	**58%**	51%	48%
Hybrid debt and equity securities	**24%**	23%	21%
European investment bank loans	**8%**	11%	12%
US private placement	**8%**	8%	8%
Index –linked debt & short-term funding	**2%**	7%	11%
% of total SSE borrowings secured at a fixed rate	**98%**	93%	87%

Rating Agency	Rating	Criteria	Date of Issue
Moody's	Baa1 'negative outlook'	'Low teens' Retained Cash Flow/Net Debt	September 2020
Standard and Poor's	BBB+ 'outlook stable'	About 18% Funds From Operations/Net Debt	September 2020

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 at the lower end of a range of 4.5 – 5 times across the four years to 31 March 2025.

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 remains at Baa1, albeit on negative outlook, following review in September 2020.

Adjusted net debt and hybrid capital

SSE's adjusted net debt and hybrid capital was £8.9bn at 31 March 2021, down from £10.5bn at 31 March 2020, reflecting the ongoing disposal programme and debt revaluation adjustments partially offset by the ongoing capital investment programme and working capital movements including the impact from coronavirus.

The Group accessed the debt and hybrid capital markets three times during the year issuing c.£2.5bn of debt over six tranches.

Debt summary as at 31 March 2021

In April 2020 SSE plc issued a €1.1bn (£970m) 5-year and 10-year dual tranche Eurobond with €600m (£531m) maturing in 2025 and €500m (£443m) maturing in 2030 with coupons of 1.25% and 1.75% respectively. Both tranches were swapped back to fixed Sterling resulting in an all-in funding cost of 2.43% for the 5-year tranche and 2.89% for the 10-year tranche.

In March 2021, SSEN Transmission issued a new £500m dual tranche green bond, in the form of a 7-year bond with a coupon of 1.50% and a 15-year bond with a coupon of 2.125%.

FINANCIAL REVIEW CONTINUED

This was SSE's fourth green bond in five years and reaffirmed its status as the largest issuer of green bonds in the FTSE 100. At the same time, SSE set out a new framework for issuing innovative sustainability-linked bonds in the future.

Date	Issuer	Debt Type	Term	Value	Coupon (€)	All in Funding Cost
Apr 2020	SSE plc	Eurobond	5yr	€600m (£531m)	1.25%	2.43%
Apr 2020	SSE plc	Eurobond	10yr	€500m (£443m)	1.75%	2.89%
Mar 2021	SHET plc	Eurobond	7yr	£250m	1.50%	1.50%
Mar 2021	SHET plc	Eurobond	15yr	£250m	2.125%	2.125%

The debt revaluation adjustment of £3.2m as at 31 March 2021, down from £276.8m at 31 March 2020, relates to mark-to-market movements on cross-currency swaps and floating rate swaps that are classed as hedges under IAS 39. The hedges ensure that any movement in the value of net debt is predominately offset by a movement in the derivative position. The debt revaluation decrease at March 2021 was primarily driven by stronger Sterling against the Euro and Dollar.

In addition to the hybrid bond called in April 2021 as outlined below, £450m of debt will mature in September 2021 with a further £415m maturing in February 2022.

Hybrid bonds summary as at 31 March 2021

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.

In July 2020, SSE issued a dual tranche equity accounted hybrid bond intended to replace the hybrids issued in 2015 (at an all-in rate of 4.02%), which have issuer first call dates of 10 September 2020 (£750m) and 1 April 2021 (€600m). This dual tranche issue comprises a perpetual non-call 5.75-year note at £600m with a coupon of 3.74%; and a perpetual non-call 7.0-year note at €500m with a coupon of 3.125%. The €500m tranche has been partly swapped back to Sterling, resulting in an all-in funding cost for both tranches to SSE of just under 3.8% per annum.

A summary of SSE's Hybrid Bonds as at 31 March 2021 can be found below:

Issued	Hybrid Bond Value*	All in rate	First Call Date	Accounting Treatment
March 2015	€600m (£440m)	4.04%	April 2021	Equity accounted
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.

Further details on each hybrid bond can be found in Notes 13 and 14 to the Financial Statements and a table noting the amounts, timing and accounting treatment of coupon payments is shown below:

Hybrid coupon payments

	2021/22		2020/21	
	HYe	FYe	HYa	FYa
Total equity (cash) accounted*	£51m	£51m	£47m	£47m
Total debt (accrual) accounted	£15m	£31m	£15m	£30m
Total hybrid coupon	**£67m**	**£82m**	**£62m**	**£77m**

* The first coupon payments on the new Hybrid bonds, issued in July 2020, fall in April 2021 for the £600m Hybrid and July 2021 for the €500m Hybrid.

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 remaining March 2017 hybrid bonds have a fixed redemption date and are therefore debt accounted and included within Loans and Other Borrowings; as such they are 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.

In accordance with the first call date noted above, the €600m (£440m) March 2015 Hybrid Bond was called and redeemed in April 2021.

Managing net finance costs

SSE's adjusted net finance costs – including interest on debt accounted hybrid bonds but not equity accounted hybrid bonds – were £441.6m in the year to 31 March 2021, compared to £465.0m in the previous year reflecting the full year impact of interest on the £100m loan note issued as part of the SSE Energy Services disposal in January 2020.

Reported net finance costs were £227.1m compared to £375.8m, reflecting a £138.6m 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 2021, SSE's adjusted net debt included cash and cash equivalents of £1.6bn, up from £0.2bn at March 2020 reflecting proceeds from disposals received prior to 31 March 2021 and the issuance of the £500m dual tranche green bond in March 2021. This 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 "out of the money" position in the prior year to an "in the money" position in the current year, the related collateral required has similarly unwound. At 31 March 2021, £37.1m of cash was held as collateral from third parties on these "in the money" contracts, compared to £256.4m of cash provided as collateral to third parties in the prior year.

Revolving credit facility

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, noting any options to extend, 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	2025 (option to extend to 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 2021 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.

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 2020/21 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 2021, 98% 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 (including over £2.5bn of debt and hybrid capital raised in the financial year to 31 March 2021) and SSE's objective is to maintain a reasonable range of debt maturities. Its average debt maturity, excluding hybrid securities, at 31 March 2021 was 7.4 years, up from 6.5 years at 31 March 2020. This reflects SSE's recent debt issuance which has replaced maturing debt. SSE's average cost of debt is now 3.75%, compared to 3.51% at 31 March 2020.

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 2022 resulting from the coronavirus pandemic; the Group's credit rating; the success of the Group's disposal programme through 2020/21; and the successful issuance of £2.5bn of medium to long term debt and hybrid equity during the year. In line with expectations in June, the impact from coronavirus on SSE is mitigated by its robust business model and the nature and quality of its asset base. As such, there has been minimal adverse impact on the financial performance of the Group's transmission, renewables and thermal businesses, with the coronavirus impact limited to the Group's other businesses.

The Directors have also assessed that the Group remains able to access Capital Markets, despite a period of disruption due to coronavirus, as demonstrated by the £2.5bn of debt issued over the last 12 months via the dual tranche Euro bond issuance in April 2020, the dual tranche hybrid issuance in July 2020 and the dual tranche green bond issuance in March 2021. There is also an expectation of future available liquidity in the commercial paper market in addition to the Group's existing liquidity with £1.5bn of undrawn committed borrowing facilities.

FINANCIAL REVIEW CONTINUED

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, including SGN, is under £3.4bn as at 31 March 2021.

SSE principal JVs and associates	Asset type	SSE holding	SSE share of external debt as at 31 March 2021	SSE Shareholder loans as at 31 March 2021
Seabank Power Ltd	1,234MW CCGT	50%	No external debt	No loans outstanding
Marchwood Power Ltd	920MW CCGT	50%	No external debt	£47m
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%	£291m	Project financed
Dogger Bank B Wind Farm	Up to 1,200MW offshore wind farm.	40%	£118m	Project financed
Dogger Bank C Wind Farm	Up to 1,200MW offshore wind farm.	50%	No external debt	£27m
Seagreen Windfarm Ltd	1,075MW offshore wind farm	49%	£504m	£4m
Seagreen 1a Ltd	Offshore wind farm extension	50%	No external debt	£1m
Lenalea Wind Energy Ltd	30MW of onshore windfarm	50%	No external debt	£1m
Scotia Gas Network Networks Ltd	Gas distribution network	33.3%	£1,489m	£119m
Beatrice Offshore Windfarm Ltd	588MW offshore wind farm	40%	£919m	Project financed
Cloosh Valley Wind Farm	105MW onshore windfarm (part of Galway Wind Park)	25%	£28m	Project financed
Neos Networks Ltd	Private telecoms network	50%	No external debt	£61m
Slough Multifuel Ltd	50MW energy-from-waste facility	50%	No external debt	£28m
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

Greater Gabbard, a 504MW offshore windfarm (SSE share 50%) is proportionally consolidated and is reported as a Joint Operation with no loans outstanding.
Slough Multifuel Ltd has been included for the first time at 31 March 2021, due to loss of control following divestment of a 50% stake on 2 April 2020.
Seagreen Windfarm Ltd has been included for the first time at 31 March 2021, due to loss of control following divestment of a 51% stake on 3 June 2020.

Taxation

SSE is one of the UK's biggest taxpayers, and in the PwC survey published in December 2020 was ranked 16th out of the 100 Group of Companies in 2020 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.

SSE understands it has a social contract. This means it 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 November 2020, SSE published 'Talking Tax 2020: Proud to pay our part'. 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 2021, SSE paid £379.0m of taxes on profits, property taxes, environmental taxes, and employment taxes in the UK, compared with £421.6m in the previous year. The reduction in total taxes paid in 2020/21 compared with the previous year was primarily due to:

- Fewer corporation tax payments made in the current year, as the UK Government changed the phasing of quarterly tax payments in the previous year;
- Lower Climate Change Levy being paid as a result of lower levels of carbon emissions; and
- Lower employment tax being paid as a result of the sale of the Energy Services Group to OVO in January 2020, and corresponding reduction in headcount.

In 2020/21 SSE also paid €20.4m of taxes in Ireland, compared to €18.1m the previous year. Ireland is the only country outside the UK in which it has any trading operations.

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 10.1%, compared with 11.2% in 2019/20 on the same basis. The reduction in adjusted current tax rate year-on-year was primarily as a result of an increase in the level of non-taxable developer profits made on the sale of shares.

Pensions

Contributing to employees' pension schemes – IAS 19

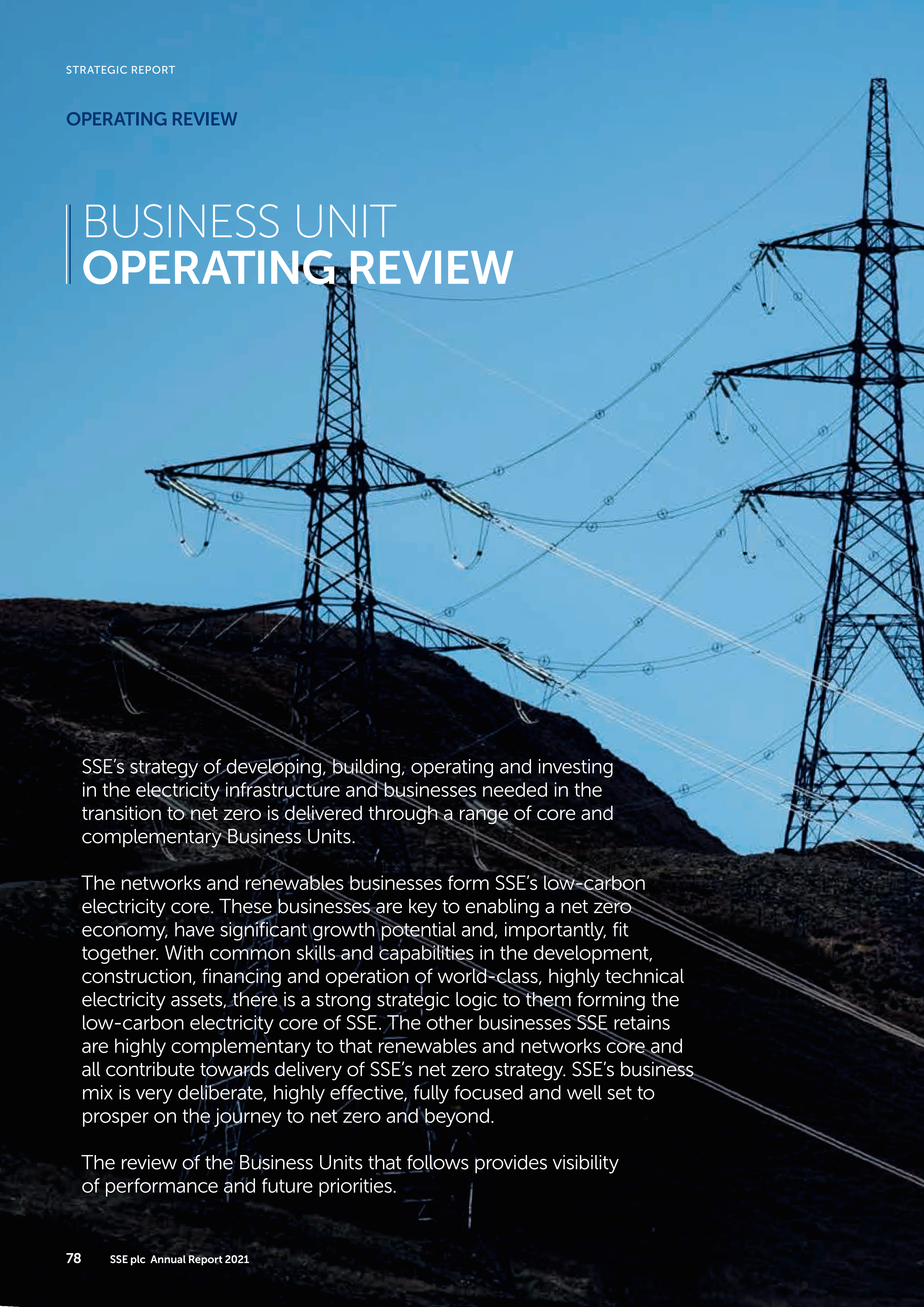
	March 2021	September 2020	March 2020
Pension scheme asset recognised in the balance sheet before deferred tax £m	**543.1**	528.5	534.2
Pension scheme liability recognised in the balance sheet before deferred tax £m	**(186.1)**	(382.0)	(192.5)
Net pension scheme asset recognised in the balance sheet before deferred tax £m	**357.0**	146.5	341.7
Employer cash contributions Scottish Hydro Electric scheme £m	**1.1**	0.5	5.8
Employer cash contributions Southern Electric scheme £m	**55.2**	27.4	66.5
Deficit repair contribution included above £m	**37.9**	17.7	42.6

In the year to 31 March 2021, the surplus across SSE's two pension schemes increased by £15.3m, from £341.7m to £357.0m, primarily due to contributions made to the schemes offset by current service costs. At 30 September 2020, there was a large decline in the valuation of the Southern Electric Pension Scheme ('SEPS') due to market volatility and changing financial assumptions associated with coronavirus. By 31 March 2021 the scheme had recovered from the market volatility, reducing the net deficit on SEPS by £15.0m compared to prior year.

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 increased by £8.9m.

Additional information on employee pension schemes can be found in Note 15 to the Financial Statements.

OPERATING REVIEW



BUSINESS UNIT OPERATING REVIEW

SSE's strategy of developing, building, operating and investing in the electricity infrastructure and businesses needed in the transition to net zero is delivered through a range of core and complementary Business Units.

The networks and renewables businesses form SSE's low-carbon electricity core. These 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, construction, financing and operation of world-class, highly technical electricity assets, there is a strong strategic logic to them forming the low-carbon electricity core of SSE. The other businesses SSE retains are highly complementary to that renewables and networks core and all contribute towards delivery of SSE's net zero strategy. 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.

SSEN
TRANSMISSION

SSEN Transmission key performance indicators

	March 2021	March 2020
SSEN Transmission		
Transmission adjusted and reported operating profit – £m	**220.9**	218.1
Regulated Asset Value (RAV) – £m	**3,631**	3,469
Renewable Capacity connected to SSEN Transmission Network – MW	**6,750**	6,298
Transmission adjusted investment and capital expenditure – £m	**435.2**	329.0

SSEN Transmission overview

SSEN Transmission owns, operates and develops the high voltage electricity transmission system in the north of Scotland and remote islands.

Over the duration of the eight-year RIIO-T1 price control since 2013, investment and capital expenditure by SSEN Transmission has totalled nearly £3.5bn, including £435m in 2020/21.

This investment plays a pivotal role in providing the critical national infrastructure required to facilitate the transition to net zero and to maintain network reliability for the communities SSEN Transmission serves.

Operational delivery

SSEN Transmission expects to perform well against its main regulatory outputs for RIIO-T1 and correspondingly the business expects to close out the price control with a modest outperformance, delivering both shareholder and societal value through efficiency savings which will be equally shared with consumers through the Totex Incentive Mechanism.

Performance throughout RIIO-T1 has been built on a strong historic track record for keeping the lights on for the homes and businesses SSEN Transmission serves, delivering an impressive network reliability of over 99.9%. As a result of its continued strong operational performance during 2020/21, SSEN Transmission will receive the full reward of £1.2m through the Energy Not Supplied (ENS) Incentive for 2020/21, which will be reflected in revenue in 2022/23.

The RIIO-T1 period has also seen significant growth in the volume of renewables connected to SSEN Transmission's network, which has more than doubled, from 3.3GW to 6.7GW. This includes growth of 277MW in 2020/21, bringing the total installed generation capacity in the north of Scotland to over 8GW.

This growth has been underpinned by successful delivery of major reinforcements, on time and within allowances. Despite the coronavirus pandemic, SSEN Transmission made – and continues to make – excellent progress on its capital investment programme, with the continued delivery of several projects carrying over to RIIO-T2, as planned.

This includes reinforcements to upgrade the existing onshore transmission network on the East Coast to 400kV operation, as well as the replacement of the Inveraray to Crossaig transmission line in Argyll. The main construction works for the first phase, between Inveraray and Port Ann, is now complete, with these works a critical component of the wider 275kV Argyll strategy.

Good progress also continues to be made on the Shetland HVDC link, which remains on track for energisation in 2024. The project is currently expected to entail around £650m of investment.

"SSEN Transmission has a critical role to play in a green-led recovery from coronavirus and we are helping the UK and Scottish governments meet their decarbonisation targets by getting on with the agreed elements of our RIIO-T2 business plan and delivering a network for net zero."

Rob McDonald
Managing Director,
SSEN Transmission

OPERATING REVIEW CONTINUED

In May 2021, Ofgem published its consultation on the Eastern HVDC project Initial Needs Case, recognising the need and consumer benefit for the reinforcement. The project, which will see the first of two HVDC links planned from Peterhead to England, is required to alleviate current and future constraints on the transmission system and remains on track for energisation in 2029. A Final Needs Case for the link is expected to be submitted to Ofgem later this year.

RIIO-T2 investment programme – the certain view

In December 2020, Ofgem published its Final Determinations for the RIIO-T2 period, which covers the period from April 2021 to March 2026. With totex set at £2.2bn these reflected a significant increase in totex from Ofgem's Draft Determinations and, taken together with the island link to Shetland, which is already in construction, allow spend across the T2 period of around £2.8bn. The business has chosen not to appeal the investment programme aspect of the Final Determination and is fully focused on delivering its 'Network for Net Zero' business plan.

However, while the bulk of the price control settlement matched SSEN Transmission and its stakeholders' collective ambition, the financial parameters did not. Correspondingly, in March 2021, SSEN Transmission confirmed its intention to appeal certain elements of the settlement to the Competition and Markets Authority.

The appeal is both technical and narrow in scope, focused on areas where Ofgem's decision does not reflect the robust evidence provided throughout the price control process, alongside material errors in the decision. The appeal areas are:

- Cost of equity.
- Outperformance wedge.
- New exposure to transmission charges.
- Loss of appeals right.

While SSEN Transmission fully understands the need to minimise customer bills, the appeal is the right thing to do, it is echoed by others in the sector and it does not undermine the broader constructive relationship the business has with Ofgem. A conclusion to the appeal is expected by November 2021.

Meanwhile, by focusing on delivering the agreed elements of its business plan, SSEN Transmission is supporting UK Government's net zero targets and a green recovery from the coronavirus pandemic. Taking the Certain View alone of around £2.8bn totex, Transmission RAV would exceed £5bn by the end of RIIO-T2.

RIIO-T2 – uncertainty mechanisms

With the North of Scotland home to some of the world's greatest resources of renewable energy, SSEN Transmission is uniquely placed to play a leading role in the transition to net zero and the significant growth opportunities this presents.

During the RIIO-T2 period, SSEN Transmission expects to progress a number of investments over and above its £2.8bn Certain View. SSEN Transmission expects to unlock the additional investments required to put the North of Scotland on a pathway to net zero through Ofgem's Uncertainty Mechanisms. These investments include:

- Development and early construction expenditure for the first East Coast HVDC link from Peterhead to the north east of England.
- Upgrading the Argyll transmission network to 275kV operation, as well as the replacement of the Fort-Augustus to Skye transmission line. Initial Needs Cases for both projects are expected to be submitted to Ofgem this year.
- Further expenditure to connect new renewable generation, rail electrification and system security.

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These investments could see the total installed generation capacity increase to around 14GW by the end of RIIO-T2, with almost 13GW of this from renewable sources. However, they represent an 'uncertain view' because final investment decisions remain subject to a range of factors, including generator commitment, necessary planning permissions, and, crucially, Ofgem's approval of 'Needs Cases' However, combined, these investments, alongside the Certain View, could bring the total expenditure across the RIIO-T2 period to over £4bn, with Transmission RAV increasing to over £6bn by the end of RIIO-T2.

Further growth opportunities

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.

Beyond RIIO-T2, the ScotWind leasing round is expected to unlock up to 10GW of new renewable generation which will require significant transmission upgrades both onshore and offshore. This includes a second HVDC link from Peterhead to England, required to deliver 2030 offshore wind targets, supporting future earnings and RAV growth.

For financial performance commentary please refer to the Group Financial Review under Operating Profit Performance 2020/21.

SSEN
DISTRIBUTION

SSEN Distribution key performance indicators

	March 2021	March 2020
SSEN Distribution		
Distribution adjusted operating profit – £m	**267.3**	356.3
Distribution reported operating profit – £m	**267.3**	351.9
Regulated Asset Value (RAV) – £m	**3,792**	3,685
Distribution adjusted investment and capital expenditure – £m	**350.8**	364.9
Electricity Distributed – TWh	**36.1**	38.0
Customer minutes lost (SHEPD) average per customer	**57**	56
Customer minutes lost (SEPD) average per customer	**44**	46
Customer interruptions (SHEPD) per 100 customers	**64**	63
Customer interruptions (SEPD) per 100 customers	**48**	47

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.

There are two years remaining of the RIIO-ED1 Price Control period and SSEN Distribution is focusing on:

- Improved performance in relation to customer and network incentives available within RIIO-ED1.
- Efficient delivery of capital investment.
- Focused delivery of regulatory outputs.
- Maintaining a leadership position in innovation.

SSEN Distribution is also shaping its future and will publish its draft business plan for the next regulatory period RIIO-ED2 (2023-2028) in July this year. Informed by an extensive stakeholder engagement programme, the plan will support a cost-effective and secure path to net zero for customers and communities while representing a fair financial package for investors that recognises current and future demand and risk.

Operational delivery

Key to successful delivery against any regulatory price control is efficient and focused capital investment, upgrading and expanding the infrastructure critical to support the net zero transition. In 2020/21, SSEN Distribution continued its major capital investment programme across both of its networks, delivering significant improvements for customers and increasing Regulated Asset Value (RAV).

Over £350m was invested in network infrastructure in the last year, bringing the total invested since the beginning of the price control to over £1.9bn. This is part of a forecast investment of £2.6bn throughout the RIIO-ED1 period, supporting future earnings and building RAV growth. This included a £9.8m refurbishment programme spanning 58km of overhead lines in Wiltshire and Hampshire and a £10m programme of investment in Aberdeen to upgrade the underground network and install automation capability.

As part of its 'flexibility first' approach to network investment, an additional 348MW of flexible energy service contracts were secured during 2020/21, enough to power approximately 91,000 homes. SSEN now has 446MW of contracted flexibility services across its networks, which will increasingly play a vital role in supporting the delivery of a smarter electricity grid and a cost-effective transition to net zero.

Under the RIIO regulatory regime, providing increasing reliability for customers remains a key revenue driver.

"We are confident that our RIIO-ED2 business plan for the next price control period will provide the strategic investment required to achieve net zero while continuing to provide the safe, reliable and affordable service our customers and communities need."

Chris Burchell
Managing Director,
SSEN Distribution

OPERATING REVIEW CONTINUED

As part of the Interruptions Inventive Scheme (IIS), SSEN is incentivised on its performance against the loss of electricity supply through the recording of Customer Interruptions (CI) and Customers Minutes Lost (CML), which include both planned and unplanned supply interruptions. These incentives will typically be collected two years after they are earned. Across both licence areas, overall IIS incentive earnings were £7.6m in 2020/21, slightly down from the £7.8m secured in 2019/20 and improving performance in this area is a key focus for the year ahead.

Incentives can also be earned for performance against key customer service and stakeholder metrics. In 2020/21, SSEN Distribution secured a Broad Measure of Customer Satisfaction (BMCS) incentive reward of £4.9m. This is down from £5.6m last year, reflecting the challenges during the coronavirus lockdown and recovery, particularly in the busier SEPD licence area which are being addressed through a targeted improvement programme. In the SHEPD area, performance remained strong with an overall BMCS ranking of third out of 14 DNO licensees.

Due to the impact of coronavirus restrictions, reward from core connections incentives, which include the time to connect customers, fell to £2m in 2020/21 from £2.7m last year. An increased £1.1m reward was secured from the Stakeholder Engagement and Consumer Vulnerability incentive, representing SSEN's best return since 2016/17.

It should be noted that whilst Distribution Use of System (DUoS) revenue declined in 2020/21, primarily due to the impact of coronavirus, an overall under-recovery of £28m against Allowed Revenue in 2020/21 will be built into tariffs for collection in FY 2022/23.

Growth Opportunities

Achieving the UK's net zero ambitions will require extensive electrification of heat and transport and it is crucial that the local electricity distribution networks act as an enabler not a constraint to this significant change. SSEN Distribution strongly supports a mechanism for strategic investment in flexible solutions or network reinforcement to enable a cost-effective transition to net zero for the households, businesses and communities it serves.

In support of this aim and the Government's green recovery ambitions, SSEN partnered with Ofgem and other DNO licensees to develop a targeted Green Recovery investment programme. Following a six-week stakeholder consultation to identify 'shovel-ready' low-carbon projects that could be unlocked by early investment in the network, 12 network schemes were approved by Ofgem representing £41m of additional investment during the current price control period. This expenditure will be incurred outside of the totex investment mechanism, delivering additional value for shareholders.

To understand the growth potential of electrification for SSEN's distribution networks, updated Distribution Future Energy Scenario reports were published in December 2020. The upper range of the net zero scenarios forecast the number of electric vehicles in SSEN Distribution licence areas to increase from 30,000 in 2020 to 5 million in 2050, with heat pumps rising from 32,000 to 2.5m and local renewable capacity from 5GW to 18GW.

This analysis is one of the factors informing SSEN's RIIO-ED2 business plan which will be published in draft form in early July, with the final plan submitted to Ofgem in December. Co-created with stakeholders and customers, the ambitious plan will deliver targeted investment in network resilience to build a foundation for an electrified future, improvements to the valued service for customers and communities and further development of the smart, flexible, local energy networks to accelerate progress to net zero. While it is too early for specific projections, an increase in investment on ED1 rates is needed to meet customer needs and keep pace with net zero policy and targets.

For financial performance commentary please refer to the Group Financial Review under Operating Profit Performance 2020/21.

Investment in Scotia Gas Networks (SGN)

SGN key performance indicators

	March 2021	March 2020
Scotia Gas Networks (SGN)		
SSE's 33.3% share		
SGN adjusted operating profit – £m	**173.0**	202.3
SGN reported operating profit – £m	**88.6**	80.8
Regulated Asset Value – £m	**1,949**	1,952

Overview of SSE's investment in SGN

SSE holds a 33% financial investment stake in SGN, the gas distribution company which serves 5.9 million homes and businesses across the south of England, all of Scotland, and the western region of Northern Ireland. SGN has been a good financial investment but it is part a £2bn disposals programme that is sharpening SSE's focus on its core, low-carbon electricity businesses. SSE expects to commence a formal sale process for SGN in mid-summer 2021, with the intention of having an agreed sale by the end of the calendar year.

Operational delivery

In the year to 31 March 2021 98.9% of uncontrolled gas escapes were attended in under an hour. In the same period SGN delivered 11,034 new gas connections, including 1,263 assisted connections as part of efforts to help those in fuel poverty.

With its focus on innovation, decarbonisation and engineering excellence, SGN's RIIO-GD2 price control business plan commits the business to making a positive impact on society, delivering a safe and efficient service and contributing to net zero goals by accelerating decarbonised gas solutions.

SGN has also appealed the financial parameters of the settlement to Ofgem but has accepted the totex settlement. As with SSEN Transmission, it too expects to use the re-opener process with Ofgem for further net zero aligned investment outside of the price control.

For financial performance commentary please refer to the Group Financial Review under Operating Profit Performance 2020/21.

SSE RENEWABLES

SSE Renewables key performance indicators

	March 2021	March 2020
SSE Renewables		
Renewables adjusted operating profit – £m	**731.8**	567.3
Renewables reported operating profit – £m	**856.0**	459.9
Renewables adjusted investment and capital expenditure before refunds – £m	**294.3**	342.7
Generation capacity – MW		
Onshore wind capacity (GB) – MW	**1,247**	1,247
Onshore wind capacity (NI) – MW	**122**	122
Onshore wind capacity (ROI) – MW	**567**	567
Total onshore wind capacity – MW	**1,936**	1,936
Offshore wind capacity (GB) – MW	**487**	579
Conventional hydro capacity (GB) – MW	**1,159**	1,159
Pumped storage capacity (GB) – MW	**300**	300
Total renewable generation capacity (inc. pumped storage) –MW	**3,882**	3,974
Contracted capacity	**2,792**	2,884
Generation output – GWh		
Onshore wind output (GB) – GWh	**2,377**	2,676
Onshore wind output (NI) – GWh	**282**	373
Onshore wind output (ROI) – GWh	**1,354**	1,531
Total onshore wind output – GWh	**4,013**	4,580
Offshore wind output (GB) – GWh	**1,845**	2,244
Conventional hydro output (GB) – GWh	**3,476**	3,743
Pumped storage output (GB) – GWh	**244**	127
Total renewable generation (inc. pumped storage) – GWh	**9,578**	10,694
Total renewable generation (also inc. constrained off) – GWh	**10,171**	11,384

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 592GWh of constrained off generation in 2020/21 and 687GWh in 2019/20; Offshore wind output excludes 1GWh constrained off generation in 2020/21 and 2GWh in 2019/20.
Note 4: Offshore wind capacity in GB reflects the disposal of Walney in September 2020.
Note 5: Biomass capacity of 15MW and output of 71GWh in 2020/21 and 58GWh in 2019/20 is excluded, with the associated operating profit or loss reported within SSE Enterprise.

"The work we are doing in developing, constructing and operating world-class renewable electricity assets is powering change in the UK and Irish economies. We are currently building more offshore wind than anyone else, and developments in the market this year have shown just how valuable our pipeline is."

Jim Smith
Managing Director,
SSE Renewables

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 1,159MW respectively.

Whilst SSE Renewables' output in 2020/21 was down around 10% compared to 2019/20 due to the sale of Walney and poor weather conditions across both wind and hydro, its fleet proved to be extremely resilient through the coronavirus pandemic.

Operational delivery

In terms of operational maintenance and plant performance, it was a strong year with overall availability high across onshore and offshore wind and hydro operations.

OPERATING REVIEW CONTINUED

Offshore, major works were completed to schedule and without incident at Greater Gabbard offshore wind farm (504MW, SSE Renewables share 50%), which SSE Renewables operates on behalf of its joint venture partner, RWE.

Onshore, first power was achieved at SSE Renewables' first fully merchant wind farm, Gordonbush Extension (38MW). In March, the project secured a 15-year Capacity Market Agreement in the T-4 auction for the delivery year 2024/25 (3MW de-rated at an auction clearing price of £18/kW).

Maintenance of more onshore sites were brought in-house in the second half of the 2020/21 financial year, bringing the total to 63% of SSE Renewables' wholly-owned onshore wind assets (excluding joint venture sites). New operational technology in its dedicated wind operations centre is now commissioned and will enable future efficiency improvements from an already strong industry position.

The optimisation of SSE Renewables' hydro operations continues to yield positive results in terms of output and value. Through adjusted running regimes, focused performance metrics, and digitalisation efforts, enhanced performance of the hydro fleet will play an important role in providing low-carbon flexibility required for the net zero transition, while continuing to meet environmental obligations. The 300MW pumped storage assets at Foyers returned from a planned outage in the second half of the year and have achieved exceptional performance via the utilisation of their vital flexibility to the GB electricity system and focused commercial management of the assets.

Hydro continued to illustrate the benefit it brings to the SSE Renewables portfolio from its flexible capabilities and range of service provision by successfully securing additional contracts across multiple markets, including further flexible constraint managed zone (CMZ) agreements and positive results within the recent T-1 Capacity Market auction where two units at Lochay hydro station 42.709MW (de-rated) and two units at Tummel hydro station (de-rated) secured agreements at an auction clearing price of £45/kW.

SSE Renewables continues to make progress with its programme of capital investment focusing on extending the life of large flexible hydro assets and improving reliability and efficiency. The last stage of the works associated with SSER's investment in Grudie Bridge (18.7MW) is forecast to be complete this year as planned. Progress has also been made with additional investment in Fasnakyle (69MW) and Rannoch (44MW). A final investment decision has been reached on the replant of Tummel Bridge (34MW), which is on track to commence works later this year.

Growth opportunities – construction programme

SSE Renewables is currently leading construction of more offshore wind capacity than any other company globally.

The first two phases of the world's largest offshore wind farm at Dogger Bank, Dogger Bank A and B (each 1,200MW, SSE Renewables share 40%), reached financial close in November 2020. In February SSE Renewables closed the agreement to sell a 10% interest in Dogger Bank A and Dogger Bank B to Eni, securing significant additional value in the process (£206.3m) and underlining its ability to realise value and recycle capital for future development projects. Following the transaction Dogger Bank is jointly owned by SSE (40%) and partners Equinor (40%) and Eni (20%). Onshore construction on phases A and B continue to progress well. SSE Renewables expects to start offshore construction on A in a year's time, aiming for first power in summer 2023 and full power in spring 2024. Dogger Bank B is planned to effectively run a year behind. Dogger Bank C aims to reach financial close and progress a stake sale later this calendar year.

The Dogger Bank projects will cumulatively contribute around 18TWh of additional renewable output to the UK electricity system annually. They will create hundreds of direct jobs and thousands more in the supply chain, and SSE was delighted that, on the strength of orders from Dogger Bank and with its support and efforts, GE was able to commit to investing in a new blade manufacturing facility in Teesside.

Seagreen 1 (1,075MW, SSE Renewables share 49%), located in Scottish waters, is a joint venture with Total and reached a final investment decision in June 2020. When complete, it will be Scotland's largest wind farm and the world's deepest tethered project. Construction of the onshore substation and installation of the onshore cable are progressing well. Offshore construction is due to begin in Autumn 2021 with the installation of turbine foundations expected this year and full power targeted at the end of 2022.

With 621MW not currently attached to a CfD, there is the potential to compete in the next auction for the uncontracted part of the project.

Viking, at 443MW with a load factor of 48%, will be among the highest-yielding onshore wind farms in Europe, producing almost 2TWh annually. Construction is progressing well with work on the DC substation starting this summer, turbines in early 2023 and completion planned for autumn 2024. The wind farm will also have the option to enter CfD Allocation Round 4 later this year.

In Ireland, Lenalea wind farm (30MW, SSE Renewables share 50%) has entered into construction following success in the first RESS auction, which cleared at a weighted average price of €74/MWh.

Growth opportunities – pipeline

Beyond these flagship projects SSE has a healthy pipeline and delivering it will see, on average, over 500MW of renewables capacity added each year to 2030. SSE Renewables has a clear aspiration to reach a run rate of at least 1GW of new assets a year during the second half of this decade and now expects to exceed its target for trebling its renewable output by 2030.

Near-term growth opportunities will come from SSE Renewables' consented offshore sites: Seagreen 1A (360MW, SSE Renewables share 49%), which is an extension to the Seagreen 1 site, and Arklow Bank Wind Park (520MW) in Ireland. Design and development work on Seagreen 1A is ongoing, the outputs of which will inform the JV decision whether to bid it into AR4 and, with a first Irish offshore auction to be scheduled in 2022, the Arklow Bank project will be well placed to take part.

If successful, both projects could be operational by 2025/26. SSE Renewables is also focused on achieving consents for its planned projects at Berwick Bank and Marr Bank offshore wind farms (up to 4,150MW) located off the Firth of Forth. Following further refinements to the projects, planning applications should be submitted by Spring 2022 with the aim of securing consent by 2024.

North Falls offshore 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 at a similar pace to Berwick Bank and could also be operational by 2030.

Whilst SSE Renewables did not secure any new seabed in the Crown Estate Round 4 leasing process, the auction outcome demonstrated the huge value of SSE Renewables' existing pipeline. There will be opportunities to secure further seabed via Crown Estate Scotland's ScotWind leasing process. Following review by the Scottish Government, the process will maintain a capped option fee structure, albeit at a higher level than the previous cap, which should help to ensure the projects remain competitive versus those in England. The process will be completed towards the end of 2021.

SSE Renewables has stated its ambition to contribute a significant amount of the capacity needed to meeting Ireland's 5GW offshore wind target by 2030. A foreshore licence has been secured for site investigations for the 800MW Braymore Point project off the north-east coast and an application has been submitted for the 800MW Celtic Sea array off the south-east coast.

Future onshore growth can be delivered through SSE Renewables' consented sites at Strathy South (208MW) and Tangy repower (57MW) in Scotland and Yellow River (105MW) in Ireland. Four new additional onshore wind opportunities in Scotland, totalling 245MW, have been identified and for which preliminary environmental and engineering studies have commenced. That takes the total unconsented GB and Ireland onshore wind pipeline (SSE share) to over 700MW.

SSE Renewables continues to see an important role for its Coire Glas pumped hydro storage project (up to 1,500MW) in providing critical flexibility to balance increasing volumes of variable renewables. Coire Glas would more than double existing pumped hydro capacity – potentially powering 3m homes for up to 24 hours – and is the most proven long duration storage solution which could be built by 2030. Further clarity on the policy framework and route to market for such projects is expected from BEIS and Ofgem later this year.

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	600
Seagreen 1	GB	Offshore wind	1,075	527
Viking	GB	Onshore wind	443	443
Gordonbush extension	GB	Onshore wind	38	38
Lenalea	ROI	Onshore wind	31	16
Consented				
Arklow Bank 2[1]	ROI	Offshore wind	520	520
Seagreen 1A	GB	Offshore wind	360	176
Yellow River	ROI	Onshore wind	105	105
Tangy	GB	Onshore wind	57	57
Requiring consent				
Berwick Bank	GB	Offshore wind	Up to 2,300	Up to 2,300
Marr Bank	GB	Offshore wind	Up to 1,850	Up to 1,850
North Falls	GB	Offshore wind	504	252
Strathy South	GB	Onshore wind	208	208
Cloiche	GB	Onshore wind	155	155
Other	–	Onshore wind	c200	c200
Future prospects				
Braymore Point	ROI	Offshore wind	800	800
Celtic Sea Array	ROI	Offshore wind	800	800
Scotwind	GB	Offshore wind	–	–
Thor	Denmark	Offshore wind	800-1,000	800-1,000
Other GB	GB	Onshore wind	c250	c250
Other NI	NI	Onshore wind	c50	c50
Other ROI	ROI	Onshore wind	c250	c250
Coire Glas[2]	GB	Pumped storage	Up to 1,500	Up to 1,500

1 Partially consented.
2 Consented but expected to require revenue stabilisation mechanism.

Growth opportunities – international

SSE Renewables will retain a UK and Irish core but has made progress in diversifying its pipeline overseas. With countries around the world committing to more ambitious renewables targets, the addressable market is increasing in size. SSE Renewables is primarily interested in offshore and onshore wind, with a focus on growth markets and local partnerships where it can add value.

In Europe, SSE Renewables is now involved in a consortium participating in the tender process for the 800-1000MW Thor offshore wind site in Denmark, which will conclude later in 2021. Whilst expected to be highly competitive, SSE is partnering well with Copenhagen Infrastructure partners and local energy company Andel Holding.

A partnership agreement was struck with Madrid-based renewables developer Acciona to explore opportunities for offshore wind projects in Spain and Portugal, which are in the early phase of policy and industry development. The Spanish Government is expected to set out its offshore wind strategy later this year. These markets will not reach the size of the North Sea, but over the longer term do have attractive potential.

Further afield, SSE Renewables is continuing to build networks and explore options and expects to make further progress over the next year focusing on Europe, North America and Japan. SSE Renewables sees value in a diverse pipeline, but it will retain its capital discipline.

For financial performance commentary please refer to the Group Financial Review under Operating Profit Performance 2020/21.

OPERATING REVIEW CONTINUED

SSE Thermal

SSE Thermal key performance indicators

	March 2021	March 2020
SSE Thermal		
Thermal adjusted operating profit – £m	**160.5**	152.7
Thermal reported operating profit – £m	**775.3**	15.5
Thermal adjusted investment and capital expenditure – £m	**106.5**	177.0
Generation capacity – MW		
Gas- and oil-fired generation capacity (GB) – MW	**3,992**	4,004
Gas- and oil-fired generation capacity (ROI) – MW	**1,292**	1,292
Multifuel capacity – MW	**–**	68
Total thermal generation capacity – MW	**5,284**	5,364
Generation output – GWh		
Gas- and oil-fired output (GB) – GWh	**15,324**	12,948
Gas- and oil-fired output (ROI) – GWh	**2,433**	2,436
Coal-fired output – GWh	**–**	1,946
Multifuel output – GWh	**251**	395
Total thermal generation – GWh	**18,008**	17,725

Note 1: Capacity is wholly owned and share of joint ventures.
Note 2: Output is based on SSE 100% share of wholly owned sites, 100% share of Seabank & Marchwood PPAs due to the contractual arrangement and % share multifuel JVs.
Note 3: SSE's last remaining coal fired power station Fiddlers Ferry, closed in March 2020. Output for 2019/20 is reflected above with capacity omitted as at 31 March 2020.
Note 4: Decreased multifuel capacity relates to disposal of Ferrybridge Multifuel in October 2020.
Note 5: Decreased gas- and oil-fired capacity relates to the transfer of 12MW of small plant to SSE Enterprise.

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, in balancing the system 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 is among the most flexible in the UK and Ireland electricity systems and is creating value from its intra-day flexibility. Providing flexibility through the Balancing Mechanism is an increasingly important earnings stream. In 2020/21, the SSE Thermal fleet delivered significant value to the system during tight periods and responded to the market during periods of high demand and low wind, with a 50% increase in response contracted by National Grid. This demonstrates the importance of flexible, dispatchable generation in ensuring a resilient power sector in the transition to net zero.

However, SSE is in no doubt about the need to decarbonise its fleet and repurpose it for the net zero world. In 2020/21, the carbon intensity of the electricity generated by its thermal plant reached its lowest level since records began. This means that SSE is well on the way towards two of its key science-based targets: to cut the carbon intensity of electricity generated by 60% and good progress is made to cut all scope 1 and scope 2 operational emissions by 40% between 2018 and 2030.

SSE Thermal's assets have been awarded the following capacity contracts in GB and Ireland through competitive auctions.

Growth opportunities

In terms of SSE's older plant, with the exception of Keadby 2, Marchwood, Great Island and potentially Seabank, SSE cannot envisage any of its thermal plant running into the 2030s unabated. Therefore, its focus is on carbon capture and storage (CCS) and hydrogen.

SSE Thermal has announced an agreement with Equinor to co-develop low-carbon thermal options at its Keadby site, in North Lincolnshire, and at its Peterhead site, in Aberdeenshire. This will include:

"We are providing the firm, flexible capacity that is needed to balance the variability of renewables and, as we decarbonise our fleet, we have exciting options at Keadby and Peterhead with the potential to create value from low-carbon technologies in the transition to net zero."

Stephen Wheeler
Managing Director,
SSE Thermal

- Keadby CCS – a 900MW gas-fired power station with carbon capture and Peterhead CCS – a 900MW gas-fired power station with carbon capture, both of which have the potential to be the UK's first power plants with carbon capture facilities.
- Keadby Hydrogen – a 900MW low-carbon hydrogen-fired power station, with a peak demand for hydrogen of 1800MW. This could be the world's first major hydrogen-fired power station.

These plans would support the UK's transition to net zero and accelerate the decarbonisation of some of the UK's most carbon intensive regions, underpinning investment in shared carbon and hydrogen pipelines which other emitters in the region could plug into. The projects at Keadby would utilise the pipelines being developed by the Zero Carbon Humber partnership, of which SSE Thermal is a member. The project at Peterhead would be an early customer for the Acorn CCS infrastructure.

Station	Asset type	Station Capacity	SSE share	Capacity obligation
Medway (GB)	CCGT	735MW	100%	To September 2022
Keadby (GB)	CCGT	755MW	100%	To September 2022
Keadby 2 (GB)	CCGT	840MW	100%	15-years commencing October 2023
Peterhead (GB)	CCGT	1,180MW	100%	To September 2025
Seabank (GB)	CCGT	1,234MW	50%	To September 2025
Marchwood (GB)	CCGT	920MW	50%	To September 2025
Slough Multifuel	Energy from Waste	50MW	50%	15-years commencing October 2024
Great Island (Ire)	CCGT	464MW	100%	To September 2025
Rhode (Ire)	Gas/oil peaker	104MW	100%	To September 2025
Tawnaghmore (Ire)	Gas/oil peaker	104MW	100%	To September 2025
Tarbert (Ire)	Oil	620MW	100%	To September 2022

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.

These projects are in the development stage and SSE Thermal continues to engage with government, regulators and stakeholders. Final investment decisions will depend on the progress of policy frameworks that support delivery of the shared infrastructure, create routes to market for CCS and hydrogen technologies, and represent an appropriate balance of risk and reward.

Keadby 2, SSE Thermal's £350m 893MW CCGT brings Siemens' first-of-a-kind, high efficiency, gas-fired generation technology to the UK and is on track to be fully commissioned in 2022. As part of the co-operation agreement with Equinor, SSE Thermal is also developing options to blend hydrogen at Keadby 2.

SSE Thermal completed the sale of its 50% share in Multifuel Energy Limited (MEL1) and Multifuel Energy 2 Limited (MEL2) to First Sentier Investors for a total cash consideration of £995m, creating considerable value for shareholders. This included Ferrybridge Multifuel 1 and Ferrybridge Multifuel 2 energy-from-waste assets, which SSE had jointly developed, constructed and operated before securing value on sale. In April 2020, SSE Thermal also sold a 50% stake in Slough Multifuel, SSE's only energy-from-waste interest, to Copenhagen Infrastructure Company (CIP). The joint venture project began construction on 3 May 2021.

For financial performance commentary please refer to the Group Financial Review under Operating Profit Performance 2020/21.

Gas Storage

Gas Storage key performance indicators

	March 2021	March 2020
Gas Storage		
Gas Storage adjusted operating (loss)/profit – £m	**(5.7)**	3.7
Gas Storage reported operating profit/(loss) – £m	**2.8**	(1.4)
Gas storage adjusted investment and capital expenditure – £m	**1.9**	0.2

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 security of supply with the UK's continuing shift away from coal-fired generation and the resulting loss of inherent energy storage in coal stocks.

In 2020/21 these assets were used to respond to unpredictable and changeable weather conditions, particularly in the January to March period.

SSE Thermal remains committed to working with UK Government departments and Ofgem to ensure that the critical role of UK storage in relation to security of supply and stability of gas price is properly rewarded. These assets may also prove useful in the longer-term decarbonisation of our energy system with potential repurposing for other lower carbon gases in future, including hydrogen.

For financial performance commentary please refer to the Group Financial Review under Operating Profit Performance 2020/21.

OPERATING REVIEW CONTINUED

SSE Business Energy

SSE Business Energy key performance indicators

	March 2021	March 2020
SSE Business Energy		
Business Energy adjusted operating (loss)/profit – £m	**(24.0)**	9.2
Business Energy reported operating profit/(loss) – £m	**(3.9)**	(18.5)
Electricity Sold – GWh	**13,070**	16,914
Gas Sold – mtherms	**245**	272
Aged Debt (60 days past due) – £m	**73.8**	48.7
Bad debt expense – £m	**37.8**	31.3
Exceptional bad debt (credit)/expense – £m	**(20.1)**	27.7
Energy customers' accounts – m	**0.48**	0.52

SSE Business Energy overview

SSE Business Energy provides a potential shopfront and route to market for SSE's low-carbon energy solutions and green products to non-domestic customers across GB.

Operational delivery

Business Energy retains a strong customer base with a 9.2% market share by volume for electricity supply (ranked 3rd) and 2.5% market share for Gas (ranked 5th for Small- and Medium-sized Enterprises and 7th for Industrial and Commercial customers).*

Business Energy supplied 4.7TWh of SSE asset-backed wind and hydro-generated electricity to its customers and this year saw the launch of its renewable gas tariff 'Green Gas plus', which is gaining traction in the market and has received third party accreditation from EcoAct. It continues to invest in digital and customer service solutions to adapt and evolve its offerings in a highly competitive market.

In response to coronavirus, remote working was successfully implemented across the business, prioritising the safety and wellbeing of customer service operations. Physical services such as meter reading, smart meter installation activities and field debt collections were paused but are now operating effectively as lockdowns are eased.

Growth opportunities

Business Energy will work together with SSE's distributed energy operations under a single customer-facing brand, SSE Energy Solutions. SSE Energy Solutions will provide customers with a single 'shopfront' for Energy Supply and Energy Optimisation solutions. It will offer an expanded product portfolio including customer workplace EV charging solutions and flexible corporate power purchase agreement offerings. This year will also see the launch of its 'Next Generation' green supply product to help businesses meet their own net zero targets. SSE believes that the division will be increasingly important as a complement to SSE Renewables growth plans.

For financial performance commentary please refer to the Group Financial Review under Operating Profit Performance 2020/21.

"The coronavirus pandemic has presented challenges with reduced demand and constraints on our operations, but throughout we maintained our focus on our customers and continued to provide a valuable route to market for the Group's renewables and energy solutions in both GB and the island of Ireland."

Nikki Flanders
Managing Director,
SSE's customer businesses

* Cornwall Insight figures released January 2021.

SSE Airtricity

SSE Airtricity key performance indicators

	March 2021	March 2020
SSE Airtricity		
Airtricity adjusted operating profit – £m	**44.0**	48.8
Airtricity reported operating profit – £m	**50.0**	42.8
Aged Debt (60 days past due) – £m	**7.9**	5.6
Bad debt expense – £m	**6.9**	3.4
Exceptional bad debt (credit)/expense – £m	**(6.0)**	6.0
Airtricity Electricity Sold – GWh	**7,595**	8,053
Airtricity Gas Sold – mtherms	**219**	221
All Ireland energy market customers (Ire) – m	**0.68**	0.72

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 680,000 customers and holding 23% market share by load.

Operational delivery

Airtricity has a solid diversified customer mix with 23.1% market share of Power by Volume and 22.9% Gas by Volume, split across the Republic of Ireland and Northern Ireland. It retains a competitive position in the markets in which it operates.

Throughout the pandemic, Airtricity's priority was the safety and wellbeing of its teams. Non-domestic demand reduced as economic activity scaled back but was partly offset by increased demand from households. Several physical services were suspended due to lockdown restrictions, including door-to-door sales and residential construction projects such as housing upgrades. These services are now operating effectively as lockdown restrictions are eased across the island of Ireland.

Airtricity continued to pursue its strategic imperatives in 2020/21, including the launch of its 'One-Stop Shop' in September 2020 in conjunction with An Post, a first of its kind in the ROI market, providing customers with energy efficient home upgrades and practical routes to reducing their usage.

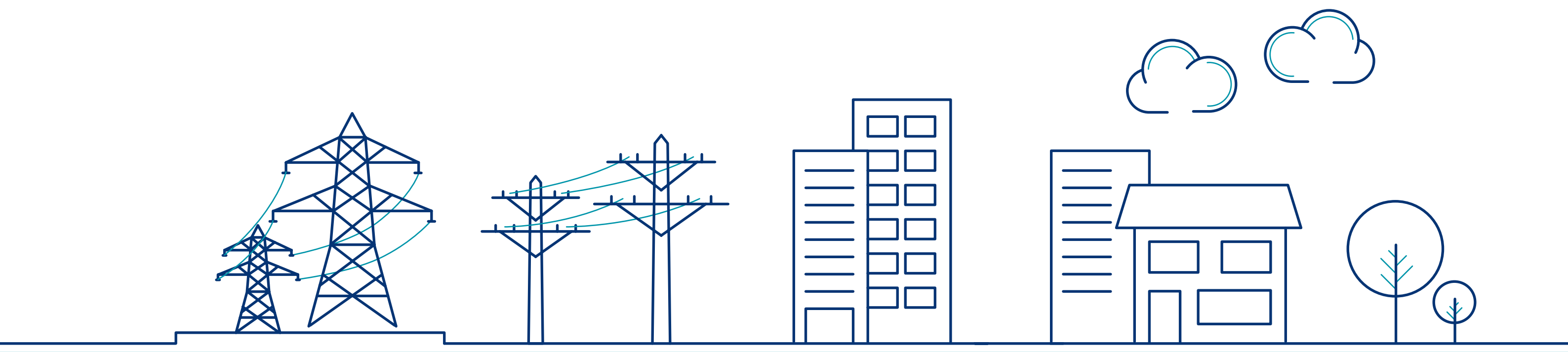
Airtricity also delivered the next phase of the Microsoft Solar for Schools programme, with 27 installations completed at schools around the country, providing real-time tracking of grid carbon emissions, screens displaying real-time solar generation and an education programme for students focusing on sustainability.

The business continues to prioritise delivery of high-quality customer service. Digitisation is key to seamless customer journeys and in 2020/21, SSE Airtricity launched a mobile app with a new online billing capability. In addition, it launched the first phase of its Smart Services, a major milestone in the ROI National Smart Metering Programme and key to supporting its customers on their net zero journey.

Growth opportunities

SSE Airtricity continues to support customers and empower communities in their transition towards a greener future. A key area of focus is the provision of extended services and offerings, including a new partnership with ePower on electric vehicle charging infrastructure. Additional partnership opportunities are being explored around lighting-as-a-service, solar and Corporate Power Purchase Agreements.

For financial performance commentary please refer to the Group Financial Review under Operating Profit Performance 2020/21.



OPERATING REVIEW CONTINUED

SSE Enterprise

SSE Enterprise key performance indicators

	March 2021	March 2020
SSE Enterprise		
Enterprise adjusted operating (loss)/profit – £m	**(21.3)**	8.1
Enterprise reported operating profit/(loss) – £m	**(106.7)**	(2.0)
SSE Heat Network Customer Accounts	**10,482**	8,851
Telecoms Number of BT exchanges unbundled	**431**	259

SSE Enterprise overview

Enterprise's role is to pursue opportunities in areas that complement the SSE Group's core energy portfolio; going forward this will focus on distributed energy. To give its B2B customers a new single point of entry, SSE is replacing its Enterprise brand with 'SSE Energy Solutions', which brings distributed energy and business energy services under a single customer-facing brand, as outlined above.

In April 2021, SSE announced it had entered into an agreement to sell its Contracting (and Rail) business to the Aurelius Group at an enterprise value of £27.5m as part of its ongoing disposal programme of non-core assets. The sale process is expected to complete by the end of June 2021 when around 1,900 Contracting employees will work under the new ownership. Under Aurelius, the Contracting business should benefit from greater focus, enabling it to take fuller advantage of growth opportunities.

SSE retains a 50% stake in SSE Enterprise Telecoms, which provides infrastructure-based connectivity. This year it launched its new brand name: Neos Networks. Its transformation journey began in 2019, when Infracapital acquired 50% of the business and it retains a strong and growing customer base.

Operational delivery

Financial performance in Enterprise was heavily impacted by the effects of coronavirus on its Contracting and Rail business which is being sold to Aurelius.

Elsewhere in Enterprise the distributed energy business has continued to maintain its existing portfolio of heat networks, private wires and distributed generation efficiently and effectively.

Whilst run at arm's length from the rest of the group, SSE Enterprise Telecoms continues to grow its network and customer base and intends to more than double its BT exchange reach by connecting 550 BT exchanges by the end of summer 2021.

Growth opportunities

Going forward, the primary focus for Enterprise will be distributed energy and developing 'whole system thinking' solutions which will enable the decarbonisation of transport and heating and lay the platform for a data-driven and sustainable world, including: distributed generation, energy optimisation, heat and cooling networks, electrical networks, smart buildings and EV charging. SSE Enterprise is developing offerings in solar and has plans to develop over 500MW of battery storage across the UK to help respond to the needs of local generation. Initially its focus is on redeveloping existing SSE sites with grid connections.

For financial performance commentary please refer to the Group Financial Review under Operating Profit Performance 2020/21.

"SSE Enterprise has undergone a period of transformational change with the sale of its Contracting business and a timely refocusing on distributed energy which promises strong growth potential through 'whole system thinking' solutions, including distributed generation and storage, which will also enable the decarbonisation of transport and heating."

Neil Kirkby
Managing Director,
SSE Enterprise

Energy Portfolio Management

EPM key performance indicators

	March 2021	March 2020
EPM		
EPM adjusted operating profit/(loss) – £m	**18.4**	(60.3)
EPM reported operating profit/(loss) – £m	**608.5**	(94.5)

"With an eye to the pace of change we are seeing in the energy sector, we have reviewed and stepped up EPM's role within SSE as an asset optimiser and market adviser to the Group's Business Units, and put plans in place to strengthen our data analytics capabilities."

Finlay McCutcheon
Managing Director,
Energy Portfolio Management

EPM overview

Energy Portfolio Management (EPM) is the energy markets heart of the SSE Group, securing value for SSE's asset portfolios in wholesale energy markets 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 on the quantum of hedging possible. See also SSE's Hedging Position at 31 March 2021 earlier in this document.

Operational delivery

In January 2021, under the leadership of a new managing director, a comprehensive review was undertaken to determine how EPM could best support the SSE Group strategy within a rapidly evolving energy landscape. This identified a critical role for EPM to play as the short-term energy market asset optimiser and a long-term energy market adviser. This role enables SSE to focus its investment in energy markets capabilities in one centre of excellence.

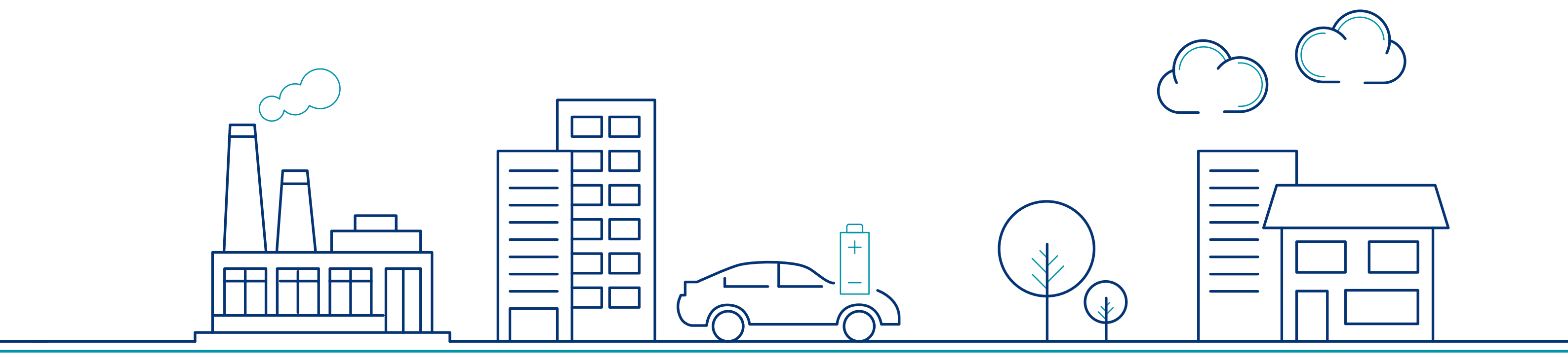
The value EPM secures for SSE's asset portfolio will continue to be reported against individual Business Units.

2020/21 was a turbulent year in carbon policy with the UK deciding to introduce its own UK Emissions Trading Scheme alongside the existing Carbon Price Support. While this has created uncertainties which SSE has had to manage prudently, SSE is encouraged that all policy scenarios lead to high carbon pricing, which SSE supports as a critical tool in decarbonisation.

Opportunities for growth

In addition to taking on responsibility for SSE'S Energy Economics and Market Codes teams, EPM plans to further develop its risk management and trading teams and introduce a new analytics function. These enhanced data capabilities will support decision making and enable further value creation on behalf of the Group's Business Units.

For financial performance commentary please refer to the Group Financial Review under Operating Profit Performance 2020/21.



SECTION 172 AND NON-FINANCIAL INFORMATION STATEMENTS

COMMITTED TO **TRANSPARENCY**

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 2020/21, 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 28 to 31). 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 business goals support this strategy, and provide important interim milestones to net zero in 2050. This longer-term view set by the Board frames its annual review of strategy and agreement of objectives which extends to capex plans, the Group budget, 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 8 to 9 **Our purpose and our strategy**. SSE's purpose, vision, strategy, values and 2030 goals as agreed by the Board.
- Page 106 **Strategic review and Board focus in 2020/21**. An overview of the Board's annual strategy review including considerations and outcomes.
- Pages 54 to 56 **Risk-informed decision making**. The approach to identifying, understanding and mitigating the Group's Principal Risks.

Purpose-led engagement

Despite the challenges of the pandemic, constructive two-way dialogue has continued with SSE's key stakeholders to maintain 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 104 **Considered decision-making**. The context set by the Board in which decision-making across the Group takes place.
- Pages 28 to 31, 105 and 114 to 116 **Working for and with stakeholders**. Information on: the role of stakeholder engagement; SSE's key stakeholder groups, including employees, shareholders, suppliers, communities and customers; the engagement mechanisms which have been used at Board and below-Board level in 2020/21; the material issues raised; and examples of how stakeholder value creation is measured.
- Page 112 **Focusing on culture**. How the Board promotes high standards of conduct and monitors an appropriate culture.

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

- Page 31 **Engagement in action**. Details of actions taken in response to the views of individual stakeholder groups, of which the Board has received full oversight.
- Pages 107 to 109, 124 and 127 **Board Principal Decisions**. Decisions taken by the Board during the year including details of stakeholder considerations and impacts.

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 111 **Sustainability and climate impacts**. Board considerations and outcomes in 2020/21.
- Pages 140 to 143 **SHEAC Report**. Provides Board assurance of safety, health, environmental and sustainability matters.
- Pages 36 to 43 **Protecting the environment**. Actions agreed to drive climate action, SSE's carbon performance and resource use.

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 2021.

Reporting requirement and SSE's material areas of impact	Relevant Group Principal Risks, pages 57 to 63	Relevant Group Policies on sse.com	Policy embedding, due diligence, outcomes and key performance indicators
Environmental matters • 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 14 to 15 Our strategy in action, pages 16 to 21 Protecting the environment, pages 36 to 43 Safety, Health and Environment Advisory Committee Report, pages 140 to 143
Employees • 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 14 to 15 Creating social impact, pages 45 to 50 Focusing on culture, pages 112 to 113 Supporting and listening to the employee voice, pages 114 to 116 Safety, Health and Environment Advisory Committee Report, pages 140 to 143
Social matters • 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 14 to 15 Creating social impact, pages 44 to 45, 50 to 53
Human rights, anti-corruption and anti-bribery • 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	Creating social impact, page 47 Focusing on culture, pages 112 to 113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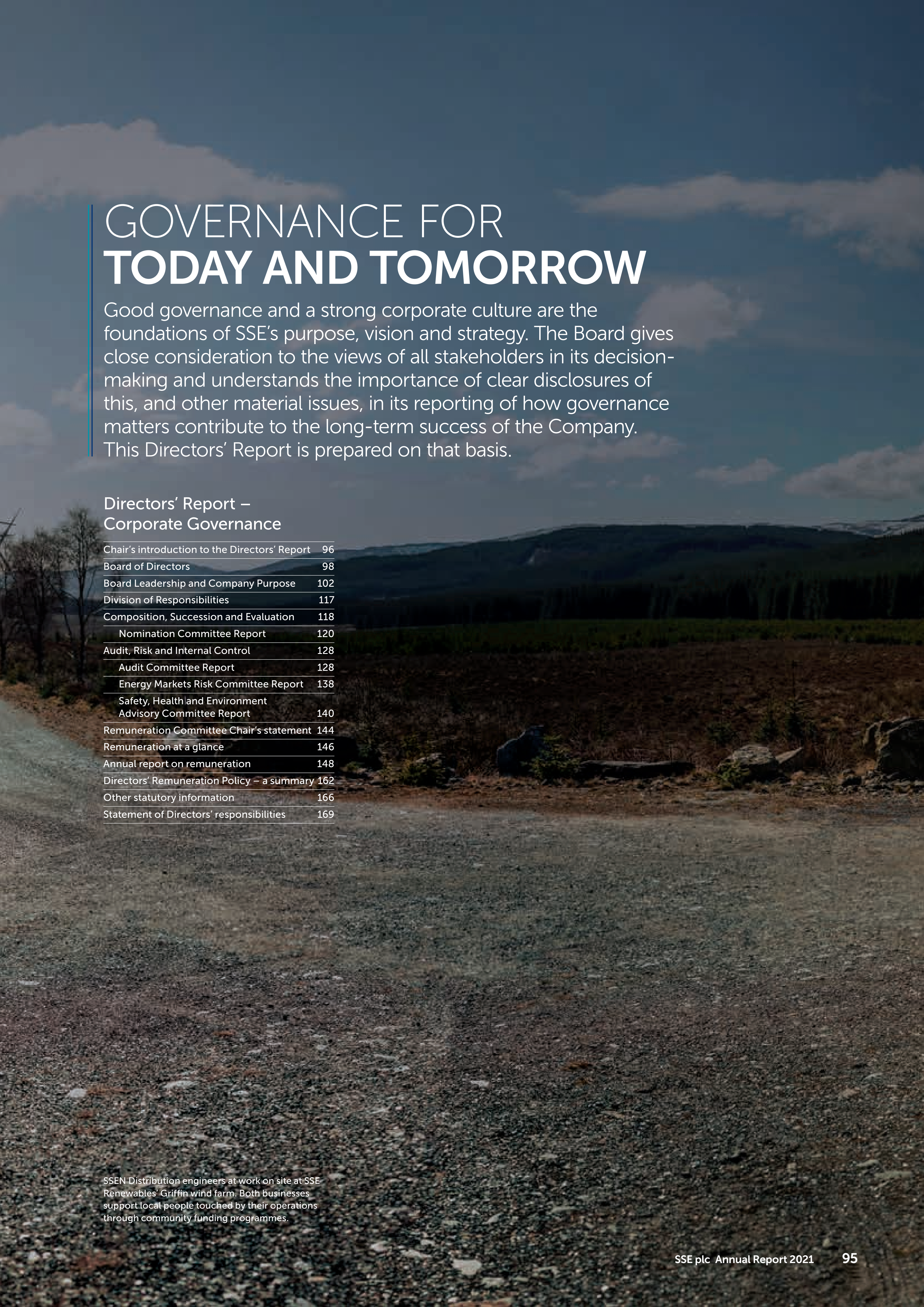


GOVERNANCE FOR **TODAY AND TOMORROW**

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 disclosures of this, and other material issues, in its reporting of how governance matters contribute to the long-term success of the Company. This Directors' Report is prepared on that basis.

Directors' Report – Corporate Governance

SSEN Distribution engineers at work on site at SSE Renewables' Griffin wind farm. Both businesses support local people touched by their operations through community funding programmes.

CHAIR'S INTRODUCTION TO THE DIRECTORS' REPORT

GOVERNANCE FOR TODAY AND TOMORROW

Dear Shareholder,

It has been an unprecedented time in which to join the Board, and a period that has afforded me a deep understanding of the strength of leadership and culture within SSE. As the coronavirus pandemic has continued to impact on society, I have observed SSE's consideration of stakeholder needs and experiences, and the integration of these throughout work and discussions in the Boardroom. This approach reflects the Board's focus on embedding high standards of corporate governance, with the objective of the Directors' Report being to provide a transparent and engaging account of this in practice.

Strength of purpose

The clarity of our purpose – to provide energy needed today while building a better world of energy for tomorrow – has guided actions at every level throughout the year. In the immediate term, this meant unbroken support for the national response to coronavirus through the safe and reliable supply of essential services. Across a longer time horizon, it has driven strategic progress and identified opportunities to secure a sustainable energy system for the future. The Board recognises the collective contribution and commitment of SSE's more than 10,000 employees in the above, and is proud of what has been achieved during a time of uncertainty and challenge.

The pandemic has not distracted from the enduring challenge presented by the climate emergency and the important part SSE has to play in the net zero transition, which as described across pages 106 to 109, will continue as the backdrop to the Board's long-term strategic focus.

It is with this in mind that we look forward to working with government to support its efforts to secure the best possible outcomes from the COP26 summit later this year.

Assessing risk

Opportunities must be assessed against the related parameter of risk, to ensure decisions are taken responsibly and in good faith to deliver acceptable stakeholder outcomes. To maintain an informed view, the Board has taken soundings on matters such as the political landscape, long-term commodity pricing, project economics, and seabed leasing. Throughout the year, the risk presented by the pandemic has been considered through a monthly review of its impact on financial and operational performance.

The formal assessment of the overarching risk environment which confirms the Group's risk appetite and its Principal Risks was completed in March 2021. This followed engagement between individual Board members and SSE's Group Risk function in the course of the year, to provide challenge to, and gain detailed insight into, the risk management practices currently undertaken. Details of the Group approach can be found on pages 54 to 63.

Given the close alignment of both our purpose and strategy to the net zero transition, the impact and risks associated with climate change are integrated across the Board's and management's considerations. This is a multi-dimensional approach, and one which I hope is evident throughout this Annual Report and accompanying Sustainability Report.

Enhancing Board dialogue

Social distancing guidelines have resulted in significant changes to the way we work and engage. With the inability to meet physically, a comprehensive engagement programme complemented by two all-employee surveys and the work of Dame Sue Bruce, our Non-Executive Director for Employee Engagement, has drawn on technology to create new platforms for conversations at all levels. Whilst not a direct substitute for in-person discussion, these have been successful in keeping the Board and senior leadership in touch with employee sentiment and we will retain the aspects which have worked well. Employee engagement, including what we have heard in the year, and the actions taken in response, is covered on pages 114 to 116.

The Board has also adopted a virtual platform for its own meetings which has proven effective to progress our full agenda. And I extend my appreciation to those individuals who have inducted me virtually, a process which has been well-managed and provided a wide introduction to the SSE Group. When safe to do so, I look forward to meeting colleagues in person, as do my fellow Board members.

Monitoring culture

Being new to SSE it has been important to reflect and learn about SSE's culture first hand. Prior to joining, I was introduced to SSE's approach to 'Doing the Right Thing', underpinned by the core values set out on page 8 and the primary focus on safety. Understanding how these translate into SSE's culture has been enhanced by the conversations I mention above and through exposure to the work of the Board Committees and discussions with senior leadership teams.

The maturing cultural dashboard which the Board reviews bi-annually is in its second year. This was last considered in November 2020 and is a rich source of information that will continue to inform the Board's appreciation of cultural indicators and allow identification of cultural changes and trends. The impact of coronavirus on reported metrics will be monitored as we progress through 2021/22, alongside actions to reiterate broader cultural expectations. Combined with our engagement work, this will continue to shape how the Board influences and understands culture, as covered on pages 112 to 113.

Evaluating Board performance

Central to setting the correct tone is the review of the Board's own performance. An internal assessment was carried out in 2020/21, in advance of an external evaluation in the coming year. The positive outcomes of this were well received, and in the spirit of continuous improvement, we were pleased to hear areas to work on. These included arrangements to ensure the right balance between presentations and discussion in Board meetings and, through elevation of the role of the Nomination Committee, the agreement to identify opportunities for Board-level support on the issue of inclusion and diversity. This support extends to considerations surrounding the Board's own diversity, as well as that of senior management, wider teams and new recruits, alongside the approach to addressing sector-wide challenges.

The suite of evaluation actions from 2020/21, alongside progress against the findings from 2019/20, are set out on pages 118 to 119. The discussions surrounding inclusion and diversity are on pages 126 to 127.

Working for stakeholders

Section 172 has never been in sharper focus, and the importance of Environmental, Social and Governance (ESG) matters to investors continues to grow at pace. To ensure the Board remains in touch with material issues and concerns, it has received a combination of dedicated stakeholder-focused updates and engaged constructively on Group-wide issues with key stakeholder groups during the year. This approach is supported by business-led stakeholder relationships as explained on pages 28 to 31 and within the Section 172 Statement on page 92.

The Board's annual review of sustainability priorities reflects SSE's wider social contract, which in 2020/21 saw the adoption of an enhanced sustainable procurement strategy and a commitment to achieving net zero within all scopes of SSE's own operations by 2050. In the coming year, Board decision-making will continue to be tested through external soundings on strategy. Work is also under way to review the current breadth of focus provided by the Safety, Health, Environment and Advisory Committee, to assist the Board in its oversight of the approach to, and assurance of, a range of ESG matters.

Shareholder views remain a key influence and have been gathered through the year within investor meetings, conferences and the engagement which surrounded the AGM 2020. I look forward to taking part in these events in the months to come. The Board encourages continued participation through the AGM 2021, which will include opportunities for interaction before and during the meeting. This includes a platform to allow shareholders to view proceedings and ask questions remotely for the first time. To support ongoing engagement with shareholders on climate-related issues, we have proposed an enabling resolution, within the business of the meeting, that establishes a framework for an annual advisory vote on SSE's Net Zero Transition report at future AGMs.

Board changes

There have been two additions to the Board in the year. Dame Angela Strank joined as a non-Executive Director on 1 May 2020, followed by myself on 1 September 2020. Having received a warm welcome from our fellow Directors, we look forward to another year of working together across the Board and respective Committees. The Board was sorry to see Crawford Gillies step down on 30 September 2020 and we express our gratitude for his contribution throughout his five years as Senior Independent Director. I am grateful to Tony Cocker who assumed the role of Senior Independent Director following this departure, and who will bring significant industry knowledge and experience to the position.

Following the above changes, the composition of the Board aligns with the ambitions set by the Hampton-Alexander and Parker reviews for achievement by FTSE 100 companies in 2020 and 2021. Our approach to driving enduring balance within the Board is set out in the Nomination Committee Report on pages 120 to 127.

Finally, I thank Richard Gillingwater on behalf of myself and all the Directors for his strong leadership and vision. Since joining SSE in 2007, he worked as a non-Executive Director, Senior Independent Director, Deputy Chair and Chair. His contribution to the shape of the SSE Group is evident, and I appreciate the experience and skill of the Board which he has assembled.

Sir John Manzoni
Chair, SSE plc
25 May 2021

Governance highlights

Board Leadership and Company Purpose pages 102 to 116

Division of Responsibilities page 117

Composition, Succession and Evaluation pages 118 to 127

Audit, Risk and Internal Control pages 128 to 143

Remuneration pages 144 to 165

UK Corporate Governance Code

The Board continues to assess its approach to corporate governance through application of the FRC's UK Corporate Governance Code (the Code). It reports against the 2018 Code for the year ended 31 March 2021, a copy of which can be found at www.frc.org.uk.

As set out above, this Annual Report has been structured to allow evaluation by shareholders of how the Code Principles have been applied. Appropriate cross references are included where supporting information is contained outside of the Directors' Report.

The Board believes that the spirit of the 2018 Code continues to be upheld throughout its work and that of its Committees, and reports one instance of non-compliance for 2020/21 against the Code Provisions. This was in relation to Chair tenure (Provision 19) and is a position which was rectified on 1 April 2021 following the appointment of Sir John Manzoni.

The process which concluded the previously agreed actions to ensure an appropriate Chair transition can be found on page 124.

BOARD OF DIRECTORS

Key

Committee membership

- NC Nomination Committee
- AC Audit Committee
- ER Energy Markets Risk Committee
- SHE Safety, Health and Environment Advisory Committee
- RC Remuneration Committee
- ◯ Committee Chair

Board departures

Two Board departures were announced in 2020/21.

- Richard Gillingwater stepped down from the Board and role of Chair on 31 March 2021.
- Crawford Gillies stepped down as non-Executive Director and Senior Independent Director on 30 September 2020.

External appointments

The Board considered and approved the additional external commitments taken on by Sir John Manzoni and Dame Angela Strank 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.

Chair

Sir John Manzoni

Chair

NC ER SHE RC

Date of appointment

Non-Executive Director since September 2020 and Chair from April 2021

Board tenure

Under 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 Designate of the Atomic Weapons Establishment (Chair appointment due to commence in July 2021)

Executive Directors

Alistair Phillips-Davies

Chief Executive

Date of appointment

Executive Director since January 2002 and Chief Executive from July 2013

Board tenure

19 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, and the development 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 response.
- Focused on people development, culture and digital enablement in order to develop capabilities for future growth.

Key external appointments and changes

- Member of Scottish Energy Advisory Board
- Member of the UK Government's Hydrogen Advisory Council (commenced in December 2020)
- Member of the COP26 Business Leaders group (commenced in September 2020)

Independent non-Executive Directors

Gregor Alexander
Finance Director

ER

Date of appointment
Executive Director and Finance Director since October 2002

Board tenure
18 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 and a Director of Scotia Gas Networks Limited. 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 and 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 the Living Wage 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 Chair of Scotia Gas Networks Limited in February 2021 where he remains a Director

Martin Pibworth
Group Energy and Commercial Director

ER

Date of appointment
Executive Director since September 2017 and Group Energy and Commercial Director from November 2020

Board tenure
3 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.

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 core and complementary business areas 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

NC AC ER SHE

Date of appointment
Non-Executive Director since May 2018 and Senior Independent Director from October 2020

Board tenure
3 years

Career and experience
Tony possesses highly detailed knowledge of the energy sector through a 20 year career with E.ON. Latterly, he held the position of CEO and Chair of E.ON UK plc, which comprised the Company's main businesses in the UK, including the supply of energy to households, businesses and communities, digital transformation programmes and the smart meter roll-out. Previous roles include CEO of E.ON Energy Trading SE and Managing Director of E.ON UK Energy Wholesale. 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.
- Combined 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 external appointments and changes
- Chair of Infinis Energy Management Limited
- Deputy Chair and Governor of Warwick Independent Schools Foundation
- Stepped down as Chair of Affinity Water Limited in January 2021

BOARD OF DIRECTORS CONTINUED

Independent non-Executive Directors

Dame Sue Bruce DBE

Non-Executive Director of the Board and for Employee Engagement

NC RC

Date of appointment

Non-Executive Director since September 2013

Board tenure

7 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.

Key external appointments and changes

- Convenor of Court of the University of Strathclyde
- Chair of the Royal Scottish National Orchestra
- Electoral Commissioner, the Electoral Commission
- Independent Chair of Nominations Committee, the National Trust for Scotland
- Trustee of the Prince's Foundation

Peter Lynas

Non-Executive Director

NC AC RC

Date of appointment

Non-Executive Director since July 2014

Board tenure

6 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.

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 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.

Key external appointments and changes

- No key external appointments

Helen Mahy CBE

Non-Executive Director

NC AC SHE

Date of appointment

Non-Executive Director since March 2016

Board tenure

5 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 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.

Skills and attributes which support strategy and long-term success

- Long-standing energy and regulatory 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.
- An advocate of SSE's safety culture, inclusion and diversity and employee wellbeing with extensive knowledge of people matters and a focus on sustainability.

Key external appointments and changes

- Chair of The Renewables Infrastructure Group Limited
- Stepped down as Non-Executive Director of Bonheur ASA in July 2020

Company Secretary

Melanie Smith CBE
Non-Executive Director

NC ER RC

Date of appointment
Non-Executive Director since January 2019

Board tenure
2 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
- 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
- CEO, Ocado Retail Limited
- Advisory Board member of Manaia
- Trustee of Sadlers Wells

Dame Angela Strank DBE
Non-Executive Director

NC SHE RC

Date of appointment
Non-Executive Director since May 2020

Board tenure
1 year

Career and experience
Dame Angela has a depth of executive experience through a long-standing international career 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 business and technical leadership positions spanning technology and digital, innovation, engineering and renewable energy. Angela is a Fellow of the Institute of Chemical Engineers, the Royal Academy of Engineers, the Royal Society and the UK Energy Institute. She was awarded a DBE for longstanding 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 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.

Key external appointments and changes
- Non-Executive Director of Severn Trent plc
- Non-Executive Director of Rolls Royce plc
- Non-Executive Director of Mondi plc (commenced in April 2021)

Sally Fairbairn
Company Secretary and Director of Investor Relations

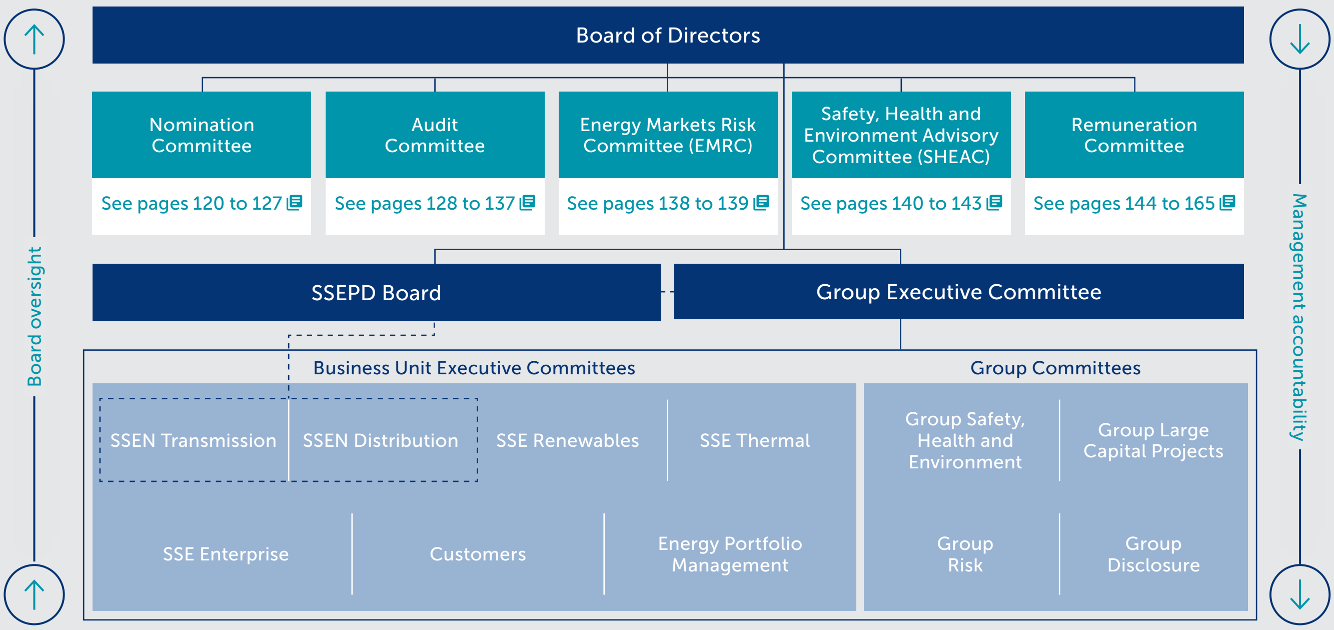
Date of appointment
Company Secretary and Director of Investor Relations since December 2014

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 Group'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 a detailed understanding of investor views. Sally was appointed to the joint role of Company Secretary and Director of Investor Relations in December 2014.

BOARD LEADERSHIP AND COMPANY PURPOSE

SSE'S APPROACH TO CORPORATE GOVERNANCE

SSE's Governance Framework



The SSEPD Board oversees SSE's economically regulated networks businesses in compliance with applicable regulatory license conditions. Customers comprises SSE Business Energy and SSE Airtricity.

Board meetings and attendance in 2020/21

In the period to 31 March 2021, there were seven 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. All Board and Committee contact has been conducted on a platform to allow face-to-face conversations to continue virtually, with meeting attendance for the year set out opposite.

	Board	Nomination Committee	Audit Committee	EMRC	SHEAC	Remuneration Committee
Number of meetings held	7	7	4	4	4	4
Sir John Manzoni[1]	4/4	4/4			2/2	2/2
Alistair Phillips-Davies	7/7					
Gregor Alexander	7/7			4/4		
Martin Pibworth	7/7			4/4		
Tony Cocker	7/7	7/7	4/4	4/4	4/4	
Dame Sue Bruce	7/7	7/7				4/4
Peter Lynas	7/7	7/7	4/4			4/4
Helen Mahy	7/7	7/7	4/4		4/4	
Melanie Smith[2]	7/7	7/7		2/2	3/4	4/4
Dame Angela Strank[3]	6/7	4/4			3/3	4/4
Richard Gillingwater	7/7	7/7		4/4		4/4
Crawford Gillies[4]	4/4	1/1	2/2	2/2		2/2

1 Sir John Manzoni joined the Board and Nomination Committee on 1 September 2020, and the Remuneration Committee and SHEAC on 1 October 2020.
2 Melanie Smith joined the EMRC on 1 October 2020 and stepped down from the SHEAC on 1 April 2021. In anticipation of the latter change Melanie did not attend the meeting of the SHEAC in March 2021.
3 Dame Angela Strank joined the Board, Nomination Committee and SHEAC on 1 May 2020 and the Remuneration Committee on 1 October 2020. She was unable to attend the January Board meeting in full due to a pre-existing external non-Executive commitment, this was notified and approved prior to her appointment to the SSE Board.
4 Crawford Gillies stepped down from the Board and his respective Committee positions on 30 September 2020.

The role of the Board

The primary role of the Board is to lead the SSE Group in a way that ensures its long-term success. This is a wide-ranging duty and is guided by the cornerstones of SSE's purpose and vision. The last material re-definition of SSE's purpose and vision was in 2019/20, when the Board agreed further alignment with the Group's societal role, its net zero ambitions and strategic transformation structured around core and complementary businesses.

Following on from purpose and vision the Board sets the Group's strategy. This is centred on sustainable value creation for shareholders and considers SSE's wider contract with its key stakeholders. The implementation of strategy is led by the Group Executive Committee and management across SSE's Business Units. Further information of SSE's business model and strategic progress in 2020/21 is covered across pages 1 to 93.

Board reserved matters

Supporting purpose, vision and strategy and SSE's long term position, the Board retains a schedule of matters reserved for its decision. These are areas material to the Group's direction, people and resilience, and include:

- Agreement and monitoring of a healthy corporate culture including SSE's values.
- Approval of key financial communications and SSE's dividend policy.
- Ensuring sound systems of internal control and risk management.
- Changes to the Group's capital structure.
- Changes to Board and Board Committee structure, size and composition.
- Approval of the electricity distribution and transmission price control reviews proposed by Ofgem.
- Material changes to the rules of the Company pension schemes.
- Major transactions.

The Schedule of Reserved Matters is one of a collection of documents and policies 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 approval.

The Board Charter contains:

- Articles of Association.*
- 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 at sse.com

Corporate governance within SSE

Within SSE, corporate governance can be explained as the minimum expectations set by the Board surrounding standards, responsible conduct and controls. The Governance Framework specifically maps out where accountability resides in line with delegated authorities and forms part of the Group's System of Internal Control, see page 137.

Areas of importance to both the Board and the Group's operations influence the features of the Governance Framework. This is illustrated in part by the Committees which have been agreed to provide dedicated focus to areas on behalf of the Board and the Group Executive Committee.

Oversight 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. On executive matters, the Chief Executive, Finance Director and Group Energy and Commercial Director are charged with providing full updates at each Board meeting. This is in addition to minutes, written reports and KPIs to monitor financial and non-financial performance.

Board operations

The Board, led by the Chair, seeks to nurture a Boardroom in which informed and transparent decision-making takes place. This is supported by clearly defined Board roles (see page 117) and constructive dialogue within and outside of meetings.

Structured agendas are developed by the Chair, Chief Executive and Company Secretary who consider the Board's annual plan of 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. Details of Board meeting activity in 2020/21 can be found on pages 106 to 111.

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 with different levels across the Group. The Board therefore has unfettered access to senior leadership, their teams and specialist functions. For details of employee engagement and knowledge development in 2020/21 see pages 114 to 116 and 123.

Group Executive Committee

The membership of the Group Executive Committee comprises the Executive Directors, the Managing Directors of SSE's core Business Units and the General Counsel. The Director of HR and the Director of Corporate Affairs and Strategy attend every meeting in full.

Alistair Phillips-Davies
Chief Executive, Member

Gregor Alexander
Finance Director, Member

Martin Pibworth
Group Energy and Commercial Director, Member

Sally Fairbairn
Company Secretary and Director of Investor Relations, Committee Secretary

Biographical details can be found at sse.com

Rob McDonald
MD, SSEN Transmission, Member

Chris Burchell
MD, SSEN Distribution, Member

Jim Smith
MD SSE Renewables, Member

Liz Tanner
General Counsel, Member

John Stewart
Director of HR, Regular Attendee

Sam Peacock
Director of Corporate Affairs and Strategy, Regular Attendee

BOARD LEADERSHIP AND COMPANY PURPOSE CONTINUED

CONSIDERED DECISION-MAKING

Decision-making context

Promoting SSE's long-term success is rooted, in part, through setting conditions for effective decision-making. The decision-making context stems from SSE's Governance Framework explained on pages 102 to 103, with the Board confirming key parameters and expectations. 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. The connectivity between these concepts is depicted opposite.

Our purpose

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

Our vision

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

Our strategy

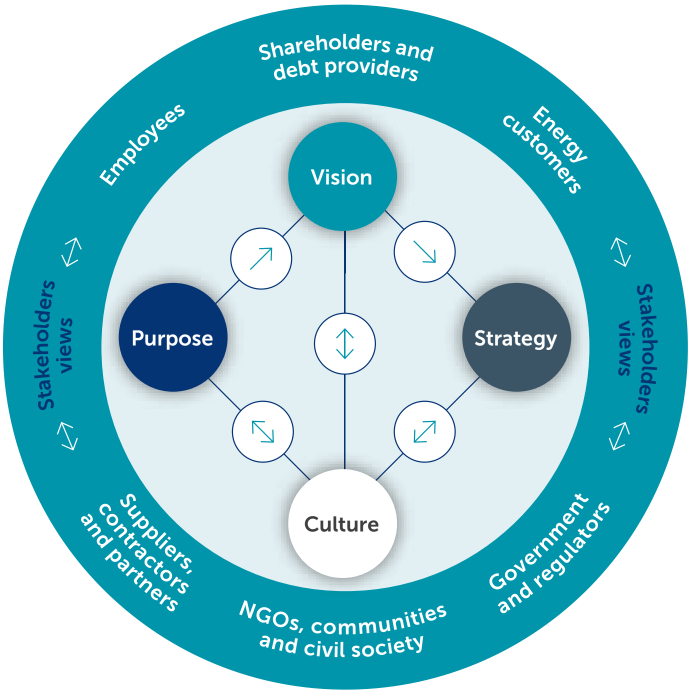
To create value for shareholders and society in a sustainable way by developing, building, operating and investing in the electricity infrastructure and businesses needed in the transition to net zero.

Our culture

See pages 112 to 113.

Our stakeholders

SSE's stakeholders are people, communities and organisations with an interest in SSE's purpose, strategy, operations and actions and who may be affected by them.



Stakeholder views

The Board shapes the framework within which stakeholder relationships are developed and maintained; confirming SSE's key stakeholder groups and the purpose of stakeholder engagement in relation to decision-making and strategy. These principles, alongside SSE's key stakeholder relationships and engagement in 2020/21 are explained on pages 28 to 31.

To ensure meaningful reflection of stakeholder views across all of SSE's business operations, breadth and depth of stakeholder engagement is required. The scale of this activity cannot be discharged by the Board alone and it therefore encourages a progressive approach to engagement through a network of mature executive and business-led stakeholder relationships across the Group. Robust oversight and understanding of stakeholder views at Board level is gathered through a combination of direct engagement and reporting of below Board activity. This supports the timely recognition of emerging stakeholder issues, and ensures Board engagement complements the expectation that senior leadership and SSE's Business Units take demonstrable account of stakeholder views in their decisions and longer-term objectives. Direct and indirect Board engagement mechanisms are set out on pages 30 to 31, with additive detail on shareholders and debt providers on page 105 and employees on pages 114 to 116.

The influence of stakeholder views within the Board's own work is exemplified across the Directors' Report. This includes, but is not limited to, the Board's Principal Decisions on pages 107 to 109, 124 and 127.

To guide Board focus in 2021/22, engagement priorities have been agreed as follows.

- Oversee the delivery of a comprehensive COP26 stakeholder engagement plan.
- Engage with investors to confirm understanding of ESG-driven funds and UK/EU taxonomy.
- Encourage AGM participation.
- Further external soundings on strategy with framing around SSE's key stakeholder groups.
- Prioritise conversations with employees on future ways of working and their contribution to strategy and tackling climate change.

Shareholder and debt provider engagement

SSE engages with equity and debt investors to understand the views of those that invest in SSE and to communicate its strategic plans, Environmental, Social and Governance (ESG) approach and financial performance. Investors are able to contact the Company at any time through SSE's dedicated channels (see page 315).

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 with retail shareholders in response to private shareholding queries.

Institutional investor programme. Across 2020/21, standing engagement supported by SSE's Investor Relations team, comprised 112 one-to-one and 25 group meetings, representing direct engagement between the Board and over 40% of SSE's actively-managed issued capital. These contacts were conducted virtually across investor roadshows, conferences and ad-hoc meetings. The majority of which were led by the Executive Directors, with the Chair, the Senior Independent Director, and members of SSE's senior leadership team joining where requested or deemed appropriate to the subject of the meeting. Conversations were more international with virtual visits to over 12 countries, and this form of meeting will continue as an available option.

Feedback was provided to the Board following each engagement, supplemented by a monthly report of investor and market sentiment and share price performance, and two independent sessions co-ordinated by SSE's Brokers. Outcomes included improved disclosure around SSE's renewable operational fleet and development pipeline, its thermal generation assets, and its financial framework including a target net debt/EBITDA ratio.

ESG. Engagement on ESG issues. Against the backdrop of increasing investor focus on ESG and sustainability practice, SSE has engaged regularly with shareholders on a broad range of ESG topics. As well as increasingly frequent discussions of ESG issues during regular investor engagement, numerous ESG-themed one-to-one meetings were held during the year and SSE's Finance Director, Group Energy and Commercial Director, and Chief Sustainability Officer, jointly presented at two ESG-themed investor events.

ESG ratings agencies. SSE actively engages with key ESG ratings agencies and investor-led initiatives to help demonstrate SSE's performance to its stakeholders, while allowing identification of areas for improvement in its operations and disclosure.

Green debt financing. Recognising increasing investor demand for debt used to fund sustainable assets, in March 2021, SSE – via SSEN Transmission – issued its fourth green bond in five years. The issuance reaffirmed SSE's status as the largest issuer of green bonds from the UK corporate sector, with over £1.9bn in green debt outstanding. In addition, SSE has set out a new framework for issuing innovative sustainability-linked bonds in the future.

Remuneration. The engagement between the Remuneration Committee Chair and SSE's largest shareholders on the expanded Group Energy and Commercial Director role, and associated terms, are set out on page 145.

AGM 2020 AND 2021

ENGAGEMENT IN ACTION
SHAREHOLDERS AND DEBT PROVIDERS

AGM 2020. The Board's overriding priorities for the format of SSE's AGM in 2020 were safety and the need to safeguard shareholder participation and engagement.

After careful consideration of the ongoing coronavirus pandemic, social distancing measures and the Corporate Governance and Insolvency Bill, the Board agreed that shareholders would not attend the AGM in person. Supporting arrangements to encourage voting by proxy and submission of questions to the Board in advance were therefore put in place.

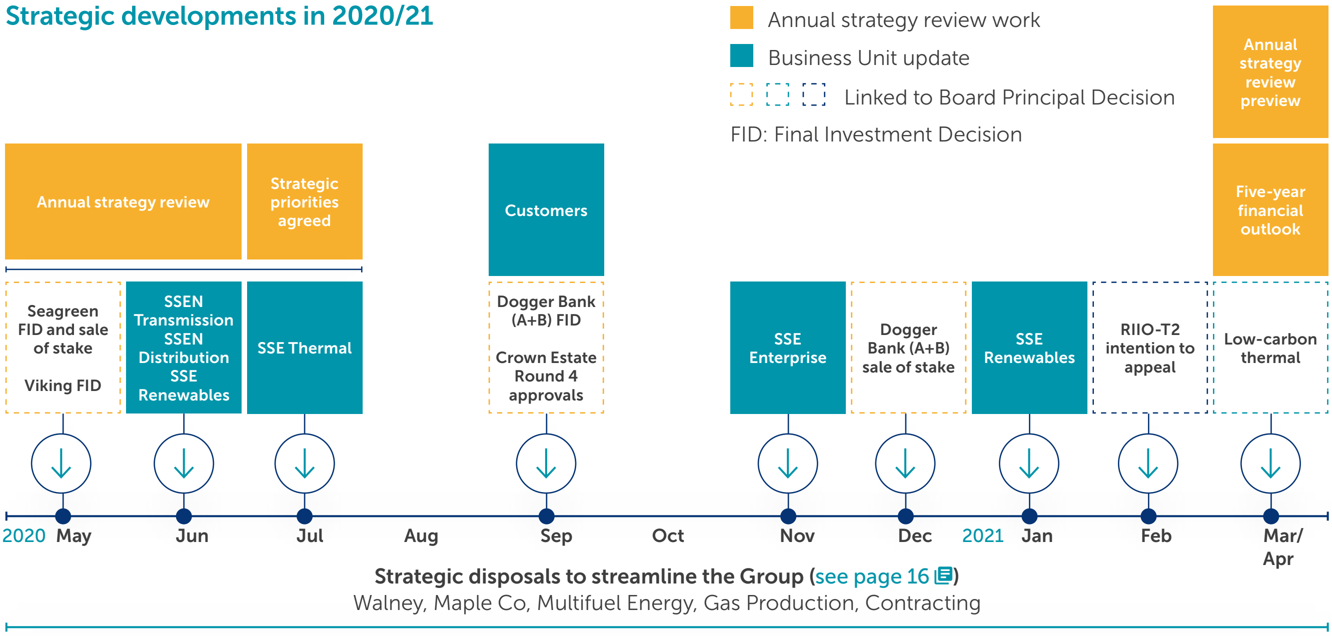
Questions received were grouped by theme and responded to in full through a combination of a video presentation published on sse.com on the day of the AGM and direct written reply. The engagement with Royal London Asset Managers and Friends Provident Foundation at this time, further resulted in the development of SSE's Just Transition strategy which is explained on page 45. Through proxy arrangements an equivalent level of share capital directed votes on meeting business, with all resolutions passed with in excess of 90.24% votes cast in favour.

AGM 2021. The learnings from the coronavirus context in 2020 identified opportunities for enhanced engagement arrangements for the AGM in 2021. It was recognised that methods for remote shareholder interaction were paramount, where any physical element of the meeting remains subject to government guidelines. Accordingly, shareholders will now be able to submit and have questions answered both in advance and during the meeting and observe proceedings in real time by webcast. Proxy arrangements remain in place to allow all shareholders to cast their vote in any resulting meeting format. To allow the fullest flexibilities for shareholder participation, the necessary authorities to hold hybrid meetings in the future are also being put to shareholder vote.

BOARD LEADERSHIP AND COMPANY PURPOSE CONTINUED

STRATEGIC REVIEW AND **BOARD FOCUS IN 2020/21**

Strategic developments in 2020/21



Setting strategic direction

The Board's strategy activities comprise an annual and rolling review of the Group's overall strategic situation, current direction and future priorities, alongside individual sessions from each of SSE's Business Units. This work, which includes consideration of how value is generated and sustained, allows the Board to effectively oversee and confirm the continued appropriateness of SSE's business and operating model (see pages 10 to 13).

Strategic review in 2020/21

Building on 2019/20. In 2019/20 the Board confirmed priorities to further SSE's position and safeguard its long-term success. These were confirmed on page 101 of the Annual Report 2020. Progress made across 2020/21 is set out in the timeline above and discussed across the Board Principal Decisions on pages 107 to 109.

Review inputs and discussion. The Board's review of Group strategy in 2020/21 focused on:

- The **external environment** and how this impacts SSE and its stakeholders, including trends in policy, regulation, competitor behaviour, technology, energy markets and capital markets.

  This review was supported by presentations from Colin Mayer of Saïd Business School on the role of responsible listed corporations in society and Flint Global on key policy and political trends. Further commentary on sector developments can be found on pages 24 to 27.
- **Growth**, including a review of the size of growth markets and returns for opportunities in the transition to net zero.
- SSE's **strategic progress and its financial situation.** This included progress against the previous year's strategic priorities, valuation of the SSE Group and scenario analysis of the five-year financial outlook.
- **Strategic choices for the next five years** including capital allocation options.
- The **long-term shape of the SSE Group** and implications for its investor proposition and financial strategy.

Analysis and debate was informed by a range of inputs from specialist teams including: Corporate Finance; Energy Economics; Business Unit leadership teams; and Group Strategy. Each Business Unit further presented detailed performance updates over the year to discuss and agree their own strategic priorities for progression. Key events of potential strategic were presented to the Board as they arose, which saw discussion of the Energy White Paper, the 6th Carbon Budget, and the Crown Estate Offshore Leasing Round 4.

Output. The 2020/21 strategy review agreed the following areas for continued focus across a time horizon to 2025:

- The evolution of the shape of the SSE Group.
- Strategic priorities for the Group and each Business Unit.
- Key decisions around SSE's capital allocations.

Looking forward. In April 2021, the Board agreed a refinement of the description of the Group's strategy in order to ensure it more accurately articulated the existing strategy ahead of its strategic review work in 2021/22.

BOARD PRINCIPAL DECISION
WIND DEVELOPMENT PIPELINE

Key
Build | Operate | Invest | Develop

Background	In 2019/20 and 2020/21, the Board confirmed priorities to support the growth of SSE Renewables' wind development pipeline. These have been furthered by one of SSE's 2030 business goals; to develop and build enough infrastructure to treble the output of SSE's renewable energy to 30TWh per annum. In line with the above, Board consideration was required in 2020/21 surrounding the Final Investment Decisions (FID) in the Seagreen 1 (offshore, 1075MW*), Dogger Bank A and B (offshore, 2,400MW*) and Viking (onshore, 443MW*) wind projects. * total project capacity with SSE's share is in line with its equity holding.
Board discussion	All large capital projects within SSE are subject to an agreed governance framework, where set criteria must be met to allow progression through key milestones. Prior to reaching FID, Board assurance is provided through these governance arrangements in relation to project development, safety, design, and risk. In each case, the decision to move into the project execution phase saw Board evaluation of: • total capex, project economics and funding; • engineering and construction findings; • contracting strategy including the potential coronavirus impact on supply chain; • overall project risk; and • UK energy market design.
Board stakeholder considerations and impacts	The Board remained appraised of stakeholder views through SSE Renewables' engagement strategy, in addition to those material issues identified by SSE's established engagement methods (see pages 28 to 31). A summary of the key considerations which informed Board decision making were: • **Climate change and net zero.** The transition to net zero is of material interest to society and through SSE's purpose, the Board is committed to supporting strategic opportunities which accelerate decarbonisation of the electricity system with an appropriate risk and return profile. The Board's advocacy priorities reflect SSE's net zero ambitions which are consistent with the UK Government's offshore wind ambitions, and more recently, the Government's Ten Point Plan. • **Supporting a green economic recovery.** In line with SSE's social contract, the Board recognised the potential contribution large-scale project investment could have on local economies, namely through the creation of highly skilled jobs and in supporting indigenous supply chains. • **Working for customers.** A material issue to energy customers is the cost of electricity supply, and increasingly, the ability to trace the source of electricity generation. When complete, the capacity of the total Seagreen, Dogger Bank and Viking projects have the potential to deliver enough renewable output to power 8.1 million homes. The Board will continue to advocate for the right conditions for investment in renewable infrastructure to deliver a sustainable and affordable energy system. • **Combining expertise.** The opportunity presented by strategic partnerships to deliver excellence through the combining of expertise is consistent with SSE's strategy and values. Given the large scale of these wind projects, working with partners was deemed an appropriate risk mitigation for the construction phase and allows the deployment of capital in a more diverse portfolio of projects. • **Shareholders and debt providers.** The trajectory and pace of SSE's renewables strategy has been transparently reported and subject to discussion and support in investor meetings. When approving FID, the Board considered the returns which would be acceptable to investors in each case.
Outcome, next steps and related decisions	The Board approved the FID in the Seagreen 1, Dogger Bank A and B, and Viking wind projects between April and September 2020, all of which progressed to financial close. Consistent with the partnering approach, a sale in the stakes of Seagreen and Dogger Bank to Total and Eni respectively was approved and completed in June 2020 and February 2021. To further SSE Renewables' ambitions, and following the successful delivery of key project milestones, endorsement was provided for an aspirational run rate of at least 1GW (net) of new assets a year during the second half of the decade. Supporting activity for this has been Board-approved participation in the Crown Estate Round 4 seabed auctions and the seeking of international opportunities to support portfolio diversification across different geographies and markets.

Strategic link:

Link to Principal Risk:
Climate Change
Large Capital Projects Management

See also:
Pages 17, 19 and 83 to 85.

BOARD LEADERSHIP AND COMPANY PURPOSE CONTINUED
STRATEGIC REVIEW AND BOARD FOCUS IN 2020/21 CONTINUED

BOARD PRINCIPAL DECISION
RIIO-T2 PRICE CONTROL

Key

Build | Operate | Invest | Develop

Background	In December 2019, SSEN Transmission submitted its final business plan for the RIIO-T2 price control, entitled *'A Network for Net Zero'* (the business plan). Its creation followed structured consultation with SSEN Transmission's stakeholders over a two-year period and committed to the delivery of five goals which had been designed to meet stakeholder expectations. During development, the Board remained updated on business plan progress and the supporting constructive stakeholder engagement, including that with the GB Energy Regulator, Ofgem, throughout its determination process.
Board discussion	Co-creation of a business plan with stakeholders was endorsed as the correct approach to allow SSEN Transmission to simultaneously attract the investment needed to tackle the issue of climate change, whilst taking account of evidence-based stakeholder needs. Following the publication in December 2020 of Ofgem's Final Determinations for the RIIO-T2 period, and Ofgem's subsequent consultation on associated licence condition modifications, the Board noted the broad support for SSEN Transmission's stakeholder-led business plan. However, it also recognised that certain technical but very important issues required correction.
Board stakeholder considerations and impacts	SSEN Transmission deploys a range of communication methods, within an agreed engagement strategy, to actively listen and gather stakeholder views. For RIIO-T2 this included a dedicated Network for Net Zero Stakeholder Group. The outputs of this overarching engagement work have been considered by the Board through the below, with the Board further cognisant of the longer-term position, in which the outcomes of the RIIO-T2 price control could impact upon future price controls. • **Firm commitment to the business plan.** The business plan is supported by five clear goals which create stakeholder benefit through: the transportation of renewable energy consistent with net zero ambitions; transmission network reliability for homes and businesses; the delivery of all customer connections on time; a reduction in greenhouse gas emissions; and efficiency savings from innovation. • **Long-term success.** The business plan, including the significant investments in the network that will go through uncertainty mechanisms as part of the RIIO-T2 price control, was produced to: protect current and future consumers; maintain security of supply; and act on climate change while attracting the investment that creates jobs and future prosperity. Working constructively within the regulatory framework allows SSEN Transmission to put forward its view of appropriate and balanced stakeholder outcomes based on robust, objective evidence.
Outcome, next steps and related decisions	The Board confirmed its support surrounding SSEN Transmission's intention to appeal certain elements of Ofgem's RIIO-T2 price control settlement to the Competition and Markets Authority (CMA). The appeal is both technical and narrow in scope, focused on areas where Ofgem's decision does not reflect the robust evidence provided throughout the price control process, alongside material errors in the decision. A conclusion to the appeal is expected by November 2021. The Board will remain updated as the CMA considers the merits of the appeal and will oversee enaction of the business plan which is now underway and contributing to the transition to net zero.

Strategic link:

Link to Principal Risk:
Climate Change
Energy Affordability and Politics
Regulation and Compliance

See also:
Pages 21 and 79 to 80.

BOARD PRINCIPAL DECISION
LOW CARBON THERMAL GENERATION

Key

Build | Operate | Invest | Develop

Background	SSE Thermal plays a complementary role within the SSE group of businesses through the provision of firm and flexible capacity to balance the variability of renewable output. The investment in Keadby 2 signalled early support for efficient lower-carbon technology within this important asset class. This has been followed by consideration of the possible investment opportunities presented by clean carbon, capture and storage (CCS) and hydrogen fuelled generation, to tackle climate change whilst ensuring continued security of supply across the energy system.
Board discussion	Across 2020/21, the Board received detailed updates from the SSE Thermal senior leadership team allowing assessment of development opportunities, and their strategic fit with SSE's net zero and sustainability ambitions including its 2030 business goals. This included optionality within the traditionally carbon intensive Humber cluster; an area in which Keadby 2 and the potential development of Keadby CCS, a gas fired power station with carbon capture technology, are located.
Board stakeholder considerations and impacts	Through formal consultation surrounding Keadby CCS and SSE's established stakeholder engagement mechanisms (see pages 28 to 31), the below matters were reflected across Board discussions in the year: • **Sustainable electricity system.** Flexible thermal generation plays a pivotal part to ensure a reliable energy system that supports the supply of essential services to society. Dispatchable thermal plant with minimal emissions can continue to fulfil this key role whilst contributing to the UK's net zero targets. SSE's own science based targets remain a key baseline against which to judge the low-carbon fit of future investments and CCS and hydrogen are deemed to complement this pathway. • **A Just Transition.** Investment within industrial regions is a key principle within SSE's view of a just transition. Existing skills and knowledge can be deployed across green technologies, in which workers and local communities are supported through the protection of existing jobs and creation of new employment opportunities. • **Progressive partnering.** Complementary skills, a common investment approach and shared stakeholder and policy views are key inputs into SSE's partnering strategy. Further developing the long-standing relationship with Equinor, which includes mutual involvement in the Zero Carbon Humber partnership, was confirmed as a natural progression to allow joint development of valuable low carbon opportunities both in the Humber cluster and elsewhere in the UK. • **Developing appropriate governance.** Robust regulatory and policy frameworks are key to driving new investment with fair returns for developers, operators and end customers. The adequacy of proposed support to align with the UK Government's ambition for these new technologies will be monitored to ensure they translate into a compelling case for all stakeholders.
Outcome, next steps and related decisions	The Board confirmed entry into a cooperation agreement with Equinor to jointly develop Keadby CCS and Keadby Hydrogen. Research and development of the supporting CCS and hydrogen technologies will be progressed under the partnership, alongside options to further decarbonise the Keadby 2 project through hydrogen blending. It was announced in May 2021, the scope of the co-operation agreement was expanded to include the Peterhead CCS Power Station in Aberdeenshire. Engagement with government, regulators and stakeholders will continue, with any Final Investment Decisions dependent on the progress of policy frameworks that are commensurate with the delivery of this net zero enabling infrastructure. Sessions on the role of clusters and hydrogen technology in support of emerging climate science have been agreed for integration into future Board work.

Strategic link:

Link to Principal Risk:
Climate Change
Energy Infrastructure Failure
Large Capital Projects Management

See also:
Pages 20 and 86 to 87.

BOARD LEADERSHIP AND COMPANY PURPOSE CONTINUED
STRATEGIC REVIEW AND BOARD FOCUS IN 2020/21 CONTINUED

Board meeting focus

In addition to the strategic deliberations on pages 106 to 109, Board meeting agendas have included consideration of the following matters. These are non-exhaustive and detail the breadth of oversight provided by the Board in order to discharge responsible leadership.

Key

Focus area

Board considerations and monitoring

- Outcome

Safety, health and environment (SHE)

Employee safety during coronavirus

The approach to assessing and managing the new and emerging pandemic risks across work settings, including critical operations and working from home.

- Assurance of SSE's employee response, including: PPE; employee guidance; wellbeing; mental health support; and fatigue.
- A report of all supporting employee communications in Board meeting packs.

SHE strategy, performance and initiatives

SHE KPIs including positive performance under the new Safe Days measure and the ongoing SHE strategy refresh.

- Standing Board monitoring activity.

Workforce and culture

Culture and employees

See pages 112 to 116.

Whistleblowing

Progress in the approach and culture to support engagement and trust in SSE's whistleblowing channel, reviewing indicators of performance and the potential impact of coronavirus on reporting suspected incidents.

- Confirmation that SSE's whistleblowing arrangements be considered effective.

Pensions

Pension developments across the Group's Defined Benefits Schemes and Defined Contribution Scheme.

- Noted the current governance arrangements, performance and on-going management across the Pension Schemes including funding, returns and employee engagement.

Financial management

Financial performance

Monthly updates on financial performance by Business Unit including detail of the estimated impact of coronavirus.

- Additional EPS guidance was issued to the market in September and December 2020, consistent with continued business operations and the assessed impact of coronavirus on SSE's customer facing businesses.

Financial strategy and resilience

Funding requirements, planned project expenditure and the timing of disposal proceeds. And financial headroom and cash flow following the additional viability work carried out in June 2020, which were considered against the objective of maintaining a strong balance sheet, investment grade credit ratings and a commitment to remunerating shareholders through the 2023 dividend plan.

- Issuance by SSEN Transmission of a £500m green bond in March 2021.
- Approved and recommended interim and final year dividends of 24.4p and 56.6p.
- Confirmed the output of the assessment which forms the basis of SSE's Viability Statement (see pages 56 and 133).

Budget and financial modelling

The proposed 2021/22 Group budget which reflected the expected phasing in capital investment and expenditure in line with RIIO-T2 outcomes and SSE Renewables projects.

- Long-term financial modelling assumptions and outputs as context for future decisions and strategy discussions.
- Approved the 2021/22 annual budget.
- Endorsed updated assumptions for project investment analysis.

Risk

Risk profile

The supporting programme of work to assess SSE's Group risk environment including any changes in the risk context that should be reflected in the relative positioning of the Group Principal Risks and SSE's risk appetite.

- Approved the identification and definition of 11 Group Principal Risks and the retention of the emerging risk 'Joint Venture and Partner Management' (see page 54).
- Confirmed updates to SSE's Risk Appetite Statement see page 56).

Coronavirus and energy markets

Energy market liquidity and forecast electricity demand in line with coronavirus developments including lockdowns and government guidelines, and SSE's position under its approach to hedging.

- Received updates on the management and governance of commodity exposures, including the position following the decision to suspend and reduce SSE Renewables hedging in March 2020 and the initiation of a temporary Demand Management Committee (see page 138).

Information and cyber security

The external cyber risk environment and deliverables from the internal programme of work, which included focus on employee awareness and training, and SSE's risk tolerance which underpins the cyber risk culture. The status of the 2020/21 GDPR Privacy Programmes and data considerations surrounding employee coronavirus information and Brexit scenarios.

- Approved updates to the 2021 Cyber Risk Appetite Statement.
- Confirmed SSE's current GDPR governance and mitigation work.

Sustainability and climate impacts

Sustainability approach

SSE's annual sustainability plan which set out priorities to ensure continued legitimacy as a purpose-led company with a strategy that delivers wider value creation. The priorities were reflective of immediate and longer-term stakeholder needs and increased understanding of the socio-economic impact of investments.

- Endorsed actions centred on the core themes of a green and sustainable recovery, sustainable procurement, and systematic engagement on ESG issues.
- Endorsed the approach to stakeholder pandemic support including publication of stakeholder based communications*.
- Approved the 2020 Modern Slavery Statement*.
- Publication of SSE's Just Transition strategy*.
- A new Sustainable Procurement Code*.
- Complementary to the sustainability approach, provided support for SSE to be a Principal Partner on COP26 in 2021.

* Available to view on SSE.com

Sustainability targets

The pathway to meeting SSE's 2030 business goals through Business Unit strategic plans and SSE's sustainability approach (see above). This included science-based target accreditation for SSEN Transmission's five-year business plan goal to reduce greenhouse gas emissions by 33%.

- To further support the decarbonisation of SSE's own operations, the Board approved a commitment to reaching net zero emissions by 2050, building upon the existing medium-term science-based carbon targets set in 2020 (see page 36).

Stakeholders

SSE's strategic approach to stakeholder engagement.

- Reaffirmed SSE's six key stakeholder groups and agreed engagement priorities (see page 104).

Climate strategy

The growing importance of shareholder engagement on SSE's plan to achieve net zero carbon emissions across all of its operations by 2050 at the latest.

- Proposed an enabling resolution within the business of the 2021 Annual General Meeting (AGM) that establishes a framework for an annual vote on SSE's Net Zero Transition report at future AGMs.

Governance

Board and senior leadership

The leadership needs of the Board, its Committees and senior executive teams in line with succession plans, including opportunities to increase diversity and expertise.

- Approved the appointment of the Chair, Senior Independent Director and the expanded role of the Group Energy and Commercial Director.
- Approved changes to Board Committee membership.
- Noted senior leadership appointments in SSEN Distribution and Energy Portfolio Management.
- Approved inclusion of an ethnicity target in the Board's Inclusion and Diversity Policy.

Corporate reporting

The contents of corporate reports and associated regulatory market announcements, in conjunction with recommendations and feedback from the Audit Committee on judgements, balance and basis of preparation.

- Approved the release of quarterly trading updates, the interim results and the Annual Report and Accounts 2021.

Annual General Meeting (AGM)

Feedback from the AGM 2020 and the approach and business to be considered in 2021, including methods to facilitate continued and safe shareholder participation.

- Approved the Notice of AGM 2021 and meeting arrangements.

Governance developments

Observations surrounding the impact of the Market Abuse Regulation on the UK disclosure regime since implementation. And an annual update covering: the ongoing reform of the Financial Reporting Council and the Audit sector; external views of best practice as seen by investors and proxy advisors; and coronavirus related guidance including emergency legislation.

- Noted the governance landscape and external expectations.
- Considered internal practice and work which was ongoing by supporting teams.

Politics and regulation

Brexit

Updates from the Group Energy and Commercial Director and the Brexit project team surrounding the assessment of risk, and potential impact of, different deal scenarios at Group and Business Unit level, including detail of whether these were short or long-term considerations for SSE's strategy and operations. Focus areas included import tariffs, people, data, supply chain and commodity and financial markets.

- Noting that each scenario would present limited risk, the Board continued to receive updates on emerging matters post-transition, and approved actions to mitigate exposure to carbon price risk by way of an adjustment to SSE's approach to the forward hedging of its thermal generation output as reported in SSE's Q3 trading update. Approval to monitor and recommence hedging when appropriate was provided in April 2021 (see page 138).

Advocacy priorities

Consistent with SSE's Greenprint the Board considered the policy framework and market design required to deliver net zero and build economic resilience.

- Approved the advocacy priorities to deliver the correct outcomes for SSE's key stakeholders, ensuring appropriate representation of their views. This included regulatory price controls that support continued investment and fair returns and a policy pathway that supports the infrastructure required for net zero.

Landscape and external developments

Updates on the political landscape in the UK and Ireland relevant to SSE's operating environment and emerging risks. This included: the development of the Government's policy agenda for net zero ahead of COP26; the emergence of the Labour Party's policy platform under a new leader and implications for public ownership in the energy sector; and Scottish independence.

- Approved SSE's approach to: monitoring the political landscape in the UK and Ireland; considering its potential impact on SSE's strategy and operations; and managing potential opportunities and risks associated with key developments.

BOARD LEADERSHIP AND COMPANY PURPOSE CONTINUED

FOCUSING ON CULTURE

Influence of culture

The Board recognises the cultural tone set within the Group has both internal and external influence; guiding employee interactions and directing decisions with stakeholder impact. This pervasive context is reflected within the agreed definition of a healthy corporate culture for SSE and is the baseline against which cultural guidance is developed and tested.

Aligning culture with purpose, vision and strategy

SSE's purpose, vision and strategy provide confirmation to employees and external stakeholders as to why SSE exists, what it is seeking to achieve and the direction which has been agreed to get there. Engagement with these elements to ensure everyone in SSE understands their contribution to the Group's long-term success, is fundamental to creating a culture that can be embraced at every organisational level.

Board support in 2020/21

In March 2020, the Board recognised the resilience of SSE's culture would be tested by the quickly evolving coronavirus situation. This saw a shift to critical worker status for front line staff and a working from home model for a significant proportion of the workforce. Unable to provide on-site support and have in-person conversations, two surveys were conducted in 2020/21 to understand how employees were feeling and what support was required. One outcome was a comprehensive communications strategy that could reach employees in all work settings and maintain engagement. The content covered both coronavirus related issues and an employee guide to strategy, with the Board involved in the delivery of key messages. Through virtual calls, employees were encouraged to submit questions for live discussion with the Board (see pages 114 to 116).

Guiding and promoting culture

Ethical business conduct within SSE is known as 'doing the right thing'. To support this, the Board confirms the appropriate values, attitudes and behaviours, to drive the creation of an inclusive and fair workplace in which responsible decisions are taken. Employee guidance is provided through the Board-approved SSE SET of values, SSE's Group Policies and an employee guide; all of which are supported by mandatory online training. Leading by example is re-enforced through the Board's own conduct and the communication to employees of key activity. Senior leaders across SSE's Business Units and Group Services have the same responsibility to lead, embed and oversee cultural standards.

Cultural signals at Board-level include:

- SSE's Governance Framework and corporate governance practices (see pages 102 to 104).
- Board decision-making (see pages 106 to 111).
- The approach to people strategy and leadership (see Nomination Committee on pages 120 to 127).
- SSE's risk, controls and compliance culture (see Audit Committee and EMRC on pages 128 to 139).
- The prime focus on safety, health and the environment (see SHEAC on pages 140 to 143).
- Attitudes towards reward and remuneration (see Remuneration Committee on pages 144 to 165).

Board support in 2020/21

Following the refresh of SSE's Group Policies in 2019/20, the Board approved an updated version of SSE's employee guide which contained enhanced decision-making tools. All Group Policies were reviewed and approved in 2020/21 through the Board's standing annual review.

Reflective of cultural drivers around leadership and values, commitments were made in March 2020 not to furlough any employees, with the priority being a longer-term approach to the pandemic through continuity of work. This has remained a stated Board focus, alongside appropriate recognition of employee commitment and achievement. To this end, the Board endorsed flexible remote working policies and an 'SSE Day' of leave for all employees.

Monitoring indicators of culture

The Board does not use a singular tool for the assessment of culture; instead drawing upon multiple sources to understand the way employees feel about SSE and how this translates into observed behaviours and trends. These sources can be described as a combination of the below regularly reported metrics, standing reports and listening channels.

- Feedback from all Board-employee engagement.
- Non-Executive Director for Employee Engagement programme insights.
- Employee survey results.
- Twice yearly Cultural Dashboard review.
- Monthly people updates from the Chief Executive covering key developments and employee sentiment.
- A monthly compliance report from the Finance Director.
- Monthly safety and employee wellbeing data.
- Whistleblowing performance.
- SSE's Principal Risk 'People and Culture'.

Board support in 2020/21

The maturity of the Board's Cultural Dashboard has been furthered in 2020/21, with work undertaken to enhance the linkage of data to accompanying observations. It remains a collective of three parts, with: data from Group HR; information on Group Compliance reviews; and commentary on financial crime and corruption prevention controls. An illustrative view of the Group HR component is set out opposite.

Due to the impact of coronavirus on metrics, the cultural dashboard could not be read comparatively across 2019/20 and 2020/21. Its interpretation was therefore supported by insights from the all-employee surveys, Board engagement and listening events. This allowed consideration of the coronavirus impact and changes in sentiment. Through discussion of the issues raised by employees, the Board approved:

- the continued development of business-led responses to employee survey findings, which the Non-Executive Director for Employee Engagement would engage on;
- plans to develop a future ways of working model; and
- continuation of enhanced communication.

Additional challenge was provided to ensure listening remained dynamic in style, field staff did not feel isolated from the communication approach and the impact on new entrants and those early on in their careers be considered.

BOARD'S CULTURAL DASHBOARD – THE MEASUREMENTS WE USE

A healthy corporate culture is one in which SSE has a purpose, values and strategy that are respected by the Company's stakeholders and an operating environment:

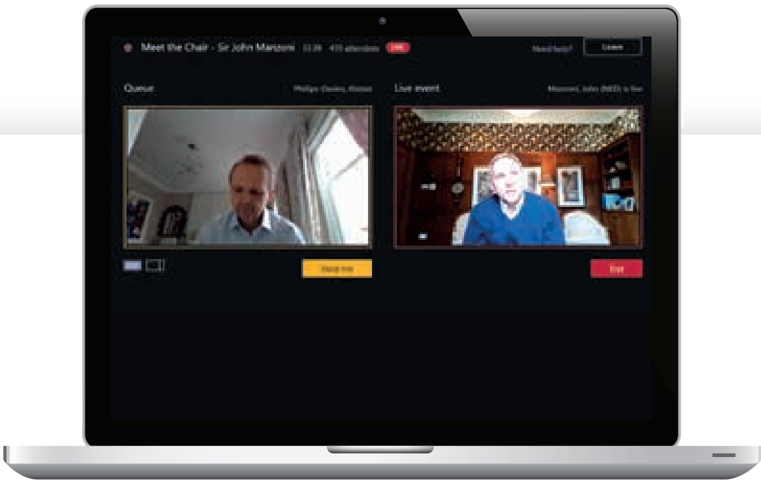
- that is inclusive, diverse and engaging;
- that encourages employees to make a positive difference for stakeholders;
- in which values guide decisions and actions; and
- in which attitudes and behaviours are consistent with high standards of conduct and doing the right thing.

Our culture is determined by the way we...	This is reflected in our key cultural themes...	We start by measuring employee sentiment...	And we review with our supporting employee metrics and KPIs...
Attract and retain our people	Employee engagement levels	Latest all-employee survey results and trend analysis	EMPLOYEE TURNOVER LEVELS YTD
			TOP REASONS FOR LEAVING
Look after each other	Safety		SAFE DAYS RECORDED YTD
	Wellbeing		AVERAGE DAYS OF SICKNESS ABSENCE RECORDED PER COLLEAGUE
			TOP REASONS FOR ABSENCE
Make decisions	Doing the right thing		EMPLOYEE CONTACTS RECEIVED ON SPEAK UP PLATFORMS YTD
Lead from the top	Senior leaders		NO. OF LEADERS ENGAGED VIRTUALLY WITH OUR LEADERSHIP PROGRAMME
			BOARD AND GEC HOSTED EMPLOYEE ENGAGEMENTS YTD
	Communication		'CLICK' RATE FOR THE SSE LEADERS EMAIL YTD
			NO. OF ACTIVE LEADERSHIP PAGE MEMBERS
Manage performance	My manager		NO. OF DELEGATES VIRTUALLY ATTENDED MANAGEMENT TRAINING SESSIONS YTD
See ourselves	Our strategy		NO. OF VIEWS OF SSE EMPLOYEE GUIDE TO STRATEGY
			NO. OF INDIVIDUALS ENGAGED WITH THE SUSTAINABILITY NETWORK COMMUNITY GROUP
Work together	Inclusion		% EMPLOYEES ABLE TO WORK DIFFERENTLY
			% ROLES OPENLY ADVERTISED
			% ROLES ADVERTISED WITH FLEXIBLE WORKING OPTION
			NO. OF EMPLOYEE-LED "BELONGING IN SSE" GROUPS ESTABLISHED
	My team		% OF COLLEAGUES ABLE TO COLLABORATE EFFECTIVELY
			% OF COLLEAGUES FEEL WELL-CONNECTED TO THEIR TEAM
			% OF COLLEAGUES ABLE TO WORK PRODUCTIVELY

See also:
- Reinforcing a healthy ethical culture **on page 47**.
- Listening and responding during the pandemic **on page 48**.

BOARD LEADERSHIP AND COMPANY PURPOSE CONTINUED

SUPPORTING AND LISTENING TO THE EMPLOYEE VOICE



Engagement highlights

VIRTUAL SESSIONS LED BY THE EXECUTIVE DIRECTORS

12

EMPLOYEES ENGAGED VIRTUALLY

+2,800

NON-EXECUTIVE DIRECTOR FOR EMPLOYEE ENGAGEMENT SESSIONS

9

ALL-EMPLOYEE SURVEY 2020 ENGAGEMENT SCORE:

82%*

* 8/10 employees recommend SSE as a good place to work and feel energised and able to fulfil their role.

VIRTUAL SESSIONS LED BY THE EXECUTIVE AND NON-EXECUTIVE DIRECTORS

5

How the Board engages

The two-way dialogue between the Board and employees is facilitated by a combination of engagement methods, which in normal circumstances would include face-to-face contacts through meetings, site visits and attendance at employee events. These tools complement the established annual all-employee survey process and the Board's review of findings.

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 of the benefit of multiple platforms to raise areas for discussion. 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, role and geography.

Engagements can be classed as formal and informal, with both required to identify ongoing themes and new concerns. Typically, the formal approach is used to gather a structured and holistic view across a large population of individuals at a point in time. With the Board's informal methods providing a greater depth of feedback, truer understanding of underlying sentiment and supporting development of constructive relationships with employees. The size and format of discussions is determined by the stated objective of the Board's engagement.

Board engagement in 2020/21

The modified engagement approach adopted during 2020/21 as a result of working arrangements during the coronavirus pandemic, alongside details of what has been heard and the action taken, is set out in page 115. The central feature of the approach has been new technologies and the associated opportunity to conduct conversations on a much larger scale and simultaneously with individuals located across different parts of Great Britain and Ireland. Conversations have continued to be broad ranging and cognisant of, and responsive to, the changing status of the pandemic in the year.

Board listening approach

Board listening channels	Engagement class	What this channel brings
Non-Executive Director for Employee Engagement (see page 116)	**Formal:** Virtual focus groups and trade unions discussions **Informal:** Hosted calls with diverse employee groups	**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.
Virtual Director-employee meetings and interactive sessions	Informal	Provides employees with Board accessibility and direct two-way interaction, and supports discussion of specific topics in detail.
Virtual focus groups	Formal	Allows interaction with different geographies and diversities across the Group, 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 help influence decisions which may affect employees.
All-employee surveys	Formal	Exists as a long-standing tool with a mature strategy that attracts a consistently strong response rate, with the results viewed as representative of the majority of employee voices. The question set and associated findings are used to enhance the cultural agenda, ensuring that employee sentiment and feedback is considered in all key decision making.
Blogs and written communications	Formal	Reinforces matters of importance and embeds the tone through the Board's written reflections.

Listening insights and Board action

What employees requested	How the Board responded
Understanding of SSE's vision and strategy from the Board and senior leadership.	• The Chair delivered a session to wider senior leaders on the power of purpose-led strategy and how sustainable businesses provide profitable solutions to world issues. • The Senior Independent Director and the Group Energy and Commercial Director held a focus group to present on energy markets, and in return listened to employee views on the climate transition and opportunities. • Each Board member that participated in virtual sessions provided views on SSE's strategy and long-term direction.
Confirmation that action will be taken on employee views.	• Dedicated calls covered the findings of the all-employee survey results, with one shaped through pre-submitted employee questions. • The Chief Executive personally sponsors key areas of focus following each all-employee survey. • The Non-Executive Director for Employee Engagement presented on the outcomes of the all-employee survey to people-leaders, identifying clear accountabilities specific to that group.
External perspectives including different sectoral responses to coronavirus.	• The Finance Director hosted a senior leadership call in which SSE's Brokers and the Company Secretary and Director of Investor Relations covered financial results and investor views. • The Chief Executive and Melanie Smith hosted a CEO-to-CEO roundtable answering questions from a cross-section of SSE's senior leaders. • The Chief Executive hosted Cindy Rose, President of Microsoft, Western Europe, and a group of over 150 leaders, to consider how the world of work is evolving during the pandemic.
Opportunity to learn more about the Board and to get to know the Directors.	• See 'Engagement highlights' on page 114 for details of the breadth of engagement undertaken. • All non-Executive Directors participate in informal written Q&As which are issued via SSE's all-employee newsletter. • The Group Energy and Commercial Director has maintained a personal blog on daily life and working from home which employees have interacted with, and requested he continue.

BOARD LEADERSHIP AND COMPANY PURPOSE CONTINUED
SUPPORTING AND LISTENING TO THE EMPLOYEE VOICE CONTINUED

Non-Executive Director for Employee Engagement

The role of Non-Executive Director for Employee Engagement was a natural and progressive step in the evolution of SSE's employee voice strategy, which whilst mature and firmly established within the operating rhythm of the Group, was ready for an enhanced and more interactive understanding of employee sentiment. Dame Sue Bruce was appointed to the role in 2018.

The Nomination Committee made the above recommendation through consideration of the agreed role profile and in recognition of Sue's depth of experience, active listening skills and empathetic approach. It was further deemed complementary, that as Chair of the Remuneration Committee, relevant employee perspectives could be understood in the context of wider remuneration policy and the approach to reward.

Each year, the programme of work is structured and supported by 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.

"It was great to engage with Sue on our virtual town halls, and hear first-hand about the focus on employee engagement and two-way communication at Board level. I think it's really important people see a genuine appetite from leaders across SSE to incorporate the opinion of employees into their decision making."

James Moran,
Low Carbon Thermal Engineer

ENGAGEMENT IN ACTION

EMPLOYEES – NON-EXECUTIVE DIRECTOR FOR EMPLOYEE ENGAGEMENT

Engaging with colleagues has looked substantially different in 2020/21, reflecting the challenges that have been faced by society at large. Through its ability to adapt, SSE has enabled continued engagement by 'travelling' across our businesses and geographies with virtual conferencing. Resilience and strength in depth has been evident in every group of colleagues with whom I have had the opportunity to engage.

In addition to contributing to the listening channels set out on pages 114 to 115, my focused discussions have explored the outcomes of two all-employee surveys, working during lockdown and allowed open Q&As.

As well as the measured responses to the all-employee surveys, consistent feedback has reflected:

- Loyalty and commitment to SSE and delivering for stakeholders.
- A pledge to support colleague wellbeing, with a focus on mental health and those living and working alone during lockdown.
- Support for a range of communication channels and continued clarity of messaging.
- The value of ready access to managers and ability to provide feedback.
- Successful and continued business delivery through responsive IT solutions.
- The high importance of SSE's inclusive culture especially within recruitment.
- That focus on safety has remained paramount.

To keep in touch with a range of views, our virtual meetings have reached colleagues in different business areas and settings. This included attendance at formal business meetings and discussion in more intimate groups without senior leaders. The diversity of these contacts has comprised: frontline coronavirus workers in SSE Enterprise; engineering colleagues in SSEN Distribution; senior leaders in SSE Thermal; teams in Customers; and an Energy Portfolio Management employee survey focus group.

The engagement programme also incorporates meetings twice annually each with trade unions FTOs and with JNCC colleagues. These seek to give alternative direct access to the Board and support the formal industrial relations activities led by the executive team. This underpins our commitment to openness, inclusivity and transparency whilst respecting and keeping intact our respective roles and responsibilities.

The strength of this dedicated role in providing feedback to the Board, and a factor which has come to the fore in 2020/21, is the speed at which views can be heard. This has been invaluable in assessing the adequacy of our employee support in an unprecedented period. 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 re-iterate the pride felt by the Board for what has been achieved in challenging circumstances, and welcome comments on our engagement agenda. I look forward to the continuation of our programme in 2021/22 and the open, constructive and enjoyable conversations this will entail.

Dame Sue Bruce
Non-Executive Director for Employee Engagement

DIVISION OF RESPONSIBILITIES

Defining Board responsibilities

The below role specifications set out the clear division of responsibility between executive and non-Executive members of the Board which support the integrity of the Board's operations.

Non-Executive

Chair

- Leading the effective operation and governance of the Board.
- Setting agendas which support balanced decision-making.
- Ensuring effective Board relationships and a culture that supports constructive debate.
- Understanding key stakeholder views and seeking assurance they have been considered.
- 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 Director[1]

- 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 which require 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 in line with Board and Group Policy.
- 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 Engagement[1]

- Developing, implementing and feeding back on employee engagement initiatives in conjunction with management; 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.

Executive

Chief Executive

- Proposing and directing the delivery of strategy as agreed by the Board through leadership of the Group Executive Committee.
- 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 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.

Group Energy and Commercial Director

- Supporting the work of the Chief Executive and Finance Director.
- Leading SSE Renewables, SSE Thermal, EPM, Customers and SSE Enterprise 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 as and when required.

1 The responsibilities of Senior Independent Director and Non-Executive Director for Employee Engagement apply in addition to those of non-Executive Director.

COMPOSITION, SUCCESSION AND EVALUATION

ASSESSING BOARD **EFFECTIVENESS**

2020/21 Board and Committee review

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. This is conducted annually through formal performance evaluation, which considers the work of the Board, its Committees and the individual Directors.

The 2020/21 performance evaluation was an internal process, facilitated by the Company Secretary in consultation with the Board and Board Committee Chairs. This is ahead of an external evaluation in 2021/22, with the last external evaluation conducted by Schneider Ross in 2018/19.

Overall, it was the collective view of the Directors that the Board is effective in discharging its responsibilities; operating with an open and collegiate culture that allows good challenge on key issues. Non-Executive Directors' insight and experience is welcomed, with the correct balance of work between the Board and its Committees being achieved.

Details of the full areas of assessment are set out below, alongside commentary and actions for progression in 2021/22. An overview of progress against areas identified for 2020/21 is also provided.

Board Committees

The evaluation of Board Committee performance confirmed 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 Board findings where deemed relevant to the Committee's work. Progress will continue to be monitored and assessed by each forum, with details set out in the Reports across pages 120 to 165.

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 pages 98 to 101 and 121), the time commitment and independence assessments (see page 123), confirmed that each Director continues to contribute positively and effectively both within and outside of Board meetings.

Chair performance

The performance of the Chair was evaluated by the Senior Independent Director, with feedback provided from non-Executive Directors, Executive Directors and

Board and Committee evaluation cycle

2018/19 External evaluation	2019/20 Internal evaluation

Progress made on actions identified in 2019/20

Actions 2019/20	Update
Energy Markets Risk Committee (EMRC) should continue as a Board Committee. Agree further Board agenda time on other risk areas.	• The EMRC continued to operate in 2020/21 and will remain in place. • Group Risk matters continue to be monitored through the Group Executive Committee and Board. • The new Group Energy and Commercial Director role includes responsibility for commercial market risk activities for all of SSE's non-network activities.
Opportunities to further work on culture including employee and trade unions engagement should be considered.	• This was a major Board focus in 2020/21 and full details can be found on pages 112 to 116.
Additional deep dives and discussion time for certain topics relevant to the Board's work should be arranged.	Several deep dive sessions were arranged, including: • long-term energy price scenarios from SSE's Energy Economics team; • the Customers Business Unit's plans and customer context; • seabed leasing; and • hurdle rate analysis.
Consideration should be given to the use of Board sessions for external guests and additional non-Executive Director only time.	• Two external sessions formed part of the strategy review work in 2020/21 with presentations from Colin Mayer of Saïd Business School and Flint Global (see page 106.) • Arranging further non-Executive Director only time has been postponed due to coronavirus restrictions and normal non-Executive Director only meetings continue through a virtual platform.
Additional stakeholder engagement opportunities that complement business-led engagement should be sought.	• Physical site visits have not been possible in 2020/21 due to coronavirus. However, SHEAC members have undertaken virtual visits (see page 141) which included a dedicated feedback meeting in October 2020. Site visits will resume when safe to do so, and in the interim, further virtual visits are being arranged. • The breadth of employee engagement in 2020/21 is set out on pages 114 to 116.

selected senior leaders. The output of this performance review confirmed that Richard Gillingwater provided strong leadership to the Board in the year, particularly with the challenge of the coronavirus pandemic and the UK's exit from the EU. He was considered to drive a committed and inclusive culture that encouraged constructive debate, appropriate challenge and diversity of views, and established a positive and open tone that supported discussion and the effective operation of meetings. It was confirmed that he devoted sufficient time to the role, and except for the Provision surrounding tenure, in all respects met the requirements of the Code. Sir John Manzoni succeeded Richard Gillingwater as Chair of the Board on 1 April 2021, with further details of Chair succession on page 122.

2020/21 Internal Board and Board Committee evaluation process

Stage 1. Evaluation design
Questionnaires for the Board and its Committees were developed by the Company Secretary in consultation with the Board and Committee Chairs. Questions were set in consideration of relevant recommendations from 2019/20, in addition to best practice and revised guidance such as the Code and Guidance on Board Effectiveness.

Stage 2. Evaluation process
Questionnaires were issued to Board members and senior leaders who regularly attend various Board Committee meetings. Responses were collated and draft reports which summarised the findings and included proposed recommendations for discussion, were prepared by the Company Secretary. These reports were reviewed by the relevant Board or Committee Chairs for feedback and comment.

Stage 3. Discussion and actions
The relevant report of findings was presented at the corresponding Board and Committee meetings between January and March 2021. Through review and discussion actions were agreed for implementation and monitoring.

2020/21
Internal evaluation

2021/22
External evaluation

Areas of assessment and findings for the 2020/21 Board Evaluation

Areas of assessment	Commentary and actions
Board dynamics	The relationship between Board members remains appropriate, supporting: constructive challenge on key decisions; equal participation from all Directors; and the proper resolution of issues in meetings.
Strategy	The level of Board involvement in strategy development is correct, with good and open discussion of strategic issues.
Engagement	Site visits, employee and other stakeholder engagement should remain areas of continued focus. Despite the impact of coronavirus on the ability to meet in-person, the use of technology has been successful to maintain engagement, notwithstanding, elements of physical engagement would be welcomed when possible.
Risk management and internal control	The Board's approach to the management of risk and to SSE's System of Internal Control, including the delegated Committee support, is deemed effective.
Board practice	Board practice is effective and papers and presentations are of a high quality. To improve the use of presenters' allocated time, and with an increased focus on discussion, the Company Secretary has issued updated guidance to presenters on meeting practice. The deep dive subjects and external speakers in 2020/21 have been useful and important. Additional sessions and discussion time for certain topics relevant to the Board's work should be arranged for 2021/22.
Coronavirus impact	Meetings remained effective and despite the impact of the coronavirus pandemic worked well with the use of technology.

COMPOSITION, SUCCESSION AND EVALUATION CONTINUED

NOMINATION COMMITTEE REPORT

Dear Shareholder,

At the heart of every organisation are its people and its culture; a matter that speaks to the important role of the Nomination Committee. The Committee sets the framework for the development of an inclusive and high-performing leadership team and workforce now and for the future.

Reflecting on the Committee's work at Board-level during 2020/21, a stated focus was identifying a successor to Richard Gillingwater as Chair of the Board. This was a formal and rigorous process which is set out in detail on page 124. Following its completion, I joined the Board as a non-Executive Director on 1 September 2020 and became Board and Nomination Committee Chair on 1 April 2021.

Prior to this, the Board and Committee welcomed Dame Angela Strank on 1 May 2020 following her recommended appointment. On 30 September 2020 and 31 March 2021 respectively, Crawford Gillies and Richard Gillingwater stepped down from their respective roles, and I want to extend our gratitude for their dedicated service to SSE.

I am delighted that Tony Cocker has been appointed to the role of Senior Independent Director in line with Board succession plans, and we have reviewed and updated committee membership in light of the changes to the Board. Related executive talent considerations included the expansion in the role of the Group Energy and Commercial Director, a position which now has greater accountability and oversight of commercial growth opportunities and risk in SSE's market-based businesses. Through our annual evaluation we further agreed to refresh our non-Executive Director skills matrix such that it fully reflects and aligns with SSE's purpose, vision and strategy. Once complete, it will support our succession planning efforts going forward.

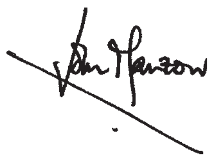
With 2020 and 2021 set as the target years for the achievement of Hampton-Alexander and Parker Review ambitions, I am pleased that we are in line with the stated recommendations surrounding Board gender and ethnic diversity. To signal our commitment to enduring change, we have taken steps to formalise our Board ethnicity ambition with its inclusion in the Board's Inclusion and Diversity Policy.

The Board's female representation has increased year on year and now stands at 40%, as we continue to work towards a rolling three-year ambition of 33%. The Composition Dashboard page 121 sets out a number of our additional Board diversity indicators.

The ongoing search for a new non-Executive Director outlined on page 123 will remain cognisant of our ambitions and look to strengthen our diversity of skills, knowledge and personal experiences.

Discussion surrounding future talent pipelines has reflected on both the current talent pool and the diversity they represent. Since 2017, SSE's inclusion strategy has worked to deliver change in this area and we recognise that further progress is required. In conjunction with senior leadership, we have agreed to increase the Committee's involvement across separate talent and inclusion and diversity workstreams where there are opportunities to provide additional support. Further details are provided page 127 and will be a key focus in the year ahead.

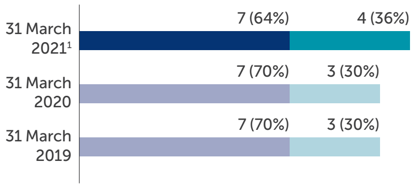
I look forward to reporting on further progress as we continue our work across 2021/22.



Sir John Manzoni
Chair of the Nomination Committee
25 May 2021

Board Composition Dashboard

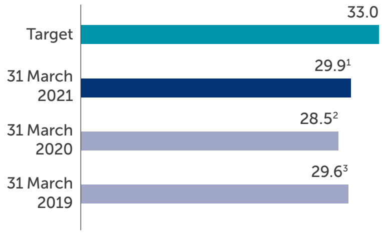
BOARD GENDER BALANCE



Male Female

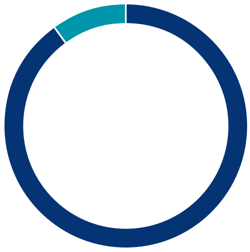
1 As at 25 May the female representation on the Board is 40%, this follows the transition in the role of Chair and stepping down of Richard Gillingwater.

ROLLING THREE-YEAR FEMALE REPRESENTATION (%)



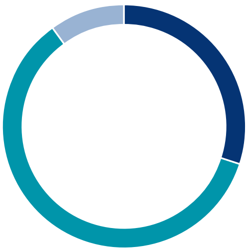
1 Comparable size of Board: 10.1 members
2 Comparable size of Board: 9.7 members
3 Comparable size of Board: 9.3 members

BOARD ETHNICITY[2]



White British: 9 Maori: 1

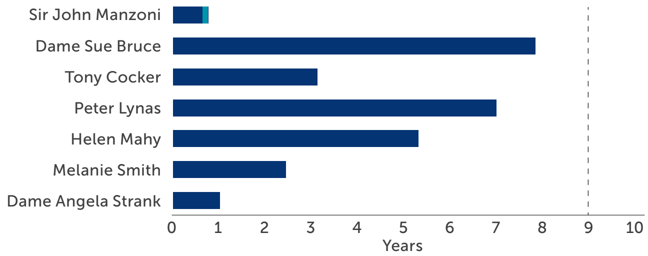
BOARD INDEPENDENCE[2]



Executive Directors: 3
Independent non-Executive Directors: 6
Non-Executive Chair: 1

2 Figures as at 25 May 2021

CHAIR AND NON-EXECUTIVE DIRECTOR TENURE[2]



Non-Executive Director tenure Chair tenure

SKILLS MATRIX

Supporting SSE to be a leading energy company in a net zero world	Skills and experience required	Non-Executive Directors
SSE's Business Units face unique challenges through their individual operating contexts. Understanding of external trends is key for agreeing long-term direction.	• Energy sector • Utilities regulation • Government and public policy • Net zero	Sir John Manzoni Dame Sue Bruce Tony Cocker Helen Mahy Dame Angela Strank
SSE has well-defined strategic priorities aligned with net zero which require, amongst other things, understanding of project development, asset construction and operation.	• Strategy development • Low-carbon technologies • Large capital project management • Commercial and supply chain	Sir John Manzoni Tony Cocker Peter Lynas Melanie Smith Dame Angela Strank Dame Sue Bruce
Creating value for shareholders and providing a stable return on investment requires sustainable financing, suitable corporate transactions and appropriate growth opportunities.	• Financial literacy • Capital markets • Project economics • Partnering	Sir John Manzoni Tony Cocker Peter Lynas Melanie Smith
SSE is focused on responsible and ethical operations, and being a Company that people want to work for and with, and invest in.	• Consumer and commercial • Stakeholder management • Wider social contract • Sustainability	Sir John Manzoni Dame Sue Bruce Tony Cocker Peter Lynas Helen Mahy Melanie Smith Dame Angela Strank
SSE's diverse operations are supported by the skills of its employees and contractors who are based within in a wide range of working environments.	• Safe working practices • Corporate culture • Organisational leadership • Employee wellbeing • People development	Sir John Manzoni Dame Sue Bruce Tony Cocker Helen Mahy Melanie Smith Dame Angela Strank
SSE is a premium listed company with a group company structure and is committed to the highest standards of governance and compliance.	• Corporate governance • Listed company compliance • Risk management	Sir John Manzoni Dame Sue Bruce Peter Lynas Helen Mahy

COMPOSITION, SUCCESSION AND EVALUATION CONTINUED
NOMINATION COMMITTEE REPORT CONTINUED

Role of the Committee

The Nomination Committee provides dedicated focus to the following people-led matters. Where findings from the annual Board evaluation process fall under one of these heads, it will integrate them into relevant considerations and supporting workstreams. The full responsibilities of the Committee are set out in its Terms of Reference which are available on sse.com.

Board leadership

Through active consideration of SSE's purpose, vision and strategy, the Committee identifies the skills, knowledge and experience required for effective leadership and long-term success. The balance and representation of these competencies across the Board is managed through succession planning, knowledge development and targeted recruitment.

Board Committees

The Committee monitors the size, structure and composition of the Board Committees to ensure they are able to provide the necessary support, and possess the correct expertise to discharge their role now, and going forward, in line with succession plans.

Talent pipeline

The Committee monitors the talent pipeline for senior leadership and the initiatives to develop internal capability to support succession. It engages in leadership programmes and receives updates on external recruitment.

Inclusion and diversity

Under the Board's Inclusion and Diversity Policy, the Committee considers the range of perspectives and attributes across the Board and senior leadership to ensure they remain appropriate to SSE's strategy and culture. It confirms ambitions to drive progress and challenges areas where further work is required. Holistically, it considers Group-wide inclusion and diversity strategy which embeds SSE's approach to valuing difference.

Committee 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 Nomination Committee. The Company Secretary is Secretary, and where appropriate to do so, the Executive Directors attend meetings. Biographical details of the Committee members can be found on pages 98 to 101.

Committee evaluation

The annual evaluation process (see pages 118 to 119) confirmed the continued effective operation of the Committee. The questionnaire-led process saw appraisal of the Committee's operations and dynamics, and sought views on each of its agreed focus areas, supporting information flows and oversight.

Evaluation confirmed	• The membership of the Board and Board Committees delivers an appropriate balance of experience and technical knowledge and is a position which continues to be monitored. • Chair succession and appointment has been managed well under the prevailing coronavirus context and associated guidelines and restrictions. • Positive progress has been made in relation to talent and capability, and inclusion and diversity, however further opportunities for Committee support should be identified.
Actions for 2021/22	• **Non-Executive succession.** Refresh the existing non-Executive Director skills matrix and review succession plans for those Board members nearing the maximum recommended tenure. • **Executive succession and talent pipeline.** Retain talent and capability as an action and continue to strengthen dialogue and oversight of action plans, including leadership programmes for high-potential candidates. • **Inclusion and diversity.** Recommend an increase in the Committee's support and profile surrounding inclusion and diversity (see page 127).

Meeting and focus areas in 2020/21

The Committee met seven times in 2020/21 with details of meeting attendance on page 102. The work carried out in the year is detailed over the following pages and is structured under each of the Committee's key areas of responsibility.

Board leadership

Composition and succession

The composition of the Board is informed by the Committee's plans for orderly succession within key Board and Committee roles. This is supported by assessment of the required Board skills, experience and diversity in line with agreed strategy and changes in SSE's operating context. The backdrop to these discussions is the components of the Board Composition Dashboard on page 121, which are subject to formal review each year.

Succession planning and the review of Board composition saw two new non-Executive Directors join the Board in 2020/21. The appointment of Dame Angela Strank commenced on 1 May 2020 with details of the recruitment process set out in SSE's Annual Report 2020. The work which supported the appointment of Sir John Manzoni from 1 September 2020 is set out on page 124. Following the departure of Richard Gillingwater on 31 March 2021, Sir John Manzoni assumed the position of Board Chair on 1 April 2021.

Crawford Gillies stepped down from the Board on 30 September 2020 after five years of service. This was followed by the recommendation, in line with internal succession plans, that Tony Cocker become Senior Independent Director from 1 October 2021.

Following Crawford's departure, the Committee considered the requirement for additional Board recruitment to preserve the diversity and breadth of Board and Committee skills and attributes. Spencer Stuart[1] has been engaged to support a prospective search against an initial set of objective criteria, which centre on depth of understanding of Scottish politics and business environments, and strong commercial experience.

An expanded remit for the Energy Director was further considered and recommended to the Board for approval. From 1 November 2020 Martin Pibworth assumed the role of Group Energy and Commercial Director, through which he now has additional responsibility for: commercial and associated risk management activities for all of SSE's non-networks businesses; SSE Enterprise which comprises distributed energy including solar and storage; and accountability for identifying and delivering on growth opportunities across all of SSE's market businesses.

Time commitment

The expected time commitment of the Chair and non-Executive Directors is agreed and set out in writing in the Letter of Appointment to the position, at which point the existing external demands on an individual's time are assessed to confirm their capacity to take on the role. Further appointments which could impair the ability to meet these arrangements can only be accepted following approval of the Board. The taking on of any external appointments by an Executive Director is also subject to Board consent. Changes to key external Board appointments in 2020/21 are set out on page 98.

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, would not go beyond nine years unless exceptional circumstances were deemed to exist. The Committee considered and recommended a further three-year extension to the tenure of Peter Lynas and Tony Cocker representing a third and second term in each case.

This decision was supported by the continuing independence, experience and contribution that each Director continues to bring to both the Board and its Committees (see pages 99 to 100, 118 and below).

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.

The above 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 118) and the circumstances set out in the Code which could compromise an individual's position.

Following review in 2020/21, and to the exclusion of the interested Director in each case, the Committee recommended and the 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 of thought and judgement are:

- Meetings between the Chair and the non-Executive Directors, individually and collectively, without the Executive Directors present. These are used to discuss areas relevant to the operation and performance of the Board and the SSE Group. Two meetings were held in 2020/21 with no areas of concern raised.
- Separate and clearly defined roles for the Chair, as head of the Board, and the Chief Executive, as head of executive management. This division of responsibility is supported by a degree of contact outside Board meetings to ensure an effective ongoing dialogue and channel for the timely escalation of external or internal developments.

Knowledge development and training

Any Director can request further information to support the fulfilment of 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 which relates to the SSE Group. Sessions in 2020/21 included:

- supplementary deep dives and external guest speakers on strategic matters (see pages 106 and 118); and
- virtual one-to-one meetings with senior leaders covering: business priorities; safety culture and performance, including the impact of coronavirus; digital; Group Risk; energy markets; and large capital project governance.

Further sessions for 2021/22 were agreed through the annual Board evaluation.

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: the legal duties of a Director; 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.

COMPOSITION, SUCCESSION AND EVALUATION CONTINUED
NOMINATION COMMITTEE REPORT CONTINUED

BOARD PRINCIPAL DECISION
APPOINTMENT OF THE CHAIR OF THE BOARD

Key
Build Operate Invest Develop

Background

The Nomination Committee confirmed in 2019/20, that work had been initiated with the support of Sam Allen Associates (SAA)[1], to identify a suitable candidate who would succeed Richard Gillingwater as Chair of the Board. This was conducted in line with the previously disclosed time limited extension in Chair tenure which would end no later than 31 March 2021. Peter Lynas was nominated as the non-Executive Director to lead the process, with Richard Gillingwater abstaining from involvement to preserve the objectivity of considerations.

Board discussion

The Nomination Committee managed the search as set out below and provided standing updates to all independent Board members at each stage.

Nomination Committee process

Stage 1. A detailed candidate specification was agreed, setting out the key responsibilities, experience and personal qualities required for the position of Chair. This included specific attributes which aligned with SSE's long-term direction and culture.

Stage 2. SAA identified a candidate longlist which was mapped against the role profile and a core skills matrix comprising Chair, public listed company (FTSE 100 or FTSE 250) and regulatory experience. The candidates with the strongest fit were reviewed by the Committee and progressed to the next stage.

SAA LONGLIST GENDER DIVERSITY

Stage 3. Discussions between SAA and candidates confirmed time capacity, interest in the role and potential conflicts to deliver a shortlist who would meet with members of the Committee.

SAA SHORTLIST GENDER DIVERSITY

Stage 4. Face-to-face interviews took place between the shortlist and each member of an appointed sub-Committee. Preferred candidates were nominated to meet the full complement of independent Board members.

Stage 5. A final evaluation which included a benchmarking exercise against the candidate specification, core skills matrix and specific personal qualities which the Committee wished to preserve covered the broader considerations set out below.

Board and Nomination Committee stakeholder considerations and impacts

- **Supporting SSE's long-term success.** With the Chair instrumental in directing the development and delivery of SSE's strategy; fit and enthusiasm for SSE's purpose and vision and strategy, including its business goals and sustainability ethos was key.
- **Leading the Board and culture.** An individual with the ability to create the conditions for overall effectiveness within and outside Board meetings was a priority. This would require constructive relations with Directors and senior leadership, and was considered a prerequisite to promoting a cohesive culture that respects and supports the needs of all employees.
- **Professional experience.** In order to support high standards of corporate governance and business ethics, demonstrable experience of working at an appropriate level within a listed business of a similar scale and complexity as SSE was requested.
- **Understanding stakeholders.** As a lead ambassador for the Group, strong communication skills to further SSE's approach to stakeholder engagement was mandatory, alongside a commitment to engage personally where appropriate. Complementary to this, was an understanding of how SSE creates financial and non-financial value.

Outcome, next steps and related decisions

The Nomination Committee confirmed that Sir John Manzoni possessed the desired capabilities and experience, and would bring sound leadership to the Board and SSE Group. The Board approved the recommendation that he be deemed independent on appointment and take on the role of non-Executive Director from 1 September 2020 prior to becoming Chair of the Board from 1 April 2021. Full biographical details are set out on page 98 and details of the Board induction programme are on page 125.

Strategic link:	Link to Principal Risk:	See also:
Invest	People and culture	Pages 4 to 5 and 96 to 97.

1 Sam Allen Associates and Spencer Stuart have no other connection with the Company or the individual Directors.

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.

Sir John Manzoni

Due to the nature of the Chair role and the restrictions placed on physical meetings, the substantive programme agreed for Sir John Manzoni was initially phased over six months and delivered virtually. When safe to do so, a plan for physical meetings and operational site visits will be put in place.

The formal element of the programme comprised the engagements set out below. These were structured to provide the information needed to engage in Board meetings upon appointment and then further develop the oversight required as Chair thereafter. Informal follow-up sessions were arranged where requested, in order to connect with and get to know senior leaders including their management areas and current focus. Time was also spent with Richard Gillingwater as part of the role transition to gain additional perspectives from his time as Chair.

Dame Angela Strank

Throughout 2020/21, Dame Angela Strank continued to engage in the induction programme set out in the Annual Report 2020.

Board Committees

The composition of SSE's Board Committees 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 the year, the Board approved recommendations resulting in the below changes.

- Sir John Manzoni joined the Nomination Committee as of 1 September 2020; the Remuneration Committee and SHEAC from 1 October 2020; and the EMRC on 1 April 2021. He became Chair of the Nomination Committee on 1 April 2021.
- Dame Angela Strank joined the Remuneration Committee on 1 October 2020.
- Melanie Smith joined the EMRC on 1 October 2020 and stepped down from the SHEAC on 1 April 2021.
- Chris Burchell, MD SSEN Distribution, joined the SHEAC on 29 January 2021.

Sir John Manzoni induction programme

Areas covered	Delivered by
To aid strategic discussion • SSE's purpose and net zero, the status of ongoing strategic priorities and agreed next steps, SSE's Business Unit mix and the backdrop informing SSE's long-term view. • Separate introductions to SSE's core and complementary Business Units.	Chief Executive Group Strategy MD of each Business Unit
To allow appraisal of financial performance and risk • Group financial position, liquidity, funding and investment strategy. • View from the investment community. • The role of the External Auditor in assurance.	Finance Director Senior Finance leaders SSE's Brokers External Auditor
To inform corporate governance and stewardship • Hallmarks of SSE's Governance Framework, Board and Committee operations and shareholder perspectives. • SSE's key stakeholder groups, engagement strategy and sustainability and ESG approach including agreed goals and accreditations.	Group Company Secretary and Director of Investor Relations Chief Sustainability Officer
To understand sectoral trends • Decarbonisation of the sector, energy markets and long-term pricing, the role of carbon, SSE's asset portfolio and approach to hedging. • The operating context, horizon scanning, advocacy priorities and corporate communications.	Group Energy and Commercial Director Energy Economics Team Group Corporate Affairs
To allow assessment of SSE's risk profile • Applicable legal and regulatory frameworks relevant to the listed context and each of SSE's Business Units, and the role of internal compliance and assurance functions. • Management of current and emerging Group Principal Risks. • IT and information security.	General Counsel SSE's Legal Advisors Director of Regulation Group Risk Group Chief Information Officer
To introduce culture • People priorities including latest employee views and the approach to remuneration and reward. • Safety, health and environment values and targets.	Director of HR Group Safety, Health and Environment Manager

COMPOSITION, SUCCESSION AND EVALUATION CONTINUED
NOMINATION COMMITTEE REPORT CONTINUED

Talent capability, development and future ways of working

Group HR works with the Committee in proposing strategy to support succession within senior leadership roles and the development of talent to build capability for the future. Talent development is an area which has continued to progress following the implementation of SSE's seven Business Units, whereby an increase in the number of senior roles has supported broader development of critical leadership skills. The latest position was considered through annual review of the progression plans and contingency arrangements for: the Executive Directors; the Group Executive Committee; and MD-level positions.

In line with SSE's strategy and the review of changes in the operating context, a suite of new capabilities has been further identified and prioritised. Options for developing these include mobilisation of the current talent pool and external recruitment. This builds upon the work which has seen external hires fulfil a significant proportion of senior roles in the last 12 months. Through constructive discussion of the anticipated investment and timeline for continued delivery of capability, a formal plan to allow reporting and measuring of progress is under development for Committee review.

Committee oversight of the engagement in, and impact of, core talent programmes has continued, despite the inability to attend supporting events in person following a necessary move to a virtual training environment. Notwithstanding, engagement with future leaders has been facilitated virtually through presentations at Board meetings, and business-led sessions and conferences which the Directors have attended. 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. See pages 114 to 116 for the approach to employee engagement.

As the UK and Ireland look to move out of the coronavirus pandemic, consideration is being given to the ways in which SSE can continue to build on its flexible working approach and retain and attract talent. Specific focus will be provided to performance enablement and the tools required under any agreed future ways of working scenario.

Inclusion and diversity

SSE's Group-wide approach to inclusion and diversity is explained across pages 49 to 50, with the role of the Committee being to confirm the adequacy of plans, targets and progress, and to consider insights and findings from the initiatives which are in place.

Board Inclusion and Diversity Policy

The Board operates under a standalone inclusion and diversity policy, the objective of which is to ensure that Board membership remains appropriately balanced and relevant to SSE's purpose, strategy and values. As highlighted below, it sets out measures that the Committee and Board will take in order to achieve this. During the year, the Committee reviewed and confirmed the Policy's ongoing application within the context of its work. The Policy can be viewed in full on sse.com.

Board Inclusion and Diversity Policy measures, implementation and progress

Policy measures	Implementation and progress
Identify the needs of the Board and its Committees, and in doing so consider the balance of: skills; knowledge; perspectives; experience; gender; ethnicity; and length of membership. Adopt a formal, rigorous, transparent and inclusive Director appointment process. Recruit based on an objective and shared understanding of merit, with due consideration of any agreed criteria such as SSE's needs.	See page 122 Composition and succession and page 124 Appointment of Chair of the Board.
Work with executive search firms that are best placed to deliver a diverse pool of candidates aligned to the Board's needs.	SSE's Board Inclusion and Diversity Policy is a key input into the selection of external recruitment firms and the methodology and principles they go on to apply. The Committee will stipulate where diversity criteria forms a primary objective of a search process, and as a minimum sets expectations surrounding the diversity of candidate pools. To support transparency, details will be reported where possible for each recruitment process carried out, however GDPR-based limitations continue to exist. In line with Board Policy, Sam Allen Associates and Spencer Stuart, both of whom were engaged in the year, are accredited for the FTSE 350 category under the standard and enhanced voluntary code of conduct for Executive search firms respectively.
Nurture an inclusive Board and Committee culture.	See page 112 Focusing on culture and page 118 Assessing Board effectiveness.
Oversee work to promote and progress inclusion and diversity within the talent pipeline. Support diversity through relevant initiatives and ambitions where appropriate.	See page 127 Ambitions and initiatives.

Ambitions and initiatives

Board ambitions. The Board has agreed ambitions surrounding its own gender and ethnicity which are used to monitor progress and inform the Committee's approach to succession planning and Board appointments. These are to maintain a level of female membership of at least 33% over a rolling three year period and to have at least one Board member who represents an ethnic minority. It is recognised that ambitions are sensitive to changes in both the size and composition of the Board, and the Committee's aim is to maintain an enduring position which drives change and achieves a Board that remains balanced over time. The diversity of the Board is set out on page 121.

Senior leadership ambitions. The Committee supports the Hampton-Alexander recommendations to improve gender diversity across the Group Executive Committee and its direct reports. Aligning with SSE's strategy centred on accountable Business Units, and to allow clearer tracking of diversity within the talent pipeline, further self-led ambitions supplement this position. These measures look at the diversity of the Group Executive Committee and its sub-Committees and the gender split of roles earning in excess of £70k. Progress against these ambitions and the gender split of senior leadership is reported on page 49.

Supporting initiatives. Comprehensive updates in the year covered the evolution of SSE's inclusion and diversity approach and the factors influencing the choice of targeted initiatives. Diversity scorecards detailed 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. This was accompanied by completion rates of training interventions and employee feedback on inclusion. Full details of the underlying strategic approach and progress are set out on pages 49 to 50.

BOARD PRINCIPAL DECISION

FOCUS ON INCLUSION AND DIVERSITY

Key

Build · Operate · Invest · Develop

Background	The Nomination Committee provides focus to the workstreams which form part of an enduring strategy to be more inclusive to difference and in turn increase diversity across the Group. Further consideration was given in 2020/21 as to how the Nomination Committee and Board could further promote and support progress in this area, including across the identified talent pipelines.
Board and Nomination Committee discussion	The targeted action needed to increase gender, ethnic minority and disability workforce representation in the energy sector is well understood by the Nomination Committee and senior leadership. However limitations exist to understanding the true picture and therefore also the ability to report transparently surrounding progress, with a contributor being the need for diversity data to be provided voluntarily by individuals due to its protected characteristic. Employee sentiment is easier to read and inclusive practices and behaviours can nonetheless be embedded. Through the annual evaluation process and a review of diversity progress, the Nomination Committee expressed a want for increased involvement in reinforcing the prime importance of inclusion and diversity to SSE, and its commitment to enact change.
Board and Nomination Committee stakeholder considerations and impacts	• **Supporting employees.** Providing an inclusive and diverse workplace is a material issue to employees and the Board strives to ensure that appropriate actions are in place to deliver equal opportunities and a fair working environment for everyone in SSE. • **Sustainable practices.** A diverse workforce means there is breadth of difference, a matter that supports SSE's ability to better reflect the customers it serves and the stakeholders it depends on to achieve its business objectives. This includes its 2030 business goal based on providing decent work and providing economic growth. • **A just transition.** The energy transition provides an opportunity to actively deliver a diverse mix of people from every kind of background working in the sector, and supports development of an inclusive working environment where they can thrive. This greater diversity, at all levels, is key to forming the pathway to net zero, with different views bringing broader debate, improved decisions and ultimately better business.
Outcome, next steps and related decisions	The Board confirmed that the profile of, and focus provided by the Nomination Committee to people matters should be raised. This was to ensure the cultural importance of inclusion and diversity was apparent to and understood by colleagues and prospective new entrants. A supporting plan setting out current and future priority areas would be developed by Group HR, with opportunities for Board and Nomination Committee support identified.

Strategic link: Invest	**Link to Principal Risk:** People and culture	**See also:** Pages 49 to 50.

AUDIT, RISK AND INTERNAL CONTROL

AUDIT COMMITTEE REPORT

Dear Shareholder,

On behalf of the Board, I am pleased to present the Audit Committee Report for the financial year ending 31 March 2021. This report is intended to provide shareholders with an insight into key areas considered, together with how the Audit Committee has discharged its responsibilities and provided assurance on the integrity of the 2020/21 Annual Report and Financial Statements.

The coronavirus created an abrupt shift to working from home with almost all within Finance having now worked from home for over a year. The same has been true for many organisations, including our External Auditor, EY. This has meant that the financial reporting and audit process has had to adapt. Last year we decided to defer the Full-Year Results announcement by one month to give the Finance teams and the External Auditor adequate time to ensure that a robust audit process was delivered. Following completion of the audit for 2019/20 and using the feedback obtained from the review of the effectiveness of external audit process, EY held a series of de-brief sessions with senior Finance management across the Group to agree a package of measures to enhance the working relationship and drive efficiency in the audit process. At its meeting in September, the Committee assessed the potential impact of the pandemic on the financial reporting and audit timetable for 2020/21 and agreed to build a further week into the process for both the half year review and full year audit to help mitigate potential delivery delays. I received regular updates from the Finance Director and the Lead Audit Partner to ensure progress was tracking to plan and issues were being dealt with in a timely manner. I'm pleased to report that a robust audit process has again been delivered remotely.

During the year, the Committee was briefed on the status of regulatory change so as to assess the likely impact this may have on the future work of the Audit Committee and to enable areas of focus to be planned accordingly. In anticipation of significant change, the Committee stood up a project team in 2020 to assess the anticipated introduction of a UK SOX style framework for the financial reporting control environment.

Planning to ensure SSE is prepared for the output of the audit and corporate governance consultation and developing an assurance framework for reporting on climate related risks and opportunities will be key areas of focus for the year ahead.

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
25 May 2021

Role of the Committee

The Committee's role is to support the Board in relation to the responsibilities set out below. The Committee's Terms of Reference are regularly reviewed and updated as required and are available on sse.com.

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, including the policy to govern 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.

Committee membership and attendance

The composition of the Committee is compliant with the Code and currently comprises three independent non-Executive Directors as Committee members. Crawford Gillies stepped down from the Board on 30 September 2020 and ceased to be a member of the Audit 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 98 to 101 and details of meeting attendance are set out on page 102.

The Committee 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). The Committee also invites other senior finance and business managers to attend certain meetings 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.

Committee evaluation

The actions identified from the evaluation of the Audit Committee in 2019/20 covering the level of resource in SSE's Finance teams, the working relationship with External Auditor and culture temperature checks of the risk management and internal control at Business Unit level were monitored through to completion. The evaluation of the Audit Committee during 2020/21 was facilitated by an internally-led questionnaire, in addition to a self-assessment against best practice which was carried out by the Chair and Committee Secretary. The output of both the evaluation and self-assessment was considered at the Committee meeting in February 2021, and an update was provided to the next Board meeting. The Board confirmed the effective operation of the Audit Committee in discharging its responsibilities.

Evaluation themes in 2020/21	• Meetings have been held virtually during the year as a result of the coronavirus restrictions and they continued to be effectively chaired with a good level of challenge and debate on the key issues. • The relationship between the Audit Committee and Internal Audit, Group Risk, Finance and Company Secretarial was recognised as being open and constructive. In response to feedback from the previous evaluation, the bench strength in Finance and Internal Audit has improved during the year with two senior appointments, both of whom regularly attend Committee meetings. • The actions from the post audit de-brief sessions held between the External Auditor and management has helped to enhance the efficiency of the audit process and strengthen the audit relationship. • The External Auditor have continued to provide fresh perspective and rigorous challenge to the management team and the deliberations of the Audit Committee.
Actions to progress during 2021/22	• Whilst the membership of the Committee remains compliant with the Code, a recommendation was made to the Nomination Committee and Board to consider the appointment of a new member of the Audit Committee with recent and relevant financial/accounting experience following the departure of Crawford Gillies. • Other members of the Finance team will be invited to attend certain future meetings to give the Committee greater visibility on talent and succession. • In the absence of physical meetings, a debrief session will be scheduled following any future virtually held Committee meetings to provide a further opportunity for the members to share reflections. • The Committee requested a review of the overall assurance model covering audit, compliance and assurance and would consider the development of an Audit and Assurance Policy.

Meetings and focus areas in 2020/21

The Committee met on five occasions during the year and has met once since the end of the financial year. All meetings were held virtually in advance of the Board meeting to allow the Committee Chair to provide a report on the key matters discussed and consider any recommendations. A forward plan of agenda items 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.

In addition to the scheduled meetings, the Committee Chair meets separately with the Finance Director, Director of Group Risk and Audit and the External Auditor to ensure the work of the Committee is focused on key and emerging issues. 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.

An additional meeting in June 2020 was held primarily to consider the Preliminary Results following SSE's decision to move the publication date from 20 May 2020 to 17 June 2020. The decision to change the publication date followed a review of the practical impacts on the audit process as a result of the coronavirus pandemic. The Committee, in consultation with the External Auditor, concluded in line with FCA guidance that it would take longer to prepare and audit SSE's Financial Statements for 2019/20 and that postponement to the publication date was in the best interests of the Company and its stakeholders.

The Committee considered the coronavirus impact on the half year review to 30 September 2020 and audit for the full year to 31 March 2021. In consultation with both management and the External Auditor, the Committee agreed to include an extra week in the half year and full year timetable to reflect the change to working practices and to ensure there was sufficient time for the audit process to be completed.

AUDIT, RISK AND INTERNAL CONTROL CONTINUED
AUDIT COMMITTEE REPORT CONTINUED

Key matters considered during the year

Audit Committee meeting held on 18 May 2020	
Financial reporting	• Reviewed a report on the Group's tax position covering adjusted underlying tax rate, areas of potential tax exposure and provisioning, Fair Tax Mark accreditation, and priorities for the coming year.
External audit	• Received an update on the external audit process.
Internal audit	• Received an update on delivery of the 2019/20 Internal Audit Plan, progress with the 2020/21 Internal Audit Plan and the initial scope of a 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 prior to Board approval. • Considered audit reports on cyber security threats in regard to Operational IT and subsequently requested enhanced reporting to the Board.
Audit Committee meeting held on 15 June 2020	
Financial reporting	• Considered the appropriateness of the accounting in relation to the significant financial judgements, estimates and exceptional items in 2019/20. • Considered those items highlighted by the External Auditor as requiring prior year adjustment. • Considered the impact of coronavirus on the Financial Statements for 2019/20. • Reviewed the Preliminary Results and 2020 Annual Report, including alternative performance measures, Viability Statement and going concern prior to Board approval. • Reviewed letters of representation issued to the External Auditor prior to Board approval.
External audit	• Considered the accounting, financial control and audit issues from the External Auditor's report on the 2019/20 audit. • Reviewed the effectiveness of the external audit process using an enhanced framework. • Reviewed the independence and objectivity of the External Auditor, including the level of non-audit fees.
Internal audit	• Reviewed a gap analysis of the Internal Audit function against the Internal Audit Code of Practice.
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. • Reviewed the analysis to support the Viability Statement prior to Board approval. • Approved the narrative of the 2019/20 Audit Committee Report and Principal Risk related disclosures.
Governance	• Received a report on the disclosure of information to the External Auditor.
Audit Committee meeting held on 16 September 2020	
Financial reporting	• Received a progress update on the work being carried out as part of the Making Tax Digital agenda.
External audit	• Reviewed the external audit strategy, including the coronavirus impact on the audit approach, significant risks and areas of audit focus, scope and materiality for 2020/21 and agreed the external audit engagement and audit fee for 2020/21. • Considered the safeguards relating to the integrity, objectivity and independence of the External Auditor, including the level of non-audit fees and any new non-audit engagements. • Received an update on key regulatory 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 2020/21 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 the project to enhance the accessibility and coverage of the Group Financial Polices 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 the SSE Enterprise Business Unit, and noted the progress achieved during the last three years. • 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 Audit Committee. • Considered the status of audit reform and other related governance developments.

Audit Committee meeting held on 16 November 2020	
Financial reporting	• Considered the key accounting judgements applied in the preparation of the Interim Financial Results. • Reviewed letters of representation issued to the External Auditor prior to Board approval.
External audit	• Considered the accounting, financial control and audit issues from the External Auditor's report on the 2020/21 half year review. • Reviewed the independence and objectivity of the External Auditor, including the level of non-audit fees. • Received an update on progress with the audit plan and approved refinements to the audit strategy for 2020/21.
Internal audit	• Received an update on the work undertaken by Internal Audit, including audit resource, progress with the 2020/21 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 Cyber Risk and Information Security across the Group and Operational Technology in the SSEN Distribution Business Unit.
Governance	• Approved the Committee business planner and areas of focus for 2021.

Audit Committee meeting held on 24 February 2021	
External audit	• Considered the findings from the External Auditor's controls report and reviewed progress on delivery of the audit strategy. • 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 2020/21 Internal Audit Plan, significant findings and audit actions and approved the 2021/22 Internal Audit Plan.
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 pilot project to assess the development of a SOX framework.
Governance	• Considered a governance update covering: the output of the evaluation of the performance of the Audit Committee; proposals on the evaluation of the External Auditor, audit process and Internal Audit; reporting themes for the 2021 Audit Committee Report; and an update on the status of audit reform. • Received a report on the qualifying companies in the Group required to publish reports on their payment practices, policies and payments, and sought assurances that improvement plans were in place for the qualifying companies not meeting the Prompt Payment Code requirements.

Audit Committee meeting held on 21 May 2021	
Financial reporting	• Considered the appropriateness of the accounting in relation to the significant financial judgements, estimates and exceptional items in 2020/21. • Considered those items highlighted by the External Auditor as requiring prior year adjustment. • Reviewed the Preliminary Results and 2021 Annual Report, including alternative performance measures, Viability Statement and going concern prior to Board approval. • Reviewed letters of representation issued to the External Auditor prior to Board approval. • Reviewed a report on the Group's tax position covering adjusted underlying tax rate, areas of potential tax exposure and provisioning, Fair Tax Mark accreditation, and priorities for the coming year.
External audit	• Considered the accounting, financial control and audit issues from the External Auditor's report on the 2020/21 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 2020/21 Internal Audit Plan, progress with the 2021/22 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 prior to Board approval. • 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 prior to Board approval. • Received an update on progress with the pilot project to assess the development of a UK SOX style framework.
Governance	• Approved the narrative of the 2020/21 Audit Committee Report and Principal Risk related disclosures. • Received a report on the disclosure of information to the External Auditor. • Considered an update on the BEIS audit and corporate governance consultation and reviewed the Company's readiness and future areas of focus required to address areas of change.

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 2021 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 2021 are provided in Notes 4.2 and 4.3. The Independent Auditor's Report on pages 296 to 306 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; carrying value of tangible and intangible assets; depreciation policy; taxation judgements; recovery of the £100m OVO loan note; exceptional items; and APMs.

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 four specific areas for 2021/22. Whilst the overall number of significant financial judgement areas remained consistent with the prior year, accounting for the impacts of coronavirus was no longer considered by the Committee to be a significant financial judgement with the impact on the Group's adjusted operating profit in the year out-turning at the lower end of the anticipated range. Due to the individual and collective materiality of the £2bn disposal programme announced during the year and the potential complexity of these transactions, the Committee agreed to include the accounting for the SSE disposal programme as a significant financial judgement.

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. 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 for each matter presented in the table below.

Significant financial judgements and estimates for the year ended 31 March 2021	How those were addressed by the Audit Committee
Impairment testing and valuation of certain non-current assets (Estimation Uncertainty) The Group reviews the carrying amounts of its goodwill, other intangible assets and specific property, plant and equipment assets to determine whether any impairment of the carrying value of those assets requires to be recorded. The specific assets under review in the year ended 31 March 2021 are intangible development assets and specific property, plant and equipment assets related to thermal power generation. 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, legislation, 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 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 of £58.1m in the financial year in relation to the Great Island CCGT plant in Ireland.
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.	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.

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.
Accounting for SSE disposal programme (Accounting judgement and estimation uncertainty) SSE announced a £2bn disposal programme during the year. Due to both the collective and individual materiality of the planned disposals, there is a significant risk around the accounting for the complexity of these transactions. In particular, complexity arises in the final negotiated deal around the terms of the share and purchase agreements, non-cash consideration elements and transitional services arrangements.	The risk focused on the accounting treatment of six disposals completed by 31 March 2021 and also covered the assessment of businesses being classified as held for sale at the balance sheet date. The Committee were briefed on the audit procedures performed in relation to each transaction, all of which had been executed in line with the External Audit Plan. The Committee challenged both management and the External Auditor on the accounting treatment for the disposals and sought assurance that they had been appropriately addressed and disclosed. Following consideration, the Committee supported the exceptional gain on disposal of £976.0m and a non-exceptional gain on disposal of £246.5m. Further details of the disposals and held for sale assets are disclosed at Note 12.

Going Concern and Viability Statement

The Committee reviewed the information to support the assessment and disclosure of the going concern statetment prior to Board approval (see A6.3 Accompanying Information to the Financial Statements). Given the cash surplus of £1.6bn at 31 March 2021; the undrawn committed borrowing facilities of £1.5bn maintained by the Group; the current commercial paper market conditions; 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 coronavirus pandemic; the Group's credit rating; the success of the Group's disposal programme through 2020/21; and the successful issuance of £2.5bn of medium to long term debt and Hybrid equity during the year. 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 not calling the £1.0bn Hybrid debt instruments due in September 2022, 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 56. In doing so, the Committee considered the potential impacts arising from coronavirus and reviewed the period covered by the Viability Statement and remains of the view that a three-year period is the most appropriate timespan.

Fair, balanced and understandable assurance framework

The assurance framework used in the preparation of the Annual Report and Accounts 2021 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 Annual Report 2021.

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 and continues to be SSE's External Auditor. During the year, Hywel Ball became the Senior Advisory Partner for the SSE plc audit and Annie Graham, supporting partner in the prior year, became the lead audit partner assuming 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. The external audit contract will be put out to tender at least every 10 years. As such, the external audit tender will be conducted by no later than 2029 and any future tenders will be carried out in line with prevailing best practice. The Committee confirms ongoing compliance with the Statutory Audit Services Order.

The FRC's Audit Quality Review (AQR) team completed a review of the EY audit of the Financial Statements of SSE plc for the year ended 31 March 2020. The report from the FRC set out the scope of the review, the assessment of the quality of the audit work reviewed, any key findings, and examples of good practice. The Committee reviewed the contents of the inspection report and provided positive feedback to the External Auditor on delivery of the first-year audit which had been largely carried out remotely under coronavirus restrictions.

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.

The Committee enhanced the arrangements for the review of the effectiveness of the External Auditor and the audit process in the previous year and has adopted an integrated framework in the current year to help provide assurance that a high-quality audit has been performed. The key elements set out below were delivered individually and were considered collectively in the Committee's review of effectiveness. The importance of management engagement in the external audit process is recognised and the practice of briefing management on their obligations in relation to the provision of information to the External Auditor has continued.

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.

Feedback to inform the review of the effectiveness of External Auditor and audit process

External	Management	External Auditor	Audit Committee
• Assurance from EY covering the matters raised in the FRC's Annual Quality Review inspection reports and remedial actions (if any) taken by the audit firm.	• 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.	• 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.	• 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 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 process for approving certain Non-Audit Services provided by the External Auditor is governed by the Non-Audit Services Policy which is overseen by the Committee. The Policy was reviewed by the Committee and updated 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. Any Audit-Related Service or Non-Audit Service which is not on the list can not be provided by the External Auditor. 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.

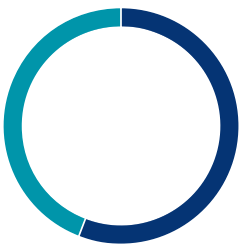
External Auditor fees

The Committee keeps under review the services provided by the External Auditor by reviewing a report at each meeting. Fees for Audit and Audit-Related Services incurred during the year amounted to £2.5m and £0.2m for Non-Audit Services. Audit fees in the current year include scope changes and overruns of £0.4m related to the prior year audit which arose due to coronavirus and the first year transition to EY. Fees paid to EY during the year are made in Note 6 to the Financial Statements. Non-Audit Services 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.

Re-appointment of the External Auditor

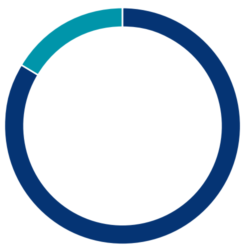
The Committee concluded that it is satisfied with the objectivity and independence of the External Auditor, and that the effectiveness of the external audit process delivered by EY was robust. The Committee proposed to the Board that it seek shareholder approval for the re-appointment of EY for the financial year ending 31 March 2022.

2018/19 AUDITOR FEES (PAID TO KPMG)



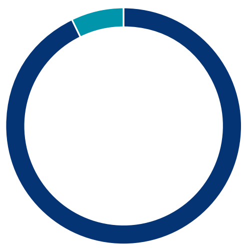
- Audit and Audit-Related Services – £1.4m (56%)
- Permitted Non-Audit Services – £1.1m (44%)

2019/20 AUDITOR FEES (PAID TO EY)



- Audit and Audit-Related Services – £1.9m (86%)
- Permitted Non-Audit Services – £0.28m (14%)

2020/21 AUDITOR FEES (PAID TO EY)



- Audit and Audit-Related Services –£2.5m (93%)
- Permitted Non-Audit Services – £0.2m (7%)

AUDIT, RISK AND INTERNAL CONTROL CONTINUED
AUDIT COMMITTEE REPORT CONTINUED

Internal audit

Role of Internal Audit

Internal Audit plays an important role in SSE, helping the organisation to deliver its objectives by bringing a risk-based, independent and objective approach to evaluating and improving the effectiveness of risk management, internal control and governance processes. During the year, SSE's Director of Group Risk, Audit and Insurance retired. Following a recruitment process led jointly between the Audit Committee Chair and Finance Director, the position of Director of Group Risk and Audit was filled with an experienced external appointment which has brought a fresh perspective to the work on the Internal Audit and Group Risk functions. In addition to the normal corporate reporting structure, the Director of Group Risk and Audit has the right of direct access to the Chief Executive, the Committee and the Company Chair. 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 meet 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. 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. During the year, the full Internal Audit programme was briefly paused to allow the organisation to focus on its initial coronavirus response. The Committee adjusted the full Plan to ensure that priority areas received adequate focus. During the year, the Committee has supported the development of a three year plan of activity to provide an indicative view of future Internal Audit focus. In recognition of Internal Audit's responsibility to retain agility to appropriately recognise organisational change and related changes in SSE's risk profile, the three year Internal Audit plans will remain subject to ongoing review and revision.

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, the Committee also considered SSE's current Internal Audit arrangements against the guidelines set out in the Chartered Institute of Internal Auditors' Internal Audit Code of Practice. Following consideration, no significant changes were made to the Internal Audit arrangements. A follow-up review of the Internal Audit function is being carried out by the recently appointed Director of Group Risk and Audit and the findings will be evaluated by the Committee in the year ahead.

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 138 to 139.

Feedback to inform the review of the effectiveness of Internal Audit

Internal Audit	Management	External	Audit Committee
• Assess delivery of the Internal Audit Plan. • Assess audit resource and expertise.	• Assess output from survey of Group Executive Committee and other key members of senior management.	• Assess feedback provided from the External Auditor. • Assess progress against the actions identified during the previous evaluation.	• 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 2021/22 included: reviewing the resource and skills requirement of the function; refreshing the audit methodology; and developing the use of technology for analytics and audit management.

During the year, the Committee stood up a project team to assess the financial reporting control environment in anticipation of a SOX style framework being introduced in the UK. The Committee will continue to monitor regulatory developments and will receive regular updates from the project team.

To assist the Committee's review of the System of Internal Control, the different elements are evaluated by relevant key stakeholders. 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 10 key management control areas 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 54 to 63.

Internal control and risk management effectiveness

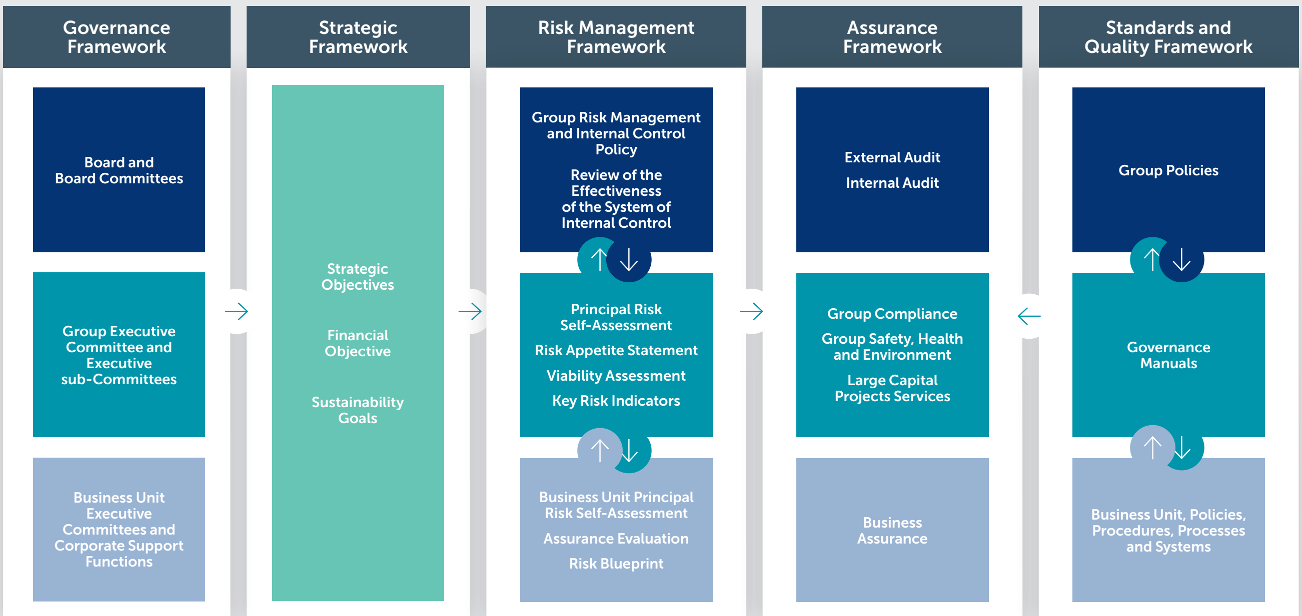
An investigation into an incident of external fraud against SSE Renewables that was discovered in April 2020 concluded that all reasonable steps had been taken to avoid this. The Group received financial recompense through a successful insurance claim.

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 102 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 8 to 13 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.



ENERGY MARKETS RISK **COMMITTEE REPORT**

> ### SSE's approach to hedging
> SSE has committed to delivering a transparent approach to how it manages commodity price exposures.
>
> Central to this transparency is SSE's established hedging approach, 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 require 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 Interim and Full-Year Results Statements which can be found on sse.com.

Dear Shareholder,

As Chair of the Energy Markets Risk Committee (EMRC), I am pleased to present the EMRC report for the year ended 31 March 2021. This report intends to provide an overview of how we operate, give an insight into our activities, and outline the role we play to oversee SSE's energy markets risk exposures and ensure the effectiveness of its risk management controls and related processes relevant to energy market risks.

In alignment with SSE's approach to hedging, our main responsibility is to oversee governance arrangements, which provide transparency of SSE's approach to managing commodity price exposures. Reports of these exposures are reviewed and discussed at each EMRC meeting, and when required, actions will be recommended to the Board for approval of any changes to SSE's hedging approach.

During the year, we have continued to monitor and oversee these exposures, with the following examples of hedging related activities reviewed:

- In response to the market turbulence triggered by the first coronavirus pandemic national lock down in March 2020, SSE Renewables elected to suspend its hedging activity in line with policy to avoid the highly volatile market activity caused by falling demand. The circa two-month suspension avoided coronavirus related impacts on future wholesale market prices; and
- In November, in response to the uncertainty of long-term carbon pricing due to the UK's exit from the European Union, SSE Thermal temporarily adjusted its approach to forward hedging of its thermal generation output for periods beyond March 2021.

As a committee, we will continue to monitor SSE's management of commodity price exposures and, should circumstances lead to any change in approach being required, these will be fully discussed, challenged and appropriately reported. Details of SSE's latest hedging approach and hedging position at 31 March 2021 are set out on page 71 or can be found on sse.com.

In light of the coronavirus pandemic, we received regular updates on its energy market related impacts and monitored the developments of its economic consequences. For example, to allow us to monitor the impact to the Customers Business Unit, we reviewed regular reports and received the minutes from the Group-level Demand Management Committee (set up to monitor the impact of the coronavirus on the Customer Business Unit demand profile).

Furthermore, to maintain awareness and oversight of emerging energy market risks and other areas within the EMRC's remit, a dynamic agenda is operated. Each meeting is used to consider a range of recurring items as well as other items that are more ad hoc and/or forward-looking in nature. These have included:

- reviews of emerging energy market risks;
- conducting relevant deep-dive sessions; and
- reviews of risk management and internal controls concerning energy markets.

These focus areas, along with the reports on energy market exposures, allowed us to have visibility of current material issues and provided a strong foundation for debate and challenge regarding SSE's energy market exposures and related assurance activities.

In line with our commitment to good governance and continual improvement, the EMRC's performance was assessed as part of the annual Board evaluation during the year. Despite the impact of the coronavirus pandemic on the ability to have physical meetings, I am pleased to confirm through the performance evaluation that the EMRC has continued to operate effectively, by providing an open forum that allows the appropriate level of challenge and oversight of the areas within its remit.

Looking ahead, the main priority for the EMRC in 2021/22 is to continue our oversight role on SSE's energy markets risks and exposures. Particularly, given the ever-changing external environment, we will focus on the impact, management and mitigation of relevant macroeconomic and geopolitical events. This will include the influence on SSE's energy market exposures relating to:

- the continued impact of the coronavirus pandemic;
- the regulatory landscape; and
- the UK's exit from the European Union, particularly in relation to a mechanism for the long-term carbon pricing.

I hope that you find this report informative and representative of the activities undertaken by the EMRC.

Tony Cocker

Tony Cocker
Chair of the EMRC
25 May 2021

Role of the Committee

The EMRC's purpose is to oversee SSE's energy markets risk exposures. 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 EMRC's full Terms of Reference can be found on sse.com.

Committee membership and attendance

The EMRC comprises three non-Executive Directors and two Executive Directors. Full details of membership and meeting attendance are set out on page 102. The Chief Executive and the Managing Director of 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. The membership was reviewed twice during the year due to changes on the Board, with the following changes made:

- Melanie Smith was appointed from 1 October 2020, replacing Crawford Gillies who stepped down from the Board on 30 September 2020; and
- Sir John Manzoni was appointed from 1 April 2021 to replace Richard Gillingwater, who stepped down from the Board on 31 March 2021. Sir John Manzoni had been a regular attendee at the EMRC since September 2020.

These changes to membership ensured that the EMRC continues to have sufficient skills and expertise to discharge its duties. The new members were provided with inductions by senior managers on the key focus areas of the EMRC.

The composition of the EMRC further facilitates the sharing of relevant experience held by the non-Executive Directors. As EMRC Chair, Tony Cocker brings extensive knowledge from his career in the energy industry, Melanie Smith and Sir John Manzoni, both 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 98 to 101.

Committee evaluation

The EMRC performance was assessed as part of the internal annual Board evaluation (see pages 118 to 119). The results of the evaluation indicated that the EMRC is operating effectively, and continues to provide an appropriate level of challenge and oversight of the areas within its remit. No specific actions were identified.

Meetings and focus areas in 2020/21

The EMRC held four meetings during the year and reports to the Board on its work following each meeting. Each meeting agenda is informed by a forward plan of business, which is designed to ensure that the EMRC carries out its responsibilities in line with its Terms of Reference. In addition to the scheduled meetings, the EMRC Chair meets with the Group Energy and Commercial Director, Managing Director of Energy Portfolio Management, and the Committee Secretary to review papers in advance of the meeting and ensure that key and emerging issues are brought to the EMRC's attention as appropriate.

The EMRC will continue to develop and to regularly review the forward plan of business to accommodate any emerging issues and risks to the Group concerning energy markets.

Details of the key focus areas and action taken by the EMRC in the year are set out in the table below.

Key EMRC focus areas in 2020/21

Areas of focus	Actions taken
Overseeing SSE's approach to hedging	• As part of a quarterly report on energy markets risks, monitored: – hedging arrangements; – risk control metrics; – Energy Portfolio Management's counterparty credit risk exposures; and – the liquidity of energy markets. • Reviewed and endorsed the hedging approach and position at 31 March 2021 included in the Full-Year Preliminary Statement and Annual Report 2021.
Energy markets risks	• Received reports on emerging energy market issues/risks (for example arrangements in relation to the UK's exit from the EU and impact of the coronavirus pandemic) and recommended relevant matters to the Board on changes to risk management arrangements in line with SSE's hedging approach. • 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.
Internal control and risk management relating to energy market exposures	• Considered reports on the key risks and controls arising from operations within Energy Portfolio Management. • Reviewed the Energy Portfolio Management MD Letter of Assurance. • 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.
Governance and other	• Approved the narrative of the 2021 EMRC Report. • Regularly reviewed the forward business planner. • Considered the results of the annual committee performance evaluation.

AUDIT, RISK AND INTERNAL CONTROL CONTINUED

SAFETY, HEALTH AND ENVIRONMENT ADVISORY **COMMITTEE REPORT**

Dear Shareholder,

I am delighted to present the Safety, Health and Environment Advisory Committee (SHEAC) Report for the year ended 31 March 2021. The report explains the work of the SHEAC during the year, the Company's response to coronavirus and the significant progress that has been made in relation to safety, health and the environment. A more in-depth review of these areas, together with a range of other Environmental, Social and Governance (ESG) reporting can be found on pages 32 to 53 and in our Sustainability Report available from sse.com.

Our Safety Family licence, 'If it's not safe, we don't do it' is at the very heart of our safety culture and part of our DNA. Over the years, the work we've done on safety, health and the environment has put us in a very strong position to deal with the unprecedented challenges arising from the coronavirus pandemic. The burden on people and society has been overwhelming with daily life disrupted beyond recognition. Despite this, I've been humbled by the resilience, commitment and dedication of our employees who have worked to provide a safe and reliable supply of electricity that is critical in enabling the national response to the pandemic. On behalf of the SHEAC, I would like to thank all employees and those that work for SSE for your sustained effort and hard-work. From operatives in the field to office-based staff now working remotely, the shift in working arrangements has been sudden and significant. As the pandemic continues to threaten health, much uncertainty remains in the months and years ahead. A key focus for the SHEAC going forward will be to help navigate the Group as it recalibrates its working arrangements to a new sustainable normal.

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. In practical terms, this strategy sees us operate in a hazardous industry ranging from working at height on the high-voltage electricity transmission network in the North of Scotland to the installation of offshore wind turbines in the North Sea. Above all, the safety, health and wellbeing of the people that work for SSE directly or on its behalf is the Company's first and foremost priority. We have a responsibility to make sure everyone gets home safe and promote a culture where all employees are empowered to do the right thing. As a SHEAC, we must provide leadership, support and challenge to ensure the evolving safety, health and environmental risks are understood and appropriately mitigated. During the year, safety, health and environmental performance has continued to be strong, and we remain restless to achieve better. Our sustained focus on this will be at the heart of SHEAC activities in the year ahead.

On the environmental side, SSE has a proud history of developing low-carbon infrastructure from the hydro power revolution in the 1940s, to building some of the world's biggest offshore wind farms and electricity networks to support net zero today. SSE is a Principal Partner to the UK Government on COP26 and is committed to helping drive climate action. In May 2020, SSE published its greenprint for a cleaner, more resilient recovery from the economic impact of coronavirus. The five-point action plan was submitted to the UK Government to meet the twin objectives of helping the economy rebound from the coronavirus whilst taking climate action to meet net zero targets. To support ongoing engagement with shareholders on climate-related issues, we have proposed an enabling resolution, within the business of the Annual General Meeting (AGM) 2021, that establishes a framework for an annual advisory vote on SSE's Net Zero Transition report at future AGMs.

The above represents just some of the key focus areas for the SHEAC in 2021/22.

The output from the performance evaluation of the Board and its Committees identified a need to evolve the scope and coverage of the SHEAC in 2021/22 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 on the governance and assurance of a range of ESG matters.

Finally, Melanie Smith stood down from the Committee as a member on 31 March 2021. On behalf of the Committee, I would like to thank Melanie for her valuable contribution and insight to the work of the Committee

I hope that you find the following report a useful explanation of our work and of SHE performance during the year.

Helen Mahy CBE
Chair of the SHEAC
25 May 2021

Role of the Committee

The Committee's role is to support the Board and provide assurance in matters relating to safety, health, environment (SHE) and sustainability. The SHEAC provides a leadership forum for non-Executive Directors to work with senior management and shape policy, targets and strategy to improve SHE performance and culture, in addition to supporting SSE's commitment to being a sustainable company that makes a positive contribution. The SHEAC reviews and oversees four significant Group policies: Safety and Health Policy; Climate Change Policy; Environment Policy; and Sustainability Policy. The SHEAC Terms of Reference are regularly updated and are available on sse.com. Following the performance evaluation of the SHEAC (see below), further updates to the Terms of Reference will be made to include additional responsibilities covering a range of ESG matters.

Committee membership and attendance

The membership of the SHEAC comprises three non-Executive Directors; the Chair of the Board; the Chief Sustainability Officer; the Managing Director, SSEN Distribution; the Managing Director, SSE Renewables; the Managing Director, SSE Enterprise Utilities; and the Director of Group Safety, Health and Environment. The Deputy 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 98 to 101 and details of non-Executive meeting attendance are set out on page 102. 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 125.

Committee evaluation

The evaluation of SHEAC during 2020/21 was facilitated by an internally-led questionnaire. The output of the evaluation, together with insights from discussions held between the Chair Designate and Committee Chair on the scope and coverage of the SHEAC, were considered at its meeting in March 2021. Following this, the Board confirmed the SHEAC continued to effectively discharge its responsibilities and endorsed the recommendation to recalibrate the coverage of the SHEAC on certain ESG matters and the sustainability agenda. The key themes and actions for 2021/22 are summarised below.

Evaluation themes	• The knowledge and experience of the SHEAC membership is broad and each member is able to bring a different and valuable perspective. • Whilst the virtual site visits worked well in the circumstances, physical site visits are invaluable and help bring the SHE-culture to life, particularly for the non-Executive members of the SHEAC. • A significant number of individuals from all levels of the Group were able to attend SHEAC meetings and their insight was highly valued.
Actions for 2021/22	• With the significant increase in focus on ESG matters in recent years, a detailed review to clarify the governance and oversight arrangements for ESG topics will be carried out to improve the overall cohesion and coordination of ESG matters between the Board, Board Committees and management. • The SHEAC's Terms of Reference and plan of agenda items will be updated in line with the outcome of the review described above. • The programme of site visits will be resumed when safe to do so and in line with government restrictions.

Meetings and focus areas in 2020/21

The SHEAC met four times in 2020/21. Working closely with the Group Safety, Health and Environment Committee (which reports into the Group Executive Committee), the SHEAC 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 and process safety; and review a range of SHE governance and assurance requirements. The comprehensive programme of site visits which routinely complement the formal SHEAC meetings were unable to take place this year as a result of the coronavirus restrictions. A series of virtual site visits for member of the SHEAC to engage with management on the work being delivered across the Group in relation to the environment, contractor safety, occupational health and wellbeing and the Safety Family programme were arranged in September 2020. A large part of the meeting in October 2020 was dedicated to receiving feedback from the virtual site visits and agreeing next steps in the process of continual improvement.

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. SSE published a statement which sets out the support provided to customers, employees, suppliers and contractors and communities. SSE also joined forces with a host of businesses and signed the C-19 Business Pledge to support the UK through the coronavirus pandemic and the recovery efforts. Further details are available at sse.com/coronavirus.

SSE's business continuity framework was deployed in early 2020 and has been used to manage the Group's response to the coronavirus pandemic. An update on the evolving position, including key and emerging issues is presented to each meeting of the SHEAC and is also considered at each Board meeting.

To ensure people across the Group continue to work safely, a range of new processes, procedures and guidance have been established and have been widely communicated. Having invested significantly in the technology for agile working in recent years, everyone who could work from home has done so in line with government restrictions. For those employees who were unable to work remotely as their attendance on site was critical to continued operations, PPE, hygiene and social distancing measures were established to ensure safe working conditions were maintained.

AUDIT, RISK AND INTERNAL CONTROL CONTINUED
SAFETY, HEALTH AND ENVIRONMENT ADVISORY COMMITTEE REPORT CONTINUED

At an early stage, SSE introduced coronavirus testing when needed for its critical workers and has worked closely with trade unions partners throughout to extend flexible working practices, particularly for those with caring responsibilities. SSE has not used the UK Government Job Retention Scheme.

During the year, SSE has sought the views of employees in the Group's response to the coronavirus, emotional wellbeing and post-lockdown working practices. The results of the surveys have provided invaluable insight that is being used to inform how SSE plans future ways of working.

SHE performance

Safety

Building on the commitment to use clear and simple language for engaging with employees on SHE performance, the SHEAC endorsed the concept of 'Safe Days' as a new 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 2020/21, 271 Safe Days were achieved, compared to 247 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 2020/21 it fell to 0.15 per 100,000 hours worked, compared to 0.16 in the previous year. Despite the improving trend in SHE performance the Committee remains mindful that incidents and accidents still occur. The focus on ensuring everyone gets home safe remains central to everyone in SSE and the work of the SHEAC.

Health and wellbeing

The coronavirus pandemic presents challenges for employees around maintaining good mental health in times of uncertainty and social distancing. Building on the progress and measures implemented to enhance the awareness of mental health issues, SSE has used its partnership with Nuffield Health to give employees access to a range of resources to help take care of themselves while at home, including an emotional care guide, advice from physiotherapists and free access to the 'My Wellbeing' app which provides home workout videos and tailored programmes. SSE's Back to Health programme supported by Nuffield Health is available to all employees in Great Britain. The programme has helped line managers start conversations with colleagues who they were concerned for, by having the ability to offer Nuffield Health as support for stress, anxiety, depression and musculoskeletal conditions. Employees also have the option to self-refer. SSE's priority for 2021/22 will be to continue to support employees adapt to new working conditions and look after their mental and physical health. A follow-up review of the plans being implemented across the business to assist with fatigue management has also been scheduled for the year ahead.

Environment

SSE seeks to actively manage its environmental footprint, whilst maximising positive and minimising negative impacts. The environmental strategy is designed to drive progress and has been developed around three priority areas covering climate action, responsible consumption and production and the natural environment.

The strategy provides a framework for each business area in the Group to develop their own environmental plan with its implementation supported by policies, procedures and targets to guide interactions with the environment. During the year, the SHEAC received presentations on the work being undertaken across the Group covering matters such as net zero, biodiversity, climate adaptation, greenhouse gas emissions and waste management.

In the year ahead, the world will gather in Glasgow this November for the United Nations Climate Change conference. SSE is proud to be a Principal Partner on COP26 and is supporting efforts to a agree a more ambitious global climate deal committing countries to action. SSE is playing its part to make net zero emissions a reality through a range of activities, including building the largest offshore wind farm in the world, developing the first hydro pump storage project in over 30 years, pioneering carbon capture and storage technologies, investing in the transmission network for net zero and laying the distribution infrastructure for the electrification of transport and heat. Further details of these projects are included in the Strategic Report.

In 2020/21, the number of environment incidents as a result of SSE's activities totalled 44 compared to 53 in the previous year. Of these, there were no major environmental incidents. SSE's environmental permit breaches decreased to four in 2020/21 from 10 the previous year. Both the number of breaches and the severity decreased, with the majority relating to minor environmental incidents. Most breaches were self-reported to the relevant environmental agencies and all incidents were dealt with quickly when identified. During the year, SSE's carbon footprint benefited by having reduced travel, with most colleagues predominantly working from home for the last year.

Sustainability

SSE's approach to the disclosure of its sustainability impacts seeks to bring about continuous improvement in both the quality of information disclosed and the stakeholder engagement that results. It is understood that stakeholder scrutiny is a powerful agent for performance improvement and, therefore, SSE seeks to work with stakeholders and shareholders to understand their needs.

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 SHEAC oversees the development of the Sustainability Report which is available at sse.com/sustainability. Complementary information can also be found in pages 32 to 53.

The UN's Sustainable Development Goals (SDGs) are the blueprint for addressing global challenges, including climate change, and therefore SSE's four 2030 business goals are aligned to the SDGs most material to the Group. The Sustainability Report also details progress against the four 2020 business goals.

Recognising the increasing significance of a company's ESG performance, the SHEAC will adapt in financial year 2021/22 to encompass further scrutiny and oversight of particular ESG topics, identified as being material.

More information

A sustainable approach: **pages 32 to 53**

Our SHE performance

1 April 2020 – 31 March 2021 (365 days in total)

This year 2020/21

SAFE DAYS ACHIEVED
271

NOT ACHIEVED
94

TOTAL INCIDENTS (SSE)
17

TOTAL INCIDENTS (CONTRACTOR)
30

Last year 2019/20

SAFE DAYS ACHIEVED
247

NOT ACHIEVED
119

TOTAL INCIDENTS (SSE)
20

TOTAL INCIDENTS (CONTRACTOR)
35

● Reportable injury ● Lost time injury or medical treatment injury

Detailed incident comparison

	2020/21	2019/20
HIGH POTENTIAL INCIDENT	20	25
REPORTABLE INCIDENT	18	18
LOST TIME INJURY (1-7 DAYS)	9	12
MEDICAL TREATMENT INJURY	20	25
SERIOUS ENVIRONMENTAL PERMIT BREACH	0	2
SERIOUS ENVIRONMENTAL INCIDENT (EXCLUDING PERMIT BREACHES)	11	10
RTC CLASS 1	14	20
MINOR ENVIRONMENTAL PERMIT BREACH	4	8
MINOR ENVIRONMENTAL INCIDENT (EXCLUDING PERMIT BREACHES)	29	33

On a 'Safe Day'

We don't have a minor, serious or major incident for either SSE employees or contractors:

- Reportable, Lost Time or Medical Treatment injury
- Major/Serious/Minor Environmental Incident/Permit Breach
- RTC Class 1
- HIPOS (High Potential to harm People/Environment)

For information on safe days visit **www.sse.com**

2020/21 Target and rolling TRIR

COMBINED TRIR: TARGET <0.15

0.15

REMUNERATION COMMITTEE CHAIR'S STATEMENT

FAIRNESS AND BALANCE IN A YEAR OF CHALLENGE

Dear Shareholder,

This Directors' Remuneration Report aims to set out simply and clearly how SSE pays its Executive and non-Executive Directors; the decisions made on their pay in 2020/21; and how much they received in relation to the financial year ended 31 March 2021.

The impact of coronavirus on the business and key developments

SSE has continued to prioritise the safe and reliable supply of electricity during the coronavirus pandemic. This has been achieved because of the steps taken early in the pandemic to establish safe ways of working for employees who have been unable to work from home. This has limited the impact of lockdowns on SSE's day-to-day operations and construction activity. Most office-based employees continue to work from home. The wellbeing (both mental and physical) of all SSE's employees, contractors and agency workers has been a key consideration for us over the last year. Some of the actions taken by the Group are set out on page 45.

Despite the challenges presented by coronavirus, the business has demonstrated its resilience and made good progress in terms of its strategic delivery. Our five-year, £7.5bn investment and capital expenditure plan has progressed well. The Group has also made strong progress towards its £2bn disposals programme over the year. This further simplifies and streamlines our business model. SSE is resolutely focused on a net zero world and our leadership and advocacy is demonstrated by our COP26 partnership and Race to Zero campaign which are explained in more detail on pages 24 and 36.

At the same time, SSE has delivered solid operational performance and strong strategic execution which has created value for all our stakeholders. The resilience and strength of the Group is demonstrated by our ability to deliver our dividend plan. We have not accessed any of the UK Government's programmes to support businesses. SSE engaged with trade unions to agree measures to prevent the need to furlough employees, consistent with its long-term commitment of being a responsible employer. The business created hundreds of new jobs during the period. SSE also announced in May a payment to all employees of £400/€450 as a thank you for their contribution during the pandemic. Being able to achieve this in the current environment is testament to the hard work of our team and the leadership demonstrated by our executives.

Linking remuneration with SSE's purpose and strategy

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 even though the business model continues to evolve. These are:

- Sustainability, reinforcing SSE's commitment to being a responsible employer.
- Simplicity, maximising transparency and avoiding unnecessary complexity.
- Stewardship, encouraging good decision-making for the long term.
- Stakeholders, reflecting SSE's goal of creating value for shareholders and society.

Our Directors' Remuneration Policy is designed to be sustainable and simple and to facilitate diligent and effective stewardship that is vital to achieving SSE's core purpose of providing energy needed today while building a better world of energy for tomorrow, and delivering on our strategy.

Sustainability is at the heart of our business and is reflected in the four fundamental business goals we have set for 2030 (explained in more detail in the Sustainability Report) which are linked to the United Nations Sustainable Development Goals (SDGs).

They are to:

- Cut our carbon intensity by 60%.
- Treble renewable energy output.
- Help accommodate 10m electric vehicles.
- Champion Fair Tax and a real Living Wage.

Progress against these SDGs is a key component of our strategy and we reward performance against them through the Annual Incentive Plan. We will be assessing the possibility of measuring SDG progress as part of the long-term incentive arrangement before our policy review in 2022. SSE's 2030 business goals are important interim milestones on the road to net zero in 2050. The 2030 goals and progress made against them in 2020/21 are set out in more detail on pages 14, 15 and 22, 23.

Fairness is a central pillar of the policy – fairness to Executive Directors in recognition of the extent of their responsibilities, and fairness relative to the rest of the SSE team whose shared talent, skills and values are essential to SSE's success and have been evidenced more than ever in the last year. The extent of their responsibilities means Executive Directors are well paid, but the remuneration policy is designed, among other things, to ensure they are not overpaid.

The Remuneration Committee is regularly informed of pay and employment conditions throughout the Company. I am also the designated Non-Executive Director for Employee Engagement and during the year was able to virtually contact a wide range of employees (and their representatives) to listen to their thoughts on business matters including executive pay. On page 147 we have provided a snapshot of pay more generally throughout the Company and how this links into the matters we consider when deciding on executive remuneration.

The Board takes time to consider the interests of stakeholders in all its decision making (see pages 28 to 31). It has taken a particularly balanced and thoughtful approach in respect of all the remuneration decisions regarding Directors this year.

Annual Incentive Plan

Payments under the Annual Incentive Plan (AIP) are 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 2020/21 were chosen to support our strategic delivery and longer-term goals, notwithstanding the uncertainty surrounding the coronavirus pandemic. When setting the relevant target ranges the Committee reserved discretion to exercise its judgement after year-end once the true impact of coronavirus was understood, with the intention that this would mean reducing the AIP outcome in line with any reduction in earnings.

Performance in the year has been strong which resulted in the overall assessment of the 2020/21 award being 74% of the maximum. In view of the reduction in earnings, as a result of coronavirus, the Committee, considered it appropriate to reduce the adjusted EPS component formulaic outcome by 18.5% in line with the coronavirus-related impact on budget, believing that this results in a fair overall outcome for the Executive Directors at 69%. This will be the third time in the last five years that the Committee has used discretion in relation to the AIP outcome. A detailed AIP scorecard can be seen on pages 150 to 153.

Performance Share Plan

The Executive Directors are the only three participants in the Performance Share Plan. The Performance Share Plan (PSP) awards granted in 2018 are due to vest following the 2020/21 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 28% of the maximum opportunity. More details on the performance measures used, the targets set, and the actual performance assessed is set out on page 153.

The Committee confirmed that the formulaic outcome for these awards should stand. The performance targets were stretching when originally set and became even more challenging given the impact of coronavirus, so no adjustment is required.

Board changes

As announced on 15 October 2020, Martin Pibworth's role was expanded and he became the Group Energy and Commercial Director. At the time I engaged with our major shareholders and explained the changes we had made to his remuneration as a result. From 1 November 2020 Martin assumed Group-wide responsibility for all commercial and associated risk management activities for all the non-networks businesses. In addition to his previous responsibilities for SSE Renewables, SSE Thermal, EPMI and Energy Customer Solutions, he now leads SSE distributed energy including solar and storage as part of SSE Enterprise. He is also accountable for identifying opportunities for and driving growth across all of SSE's non-networks businesses. In short, he now leads a key growth engine of the Group and the importance of his extended role is therefore significant.

The expansion of Martin Pibworth's responsibilities do not lead to a fundamental change of his role but rather to a considerable increase in accountability which warranted an increase in his base salary of 19% from £529,000 to £630,000. This is 69% of the Chief Executive's salary. We decided not to phase the salary increase on the basis that it is not our usual practice to do so in SEE on promotion. We expect subsequent increases to be line with typical increases. The Committee is acutely aware that this is a significant increase when compared to average SSE pay increases and across the economy generally. We took the view that Martin's new remuneration package is a longer-term investment in SSE's future and is also fair and reasonable in light of his considerable additional responsibilities. This follows his strong contribution to the Group over many years including the success of developing the off-shore wind portfolio, and the value created by the recent sale of Multifuel Energy and takes into account the Board's plan for talent management and succession planning.

As part of the review, the Committee also looked afresh at the phased reduction of Martin's pension allowance over five years (as set out in last year's Directors' Remuneration Report) and concluded the transition process should be accelerated by two years. 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 by 1 April 2023. In taking this decision, the Remuneration Committee took into account the 'flow through' effects of the increase to other elements of Martin's pay and was satisfied that his new level of total remuneration is not excessive. The Committee was also sensitive to the fact that Martin only last year agreed to a reduction in his contractual pension entitlement. It took the view that bringing forward the reduction by two years struck the best balance between shareholders' interests and Martin's own position. Martin's incentive arrangements are unchanged.

On 1 April 2021, Sir John Manzoni succeeded Richard Gillingwater as Chair of the SSE Board. His fee on appointment is the same as that of his predecessor, recognising his wealth of experience in the energy industry and the expected time commitments of the role.

Implementation for 2021/22

The Committee reviewed Executive Directors' base salaries and concluded that in light of continued strong performance and leadership throughout the year, an increase of 1% was awarded which is in line with the average base pay increase across the Group's employees with effect from 1 April 2021.

The structure and quantum of the AIP remain unchanged. Performance measures are targeted on the delivery of our strategic objectives and in particular our SDGs are designed to tackle climate change and support global goals for sustainable development. The measures and weightings for 2021/22 are set out on page 150.

There are no changes planned to the structure, quantum or performance measures for 2021/22 in relation to PSP. The performance measures, weightings and targets are set out on page 150.

Policy review ahead of 2022 AGM

The current Directors' Remuneration Policy will expire at the end of its normal three-year life at next year's AGM. The Committee will spend time this year reviewing the policy and deciding if any changes are required to better support the Group strategy.

As part of the review, the Committee will consider developments in market practice, corporate governance and changes within our own business. One area for consideration will be the current difference in long-term incentive approach between the Executive Directors who participate in the PSP and the next tiers of management who currently participate in the Leadership Share Plan which has features which are more similar to those of a deferred bonus or a restricted share plan. I look forward to engaging with our major shareholders and their representatives to understand their views on any potential changes in approach.

Summary

Looking ahead, we will continue to apply our core principles with transparency in both decision-making and reporting and to do so in a way that is fully cognisant of the perspectives of SSE's stakeholders. In line with that, I welcome any feedback or comments on remuneration matters and can be reached via our Company Secretary, Sally Fairbairn, at sally.fairbairn@sse.com.

Dame Sue Bruce DBE
Chair of the Remuneration Committee
25 May 2021

REMUNERATION AT A GLANCE

Directors' Remuneration Policy in 2021/22

The illustration below shows how SSE intends to operate its Directors' Remuneration Policy in 2021/22. SSE's core reward principles remain unchanged and therefore the policy will remain unchanged from the previous year.

	Element	Max	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
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 ED 130% of salary 67% cash/33% career shares	Performance period	AIP cash paid AIP career share awards granted	Vesting period		Awards vest	Career holding
	Performance Share Plan (PSP)	CEO 200% of salary. FD and ED 175% 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	200% of salary	Share ownership requirement					
	Recovery and withholding	All incentives	Clawback: misstatement, serious misconduct, error in calculation Malus: misstatement, misconduct, serious reputational damage, error in calculation					
	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 150 to 153.

ADJUSTED EARNINGS PER SHARE

87.5p

AIP and PSP

TOTAL SHAREHOLDER RETURN (FTSE 100)

Rank 22

of 94 PSP

(43.1%)

EMPLOYEE ENGAGEMENT

82%

Engagement index score
AIP (Stakeholders)

CARBON INTENSITY OF ELECTRICITY GENERATED

255

gCO_2e per kWh
AIP (Sustainable Development Goals)

DIVIDENDS PER SHARE

81p

AIP and PSP

TOTAL SHAREHOLDER RETURN (MSCI)

Rank 12

of 22 PSP

(43.1%)

TOTAL RECORDABLE INJURY RATE

0.15

per 100,000 hours worked
AIP (Stakeholders)

TOTAL RENEWABLE GENERATION OUTPUT*

10,242

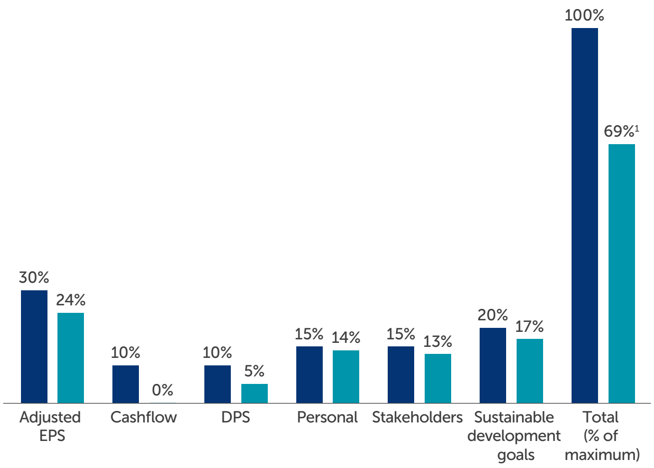
GWh
AIP (Sustainable Development Goals)

* Includes pumped storage, biomass and GB constrained off output.

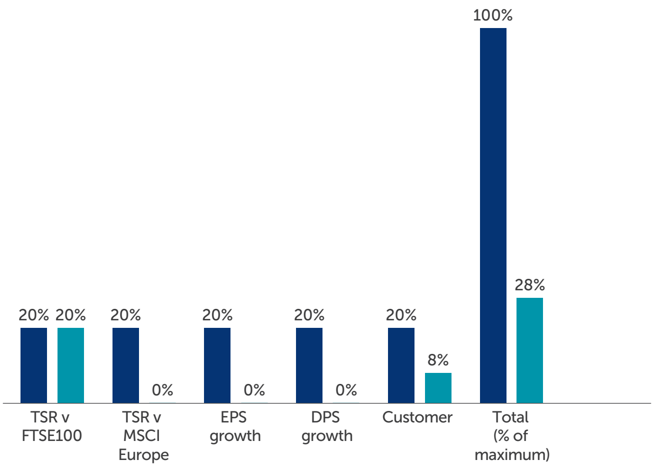
Performance related pay outturns for 2020/21

The charts below summarise the performance outturn of the AIP and PSP for the financial year ended 31 March 2021.

ANNUAL INCENTIVE PLAN PERFORMANCE



PERFORMANCE SHARE PLAN PERFORMANCE



■ Maximum
■ Actual

1 After 5% downward adjustment for coronavirus impact.

Remuneration across the Company

The Remuneration Committee considers a range of factors when deciding upon the remuneration for Executive Directors, one of which is the alignment with pay practices across the wider 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. Annual increases are typically in line with or less than the wider employee population.	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. 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 linked directly to business performance – 50% financial, 50% non-financial. 33% of the total award is deferred as career shares.	The Performance Share Plan is a share award with performance linked to strategic performance measures.
Group Executive Committee **Senior Management**				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.
Wider Workforce	Base salary levels are subject to negotiation with recognised trade unions and/or are set in line with market requirements. Annual increases are subject to negotiation.	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 Director for the financial year ending 31 March 2021 relative to the previous year.

		Alistair Phillips-Davies		Gregor Alexander		Martin Pibworth[7]		Total	
		2020/21 £000s	2019/20 £000s	**2020/21 £000s**	2019/20 £000s	**2020/21 £000s**	2019/20 £000s	**2020/21 £000s**	2019/20 £000s
Fixed Pay	Base Salary[1]	**915**	890	**707**	688	**571**	515	**2,193**	2,093
	Benefits[2]	**25**	25	**22**	22	**18**	17	**65**	64
	Pension[3]	**458**	141	**344**	56	**171**	155	**973**	352
	Total Fixed Pay	**1,398**	1,056	**1,073**	766	**760**	687	**3,231**	2,509
Variable Pay	AIP[4]	**947**	788	**634**	528	**512**	395	**2,093**	1,711
	PSP[5]	**666**	534	**450**	361	**337**	–	**1,453**	895
	Total Variable Pay	**1,613**	1,322	**1,084**	889	**849**	395	**3,546**	2,606
Total[6]		**3,011**	2,378	**2,157**	1,655	**1,609**	1,082	**6,777**	5,115

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 2019/20 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 2020/21 is based on the average share price in the three months to 31 March 2021 of £14.495p, as required by the reporting regulations. The award remains subject to service until May 2021 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.
7 Martin Pibworth was appointed to the Board on 1 September 2017 and therefore, was not granted an award under the 2017 PSP which vested in 2020. Instead, he received an award under the below-Board long-term incentive plan of £400,915.

Rationale for 2020/21 single total figure of remuneration

There has been a year-on-year increase in the single total figure of remuneration. For the Chief Executive and Finance Director, remuneration has increased by 27% and 30% respectively. This change is attributable to an increase in base salary aligned to the wider workforce, an increase in AIP outcome following a year of strong financial and strategic performance. For the Chief Executive and the Finance Director there is also an increase in the pension service cost which is a function of the valuation regulations rather than any change in approach.

From 1 November 2021, the Energy Director took on the expanded role of Energy and Commercial Director. At this time, he received a base salary increase commensurate with his new responsibilities. His AIP award (as percentage of salary) remained unchanged and was based on his base salary earned across the financial year. This year is also the first year that a grant under the PSP has reached maturity following his appointment as an Executive Director during 2017/18. He had previously participated in a below-Board long term incentive which has up to this point been disclosed as a footnote to the table. The resultant year-on year increase is 49%.

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 2020 by 2.75% from £890,293 to £914,776 for the Chief Executive, from £688,124 to £707,047 for the Finance Director and from £515,000 to £529,163 for the Energy Director. In addition, the Energy Director's salary was further increased to £630,000 on 1 November 2020 when his role was expanded to become Energy and Commercial Director.

Benefits

Benefits are provided at an appropriate level taking into account market practice at similar 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 (24 and 30 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 Energy and Commercial Director, 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 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. 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 by 1 April 2023.

The table below details pension accrued for each of the Executive Directors as at 31 March 2021 and 2020.

	Accrued pension as at 31 March 2021 £000s	Accrued pension as at 31 March 2020 £000s
Alistair Phillips-Davies	**489**	457
Gregor Alexander	**443**	418
Martin Pibworth[1]	**0**	0

1 Martin Pibworth received an allowance in lieu of a pension contribution of 30% 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:

1. Set performance measures aligned with strategy
2. Set stretching performance targets
3. Assess performance
4. Take account of wider environment
5. Apply discretion if required

2020/21 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). These reflect a review of performance measures in 2019/20 which resulted in some strategic measures being updated to reflect SSE's evolving business. The Stakeholders and Sustainable Development Goals performance measures replaced the former Customer and Teamwork measures. 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 48% since 2012 as shown on page 157.

3. Assess performance

The table below shows how performance measures are linked to strategy and how performance was ultimately delivered.

	Performance measure							
AIP	Adjusted EPS	Cashflow 1	Cashflow 2	DPS	Personal	Stakeholders	Sustainable development goals	Total
Link to strategy	Simple Stewardship Stakeholders	Simple Sustainable 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	Retained cashflow to net debt	Funds from operations to net debt	Return on investment through payment of dividends	To reflect those activities which go beyond the normal responsibilities of the role	Customers, employees and suppliers	Contribution to the four UN SDGs for 2030	
Weighting	30%	5%	5%	10%	15%	15%	20%	
Threshold	78.6p	10.5%	18%	81.0p				
Max	91.0p	11.5%	20%	82.6p				
Outcome	87.5p	Below threshold	Below threshold	81.0p		**See next section**		
Performance	83%	0%	0%	50%	92%	86%	85%	
Outturn (% of max)	25%	0%	0%	5%	14%	13%	17%	74%

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 dedicated 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	Effective management of the group through coronavirus pandemic with strong underlying performance. Best ever safety performance during a time of change. Employee engagement scores high, and a strong commitment to keeping employees well informed. Excellent stakeholder engagement and leading positively with the SSE Greenprint and net zero strategy. Strong progress made with re-shaping of the Group with good growth opportunities across the business areas. Team strengthened with a combination of external talent hiring and focused internal development moves.	✓✓✓	92%
	Finance Director	Culture and the SSESET, Financial, People Development, Succession, Stakeholder Management, Strategy and Growth	Effective management of the group through coronavirus pandemic with strong underlying performance. Best ever safety performance during a time of change. Good engagement on regulation, especially on Transmission. Finances well managed with credit rating maintained, reduced debt, effective cash management. Significant progress made on transactions and disposals. Strong performance in procurement and progress made with re-shaping IT and digital strategy. Good ongoing progress with Group re-structuring with continued focus in 21/22. Effective stakeholder engagement across key areas. Strengthened team with selective external talent hires and planned internal moves.	✓✓✓	92%
	Energy Director	Culture and the SSESET, Financial, People Development, Succession, Stakeholder Management, Strategy and Growth	Effective management of the group through coronavirus pandemic with strong underlying performance. Best ever safety performance during a time of change. Engaged and active on key regulatory and advocacy issues. Strong operational and financial performance delivered across the energy businesses. Excellent progress made with key projects such as Dogger Bank and Seagreen. Very active in business development with a number of opportunities moved forward including in Renewables and Thermal. Effective contribution as a leader across the Group. Continued to strengthen his team and leadership group with a combination of targeted external talent hires and internal development moves.	✓✓✓	92%

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.	Rank 3 against 17 business energy providers by Citizens Advice.	✓✓✓	93%
	2.5%	**Electricity Networks** – A range of measures including customer interruptions and customer minutes lost.	Improved performance on previous year across a range of metrics as other DNOs have improved too. There is tight clustering in the league tables where a single percentage point can be the difference between below median and first. The out-turn reflects particularly strong performance in the North and in the Connections business.	✓	40%
	Employees 2.5%	**Safety** – Total Recordable Injury Rate (TRIR) and Accident Frequency Rate (AFR) for direct employees. TRIR target of <0.15.	TRIR at 0.15 reduced compared with last year and AFR has been maintained at the same low level as 2019/20. Significantly more 'safe days' than previous year. See page 143.	✓✓✓	95%

ANNUAL REPORT ON REMUNERATION CONTINUED

High-level measure	Detailed measure	Factors to be assessed	Summary performance	Assessment	Outcome (% of max)
Stakeholders 15% (cont)	**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.	Significantly increased employee engagement score relative to previous year and against external benchmarks. A programme of employee engagement activity has been delivered. See page 48.	✓✓✓	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.	Improved Return on Inclusion with 'champion' status reached. Decreased gender pay gap. Employee Difference groups established. See page 49.	✓✓✓	85%
	Suppliers 2.5%	**Safety** – Total Recordable Injury Rate (TRIR) and Accident Frequency Rate (AFR) for contractors.	12-month rolling combined TRIR and AFR rate remained similar to the previous year. The number of contractors injured (30) in 2021/22 was significantly fewer than the 35 injured in 2019/20. In a challenging year the contractor safety performance exceeded expectations. See page 143.	✓✓✓	92%

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)
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 $120gCO_2e/kWh$.	Carbon intensity of electricity generated decreased by 11% compared to the previous year and was the lowest since SSE's records began. No coal output following closure of last coal-powered station in March 2020. Keadby 3 progressing through planning as part of Zero Carbon Humber. Progress in development of Peterhead CCUS.	✓✓	80%
	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.	SSE's renewable generation output decreased over the year due to poor weather conditions across wind and hydro. However, excellent progress was made over the year to develop and construct the assets which will enable SSE to meet its 2030 Goal.	✓✓✓	85%
	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.	Project LEO and a partnership between Government and network owners in Scotland represent two of the most significant projects in the UK that will help accelerate transport electrification. RIIO-ED2 business plan is nearing completion, which will inform the investment needed in ED2 and beyond to meet the net zero decarbonisation goal. Launched a new low emission company car scheme to deliver a focus on the benefits of low emission cars.	✓✓✓	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 achieved ongoing accreditation of both the Fair Tax Mark and the Living Wage, supporting both campaigns to attract more companies to become accredited. Furthermore, SSE published its Talking Tax reports offering transparent disclosure of its tax approach. SSE has become one of the first companies to gain Living Hours accreditation.	✓✓✓	90%

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. When reviewing outcomes the Committee considered performance against the full range of individual objectives and, after considering the strong teamwork displayed, agreed that the same outturn for all was appropriate. AIP outturns for the wider employee population were also taken into account by the Committee. In addition, they also considered the impact of the coronavirus pandemic, which has been enduring throughout the year, and its effect on stakeholders.

5. Apply discretion if required

In last year's Remuneration Report, it was explained that the "Committee intends to exercise judgement at year-end once the true impact of coronavirus is understood, to reduce the AIP opportunity in line with any reduction in earnings". With this in mind, the Committee agreed to make a downward adjustment to the adjusted EPS component outcome of the plan in line with the coronavirus related impact on budget. The budget impact is a reduction of 18.5% which reduces the adjusted EPS out-turn from 25% to 20%, leading to a revised overall AIP outturn of 69% of maximum.

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 for three years which are then retained until two years after stepping down from the Board.

	Maximum (% of salary)	AIP earned[1]	AIP cash	AIP deferred
Alistair Phillips-Davies	150%	946,793	643,351	312,442
Gregor Alexander	130%	634,221	424,928	209,293
Martin Pibworth	130%	512,347	343,272	169,074

1 Both the cash and deferred element are subject to clawback provisions.

2018 – 2021 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 2018 PSP award vesting this year.

	Performance measure						
PSP	TSR v FTSE 100	TSR v MSCI Europe	EPS growth	DPS growth	Customer (Distribution)	Customer (Business Energy)	Total
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 22 of 94 (above 75th percentile)	Rank 12 of 22 (below 50th percentile)	Below RPI	Below RPI	Below median	Average Rank 3 of 15	
Performance	100%	0	0	0	0%	83%	
Outturn (% of max)	20%	0	0	0	0%	8%	28%

ANNUAL REPORT ON REMUNERATION CONTINUED

4. Take account of wider environment
SSE's TSR has performed at the maximum level relative to the FTSE 100, and performance in relation to Business Energy customer service ranking is also above median. Conversely, the threshold level was not met for TSR performance relative to the MSCI European Utilities Index. 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.

While the PSP applies to Executive Directors only, the Committee is mindful of the outturns of the long-term incentive arrangement which applies to senior managers. On average, the below-Board incentive 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.

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%	132,287	31,826	45,952	£666,069
Gregor Alexander	175%	89,466	21,523	31,077	£450,460
Martin Pibworth	175%	66,957	16,108	23,258	£337,128

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 148.

Other remuneration disclosures

Fees paid to non-Executive Directors during 2020/21 were as follows:

Non-Executive Directors	Fees £000s 2020/21	Fees £000s 2019/20
Dame Sue Bruce	100	98
Tony Cocker[1]	95	84
Crawford Gillies[2]	45	88
Richard Gillingwater CBE	400	389
Peter Lynas	90	88
Helen Mahy CBE	86	84
Sir John Manzoni[3]	42	0
Melanie Smith	72	70
Dame Angela Strank[4]	66	0
Total	**996**	**900**

1 Tony Cocker became Senior Independent Director on 1 October 2020.
2 Crawford Gillies left the Board on 30 September 2020.
3 Sir John Manzoni joined the Board as a non-Executive Director on 1 September 2020.
4 Dame Angela Strank joined the Board as a non-Executive Director on 1 May 2020.

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 2021.

			Number of shares		Number of options		
Director	*Shareholding requirement as a % of salary (Actual/% met)	Shares owned outright at 31 March 2021	Interests in shares, awarded without performance conditions at 31 March 2021 (DBS & Retention Awards)	Interests in shares, awarded subject to performance conditions at 31 March 2021 (PSP & LSP)	Interests in share options, awarded without performance conditions at 31 March 2021	Interests in share options, awarded subject to performance conditions at 31 March 2021	Shares owned outright at 31 March 2020
Gregor Alexander	450% (200% – met)	220,782	29,134	282,218	1,967	–	197,564
Sue Bruce		2,484	–	–	–	–	2,484
Tony Cocker		5,000	–	–	–	–	5,000
Crawford Gillies (Resigned 30/09/20)		6,950	–	–	–	–	6,950
Richard Gillingwater (Resigned 31/03/21)		2,523	–	–	–	–	2,383
Peter Lynas		5,000	–	–	–	–	5,000
Helen Mahy		2,027	–	–	–	–	2,027
John Manzoni		2,311					–
Alistair Phillips-Davies	399% (200% – met)	253,462	43,493	417,294	1,997	–	219,814
Martin Pibworth	180% (below 200% requirement)	78,557	19,748	211,215	2,662	–	43,054
Melanie Smith		2,000	–	–	–	–	2,000
Angela Strank		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 31/03/21 £14.55.

Directors' Long-term Incentive Plan interests

Deferred Bonus awards granted in 2020

The table below shows the deferred bonus awards granted to Executive Directors in 2020.

Recipient	Award	Date of grant	Shares granted	Market value on date of award	Face value
Gregor Alexander	Conditional award	26/06/2020	12,494	£13.6350	**£170,355.69**
Alistair Phillips-Davies	Conditional award	26/06/2020	18,652	£13.6350	**£254,320.02**
Martin Pibworth	Conditional award	26/06/2020	9,350	£13.6350	**£127,487.25**
					£552,162.96

PSP awards granted in 2020

The table below shows the PSP awards granted to Executive Directors in 2020.

Recipient	Award	Date of grant	Shares granted	Market value on date of award	Face value
Gregor Alexander	Conditional award	26/06/2020	88,761	£13.6350	**£1,210,256.24**
					£1,210,256.24
Alistair Phillips-Davies	Conditional award	26/06/2020	131,244	£13.6350	**£1,789,511.94**
					£1,789,511.94
Martin Pibworth	Conditional award	26/06/2020	66,430	£13.6350	**£905,773.05**
					£905,773.05

ANNUAL REPORT ON REMUNERATION CONTINUED

Directors' Long-term Incentive Plan interests

The table below details the Executive Directors' Long-term Incentive Plan interests.

	Share plan	Date of award	Normal exercise period (or vesting date)	No. of shares under award as at 1 April 2020	Option exercise price	Additional shares awarded during the year	No. of shares lapsed during the year	No. of shares realised during the year	No. of shares under award at 31 March 2021
Gregor Alexander	DBP 2016[2]	26/06/2017	26/06/2020	13,442				13,442[5]	
	DBP 2016[2]	28/06/2018	28/06/2021	16,640					16,640
	DBP 2016[2]	28/06/2019	28/06/2022	0					0
	DBP 2016[2]	26/06/2020	26/06/2023			12,494[4]			12,494
	PSP[1]	26/06/2017	26/06/2020	78,099			51,826	26,273[5]	
	PSP[1]	28/06/2018	28/06/2021	89,466					89,466
	PSP[1]	28/06/2019	28/06/2022	103,991					103,991
	PSP[1]	26/06/2020	26/06/2023			88,761[4]			88,761
	Sharesave	03/07/2015	01/10/20 - 31/03/21	186	1,288p			186	
	Sharesave	12/07/2019	01/10/22 - 31/03/23	1,837	901p				1,837
	Sharesave	21/07/2020	01/10/23 - 31/03/24		1,107p	130[4,6]			130
Alistair Phillips-Davies	DBP 2016[2]	26/06/2017	26/06/2020	20,068				20,068[5]	
	DBP 2016[2]	28/06/2018	28/06/2021	24,841					24,841
	DBP 2016[2]	28/06/2019	28/06/2022	0					0
	DBP 2016[2]	26/06/2020	26/06/2023			18,652[4]			18,652
	PSP[1]	26/06/2017	26/06/2020	115,479			76,631	38,848[5]	
	PSP[1]	28/06/2018	28/06/2021	132,287					132,287
	PSP[1]	28/06/2019	28/06/2022	153,763					153,763
	PSP[1]	26/06/2020	26/06/2023			131,244[4]			131,244
	Sharesave	12/07/2019	01/10/22 - 31/03/23	1,997	901p				1,997
Martin Pibworth	DBP 2006[2]	26/06/2017	26/06/2020	5,715				5,715[5]	
	DBP 2016[2]	28/06/2018	28/06/2021	10,398					10,398
	DBP 2016[2]	28/06/2019	28/06/2022	0					0
	DBP 2016[2]	26/06/2020	26/06/2023			9,350[4]			9,350
	PSP[1]	28/06/2018	28/06/2021	66,957					66,957
	PSP[1]	28/06/2019	28/06/2022	77,828					77,828
	PSP[1]	26/06/2020	26/06/2023			66,430[4]			66,430
	LSP[3]	26/06/2017	26/06/2020	23,411				23,411[5]	
	Retention Award[3]	12/01/2017	12/07/2020	25,000				25,000[7]	
	Sharesave	12/07/2019	01/10/22 - 31/03/23	998	901p				998
	Sharesave	12/07/2019	01/10/24 - 31/03/25	1,664	901p				1,664

Shares which are released under the DBP 2006,PSP, LSP and Retention 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 8,491 shares, Alistair Phillips-Davies received 12,601 shares and Martin Pibworth received 13,871 shares.

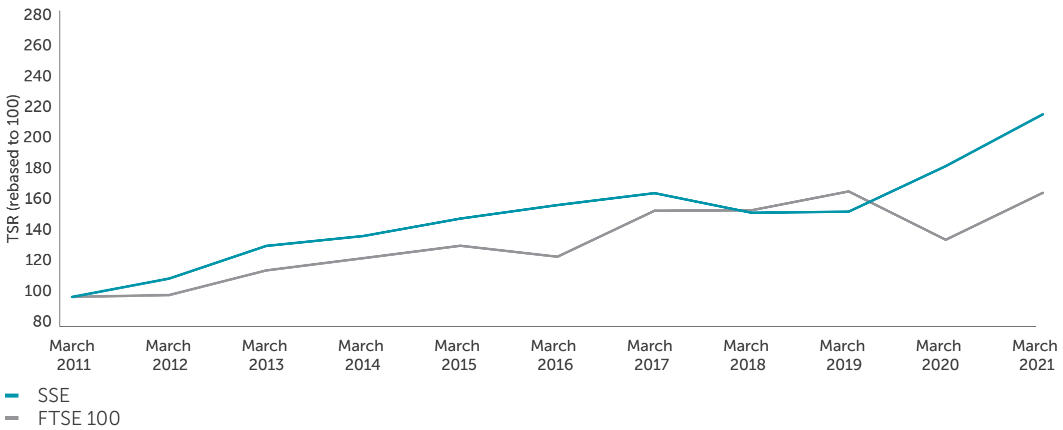
1 The performance conditions applicable to awards under the PSP are described on page 153. The 2017 award under the PSP vested at 27%.
2 33% of the annual bonus payable to Executive Directors is satisfied as a conditional award of shares under the DBP 2016. Vesting of shares under the DBP 2016 is dependent on continued service over a three-year period.
3 The award granted as a Retention Share Award was prior to Martin Pibworth's appointment as an Executive Director.
4 The market value of a share on the date on which these awards were made was 1,363.5p.
5 The market value of a share on the date on which these awards were realised was 1,363.5p.
6 The market value of a share on the date on which these awards were made was 1,249.5p.
7 The market value of a share on the date on which these awards were realised was 1,249.5p.

The closing market price of shares at 31 March 2021 was 1,455p and the range for the year was 1,073p to 1,612p. 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 £2,392,187 (2020 – £1,108,680).

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
2020/21 (Alistair Phillips-Davies)	3,011	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
2011/12 (Ian Marchant)	1,214	25	0	Downward discretion applied to AIP

1 The single total figure of remuneration is calculated on the same basis as the 'single total figure of remuneration' table on page 148.
2 The annual variable element award (AIP) is the figure shown on page 153 and reflected in the 'single total figure of remuneration table' on page 148.
3 The long-term incentive (PSP) vesting is the figure shown on page 153, and reflected in the 'single total figure of remuneration table' on page 148.
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 59:1 at median in 2019/20 to 71:1 in 2020/21. While the median remuneration for all employees has increased by 3.4%, the Chief Executive's remuneration has increased by 26.6%. This is due mainly to increased variable pay for the Chief Executive following a strong performance year and the formulaic increase in pension value from a pay freeze in 2019.

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 Total Remuneration	25th percentile Ratio	Median Total Remuneration	Median Ratio	75th percentile Total Remuneration	75th percentile Ratio	Total employee earnings (m)
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 2020/21 compares to that of the wider workforce. In 2020/21, the Chief Executive's salary was increased by 2.75% in line with the wider employee population, and his AIP outturn at 69% was lower than the average all employee AIP outturn.

	Non-Executive Directors						Executive Directors			
	Dame Sue Bruce	Tony Cocker	Richard Gillingwater CBE	Peter Lynas	Helen Mahey CBE	Melanie Smith	Energy and Commercial Director	Finance Director	Chief Executive	All Employees
Base Salary/ Fee	2.0%	13.1%	2.8%	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 148.

Non-Executive Directors do not earn benefits or bonus.

Three Non-Executive Directors (Crawford Gillies, Sir John Manzoni and Dame Angela Strank) 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 2021 is explained on page 148.

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	**2020/21 £m**
Executive Directors' earnings[1]	5.1	5.3	3.6	5.1	**6.8**
Dividends to shareholders	906.6	926.1	973.0	948.5	**836.4**
Capital and investment expenditure	1,726.2	1,503.0	1,422.9	1,371.9	**912.0**
Total UK taxes paid (profits, property, environment and employment taxes)[2]	385.0	484.1	403.7	421.6	**379.0**
Staff costs[3]	679.4	665.6	653.5	684.7	**700.4**

1 Calculated on the same basis as the 'single total figure of remuneration' table on page 148.
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 2020/21, £56 was paid in tax, £103 was spent on employee costs and £134 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 2020 and received £58,000 in fees. Gregor Alexander is also Chairman of Scotia Gas Networks but receives no additional fees for this.

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 £64,000 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 118 and 119.

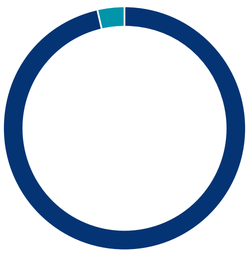
Risk assessment

The Remuneration Committee typically 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. This year's risk assessment is deferred to an additional committee meeting in August 2021 which will discuss all aspects the forthcoming policy review in 2022.

Shareholder voting in 2020

On 12 August 2020, shareholders approved the Annual Report on Remuneration for the year ended 31 March 2020 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.

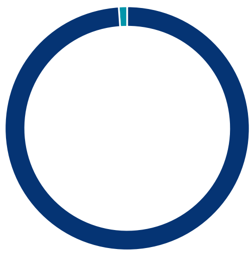
ANNUAL REPORT ON REMUNERATION – SHAREHOLDING VOTING IN 2020



For – 96.61%
Against – 3.39%

Total votes cast: 688,684,169
Votes withheld: 10,479,337

DIRECTORS' REMUNERATION POLICY – SHAREHOLDER VOTING IN 2019



For – 99.13%
Against – 0.87%

Total votes cast: 680,814,523
Votes withheld: 8,425,369

Remuneration Committee

The Terms of Reference for the Committee were reviewed during 2020/21 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 Non-executive Directors' remuneration.

The members of the Committee and the meetings attended are set out on page 102. The following agenda items were considered:

Meeting date	Agenda items
May 2020	Market and governance update, Executive Directors' pensions, base salary and fee review, AIP and PSP year-end performance, below-Board remuneration, 2020 Directors' Remuneration Report, review of executive shareplan leavers, 2020-22 Remuneration Committee Plan.
November 2020	Market and governance update, AIP and PSP mid-year performance update, shareholder consultation in relation to the Energy and Commercial Director's increased responsibilities, 2020-22 Remuneration Committee plan.
March 2021	Market and governance update, AIP and PSP performance update, Executive Directors' salaries and the Chair's fee, below-Board remuneration, 2020 Directors' Remuneration Report, Remuneration Committee terms of reference review, 2012-22 Remuneration Committee plan, 2022 Remuneration Policy review planning, Remuneration Committee evaluation.

ANNUAL REPORT ON REMUNERATION CONTINUED

4. Implementation for 2021/22

The table below sets out how the Remuneration Committee intends to operate the remuneration policy for the year ending 31 March 2022:

Element of pay	Implementation for 2021/22	Comment
Base salary	1% increase to £923,924 for the Chief Executive, £714,117 for the Finance Director and £636,300 for the Energy Director.	In line with the salary increases for the wider employee population.
Benefits	No changes proposed.	In line with the wider employee population.
Pension	Reduction in the Energy and Commercial Director's pension allowance from 30% to 15% accelerated to a take place over a period of three years rather than five.	This brings the Energy Director's pension in line with the majority of SSE employees by 1 April 2023 (see below).
Annual Incentive Plan	No change in quantum. No changes proposed to performance measures which are shown in detail on the following page.	Current measures are considered appropriate.
Performance Share Plan	No change in quantum. No changes proposed to performance measures which are shown in detail on the following page.	Current measures are considered appropriate however a review will take place during 2021/22 as part of the wider policy review.

Pension alignment

When the Energy and Commercial Director took on additional responsibility in his existing role, it was agreed that the reduction in his pension allowance from 30% to 15% which was due to take place over five years, should be accelerated to three years. The Committee views this as a change in contractual entitlement which brings his pension into alignment with the wider employee population, taking service into account, by 1 April 2023. The previous and revised phased reductions are shown in the table below:

Pension allowance (% of salary)	1 April 2021	1 April 2022	1 April 2023	1 April 2024	1 April 2025
Previous phased reduction	25%	23%	21%	19%	15%
Revised phased reduction	25%	20%	15%	15%	15%

AIP performance measures 2021/22

The AIP scorecard will remain unchanged from the previous year. The performance measures are shown below.

Performance measure	Dividends per Share	Cashflow	Adjusted Earnings per Share	Personal	Stakeholders	Sustainable Development Goals
Weighting	10%	10%	30%	15%	15%	20%
Description	Return on investment through payment of dividends	Retained cashflow and funds from operations to net debt	Underlying measure of financial performance	To reflect those activities which go beyond the normal responsibilities of the role	Customers, employees and suppliers	Contribution to the four SDGs for 2030 For more information see the Sustainability Report.

It is expected that the performance measures will be assessed on a similar basis as the 2020/21 award as set out on page 150, with the same level of stretch. The Committee will continue to exercise its judgement to reduce AIP awards when it believes the formulaic assessment is not appropriate, as it has done in three of the last five years.

PSP performance measures 2021/22

The PSP performance measures are unchanged from 2020/21 and are set out in the following table:

Performance measure	Total Shareholder Return relative to FTSE 100	Total Shareholder Return relative to MSCI Europe	Adjusted Earnings per Share growth	Dividends per Share growth	Networks customer	Business Energy customer
Weighting	20%	20%	20%	20%	10%	10%
Minimum performance	50th percentile (25% outturn)	50th percentile (25% outturn)	RPI (25% outturn)	RPI (50% outturn)	Median ranking (25% outturn)	Median ranking (25% outturn)
Maximum performance	75th percentile (100% outturn)	75th percentile (100% outturn)	RPI +5% (80% outturn) RPI + 10% (100%) outturn)	RPI +5% (100% outturn)	1st place ranking (100% outturn)	1st place ranking (100% outturn)

Ahead of the Remuneration Policy review in 2022, the Committee will consider developments in market practice, corporate governance and changes within SSE. The Committee is conscious of the differing approach to long-term incentives between the Executive Directors who participate in the PSP and the next tiers of management who currently participate in the Leadership Share Plan which has features which are more similar to those of a deferred bonus or a restricted share plan.

Chair's and non-Executive Directors' fees

Richard Gillingwater CBE stepped down from the Board on 31 March 2020. During 2020/21, he was paid a fee of £399,518. From 1 April 2021, Sir John Manzoni will take up the position of Chair of the Board with a fee of £400,000.

Last year, non-Executive Directors' fees were increased by 2.75% in line with the wider employee population. For 2021/22, it was agreed that fees are increased by 1% which is also in line with the wider employee population.

Chair and non-Executive Director fee levels for 2021/22 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	2021/22
Chair	£400,000
Base fee	£72,686
Senior Independent Director	£18,172
Audit Committee Chair	£18,172
Remuneration Committee Chair	£18,172
SHEAC Chair	£14,529
Energy Markets Risk Committee Chair	£14,529
Non-Executive Director for Employee Engagement	£10,378

DIRECTORS' REMUNERATION POLICY – A SUMMARY

The SSE's Directors' Remuneration Policy (the 'Policy') was approved with over 99% of shareholder support at the AGM on 18 July 2019. The full Policy is provided in the 2019 Annual Report. We believe that SSE's directors' remuneration policy, practice and engagement with employees and shareholders complies fully with the UK Corporate Governance Code.

At the time the Policy was approved some of the provisions of the new UK Corporate Governance Code were not directly relevant given the financial year, but nonetheless did feature in the Committee's thinking when determining the Policy and how it would be operated. For completeness, we have noted below how the Committee has address the six factors as set out in the Code:

Clarity

- Our directors' remuneration policy is designed to be sustainable and simple and to facilitate 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 is an update of 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.

Simplicity

- Our 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.

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 SHEA Committee ensures relevant risk factors are considered when setting or assessing performance targets.
- Clawback and malus provisions are in place across all incentive plans.

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 at the end of period assessment.

Proportionality

- Variable incentive pay outcomes are clearly dependent on delivering the Company's strategy.
- Performance is assessed on a broad basis, including a combination of financial, operational and ESG 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 to override formulaic outcomes if they are deemed inappropriate in light of the wider performance of the Company and considering the experience of stakeholders.

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 performance measures used, reflect our values which means doing the right thing, promoting fairness at work and paying our fair share.

The Remuneration Committee believes that SSE's remuneration principles are enduring and that the existing policy sufficiently addresses current legislation whilst maintaining adequate flexibility to withstand any recent business changes. For these reasons, it is proposed that the policy remains unchanged in 2021/22 with the exception of the current Energy Director's pension reduction which is to be accelerated by two years as explained on the previous page.

The policy is summarised below.

Base Salary	
Purpose and link to strategy	Supports the retention and recruitment of Executive Directors of the calibre required to develop the Company's strategy.
Operation and maximum opportunity	Base salary is normally reviewed annually with changes effective from 1 April. Salary increases will normally be capped at the typical level of increases awarded to other employees in the Company, although increases may be above this level in certain circumstances.
Performance measures	Broad review of performance is included in the annual review process.

Pension	
Purpose and link to strategy	Pension planning is an important part of SSE's remuneration strategy because it is consistent with the long-term goals of the business.
Operation and maximum opportunity	For the CEO and FD, funded final salary and top-up unfunded arrangements up to the maximum two-thirds of final salary at age 60. From 1 April 2017, future pensionable pay increases are capped at RPI + 1%. For the Energy Director a pension contribution or cash allowance of up to 30% of salary reducing to 15% on a phased basis over three years (by 1 April 2023) which reflects the wider employee population taking length of service into account. For new appointments, employer's pension contributions are capped at 12% of base salary in line with arrangements for SSE employees.
Performance measures	Not applicable.

Benefits	
Purpose and link to strategy	To provide a market-competitive level of benefits for Executive Directors.
Operation and maximum opportunity	Core benefits – currently include car allowance, private medical insurance and health screening. Participation in the Company's all-employee share plans on the same terms as UK colleagues. Relocation assistance if required. Reimbursement of travel and business-related expenses incurred. 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.

DIRECTORS' REMUNERATION POLICY – A SUMMARY CONTINUED

Annual Incentive Plan (AIP)	
Purpose and link to strategy	Reward Executive Directors for achievement of performance targets linked to SSE's strategy and core purpose.
Operation and maximum opportunity	Maximum annual incentive opportunity is 150% of base salary for the Chief Executive and 130% of base salary for the Finance and Energy Directors. The award will normally be delivered: • 67% in cash; and • 33% in deferred shares, which will be granted as a career share award. Career share awards will normally vest three years from the award date subject to continued employment with accrual of dividends over that period. The career share award will be held until the second anniversary of the cessation of the Executive Director's employment with the Company (irrespective of the circumstances of such cessation). Subject to malus and/or claw back provisions.
Performance measures	The annual incentive is normally based on a mix of financial measures and measures related to the strategic performance of the business. A minimum of 50% of the annual incentive will be based on financial performance.

Performance Share Plan (PSP)	
Purpose and link to strategy	Reward Executive Directors for their part in delivering the sustained success of SSE and to ensure that their interests are aligned with those of the shareholders.
Operation and maximum opportunity	Maximum value of award is 200% of base salary for the Chief Executive and 175% of base salary for the Finance and Energy Directors. Shares are awarded which normally vest based on performance over a period of three years with 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. Subject to malus and/or claw back provisions.
Performance measures	Awards vest based on relative total shareholder return, financial based measures and customer satisfaction. At least 70% of the award will be based on financial and relative total shareholder return measures.

Share Ownership Policy	
Purpose and link to strategy	Align the interests of Executive Directors with those of shareholders who invest in the Company.
Operation and maximum opportunity	Executive Directors are expected to maintain a shareholding equivalent to two times base salary built up within a reasonable timescale. 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. Vested career shares (which must be retained for two years post-cessation of employment) may also count towards the Executive Director's shareholding.
Performance measures	Not applicable.

Chair and non-Executive Directors' Fees	
Purpose and link to strategy	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 and maximum opportunity	The aggregate level of non-Executive Director fees shall not exceed the maximum limit set out in the Articles of Association. 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. The fee structure may be made up of: • 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. 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). It is also expected that all non-Executive Directors should build up a minimum of 2,000 shares in the Company.
Performance measures	There are no direct performance measures relating to Chair and non-Executive Director fees.

The full Policy also includes further information on:
- Performance measures and targets.
- Committee discretion.
- Legacy commitments.
- Directors' service contracts and non-Executive Directors' letters of appointment.
- Loss of office policy.
- Recovery provisions.
- Recruitment policy.
- Shareholders' views.
- Remuneration engagement across the Group.
- Illustration of the Policy.

Dame Sue Bruce DBE
Chair of the Remuneration Committee
25 May 2021

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 2021.

The Strategic Report is set out on pages 1 to 93 and the Directors' Report is set out on pages 94 to 169. 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 93
Particulars of important events affecting the Company since the financial year end	page 249
Greenhouse gas emissions	pages 38 to 43
Energy consumption	pages 38 to 43
Energy efficiency action	pages 38 to 43
Employee engagement and involvement	pages 28 to 31 and 45 to 50
Engagement with suppliers, customers and others in a business relationship with the Company	pages 28 to 31 and 50 to 53
A summary of the principal risks facing the Company	pages 54 to 63

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 211 to 212
Details of any long-term incentive schemes	pages 144 to 165

Results and dividends

The Group's results and performance highlights for the year are set out on pages 22 to 23 and 64 to 77. An interim dividend of 24.4p per Ordinary Share was paid on 11 March 2021. The Directors propose a final dividend of 56.6p per Ordinary Share. Subject to approval at the AGM 2021, the final dividend will be paid on 23 September 2021 to shareholders on the Register of Members at close of business on 30 July 2021.

Board of Directors

Director appointment and retirement

The Company's Directors who served during the financial year ending 31 March 2021 are provided on pages 98 to 101.

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 93.

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 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, whether that means access to appropriate training, development opportunities or job progression. Further details of this approach can be found on pages 45 to 50.

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 at 31 March 2021, together with details of any changes during the year, is set out in Note 22 to the Financial Statements.

As at 25 May 2021, the issued share capital of the Company consisted of 1,049,144,208 Ordinary Shares. This figure includes 6,037,617 ordinary shares which are held in treasury (representing 0.58% of the Company's issued share capital), with these shares voting and dividend rights automatically suspended.

The Company was authorised at the AGM 2020 to allot shares or grant rights over shares up to an aggregate nominal amount equal to £173,240,508 (representing 346,481,016 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 2021.

The Company was authorised at the AGM 2020 to allot up to an aggregate nominal amount of £25,986,075 (representing 51,972,151 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 2021.

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 2021, 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 2021 and 25 May 2021.

Shareholder	Voting rights attached to shares*		Voting rights through financial instruments*		Total of both in %	Nature of holding
BlackRock, Inc.	69,555,800	6.67%	3,031,628	0.29%	6.96%	Indirect, Securities Lending, CFD
The Capital Group Companies, Inc.	50,981,817	4.90%	–	–	4.90%	Indirect, ADR
UBS Investment Bank	49,558,763	4.93%	2,444,392	0.23%	5.17%	Indirect, Equity Options, Equity Swaps
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 2020, the Company obtained shareholder approval to purchase up to 103,944,305 of its own Ordinary Shares (representing 10% of its issued share capital) up until the earlier of the conclusion of the AGM 2021 and close of business on 30 September 2021.

The Company did not undertake any share repurchase programmes during the financial year ending 31 March 2021.

During the financial year, and up until 25 May 2021, the Company used 909,995 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 2021.

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.

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.

OTHER STATUTORY INFORMATION CONTINUED

Annual General Meeting (AGM)

The AGM of the Company will be held at and broadcast from the Perth Concert Hall, Mill Street, Perth PH1 5HZ on Thursday 22 July 2021 at 12.30 pm. With continued uncertainty around the status of the pandemic and restrictions in place the Board strongly recommends that shareholders do not attend the AGM in person, but instead make use of the electronic facilities on offer to join remotely. 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 2021 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

A Special Resolution will be proposed at the AGM to adopt new Articles of Association of the Company (New Articles). In adopting the New Articles, the opportunity has been taken to update the Company's existing Articles of Association (Existing Articles) to reflect changes to the Companies Act 2006 and the UK Corporate Governance Code requirements and developments in market and industry practice since the Existing Articles were adopted on 22 July 2010. Full details of changes can be found in the Notice of the Annual General Meeting 2021 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.

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 2021, 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 94 to 169 has been approved by the Board of Directors in accordance with the Companies Act 2006.

By order of the Board

Sally Fairbairn
Company Secretary
25 May 2021

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 International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies to the European Union and applicable United Kingdom law, 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 and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with applicable accounting standards;
- 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 the applicable set of 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 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
25 May 2021

Gregor Alexander
Finance Director

A STABLE PLATFORM **FOR FUTURE GROWTH**

In the face of the wider economic challenges posed by a global pandemic in 2020/21, the financial cost of coronavirus to SSE was limited and underlying performance was strong. The Financial Statements on the following pages, combined with a healthy balance sheet, world-class assets and a resilient business model, provide the foundations for future growth in the transition to net zero.

Financial Statements

SSEN Transmission is the critical link between the abundance of renewable energy in the remote North of Scotland the large urban centres of demand in the south.

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.
- 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.
- 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 period

In the year the Group changed its adjusted investment and capital expenditure metric to adjust for proceeds received in the year ended 31 March 2021 from the refinancing of joint venture capital projects. The rationale for including this adjustment to these APMs is set out in adjustment number 20 on page 175.

Impact of coronavirus on the Group's APMs

The Group has not adjusted its APMs for the impact of coronavirus. The Group has assessed that it incurred a reduction in underlying operating profit as a result of coronavirus estimated at £168.7m for the year ended 31 March 2021 (2020: £18.2m). The adjusted results of the Group set out in the tables below have not been adjusted to remove this impact.

While the Group has not adjusted its APMs for the impact of coronavirus, £33.7m of coronavirus related bad debt costs were classified as exceptional in the year ended 31 March 2020. In the year ended 31 March 2021, £26.1m of the exceptional provision recognised in the prior year has been released. The initial outbreak of the pandemic in the Group's markets happened late in the prior financial year; it was noted at that point that the exceptional provision was made based on the best estimates available and that the Group would continue to monitor the situation. Subsequently, the impact of government support schemes, lockdowns and other factors have contributed to better than expected debt recovery in the current year giving rise to the exceptional release. Further information on the judgement applied in relation to coronavirus in the current and prior year is included in Note 4.2(i).

The following table explains the key APMs applied by the Group and referred to in these statements:

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	• Movement on operating and joint venture financing derivatives ('certain re-measurements') • Exceptional items • 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 • Release of deferred income
Adjusted operating profit	Profit measure	Operating profit	• Movement on operating and joint venture financing derivatives ('certain re-measurements') • Exceptional items • Depreciation and amortisation expense on fair value uplifts • Share of joint ventures and associates' interest and tax
Adjusted profit before tax	Profit measure	Profit before tax	• Movement on operating and financing derivatives ('certain re-measurements') • Exceptional items • Depreciation and amortisation expense on fair value uplifts • Interest on net pension assets/liabilities (IAS 19) • Share of non-recurring joint venture refinancing costs (prior year only) • Share of joint ventures and associates' tax

Group APM	Purpose	Closest equivalent IFRS measure	Adjustments to reconcile to primary financial statements
Adjusted net finance costs	Profit measure	Net finance costs	• Exceptional items • Movement on financing derivatives • Share of joint ventures and associates' interest • Share of non-recurring joint venture refinancing costs (prior year only) • Interest on net pension assets/liabilities (IAS 19)
Adjusted current tax charge	Profit measure	Tax charge	• Share of joint ventures and associates' tax • Deferred tax including share of joint ventures and associates • Tax on exceptional items and certain re-measurements • Reclassification of tax liabilities
Adjusted earnings per share	Profit measure	Earnings per share	• Exceptional items • 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 (prior year only) • Deferred tax including share of joint ventures and associates
Adjusted net debt and hybrid capital	Debt measure	Unadjusted net debt	• Hybrid equity • Outstanding liquid funds • Lease obligations • Cash presented as held for sale
Adjusted investment and capital expenditure	Capital measure	Capital additions to Intangible Assets and Property, Plant and Equipment	• Other expenditure • Customer funded additions • Allowances and certificates • Disposed additions • Joint ventures and associate additions • Refinancing proceeds

Rationale for adjustments

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 its SSE Renewables, Thermal or discontinued Gas Production assets. Certain 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. 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 financial instruments under IFRS 9 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 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.

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.

ALTERNATIVE PERFORMANCE MEASURES CONTINUED

Rationale for adjustments continued

Adjustments to profit measure continued

3 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 relevant adjusted profit measures before its share of the interest and/or tax on joint ventures and associates.

4 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 73, '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)).

5 Depreciation and amortisation expense on fair value uplifts

The Group's operating strategy includes securing value creation from divestments of stakes in certain assets and businesses namely its offshore and (future) international SSE Renewables developments. In addition, for strategic purposes the Group may also decide to bring in equity partners in 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 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 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.

6 Release of deferred income

The Group deducts the release of deferred income in the year from its adjusted EBITDA metric as it principally relates to grants or customer contributions against depreciating assets. As the metric adds back depreciation, the income is also deducted.

7 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 is £12.3m, which has been adjusted from the Group's adjusted profit before tax and the Group's adjusted finance costs as refinancing of this scale is non-recurring, considered to be specific to this instance and therefore not representative of normal operations.

8 Interest on net pension assets/liabilities (IAS 19)

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. To avoid income statement volatility derived from this basis of measurement and reflecting the non-cash nature of these charges, the Group excludes these from its adjusted profit measures.

9 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.

Adjustments to debt measure

10 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.

11 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.

12 Leases
SSE's reported loans and borrowings include lease liabilities on contracts under the scope of IFRS 16, which are not directly related to the external 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.

13 Cash presented as held for sale
Where the Group holds cash balances as part of a disposal group, as was the case at 31 March 2019, those balances will be excluded from the Group's debt measure. As the Group will continue to fund such held for sale businesses through intercompany loans and borrowings, any cash held by the business will be an adjustment in the Group adjusted net debt measure.

Adjustments to capex measure
14 Other expenditure
Other expenditure primarily represents subsequently derecognised development expenditure which is excluded to better reflect the Group's ongoing capital position.

15 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.

16 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.

17 Additions through business combinations
In the year ended 31 March 2020, the Group took a controlling interest in the Viking partnership and acquired a windfarm portfolio in Wexford in Ireland, resulting in an addition to intangible assets on consolidation of £26.4m. In the year ended 31 March 2019, the Group acquired 50% interest in Seagreen Wind Energy Limited ('Seagreen'). On consolidation of Seagreen, £143.4m of development asset was included in the Group's consolidated intangible assets. These additions have been removed from 'adjusted investment and capital expenditure' as they were not direct capital expenditure by the Group.

18 Additions subsequently disposed/impaired
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 (see Note 12.1), 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. Additions subsequently disposed in the year ended 31 March 2019 represent capital additions related to Stronelairg and Dunmaglass windfarms and SSE Telecommunications prior to their disposal and subsequent recognition as part of SSE's investment in joint ventures.

19 Joint ventures and associates' additions
Joint ventures and associates' additions represent direct funding provided 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.

20 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. 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.

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 Gas Production operations which is held for sale at 31 March 2021 (see Note 12.3) and SSE Energy Services which was disposed on 15 January 2020:
- 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', and 'investment and capital expenditure' have not been adjusted as the Group continues to fund the discontinued operations until the date of disposal.

ALTERNATIVE PERFORMANCE MEASURES CONTINUED

Rationale for adjustments continued

Impact of discontinued operations on the Group's APMs continued

The table below reconciles the adjusted performance measures to the reported measure of the Group.

	March 2021	March 2020	March 2019
Adjusted operating profit	**1,506.5**	1,488.4	1,088.7
Adjusted net finance costs	**(441.6)**	(465.0)	(403.6)
Adjusted profit before tax (PBT) APM	**1,064.9**	1,023.4	685.1
Adjusted current tax charge	**(107.8)**	(114.2)	(7.1)
Adjusted profit after tax	**957.1**	909.2	678.0
Hybrid coupon paid	**(46.6)**	(46.5)	(46.6)
Adjusted profit after tax attributable to ordinary shareholders for EPS APM	**910.5**	862.7	631.4
Number of shares for EPS	**1,040.9**	1,032.5	1,021.7
Adjusted earnings per share APM	**87.5**	83.6	61.8
Adjusted EBITDA APM	**2,229.9**	2,191.4	1,718.1
Depreciation, impairment and amortisation, before exceptional charges	**(556.2)**	(530.1)	(519.0)
Depreciation and amortisation expense on fair value uplifts	**20.6**	20.6	2.9
Release of deferred income	**17.7**	14.7	10.2
Share of joint ventures and associates' depreciation and amortisation	**(205.5)**	(208.2)	(123.5)
Adjusted operating profit APM	**1,506.5**	1,488.4	1,088.7
Adjusted operating profit APM	**1,506.5**	1,488.4	1,088.7
Movement on operating and joint venture financing derivatives	**599.7**	(36.2)	(327.0)
Exceptional items	**848.9**	(212.1)	1,010.2
Depreciation and amortisation expense on fair value uplifts	**(20.6)**	(20.6)	(2.9)
Share of joint ventures and associates' interest and tax	**(191.0)**	(256.1)	(155.4)
Reported operating profit	**2,743.5**	963.4	1,613.6
Adjusted profit before tax PBT APM	**1,064.9**	1,023.4	685.1
Movement on operating and financing derivatives	**655.3**	(119.2)	(371.8)
Exceptional items	**850.3**	(209.7)	1,010.2
Depreciation and amortisation expense on fair value uplifts	**(20.6)**	(20.6)	(2.9)
Interest on net pension assets/(liabilities)	**11.0**	8.3	11.4
Share of joint ventures and associates' tax	**(44.5)**	(82.3)	(31.7)
Share of non-recurring joint venture refinancing costs	**–**	(12.3)	–
Reported profit before tax	**2,516.4**	587.6	1,300.3
Adjusted net finance costs APM	**441.6**	465.0	403.6
Exceptional items	**(1.4)**	(2.4)	–
Movement on financing derivatives	**(55.6)**	83.0	44.8
Share of joint ventures and associates' interest	**(146.5)**	(173.8)	(123.7)
Interest on net pension assets	**(11.0)**	(8.3)	(11.4)
Share of non-recurring joint venture refinancing costs	**–**	12.3	–
Reported net finance costs	**227.1**	375.8	313.3
Adjusted current tax charge APM	**107.8**	114.2	7.1
Share of joint ventures and associates' tax	**(44.5)**	(82.3)	(31.7)
Deferred tax including share of joint ventures and associates	**38.2**	91.9	87.6
Tax on exceptional items and certain re-measurement	**122.8**	(2.3)	(72.9)
Reported tax charge/(credit)	**224.3**	121.5	(9.9)
Adjusted net debt and hybrid capital APM	**(8,898.9)**	(10,465.9)	(9,437.0)
Hybrid equity	**1,472.4**	1,169.7	1,169.7
Adjusted net debt APM	**(7,426.5)**	(9,296.2)	(8,267.3)
Outstanding liquid funds	**37.1**	(256.4)	(344.2)
Lease obligations	**(421.0)**	(455.2)	(229.3)
Cash presented as held for sale	**–**	–	(95.2)
Unadjusted net debt	**(7,810.4)**	(10,007.8)	(8,936.0)

Rationale for adjustments continued

Impact of discontinued operations on the Group's APMs continued

	March 2021	March 2020	March 2019
Investment and capital expenditure (adjusted) APM	**912.0**	1,357.4	1,422.9
Refinancing proceeds/refunds	**428.6**		
Customer funded additions	**61.8**	110.7	224.7
Allowances and certificates	**509.0**	652.7	954.0
Additions through business combinations	**–**	26.4	143.4
Disposed/impaired additions	**19.7**	44.6	195.3
Joint ventures and associates' additions	**(172.7)**	(167.1)	(292.5)
IFRS 16 right of use asset additions	**45.4**	46.5	–
Capital additions to intangible assets and property, plant and equipment	**1,803.8**	2,071.2	2,647.8
Capital additions to intangible assets	**701.3**	973.6	1,333.3
Capital additions to property, plant and equipment	**1,102.5**	1,097.6	1,314.5
Capital additions to intangible assets and property, plant and equipment	**1,803.8**	2,071.2	2,647.8

The following table summarises the impact of excluding discontinued operations from the continuing activities of the Group in current and prior years:

	March 2021 £m	March 2020 £m	March 2019 £m
Adjusted EBITDA of SSE Group (including discontinued operations)	**2,262.9**	2,281.0	2,008.6
Less: SSE Energy Services	**–**	(32.7)	(140.0)
Less: Gas Production	**(33.0)**	(56.9)	(150.5)
Adjusted EBITDA of continuing operations APM	**2,229.9**	2,191.4	1,718.1
Adjusted operating profit of SSE Group (including discontinued operations)	**1,539.5**	1,546.9	1,227.2
Less: SSE Energy Services	**–**	(32.7)	(89.6)
Less: Gas Production	**(33.0)**	(25.8)	(48.9)
Adjusted operating profit of continuing operations APM	**1,506.5**	1,488.4	1,088.7
Adjusted net finance costs of SSE Group (including discontinued operations)	**443.9**	471.6	411.9
Less: SSE Energy Services	**–**	–	–
Less: Gas Production	**(2.3)**	(6.6)	(8.3)
Adjusted net finance costs of continuing operations APM	**441.6**	465.0	403.6
Adjusted profit before tax of SSE Group (including discontinued operations)	**1,095.6**	1,075.3	815.3
Less: SSE Energy Services	**–**	(32.7)	(89.6)
Less: Gas Production	**(30.7)**	(19.2)	(40.6)
Adjusted profit before tax of continuing operations APM	**1,064.9**	1,023.4	685.1
Adjusted current tax of SSE Group (including discontinued operations)	**107.8**	110.3	11.3
Less: SSE Energy Services	**–**	3.9	(18.1)
Less: Gas Production	**–**	–	13.9
Adjusted current tax of continuing operations APM	**107.8**	114.2	7.1
Adjusted earnings per share of SSE Group (including discontinued operations)	**90.5**	89.0	74.1
Less: SSE Energy Services	**–**	(3.6)	(7.0)
Less: Gas Production	**(3.0)**	(1.8)	(5.3)
Adjusted earnings per share of continuing operations APM	**87.5**	83.6	61.8

The remaining APMs presented by the Group are unchanged in all periods presented by the discontinued operations.

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Accompanying Information

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Notes to the Company Financial Statements

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2021

	Note	2021 Before exceptional items and certain remeasurements £m	2021 Exceptional items and certain remeasurements (Note 7) £m	2021 Total £m	2020 Before exceptional items and certain remeasurements £m	2020 Exceptional items and certain remeasurements (Note 7) £m	2020 Total £m
Continuing operations							
Revenue	5	6,826.4	–	6,826.4	6,800.6	–	6,800.6
Cost of sales	6	(4,732.7)	598.6	(4,134.1)	(4,745.0)	(39.3)	(4,784.3)
Gross profit		2,093.7	598.6	2,692.3	2,055.6	(39.3)	2,016.3
Operating costs	6	(1,198.4)	(127.1)	(1,325.5)	(1,019.1)	(240.3)	(1,259.4)
Other operating income	6	268.7	976.0	1,244.7	24.4	28.2	52.6
Operating profit before joint ventures and associates		1,164.0	1,447.5	2,611.5	1,060.9	(251.4)	809.5
Joint ventures and associates:							
Share of operating profit		322.0	–	322.0	406.8	–	406.8
Share of interest		(146.5)	–	(146.5)	(173.8)	–	(173.8)
Share of movement on derivatives		–	1.0	1.0	–	3.2	3.2
Share of tax		(44.3)	(0.2)	(44.5)	(81.7)	(0.6)	(82.3)
Share of profit on joint ventures and associates	16	131.2	0.8	132.0	151.3	2.6	153.9
Operating profit from continuing operations	5	1,295.2	1,448.3	2,743.5	1,212.2	(248.8)	963.4
Finance income	9	88.0	57.0	145.0	79.2	2.4	81.6
Finance costs	9	(372.1)	–	(372.1)	(374.4)	(83.0)	(457.4)
Profit before taxation		1,011.1	1,505.3	2,516.4	917.0	(329.4)	587.6
Taxation	10	(101.5)	(122.8)	(224.3)	(123.8)	2.3	(121.5)
Profit for the year from continuing operations		909.6	1,382.5	2,292.1	793.2	(327.1)	466.1
Discontinued operations							
Profit/(loss) from discontinued operation, net of tax	12	30.7	–	30.7	44.2	(522.8)	(478.6)
Profit/(loss) for the year		940.3	1,382.5	2,322.8	837.4	(849.9)	(12.5)
Attributable to:							
Ordinary shareholders of the parent	11	893.7	1,382.5	2,276.2	790.9	(849.9)	(59.0)
Other equity holders		46.6	–	46.6	46.5	–	46.5
Earnings/(loss) per share							
Basic (pence)	11			218.7			(5.7)
Diluted (pence)	11			218.3			(5.7)
Earnings per share – continuing operations							
Basic (pence)	11			215.7			40.6
Diluted (pence)	11			215.4			40.6

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2021

	2021 £m	2020 £m
Profit/(loss) for the year	**2,322.8**	(12.5)
Other comprehensive income:		
Items that will be reclassified subsequently to profit or loss:		
Net (losses)/gains on cash flow hedges	**(44.7)**	38.0
Transferred to assets and liabilities on cash flow hedges	**(5.1)**	3.7
Taxation on cashflow hedges	**8.5**	(7.2)
	(41.3)	34.5
Share of other comprehensive gain/(loss) of joint ventures and associates, net of taxation	**25.0**	(40.3)
Exchange difference on translation of foreign operations	**(43.3)**	33.0
Gain/(loss) on net investment hedge	**37.3**	(28.7)
	(22.3)	(1.5)
Items that will not be reclassified to profit or loss:		
Actuarial (loss)/gain on retirement benefit schemes, net of taxation	**(12.8)**	97.8
Share of other comprehensive (loss)/income of joint ventures and associates, net of taxation	**(23.3)**	36.6
Gains/(losses) on revaluation of investments in equity instruments, net of taxation	**1.1**	(1.3)
	(35.0)	133.1
Other comprehensive (loss)/gain, net of taxation	**(57.3)**	131.6
Total comprehensive income for the period	**2,265.5**	119.1
Attributable to:		
Ordinary shareholders of the parent	**2,218.9**	72.6
Other equity holders	**46.6**	46.5
	2,265.5	119.1

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET
AS AT 31 MARCH 2021

	Note	2021 £m	2020 £m
Assets			
Property, plant and equipment	14	**13,254.3**	12,814.7
Goodwill and other intangible assets	13	**841.3**	1,101.4
Equity investments in joint ventures and associates	16	**1,643.5**	1,849.4
Loans to joint ventures and associates	16	**554.3**	847.5
Other investments	16	**3.6**	0.2
Other receivables	18	**115.9**	100.0
Derivative financial assets	24	**114.7**	308.2
Retirement benefit assets	23	**543.1**	534.2
Non-current assets		**17,070.7**	17,555.6
Intangible assets	13	**374.9**	503.2
Inventories	17	**234.9**	174.0
Trade and other receivables	18	**1,488.2**	1,761.2
Current tax asset	10	**12.7**	15.1
Cash and cash equivalents	21	**1,600.2**	164.6
Derivative financial assets	24	**470.9**	631.2
Assets held for sale	12	**339.1**	226.8
Current assets		**4,520.9**	3,476.1
Total assets		**21,591.6**	21,031.7
Liabilities			
Loans and other borrowings	21	**937.6**	1,966.9
Trade and other payables	19	**1,987.3**	1,995.4
Current tax liabilities	10	**12.8**	–
Provisions	20	**79.3**	61.4
Derivative financial liabilities	24	**238.7**	785.8
Liabilities held for sale	12	**253.5**	398.7
Current liabilities		**3,509.2**	5,208.2
Loans and other borrowings	21	**8,473.0**	8,205.5
Deferred tax liabilities	10	**774.3**	645.8
Trade and other payables	19	**722.5**	639.5
Provisions	20	**793.3**	600.1
Retirement benefit obligations	23	**186.1**	192.5
Derivative financial liabilities	24	**452.1**	620.0
Non-current liabilities		**11,401.3**	10,903.4
Total liabilities		**14,910.5**	16,111.6
Net assets		**6,681.1**	4,920.1
Equity:			
Share capital	22	**524.5**	523.1
Share premium		**847.1**	875.6
Capital redemption reserve		**49.2**	49.2
Hedge reserve		**(133.6)**	(111.1)
Translation reserve		**0.4**	6.4
Retained earnings		**3,921.1**	2,407.2
Equity attributable to ordinary shareholders of the parent		**5,208.7**	3,750.4
Hybrid equity	22	**1,472.4**	1,169.7
Total equity		**6,681.1**	4,920.1

The accompanying notes are an integral part of the financial statements.

These financial statements were approved by the Board of Directors on 25 May 2021 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 2021

	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 attributable to equity holders of the parent £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 (ii)	–	(27.1)	–	–	–	24.6	(2.5)	–	(2.5)
Adjustment in relation to historic remeasurement of financial instruments, net of tax (i)	–	–	–	(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) Following review of the recognition of certain derivative financial instruments at inception, a revision to Retained Earnings, Loans and Borrowings and the Hedge Reserve has been recorded during the period. 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 is 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 prior year financial statements.

(ii) Investment in own shares is the purchase of own shares less the settlement of treasury shares for sharesave schemes. This includes a reclassification between share premium and retained earnings of £27.1m for previous treasury share issuances to employees.

	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 attributable to equity holders of the parent £m
At 1 April 2019	523.4	879.6	34.8	(105.3)	2.1	3,250.9	4,585.5	1,169.7	5,755.2
Loss for the year	–	–	–	–	–	(59.0)	(59.0)	46.5	(12.5)
Other comprehensive income/(loss)	–	–	–	(5.8)	4.3	133.1	131.6	–	131.6
Total comprehensive income for the year	–	–	–	(5.8)	4.3	74.1	72.6	46.5	119.1
Dividends to shareholders	–	–	–	–	–	(948.5)	(948.5)	–	(948.5)
Scrip dividend related share issue	14.1	(14.1)	–	–	–	345.5	345.5	–	345.5
Distributions to Hybrid equity holders	–	–	–	–	–	–	–	(46.5)	(46.5)
Issue of shares	–	10.1	–	–	–	–	10.1	–	10.1
Share repurchase	(14.4)	–	14.4	–	–	(352.0)	(352.0)	–	(352.0)
Credit in respect of employee share awards	–	–	–	–	–	24.5	24.5	–	24.5
Investment in own shares	–	–	–	–	–	(14.6)	(14.6)	–	(14.6)
Adjustment in relation to historic depreciation rates, net of tax	–	–	–	–	–	27.3	27.3	–	27.3
At 31 March 2020	523.1	875.6	49.2	(111.1)	6.4	2,407.2	3,750.4	1,169.7	4,920.1

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2021

	Note	2021 £m	2020 £m
Operating profit – continuing operations		**2,743.5**	963.4
Operating profit – discontinued operations	12	**33.0**	(243.6)
Operating profit – total operations		**2,776.5**	719.8
Less share of profit of joint ventures and associates		**(132.0)**	(153.9)
Operating profit before jointly controlled entities and associates		**2,644.5**	565.9
Pension service charges less contributions paid	23	**(22.8)**	(25.2)
Movement on operating derivatives	24	**(590.1)**	34.2
Depreciation, amortisation, write downs and impairments		**637.9**	947.2
Charge in respect of employee share awards (before tax)		**18.1**	24.5
Profit on disposal of assets and businesses	7, 12	**(1,227.9)**	(60.5)
Release of provisions	20	**(4.1)**	(21.2)
Release of deferred income	5	**(17.7)**	(14.7)
Cash generated from operations before working capital movements		**1,437.9**	1,450.2
(Increase)/decrease in inventories		**(71.7)**	122.5
Decrease in receivables		**155.3**	155.0
Increase/(decrease) in payables		**420.0**	(269.2)
Increase/(decrease) in provisions		**36.1**	(3.0)
Cash generated from operations		**1,977.6**	1,455.5
Dividends received from investments	16	**191.1**	213.4
Interest paid		**(288.7)**	(272.9)
Taxes paid		**(62.8)**	(95.8)
Net cash from operating activities		**1,817.2**	1,300.2
Purchase of property, plant and equipment	5	**(985.0)**	(814.1)
Purchase of other intangible assets	5	**(192.3)**	(396.8)
Deferred income received		**11.2**	11.8
Proceeds from disposals	12	**1,734.8**	413.9
Cash disposed from disposals	12	**(172.8)**	(235.6)
Joint venture development expenditure refunds		**182.5**	–
Loans and equity provided to joint ventures and associates	16	**(188.9)**	(175.7)
Purchase of businesses and subsidiaries	12	**–**	(29.0)
Loans and equity repaid by joint ventures	16	**54.2**	213.3
Net cash from investing activities		**443.7**	(1,012.2)
Proceeds from issue of share capital	22	**10.4**	10.1
Dividends paid to company's equity holders	11	**(797.4)**	(603.0)
Hybrid equity dividend payments	22	**(46.6)**	(46.5)
Employee share awards share purchase	22	**(12.9)**	(14.6)
Issue of hybrid instruments	22	**1,051.0**	–
Redemption of hybrid instruments	22	**(750.0)**	–
New borrowings	21	**1,668.5**	1,122.4
Seagreen development expenditure refinancing proceeds	21	**246.1**	–
Repayment of borrowings	21	**(2,189.3)**	(770.3)
Settlement of cashflow hedges		**(5.1)**	3.7
Repurchase of own shares		**–**	(352.0)
Net cash from financing activities		**(825.3)**	(650.2)
Net increase/(decrease) in cash and cash equivalents		**1,435.6**	(362.2)
Cash and cash equivalents at the start of year	21	**164.6**	526.8
Net increase/(decrease) in cash and cash equivalents		**1,435.6**	(362.2)
Cash and cash equivalents at the end of year		**1,600.2**	164.6

The accompanying notes are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

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 2021 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 283 to 295.

1.2 Basis of preparation
Statement of compliance
The financial statements were authorised for issue by the directors on 25 May 2021. The financial statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and in accordance with International Financial Reporting Standards pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union ('adopted IFRS').

Going concern
The Directors consider that the Group has adequate resources to continue in operational existence for the period to 31 December 2022. The financial statements are therefore prepared on a going concern basis. In assessing the Group's ability to continue as a going concern, the ongoing impact of the coronavirus pandemic was considered and has been included as an other accounting judgement (see Note 4.2 (i)).

In addition, further details of the Group's liquidity position and going concern review, including the potential economic impacts of coronavirus, are provided in A6 Accompanying Information to the Financial Statements on page 272.

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 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 250.

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 186 to 188.

Changes to presentation
There have been no changes to presentation during the current year.

During the prior year, the Group assessed that its Gas Production business met the criteria to be presented as held for sale and a discontinued operation. The business remains held for sale at 31 March 2021 and continues to be classified as a discontinued operation (see Note 4.2.1). The results of the business are therefore presented as discontinued operations in the income statement, cash flow statement and related notes, in line with the requirements of IFRS 5 '*Non-current Assets Held for Sale and Discontinued Operations*'.

Changes to estimates
There have been no changes to the basis of accounting estimates during the current year.

During the prior year the Group performed a detailed technical review of the operating lives of its onshore and offshore windfarms and changed the estimated useful life of the majority of its onshore windfarms from 20 to 25 years. The change to this estimate resulted in an increase to adjusted and reported profit before tax of £30.2m in the prior year.

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 250 to 260.

2.1 New standards, amendments and interpretations effective or adopted by the Group
The accounting policies applied are consistent with those of the prior year. From 1 January 2020 (thus 1 April 2020 for the Group), amendments to IFRS 3: Business Combinations; Interest Rate Benchmark Reform; amendments to IAS 1 and IAS 8; and the conceptual framework for financial reporting became effective. None have had a material impact on the Group. From 1 June 2020 an amendment to IFRS 16 for coronavirus related rent concessions became effective. The Group has not received any rent concessions and so has not early adopted the amendment as it would have no impact on the presentation of these Financial Statements.

2. New accounting policies and reporting changes continued

2.2 New standards, amendments and interpretations issued, but not yet adopted by the Group

The following standard has been issued but not yet adopted by the Group within these financial statements, because application is not yet mandatory or because adoption by the UK remains outstanding at this point in time:

IFRS 17 'Insurance Contracts' is effective from 1 January 2023 (and thus 1 April 2023 to the Group) and is subject to endorsement

IFRS 17 'Insurance contracts' was originally issued in May 2017, then reissued in June 2020, and replaces IFRS 4 'Insurance Contracts' and sets out the requirements that a company should apply in reporting information about insurance contracts it issues and reinsurance contracts it holds.

Whilst the Group operates a captive insurance company, SSE Insurance Limited, its primary purpose is to provide greater control over SSE's management of specific risks, with minor annual premium payments made. It is therefore not expected that adoption of this standard will have a material impact on the Group's consolidated financial statements.

Other interpretations and amendments

In addition to these issued standards, there are a number of other interpretations, amendments and annual improvement project recommendations that have been issued but not yet adopted by the Group because application is not yet mandatory or because adoption by the UK remains outstanding at this point in time. 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 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 EPS', 'adjusted EBITDA', 'adjusted investment and capital 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 172 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 the most useful for the 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 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, non-recurring financing costs in joint ventures, the net interest costs associated with defined benefit schemes 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, 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 73, '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, 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 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 particular relevance to the ordinary shareholders of the Group as well as other stakeholders and interested parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2021

3. Adjusted accounting measures continued
3.1 Adjusted measures continued
Finally, the financial statements include an 'adjusted investment and capital expenditure' measure. This metric represents 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. This therefore includes 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 this metric, 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 metric 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. As with 'adjusted earnings per share', this measure is considered to be of particular 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 172 to 177.

Where the Group have referred to an adjusted performance measure in the financial statements the following sign is presented to denote this. APM

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 will tend to be non-recurring although exceptional charges may impact the same asset class or segment over time.

Market conditions that have deteriorated 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 significant disputes and claims.

The Group operates a 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 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 international or offshore wind farm projects which will be considered non-exceptional in line with the Group's expressed strategy to generate recurring gains in these businesses. Finally, in response to the impact of the coronavirus pandemic on the Group's financial position at March 2020, a specific category of exceptional charge was identified and defined relating to impairment of current assets assessed as being a direct consequence of the outbreak. Further detail is noted at 4.2(i) below.

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.

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 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 with the most significant financial judgement areas as specifically discussed by the Audit Committee being highlighted separately.

4. Accounting judgements and estimation uncertainty continued

4.1 Significant financial judgements

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 – estimation uncertainty

The Group reviews the carrying amounts of its goodwill, other intangible assets and specific property, plant and equipment assets to determine whether any impairment of the carrying value of those assets requires to be recorded. The specific assets under review in the year ended 31 March 2021 are intangible development assets and specific property, plant and equipment assets related to thermal power generation and the carrying value of the held for sale gas production business. 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, power, gas, carbon and other commodity prices, volatility of gas prices, plant running regimes and load factors, expected proven and probable reserves, 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 charges 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 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.

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 (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. 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 accounts.

4.2 Other accounting judgements

(i) Accounting for the impacts of coronavirus – accounting judgement and estimation uncertainty

At 31 March 2020, the UK had entered a first period of lockdown caused by the coronavirus pandemic, which had been implemented late in the Group's financial year. The Group assessed at that time that due to the expected impact to credit risk, specifically the recovery of current and aged debt balances in its Business Energy and Airtricity businesses, an additional exceptional provision of £33.7m should be recognised in its Business Energy (£27.7m) and Airtricity (£6.0m) businesses specifically associated with the change in circumstances resulting from the pandemic.

In the subsequent financial year, the UK economy was significantly affected by the pandemic. The Group has seen reduced electricity demand impact its use of system revenue in its SSEN Distribution business; reduced consumption from business customers; and reduced activity in its Enterprise business as direct impacts from the pandemic. These impacts are estimated at £168.7m. However, the impact on recovery of customer debt balances at 31 March 2020 has been better than expected, largely due to support provided to customers through government support schemes. Accordingly, the Group has reversed £26.1m of the exceptional provision recognised in the prior year (see Note 7.1). The basis of determining the provisions for bad and doubtful debts is explained within the Accompanying Information section A6 at pages 271 to 279. While the provisions are considered to be appropriate, changes in estimation basis or in economic conditions could lead to a change in the level of provisions recorded, and consequently on the charge or credit to the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2021

4. Accounting judgements and estimation uncertainty continued
4.2 Other accounting judgements continued
The analysis of the ageing of trade receivables, movement in the provision for bad and doubtful debts and the net trade receivables expected to be recoverable is detailed within the Accompanying Information section A6 at pages 271 to 279.

During the year the Group has successfully accessed capital markets and has managed to refinance maturing debt through a market impacted by coronavirus. The impact of coronavirus on the financial position and going concern basis of the Group is set out in the Group's going concern commentary at A6.3 and in the Viability Statement on page 56.

4.2.1 Other accounting judgements – changes from prior year
Held for sale classification of the Group's investment in Gas Production
At 31 March 2020, the Group classified its investment in Gas Production assets as held for sale. At that date, the Group was engaged in discussions with potential buyers for the business but a transaction had not been agreed, and, due to economic conditions prevailing at the time, classifying the business as held for sale was judgemental. On 22 December 2020, the Group announced it had reached an agreement with Viaro Energy through its subsidiary RockRose Energy Limited to purchase the business for initial consideration of £120m. At 31 March 2021 the business remains held for sale awaiting regulatory approval and partner consent. It is expected the transaction will complete in Q1 of the 2021/22 financial year.

4.3 Other areas of estimation uncertainty
(i) Tax provisioning
The Group has a number of open tax issues with the tax authorities in the UK and Republic of Ireland, the two jurisdictions in which the Group operates. 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 each dispute progresses 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 £37.6m at 31 March 2021 (2020: £39.4m). 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 estimated cost of decommissioning at the end of the useful lives of certain property, plant and equipment assets is reviewed periodically, with a full reassessment by an independent decommissioning consultant performed in the year to 31 March 2019. Decommissioning costs in relation to gas exploration and production assets are periodically agreed with the field operators and reflect the latest expected economic production lives of the fields. At 31 March 2021 the Group's Gas Production assets are held for sale. Under the agreed terms of the disposal the Group will retain 60% of the decommissioning obligation. Provision is made for the estimated discounted cost of decommissioning at the balance sheet date. The Group's next formal reassessment by independent decommissioning experts will be performed in the financial year to March 2022.

The dates for settlement of future decommissioning costs are uncertain, particularly for gas exploration and production assets where reassessment of gas and liquids reserves and fluctuations in commodity prices can lengthen or shorten the field life. The Group is currently incurring decommissioning costs related to the Ferrybridge and Fiddlers Ferry power stations, with the remaining provision expected to being increasingly utilised over the next ten years and continue out to 2040.

Further detail on the assumptions made and movement in decommissioning costs during the year are disclosed at Note 20.

5. Segmental information

There have been no changes to the Group's core operating segments during the year. These segments are used internally by the Board to run the business and make strategic decisions. The Group's 'Corporate unallocated' segment is the Group's residual corporate central costs which cannot be allocated to individual segments.

The following describes the types of products and services from which each reportable segment generates its revenue:

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. 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.
	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.
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 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	Thermal Generation	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 to SSE EPM is recognised as generated, based on the 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, providing a mix of capacity products to the external gas market with excess capacity used to develop secondary trading opportunities. For capacity products, revenue from the injection and withdrawal of gas is recognised when provided, with revenue from the provision of storage services is recognised based on the number of days utilised at the contractual rate. Revenue arising on secondary trading activities is recognised as gas is injected into the network, based on the spot price at the time of delivery.
Customers	Business Energy	The supply of electricity and gas to business customers in GB. 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 domestic 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.
Enterprise	Enterprise	The integrated provision of services in competitive markets for industrial and commercial customers including distributed energy, electrical contracting, heat and private energy networks, lighting services and SSE's share of telecoms capacity and bandwidth. Revenue is recognised by reference to the progress towards completion of the contractual performance obligation, based on the proportion of costs incurred to date relative to total expected costs, provided the contract outcome can be assessed with reasonable certainty.
EPM & I	Energy Portfolio Management (EPM)	The optimisation of SSE's electricity, gas and other commodity requirements. 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 are presented net in cost of sales alongside purchase commodity optimisation trades.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2021

5. Segmental information continued

Business Area	Reported Segments	Description
Discontinued operations		
SSE Energy Services	SSE Energy Services	The supply of electricity and gas and the provision of energy related goods and services to domestic customers in GB. 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. This business was disposed on 15 January 2020.
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.

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 and after the removal of taxation and interest on profits from joint ventures and associates.

Analysis of revenue, operating profit, assets and other items by segment is provided on the following pages. All revenue and profit before taxation arise from operations within the UK and Ireland.

5.1 Segmental information disclosure
(i) Revenue by segment

	Reported revenue 2021 £m	**Inter-segment revenue (i) 2021 £m**	**Segment revenue 2021 £m**	Reported revenue 2020 £m	Inter-segment revenue (i) 2020 £m	Segment revenue 2020 £m
Continuing operations						
SSEN Transmission	**404.9**	**–**	**404.9**	378.6	–	378.6
SSEN Distribution	**809.5**	**69.1**	**878.6**	784.7	159.4	944.1
SSE Renewables	**281.9**	**544.2**	**826.1**	252.2	595.9	848.1
Thermal Generation	**504.0**	**699.0**	**1,203.0**	416.9	790.0	1,206.9
Gas storage	**7.1**	**766.0**	**773.1**	8.4	586.0	594.4
Business Energy	**1,934.5**	**30.5**	**1,965.0**	2,431.0	26.4	2,457.4
Airtricity	**1,072.7**	**61.5**	**1,134.2**	1,134.5	57.4	1,191.9
Enterprise	**359.5**	**33.6**	**393.1**	338.5	75.2	413.7
EPM:						
Gross trading	**8,811.9**	**2,699.3**	**11,511.2**	12,814.5	4,072.4	16,886.9
Optimisation trades	**(7,449.2)**	**(155.8)**	**(7,605.0)**	(11,826.8)	(826.5)	(12,653.3)
EPM (ii)	**1,362.7**	**2,543.5**	**3,906.2**	987.7	3,245.9	4,233.6
Corporate unallocated	**89.6**	**189.4**	**279.0**	68.1	213.9	282.0
Total continuing operations	**6,826.4**	**4,936.8**	**11,763.2**	6,800.6	5,750.1	12,550.7
Discontinued operations						
SSE Energy Services	**–**	**–**	**–**	2,711.1	136.5	2,847.6
Gas Production	**14.2**	**90.8**	**105.0**	20.9	203.3	224.2
Total discontinued operations	**14.2**	**90.8**	**105.0**	2,732.0	339.8	3,071.8
Total SSE Group	**6,840.6**	**5,027.6**	**11,868.2**	9,532.6	6,089.9	15,622.5

(i) Significant inter-segment revenue is derived from the sale of power and stored gas from SSE Renewables, Thermal Generation and Gas Storage to EPM; use of system income received by SSEN Distribution from Business Energy and, in the prior year, SSE Energy Services (discontinued); Business Energy provides internal heat and light power supplies to other Group companies; Enterprise provides electrical contracting and other services to other Group companies; EPM provides power, gas and other commodities to Business Energy and Airtricity and, in the prior year, SSE Energy Services (discontinued); Gas Production (discontinued) sells gas from producing upstream fields to EPM; in the prior year SSE Energy Services (discontinued) provided metering and other services to other Group companies; and Corporate unallocated provides corporate and infrastructure services to all segments as well as third parties. All are provided at arm's length.

(ii) Up to the date of disposal of SSE Energy Services in the prior year, the Group's EPM business procured power, gas and other commodities for SSE Energy Services and generated internal revenue of £908m in the period to 15 January 2020. Following the disposal SSE Energy Services procured its power, gas and other commodities from other sources.

5. Segmental information continued
5.1 Segmental information disclosure continued
(i) Revenue by segment continued

Revenue from the Group's Joint Venture investment in Scotia Gas Networks Limited, SSE's share being £411.8m (2020: £423.9m), is not recorded in the revenue line in the income statement.

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									
	Goods or services transferred over time			Goods or services transferred at a point in time						
	Use of electricity networks 2021 £m	Supply of energy 2021 £m	Construction related services 2021 £m	Other contracted services 2021 £m	Physical energy 2021 £m	Gas storage 2021 £m	Other revenue 2021 £m	Total revenue from contracts with customers 2021 £m	Other contract revenue 2021 £m	Total 2021 £m
Continuing operations										
SSEN Transmission	373.8	–	–	26.4	–	–	4.7	404.9	–	404.9
SSEN Distribution	762.1	–	–	9.1	–	–	16.2	787.4	22.1	809.5
SSE Renewables	–	159.9	–	–	122.0	–	–	281.9	–	281.9
Thermal Generation	–	484.3	–	–	–	–	19.7	504.0	–	504.0
Gas Storage	–	–	–	–	–	7.1	–	7.1	–	7.1
Business Energy	–	1,934.5	–	–	–	–	–	1,934.5	–	1,934.5
Airtricity	–	1,055.2	–	17.5	–	–	–	1,072.7	–	1,072.7
Enterprise	37.8	15.4	265.4	33.3	1.2	–	0.5	353.6	5.9	359.5
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	3,649.3	265.4	86.3	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	–	–	–	–	–	–	–	–	–	–
Total SSE Group	1,173.7	3,649.3	265.4	86.3	1,112.1	7.1	518.7	6,812.6	28.0	6,840.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
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5. Segmental information continued
5.1 Segmental information disclosure continued
(i) Revenue by segment continued

	Revenue from contracts with customers									
	Goods or services transferred over time				Goods or services transferred at a point in time					
	Use of electricity networks 2020 £m	Supply of energy 2020 £m	Construction related services 2020 £m	Other contracted services 2020 £m	Physical energy 2020 £m	Gas storage 2020 £m	Other revenue 2020 £m	Total revenue from contracts with customers 2020 £m	Other contract revenue 2020 £m	Total 2020 £m
Continuing operations										
SSEN Transmission	349.9	–	–	25.7	–	–	3.0	378.6	–	378.6
SSEN Distribution	719.7	–	–	7.7	–	–	57.3	784.7	–	784.7
SSE Renewables	–	252.2	–	–	–	–	–	252.2	–	252.2
Thermal Generation	–	413.7	–	–	–	–	3.2	416.9	–	416.9
Gas Storage	–	–	–	–	–	8.4	–	8.4	–	8.4
Business Energy	–	2,431.0	–	–	–	–	–	2,431.0	–	2,431.0
Airtricity	–	1,118.3	–	16.2	–	–	–	1,134.5	–	1,134.5
Enterprise	36.0	19.0	233.4	25.0	–	–	18.1	331.5	7.0	338.5
EPM	–	–	–	–	977.9	–	9.8	987.7	–	987.7
Corporate unallocated	–	–	–	–	–	–	68.1	68.1	–	68.1
Total continuing operations	1,105.6	4,234.2	233.4	74.6	977.9	8.4	159.5	6,793.6	7.0	6,800.6
Discontinued operations										
SSE Energy Services	–	2,539.6	–	90.8	–	–	80.7	2,711.1	–	2,711.1
Gas Production	–	–	–	–	–	–	20.9	20.9	–	20.9
Total discontinued operations	–	2,539.6	–	90.8	–	–	101.6	2,732.0	–	2,732.0
Total SSE Group	1,105.6	6,773.8	233.4	165.4	977.9	8.4	261.1	9,525.6	7.0	9,532.6

Included within Trade and other receivables (Note 18) is £325.0m (2020: £370.7m) of unbilled energy income and £12.8m (2020: £25.6m) of contract related assets. Included within Trade and other payables (Note 19) is £240.6m (2020: £262.9m) 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 arise in the Enterprise 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:

	2021 £m	2020 £m
UK	**5,834.4**	5,804.3
Ireland	**992.0**	996.3
	6,826.4	6,800.6

5. Segmental information continued
5.1 Segmental information disclosure continued
(ii) Operating profit/(loss) by segment

	2021					
	Adjusted operating profit reported to the Board APM £m	Depreciation on fair value uplifts £m	JV/Associate share of interest and tax (i) £m	Before exceptional items and certain remeasurements £m	Exceptional items and certain remeasurements £m	Total £m
Continuing operations						
SSEN Transmission	220.9	–	–	220.9	–	220.9
SSEN Distribution	267.3	–	–	267.3	–	267.3
SGN	173.0	–	(86.0)	87.0	1.6	88.6
SSE Renewables	731.8	(18.8)	(71.4)	641.6	214.4	856.0
Thermal Generation	160.5	–	(19.6)	140.9	634.4	775.3
Gas Storage	(5.7)	–	–	(5.7)	8.5	2.8
Business Energy	(24.0)	–	–	(24.0)	20.1	(3.9)
Airtricity	44.0	–	–	44.0	6.0	50.0
Enterprise	(21.3)	(1.8)	(11.3)	(34.4)	(72.3)	(106.7)
EPM	18.4	–	–	18.4	590.1	608.5
Corporate unallocated	(58.4)	–	(2.4)	(60.8)	45.5	(15.3)
Total continuing operations	1,506.5	(20.6)	(190.7)	1,295.2	1,448.3	2,743.5
Discontinued operations						
SSE Energy Services	–	–	–	–	–	–
Gas Production	33.0	–	–	33.0	–	33.0
Total discontinued operations	33.0	–	–	33.0	–	33.0
Total SSE Group	1,539.5	(20.6)	(190.7)	1,328.2	1,448.3	2,776.5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
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5. Segmental information continued
5.1 Segmental information disclosure continued
(ii) Operating profit/(loss) by segment continued

	2020					
	Adjusted operating profit reported to the Board APM £m	Depreciation on fair value uplifts £m	JV/Associate share of interest and tax (i) £m	Before exceptional items and certain remeasurements £m	Exceptional items and certain remeasurements £m	Total £m
Continuing operations						
SSEN Transmission	218.1	–	–	218.1	–	218.1
SSEN Distribution	356.3	–	–	356.3	(4.4)	351.9
SGN	202.3	–	(125.3)	77.0	3.8	80.8
SSEN Renewables	567.3	(18.8)	(93.4)	455.1	4.8	459.9
Thermal Generation	152.7	–	(24.9)	127.8	(112.3)	15.5
Gas Storage	3.7	–	–	3.7	(5.1)	(1.4)
Business Energy	9.2	–	–	9.2	(27.7)	(18.5)
Airtricity	48.8	–	–	48.8	(6.0)	42.8
Enterprise	8.1	(1.8)	(8.3)	(2.0)	–	(2.0)
EPM	(60.3)	–	–	(60.3)	(34.2)	(94.5)
Corporate unallocated	(17.8)	–	(3.7)	(21.5)	(67.7)	(89.2)
Total continuing operations	1,488.4	(20.6)	(255.6)	1,212.2	(248.8)	963.4
Discontinued operations						
SSE Energy Services	32.7	–	–	32.7	(237.7)	(205.0)
Gas Production	25.8	–	–	25.8	(291.3)	(265.5)
Total discontinued operations	58.5	–	–	58.5	(529.0)	(470.5)
Total SSE Group	1,546.9	(20.6)	(255.6)	1,270.7	(777.8)	492.9

The adjusted operating profit of the Group is reported after removal of the Group's share of interest, fair value movements on financing derivatives, the depreciation charged on fair value uplifts and tax from joint ventures and associates and after adjusting for exceptional items (see Note 7). The share of Scotia Gas Networks Limited interest includes loan stock interest payable to the consortium shareholders (included in SGN). The Group has accounted for its 33% share of this, £9.8m (2020: £9.4m), as finance income (Note 9).

The Group's share of operating profit from joint ventures and associates has been recognised in the SSE Renewables, Thermal Generation, Enterprise and SGN segments.

5. Segmental information continued
5.1 Segmental information disclosure continued
(iii) Capital expenditure by segment

	Capital additions to Intangible Assets 2021 £m	Capital additions to Property, Plant and Equipment 2021 £m	Capital additions to Intangible Assets 2020 £m	Capital additions to Property, Plant and Equipment 2020 £m
Continuing operations				
SSEN Transmission	**6.3**	**429.9**	2.5	333.2
SSEN Distribution	**12.5**	**400.1**	–	447.5
SSE Renewables	**112.7**	**111.2**	220.6	62.5
Thermal Generation	**3.4**	**76.7**	11.4	134.6
Gas Storage	**–**	**1.9**	–	0.2
Business Energy	**–**	**25.6**	–	–
Airtricity	**–**	**5.6**	–	0.6
Enterprise	**2.6**	**21.9**	1.3	49.7
EPM	**509.0**	**2.1**	652.7	–
Corporate unallocated	**53.9**	**1.6**	70.3	39.5
Total continuing operations	**700.4**	**1,076.6**	958.8	1,067.8
Discontinued operations				
Gas Production	**–**	**25.9**	14.8	29.8
Total discontinued operations	**–**	**25.9**	14.8	29.8
Total SSE Group	**700.4**	**1,102.5**	973.6	1,097.6
Decrease/increase in prepayments related to capital expenditure	**–**	**0.5**	–	(2.2)
Decrease/(increase) in trade payables related to capital expenditure	**–**	**(10.8)**	–	(127.9)
Settlement through assets	**–**	**–**	–	5.0
IFRS 15 adjustment	**–**	**(61.8)**	–	(111.9)
Lease asset additions	**–**	**(45.4)**	–	(46.5)
Less: Other non-cash additions	**(201.6)**	**–**	(287.2)	–
Net cash outflow	**498.8**	**985.0**	686.4	814.1

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 (2021: 307.4m; 2020: £365.5m). 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.

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5. Segmental information continued
5.1 Segmental information disclosure continued
(iii) Capital expenditure by segment continued

At 31 March 2021	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)	Adjusted Investment and Capital Expenditure 2021 APM £m
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)**
Thermal Generation	**3.4**	**76.7**	26.4	–	–	–	–	–	**106.5**
Gas Storage	**–**	**1.9**	–	–	–	–	–	–	**1.9**
Business Energy	**–**	**25.6**	–	–	–	–	–	–	**25.6**
Airtricity	**–**	**5.6**	–	–	–	–	–	–	**5.6**
Enterprise	**2.6**	**21.9**	48.4	–	–	(6.9)	–	–	**66.0**
EPM	**509.0**	**2.1**	–	(509.0)	–	–	–	–	**2.1**
Corporate unallocated	**53.9**	**1.6**	–	–	–	(29.7)	–	–	**25.8**
Total continuing operations	**700.4**	**1,076.6**	172.7	(509.0)	(61.8)	(45.5)	(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)	(45.5)	(428.6)	(19.7)	**912.0**

(i) Represents funding provided to joint venture arrangements and 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 additions to electricity and other networks funded by customer contributions.
(iv) Represents right of use assets recognised on the commencement date of a lease arrangement, and may be subject to adjustments for certain re-measurements of the corresponding lease liability.
(v) The Group funds early stage capex in its development projects which is included in its adjusted capex measure. In the year ended 31 March 2021, Seagreen windfarm and Doggerbank windfarm raised project funding within the joint venture vehicles to fund the construction of their development assets. In the year, the Group received reimbursed capex of £246.1m in relation to Seagreen windfarm and £182.5m in relation to Doggerbank windfarm following the receipt of project finance within the vehicle, which has been deducted from the Group's net adjusted investment and capital expenditure metric.
(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 (see Note 12), therefore the capex incurred prior to that date has been excluded from the Group's net adjusted investment and capital expenditure metric.

5. Segmental information continued
5.1 Segmental information disclosure continued
(iii) Capital expenditure by segment continued

At 31 March 2020	Capital additions to Intangible Assets 2020 £m	Capital additions to Property, Plant and Equipment 2020 £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)	Impaired additions (vi)	Adjusted Investment and Capital Expenditure 2020 APM £m
Continuing operations									
SSEN Transmission	2.5	333.2	–	–	–	–	(6.7)	–	329.0
SSEN Distribution	–	447.5	–	–	(82.6)	–	–	–	364.9
SSE Renewables	220.6	62.5	101.6	–	–	(26.4)	(15.6)	–	342.7
Thermal Generation	11.4	134.6	31.0	–	–	–	–	–	177.0
Gas Storage	–	0.2	–	–	–	–	–	–	0.2
Business Energy	–	–	–	–	–	–	–	–	–
Airtricity	–	0.6	–	–	–	–	(0.3)	–	0.3
Enterprise	1.3	49.7	34.5	–	(28.1)	–	–	–	57.4
EPM	652.7	–	–	(652.7)	–	–	–	–	–
Corporate unallocated	70.3	39.5	–	–	–	–	(23.9)	–	85.9
Total continuing operations	958.8	1,067.8	167.1	(652.7)	(110.7)	(26.4)	(46.5)	–	1,357.4
Discontinued operations									
SSE Energy Services	–	–	–	–	–	–	–	–	–
Gas Production	14.8	29.8	–	–	–	–	–	(44.6)	44.6
Total discontinued operations	14.8	29.8	–	–	–	–	–	(44.6)	44.6
Total SSE Group	973.6	1,097.6	167.1	(652.7)	(110.7)	(26.4)	(46.5)	(44.6)	1,357.4

(i) Represents funding provided to joint venture arrangements and 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 additions to electricity and other networks funded by customer contributions.
(iv) Additions through business combinations primarily represents the Group's capital additions through the acquisition and consolidation of Greenwind Energy (Wexford) Limited and the consolidation of the Viking Partnerships.
(v) Represents right of use assets recognised on the commencement date of a lease arrangement, and may be subject to adjustments for certain re-measurements of the corresponding lease liability.
(vi) Additions to Gas Production assets, subsequently impaired following the annual impairment assessment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
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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 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	154.3	–	154.3	8.9	–	8.9
SSE Renewables	157.7	0.5	158.2	0.5	4.7	5.2
Thermal Generation	54.3	58.1	112.4	–	–	–
Gas Storage	0.8	–	0.8	–	–	–
Business Energy	4.6	–	4.6	0.5	–	0.5
Airtricity	6.0	–	6.0	1.5	–	1.5
Enterprise	12.2	(1.9)	10.3	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

5. Segmental information continued
5.1 Segmental information disclosure continued
(iv) Items included in operating profit/(loss) by segment continued

	Depreciation/Impairment on Property, Plant and Equipment			Amortisation/Impairment of Intangible Assets		
	Before exceptional charges 2020 £m	Impairment charges 2020 £m	Total 2020 £m	Before exceptional charges 2020 £m	Impairment charges 2020 £m	Total 2020 £m
Continuing operations						
SSEN Transmission	77.5	–	77.5	1.5	–	1.5
SSEN Distribution	154.9	–	154.9	–	–	–
SSE Renewables	156.7	–	156.7	–	–	–
Thermal Generation	50.3	–	50.3	–	–	–
Gas Storage	0.8	–	0.8	–	–	–
Business Energy	0.3	–	0.3	–	–	–
Airtricity	5.1	–	5.1	1.5	–	1.5
Enterprise	8.8	–	8.8	0.7	–	0.7
EPM	–	–	–	–	–	–
Corporate unallocated	48.7	–	48.7	23.3	45.9	69.2
Total continuing operations	503.1	–	503.1	27.0	45.9	72.9
Discontinued operations						
SSE Energy Services – Energy Supply	–	–	–	–	48.8	48.8
Gas Production	31.1	231.1	262.2	–	60.2	60.2
Total discontinued operations	31.1	231.1	262.2	–	109.0	109.0
Total SSE Group	534.2	231.1	765.3	27.0	154.9	181.9

The Group's share of Scotia Gas Networks Limited depreciation (2021: £57.4m; 2020: £52.3m) and amortisation (2021: £4.2m; 2020: £4.5m) is not included within operating costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2021

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 2021 £m	Depreciation on fair value uplifts 2021 £m	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	267.3	–	163.2	–	(7.6)	422.9
SGN	173.0	–	–	61.6	–	234.6
SSE Renewables	731.8	(18.8)	158.0	90.1	–	961.1
Thermal Generation	160.5	–	54.3	15.8	(1.0)	229.6
Gas Storage	(5.7)	–	0.8	–	–	(4.9)
Business Energy	(24.0)	–	4.6	–	–	(19.4)
Airtricity	44.0	–	7.5	–	–	51.5
Enterprise	(21.3)	(1.8)	13.8	35.3	(5.4)	20.6
EPM	18.4	–	5.3	–	–	23.7
Corporate unallocated	(58.4)	–	61.6	2.7	(1.1)	4.8
Total continuing operations	1,506.5	(20.6)	556.2	205.5	(17.7)	2,229.9
Discontinued operations						
Gas Production	33.0	–	–	–	–	33.0
Total discontinued operations	33.0	–	–	–	–	33.0
Total SSE Group	1,539.5	(20.6)	556.2	205.5	(17.7)	2,262.9

Note that the Group's 'Net Debt to EBITDA' metric is derived after removing the proportionate EBITDA from the following debt-financed JVs: SGN, Beatrice and Cloosh. This adjustment is £311.8m; 2020: £340.1m resulting in EBITDA on continuing operations for inclusion in the Debt to EBITDA metric of £1,918.1m (2020: £1,851.3m).

5. Segmental information continued
5.1 Segmental information disclosure continued
(v) Earnings before interest, taxation, depreciation and amortisation ('EBITDA') continued

	Adjusted operating profit reported to the Board (Note 5.1 (ii)) APM 2020 £m	Depreciation on fair value uplifts 2020 £m	Depreciation/ Impairment/ amortisation before exceptional charges (Note 5.1 (iv)) 2020 £m	JV/Associate share of depreciation and amortisation (Note 16.5) 2020 £m	Release of Deferred income (Note 6) 2020 £m	Adjusted EBITDA APM 2020 £m
Continuing operations						
SSEN Transmission	218.1	–	79.0	–	(1.5)	295.6
SSEN Distribution	356.3	–	154.9	–	(7.9)	503.3
SGN	202.3	–	–	56.8	–	259.1
SSE Renewables	567.3	(18.8)	156.7	98.1	–	803.3
Thermal Generation	152.7	–	50.3	17.3	(0.2)	220.1
Gas Storage	3.7	–	0.8	–	–	4.5
Business Energy	9.2	–	0.3	–	–	9.5
Airtricity	48.8	–	6.6	–	–	55.4
Enterprise	8.1	(1.8)	9.5	29.4	(4.1)	41.1
EPM	(60.3)	–	–	–	–	(60.3)
Corporate unallocated	(17.8)	–	72.0	6.6	(1.0)	59.8
Total	1,488.4	(20.6)	530.1	208.2	(14.7)	2,191.4
Discontinued operations						
SSE Energy Services – Energy Supply	32.7	–	–	–	–	32.7
Gas Production	25.8	–	31.1	–	–	56.9
Total discontinued operations	58.5	–	31.1	–	–	89.6
Total SSE Group	1,546.9	(20.6)	561.2	208.2	(14.7)	2,281.0

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6. Other operating income and cost

Group operating profit on continuing operations is stated after charging/(crediting) the following items:

	2021 £m	2020 £m
Depreciation of property, plant and equipment on continuing operations (i)	**523.3**	503.1
Net exceptional (gains) on disposal (Note 7)	**(976.0)**	(28.2)
Exceptional charges (continuing operations) (Note 7)	**125.7**	240.3
Research costs	**12.0**	3.4
Lease charges (ii)	**11.6**	16.7
Release of deferred income in relation to capital grants and historic customer contributions	**(17.7)**	(14.7)
Gain on disposals (non-exceptional) (Note 12)	**(251.9)**	(28.2)
Amortisation of other intangible assets	**2.7**	2.4

(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 £4.1m (2020: £6.4m) were charged in the current year.

Auditor's remuneration

	2021 £m	2020 £m
Audit of these financial statements	**0.4**	0.3
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	**1.9**	1.6
Audit related assurance services	**0.2**	0.2
Other services fees	**0.2**	0.1
	2.3	1.9
Total remuneration paid to Auditor	**2.7**	2.2

Audit fees in the current year include scope changes and overruns of £0.4m related to the prior year audit, which arose due to coronavirus and the first year transition to EY. Assurance and Tax service fees incurred in the year were £0.4m (2020: £0.3m). Audit related assurance services include fees incurred in relation to regulatory accounts and returns required by Ofgem. A description of the work of the Audit Committee is set out on pages 128 to 137 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

	2021 £m	2020 £m
Continuing operations		
Exceptional items (Note 7.1)		
Asset impairments and related (charges) and credits	**(50.4)**	(158.6)
Provisions for restructuring and other liabilities	**(75.3)**	(81.7)
	(125.7)	(240.3)
Net gains on disposals of businesses and other assets	**976.0**	30.6
Total Exceptional items	**850.3**	(209.7)
Certain re-measurements		
Movement on operating derivatives (Note 24)	**590.1**	(34.2)
Movement in fair value of commodity stocks	**8.5**	(5.1)
Movement on financing derivatives (Note 24)	**55.6**	(83.0)
Share of movement on derivatives in jointly controlled entities (net of tax)	**0.8**	2.6
Total certain re-measurements	**655.0**	(119.7)
Exceptional items after certain re-measurements and before taxation	**1,505.3**	(329.4)
Taxation		
Taxation on other exceptional items	**3.1**	46.0
Taxation on certain re-measurements	**(125.9)**	20.9
Effect of deferred tax rate change	**–**	(64.6)
Taxation	**(122.8)**	2.3
Exceptional items after certain re-measurements and after taxation	**1,382.5**	(327.1)
Discontinued operations		
Exceptional items (Note 7.1)		
Asset impairments and related (charges) and credits	**–**	(291.3)
SSE Energy Services	**–**	(237.7)
Taxation	**–**	6.2
Exceptional items on discontinued operations after taxation	**–**	(522.8)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
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7. Exceptional items and certain re-measurements continued
Exceptional items and certain remeasurements are disclosed across the following categories within the income statement:

	2021 £m	2020 £m
Continuing operations		
Cost of sales:		
Movement on operating derivatives (Note 24)	**590.1**	(34.2)
Movement in fair value of commodity stocks	**8.5**	(5.1)
	598.6	(39.3)
Operating costs:		
Asset impairments and reversals	**(30.1)**	(158.7)
SSE Energy Services related restructuring costs and asset impairments	**(24.2)**	–
Other exceptional provisions and charges	**(72.8)**	(81.6)
	(127.1)	(240.3)
Operating income:		
Net (losses)/gains on disposals of businesses and other assets	**976.0**	28.2
	976.0	28.2
Joint ventures and associates:		
Share of movement on derivatives in jointly controlled entities (net of tax)	**0.8**	2.6
	0.8	2.6
Operating profit/(loss)	**1,448.3**	(248.8)
Finance costs/(income)		
Movement on financing derivatives (Note 24)	**55.6**	(83.0)
Interest income on deferred consideration receipt	**1.4**	2.4
	57.0	(80.6)
Profit/(loss) before tax on continuing operations	**1,505.3**	(329.4)
Discontinued operations		
SSE Energy Services	**–**	(237.7)
Gas Production (E&P) related credit/(charges)	**–**	(291.3)
Loss before tax on discontinued operations	**–**	(529.0)

7. Exceptional items and certain re-measurements continued

7.1 Exceptional items

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 is 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 are 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 is held for sale at the balance sheet date, of £51.2m. Finally, the Group incurred £24.2m of further charges related to the disposal of SSE Energy Services which was completed in the prior year and has 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 & Equipment (Note 14) £m	Intangible assets (Note 13) £m	Provisions & 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 has carried out a formal impairment review in order to assess the carrying value of its CCGT plant at Great Island (see Note 15.2). As a result of the assessment, the Group has recognised an exceptional impairment of £58.1m to the carrying value of the asset, which has arisen following reductions in forward price curves and forecast electricity demand in Ireland.

(ii) Customer bad debt provisioning

In the prior year, 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 the prior year and the UK remained in lockdown at the date of approval of the Annual Report on 16 June 2020, which meant that significant uncertainty surrounded 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 has 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 has been recognised. See Note 4.2(i) for further detail on the judgement applied related to coronavirus in the current and prior year.

(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 is 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 has classified its interest in the business as held for sale (see Note 12.3) and has impaired the carrying amount of the held for sale asset to its net realisable value, resulting in an impairment of £51.2m. The transaction is expected to complete by the end of June 2021.

(iv) SSE Energy Services disposal costs

In the prior year, 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 have been subsequently re-estimated in the year to 31 March 2021. These additional costs of disposal, which total £24.2m, include increased estimates of the cost of IT separation and decommissioning and the impairment of SSE properties which are 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 current financial year, the Group received further cash proceeds of £44m relating to previously accrued deferred consideration but has 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.

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7. Exceptional items and certain re-measurements continued
7.1 Exceptional items continued
(vi) Other charges
At 31 March 2021 the Group reassessed its impairment provision recognised in 2017/18 related to its Enterprise Utilities business following improvements in the performance of the Heat Networks assets. The impairment review has resulted in a reversal in impairment of £2.2m in the year. While this reversal is not exceptional, it has been classified as exceptional to align to the classification of the initial impairment.

In 2017/18 the Group recognised an exceptional impairment related to its Barkip anaerobic digestion plant following operational issues at the site. In the year ended 31 March 2021, the Group disposed of the site for consideration of £1.3m, resulting in a £1.3m reversal of the exceptional impairment recognised in 2017/18. While this reversal is not exceptional, it has been classified as exceptional to align to the classification of the initial impairment.

(vii) Disposal gains
During the year the Group progressed with its disposal plan for non-core assets announced in June 2020, which has 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 agreement was subject to antitrust approval by the European Commission, which was granted on the 7 January 2021 when the transaction completed. 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. 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.

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, recognising 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 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 has been recognised as exceptional, as it represents the fair value gain on acquisition of the joint venture investment retained by the Group. The remaining £23.3m of the gain has been 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 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 has been recognised as exceptional, as it represents the fair value gain on acquisition of the joint venture investment retained by the Group. The remaining £20.4m of the gain has been included in underlying operations, in line with the Group's stated exceptional policy (see Note 3.2).

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 Stronelairg 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.

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 & Equipment (Note 14) £m	Intangible assets (Note 13) £m	Inventories (Note 17) £m	Provisions & 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

(i) Thermal Electricity Generation

On 17 March 2020 the Group ceased electricity generation at Fiddler's Ferry power station. As a result of the closure, the Group incurred a total exceptional charge of £112.3m, comprising an impairment of the coal and oil inventory and related tax credits of £77.5m; a redundancy provision of £20.5m; and operating losses at the plant since closure announcement of £14.3m.

(ii) Other charges

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 provision reflected the Group's best estimate at the date of approval of the financial statements of charges that would be incurred on the Group's debt book and was treated as an adjusting post balance sheet event. See Note 7.1 (ii) for impact in the year to 31 March 2021.

The Group committed to an investment plan in IT software, operations and infrastructure to transform the Group's IT systems to drive growth and profitability. As a result, new agreements with software providers were entered into to allow employees to benefit from cloud based IT arrangements, which resulted in the impairment of legacy software contracts of £34.2m. The Group also incurred redundancy costs of £6.9m following an agreement to outsource certain IT support roles and recognised a charge of £4.4m related to restructuring costs incurred by its SSEN Distribution business.

(iii) Other income

On 29 March 2019, the Group disposed of 50% of SSE Telecommunications to Infracapital Partners III for initial consideration of £215.0m, with the potential for a further £165m of consideration contingent upon achievement of future profitability targets and securing certain key customer contracts. In the 31 March 2019 results, the Group assessed that a total of £230.5m should be recognised in the initial transaction, which resulted in a £235.4m gain on disposal. At 31 March 2020, the Group reassessed the components of contingent consideration recognised based on updated forecasts of business performance and current status of key customer contract negotiations and related costs and recognised a further £33.1m of consideration, including interest unwind of £2.4m which was treated as exceptional finance income. Incremental exceptional costs of disposal of the business totalling £7.2m have also been recognised, which predominantly related to the expected cost of full IT separation for this business.

The Group disposed a 49.9% stake in the Stronelairg and Dunmaglass windfarms in the year ended 31 March 2019, recognising a gain on disposal of £733.0m, including a fair value uplift of £369.2m. Following the completion of the sale, an adjustment to the consideration of £6.4m was received in the year ended 31 March 2020, offset by a tax adjustment of £1.6m. The adjustment to the gain on sale has been treated as exceptional to align with the treatment of the original disposal in the year ended 31 March 2019.

Charges within discontinued operations

(iv) SSE Energy Services – loss on disposal and related charges

On 15 January 2020 the Group disposed of its household energy and services business in Great Britain ('SSE Energy Services') to Ovo Group Limited ('Ovo'). The Group recognised an exceptional loss on disposal of £226.9m (recognised within discontinued operations) and incurred impairment charges on Group IT assets connected to the transaction totalling £48.8m (recognised within continuing operations). Within the business there were also redundancy costs of £10.8m incurred in the year.

(v) Gas Production – impairment charges

The Group recorded an exceptional impairment charge of £291.3m related to the carrying value of assets and liabilities held for sale. The impairment was calculated based on the fair value of the business following negotiations with potential buyers and reflected the reduction in gas prices through the year.

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7. Exceptional items and certain re-measurements continued
7.1 Exceptional items continued
31 March 2019
In the year to 31 March 2019, the Group recognised a net exceptional credit of £1,010.2m in its continuing operations and a charge of £24.6m in its discontinued operation. The gain in the continuing operations is primarily due to gains on disposal of businesses and assets totalling £1,096.9m. These gains on disposal were offset by net asset impairments of £49.9m, reorganisation costs of £27.5m and an exceptional charge for GMP equalisation of £9.3m.

The net exceptional charges excluding gains on disposal (see Note 12) recognised can be summarised as follows:

	Property, Plant & Equipment (Note 14) £m	Intangible assets (Note 13) £m	Investments (Note 16) £m	Provisions & other charges £m	Total charges £m
Electricity Generation (i)	2.7	–	(13.3)	(0.9)	(11.5)
Disposal costs – SSE Energy Services (ii)	41.0	–	–	47.9	88.9
Pensions GMP equalisation (iii)	–	–	–	9.3	9.3
	43.7	–	(13.3)	56.3	86.7
Discontinued operations	(29.7)	54.3	–	–	24.6
Total SSE Group	14.0	54.3	(13.3)	56.3	111.3

(i) Electricity Generation
On 24 September 2018, the Group purchased the remaining 50% stake in Seagreen Wind Energy Limited ('Seagreen') taking its ownership to 100% and bringing Seagreen under full control of the Group. As part of the acquisition, the Group reversed a previous impairment charge of £14.2m based on its renewed commitment to developing the prospect. The reversal of the impairment was included as an exceptional credit due to the original impairment of the Group's offshore wind portfolio being treated as exceptional in 2013/14.

In the year to 31 March 2019, the Group recognised an exceptional impairment of £30.5m on the Keadby gas fired power station due to a market shift in energy prices achievable from its thermal fleet. The movement in clean spark spreads was adverse for Keadby, however the same shift is considered favourable to the Group's newer and more efficient plant at Marchwood. As a result, the Group reversed prior impairments of £27.8m against Marchwood power station, which is classified as a right of use asset.

(ii) Disposal costs – SSE Energy Services
At 31 March 2019 the Group's UK domestic supply business was presented as held for disposal and as a result the Group incurred restructuring costs and recognised provisions for costs that will be incurred on completion of the disposal. In the year the Group incurred non-cash impairment charges of £41.0m on certain properties that have subsequently been sub-let to SSE Energy Services at a rate of rent that will not support the current carrying value of the assets. In addition, the Group incurred a further £47.9m of professional advisor fees and IT and physical separation costs related to the disposal.

(iii) Pensions GMP equalisation
On 26 October 2018, the High Court finalised a judgement in the case of Lloyds Banking Group Pensions Trustees Limited vs. Lloyds Bank plc. As a result, the Group has recognised an exceptional past service cost of £9.0m in the 31 March 2019 income statement for guaranteed minimum pension (GMP) equalisation across the schemes. The exceptional charge is 0.22% of the Group's pension liabilities as at 31 March 2019. In addition, the Group's joint venture SGN recognised an exceptional past service charge of £0.8m, of which the Group recognised its share of £0.3m as exceptional.

Charges within discontinued operations
Within its discontinued SSE Energy Services segment, the Group recorded an exceptional impairment charge of £54.3m related to discontinued marketing and customer data management software assets. The Group also recognised a net impairment reversal of £29.7m related to its Gas Production assets following an increase in independently assessed hydrocarbon reserves and an increase to long term gas price forecasts. The impairment reversals were recognised on the Bacton (£15.8m) and Sean (£13.9m) fields due to the revision of reserves. Following these impairment reversals, the residual value in the Group's gas production assets at 31 March 2019 was £488.6m.

7. Exceptional items and certain re-measurements continued

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 Airtricity supply businesses and to optimise the value of its Renewable, Thermal Generation, and (discontinued) Gas Production assets. Certain of these 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 are accounted for as 'own use' contracts. 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.

The Group will recognise the underlying value of these contracts and inventory as the relevant commodity is delivered, which will predominately be within the subsequent 12 to 24 months. The re-measurements arising from IFRS 9 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% rate was not substantively enacted at 31 March 2021, therefore the Group has continued to measure deferred tax balances at 19%. The Group has estimated that the increase to 25% would increase the Group's deferred tax liabilities by £229.4m.

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 have not yet been enacted, to significantly increase the deduction for Capital Allowances in the financial years ending 31 March 2022 and 31 March 2023. It is not yet possible to quantify the financial impact of these changes as guidance has yet to be issued by HMRC as to how they will apply.

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

	2021 £m	2020 £m
Continuing operations		
Staff costs:		
Wages and salaries	**526.8**	522.3
Social security costs	**58.7**	57.3
Share-based remuneration	**18.2**	17.0
Pension costs (Note 23)	**96.7**	88.1
	700.4	684.7
Less: capitalised as property, plant and equipment	**(144.8)**	(140.0)
	555.6	544.7

The figures in the table above include £83.3m of staff costs related to the Group's Contracting and Rail business which is held for sale at 31 March 2021 (see Note 12.3).

8.2 Employee numbers

	2021 Number	2020 Number
Numbers employed at 31 March in continuing operations	**12,512**	11,676
Numbers employed at 31 March in discontinued operations	**1**	6
	12,513	11,682

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
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8. Directors and employees continued

The average number of people employed by the Group (including Executive Directors) during the year was:

	2021 Number	2020 Number
Continuing operations		
SSEN Transmission	**572**	499
SSEN Distribution	**3,704**	3,800
SSE Renewables	**1,084**	957
Thermal Generation	**466**	569
Gas Storage	**80**	82
Business Energy	**832**	793
Airtricity	**688**	588
Enterprise	**2,558**	2,667
Energy Portfolio Management	**158**	152
Corporate	**1,547**	1,607
Total from continuing operations	**11,689**	11,714
Discontinued operations		
Gas Production	**2**	6
Total from discontinued operations	**2**	6
Total SSE Group	**11,691**	11,720

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.

	2021			2020		
	Executive committee members £m	Executive directors £m	Total £m	Executive committee members £m	Executive directors £m	Total £m
Salaries and short term employee benefits	**1.9**	**3.7**	**5.6**	1.5	3.9	5.4
Social security costs	**0.3**	**0.5**	**0.8**	0.3	0.5	0.8
Post-employment benefits	**0.4**	**1.0**	**1.4**	0.1	0.4	0.5
Share based benefits	**1.2**	**2.1**	**3.3**	0.8	1.1	1.9
	3.8	**7.3**	**11.1**	2.7	5.9	8.6

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 (2020: 3) Executive directors. Executive committee members included in the table above at 31 March 2021 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 £1.0m during the current year (2020: £0.9m).

9. Finance income and costs
Recognised in income statement

	2021			2020		
	Before Exceptional items and certain remeasurements £m	**Exceptional items and certain remeasurements £m**	**Total £m**	Before Exceptional items and certain remeasurements £m	Exceptional items and certain remeasurements £m	Total £m
Finance income:						
Interest income from short term deposits	**1.9**	**–**	**1.9**	1.6	–	1.6
Interest on pension scheme assets (i)	**8.3**	**–**	**8.3**	6.6	–	6.6
Foreign exchange translation of monetary assets and liabilities	**1.3**	**–**	**1.3**	0.9	–	0.9
Other interest receivable:						
Scotia Gas Networks loan stock	**9.8**	**–**	**9.8**	9.4	–	9.4
Other joint ventures and associates	**43.9**	**–**	**43.9**	52.5	–	52.5
Other receivable	**22.8**	**1.4**	**24.2**	8.2	2.4	10.6
	76.5	**1.4**	**77.9**	70.1	2.4	72.5
Total finance income	**88.0**	**1.4**	**89.4**	79.2	2.4	81.6
Finance costs:						
Bank loans and overdrafts	**(24.0)**	**–**	**(24.0)**	(34.5)	–	(34.5)
Other loans and charges	**(323.2)**	**–**	**(323.2)**	(304.1)	–	(304.1)
Notional interest arising on discounted provisions	**(3.8)**	**–**	**(3.8)**	(9.2)	–	(9.2)
Lease charges	**(35.3)**	**–**	**(35.3)**	(37.8)	–	(37.8)
Less: interest capitalised (ii)	**14.2**	**–**	**14.2**	11.2	–	11.2
Total finance costs	**(372.1)**	**–**	**(372.1)**	(374.4)	–	(374.4)
Changes in fair value of financing derivative assets or liabilities at fair value through profit or loss	**–**	**55.6**	**55.6**	–	(83.0)	(83.0)
Net finance costs	**(284.1)**	**57.0**	**(227.1)**	(295.2)	(80.6)	(375.8)
Presented as:						
Finance income	**88.0**	**57.0**	**145.0**	79.2	2.4	81.6
Finance costs	**(372.1)**	**–**	**(372.1)**	(374.4)	(83.0)	(457.4)
Net finance costs	**(284.1)**	**57.0**	**(227.1)**	(295.2)	(80.6)	(375.8)

(i) The interest income on net pension assets for the year ended 31 March 2021 of £8.3m (2020: £6.6m) 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 3.61% (2020: 3.65%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
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9. Finance income and costs continued
Recognised in income statement continued

Adjusted net finance costs are arrived at after the following adjustments:

	2021 £m	2020 £m
Net finance costs	**(227.1)**	(375.8)
(add)/less:		
Share of interest from joint ventures and associates:		
Scotia Gas Networks loan stock	**(9.8)**	(9.4)
Other joint ventures and associates	**(136.7)**	(164.4)
	(146.5)	(173.8)
Share of non-recurring joint venture refinancing costs (i)	**–**	12.3
	(146.5)	(161.5)
Interest on pension scheme (assets)/liabilities	**(8.3)**	(6.6)
Share of interest on net pension liabilities in joint ventures	**(2.7)**	(1.7)
Movement on financing derivatives (Note 24)	**(55.6)**	83.0
Exceptional item	**(1.4)**	(2.4)
Adjusted net finance costs APM	**(441.6)**	(465.0)
Notional interest arising on discounted provisions	**3.8**	9.2
Lease charges	**35.3**	37.6
Hybrid coupon payment (Note 22.5(iii))	**(46.6)**	(46.5)
Adjusted net finance costs for interest cover calculations APM	**449.1**	(464.7)

(i) 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 the Group incurring its share of one-off finance costs of £12.3m. These are deemed to be non-recurring and have not been incurred as part of normal operations.

Recognised in other comprehensive income

	2021 £m	2020 £m
Loss on effective portion of cash flow hedges (before tax)	**(44.7)**	38.0
Share of joint venture/associate loss on effective portion of cash flow hedges (before tax)	**30.6**	(49.6)
Total recognised in other comprehensive income	**(14.1)**	(11.6)

10. Taxation
10.1 Analysis of charge recognised in the income statement

	2021			2020		
	Before Exceptional items and certain remeasurements £m	**Exceptional items and certain remeasurements £m**	**Total £m**	Before Exceptional items and certain remeasurements £m	Exceptional items and certain remeasurements £m	Total £m
Current tax						
UK corporation tax	**84.1**	**6.2**	**90.3**	107.6	(24.9)	82.7
Adjustments in respect of previous years	**(11.4)**	**–**	**(11.4)**	(28.6)	–	(28.6)
Total current tax	**72.7**	**6.2**	**78.9**	79.0	(24.9)	54.1
Deferred tax						
Current year	**34.0**	**113.3**	**147.3**	34.2	(42.0)	(7.8)
Effect of change in tax rate	**–**	**–**	**–**	–	64.6	64.6
Adjustments in respect of previous years	**(5.2)**	**3.3**	**(1.9)**	10.6	–	10.6
Total deferred tax	**28.8**	**116.6**	**145.4**	44.8	22.6	67.4
Total taxation charge/(credit)	**101.5**	**122.8**	**224.3**	123.8	(2.3)	121.5

10. Taxation continued

10.1 Analysis of charge recognised in the income statement continued

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 not been included in the closing balance, as it has not been substantively enacted by the balance sheet date.

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.

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 2021 (and 31 March 2020), 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:

Continuing operations	**2021 £m**	**2021 %**	2020 £m	2020 %
Group tax charge and effective rate	**224.3**	**9.4**	121.5	28.0
Add: reported deferred tax charge and effective rate	**(145.4)**	**(6.1)**	(67.4)	(15.5)
Reported current tax charge and effective rate	**78.9**	**3.3**	54.1	12.5
Effect of adjusting items		**4.1**		(7.2)
Reported current tax charge on adjusted basis	**78.9**	**7.4**	54.1	5.3
add:				
Share of current tax from joint ventures and associates	**36.8**	**3.5**	36.7	3.6
less:				
Current tax credit on exceptional items	**(7.9)**	**(0.8)**	23.4	2.3
Adjusted current tax charge and effective rate APM	**107.8**	**10.1**	114.2	11.2

Tax charge/(credit) recognised in other comprehensive income/(loss):

	2021 £m	2020 £m
Relating to:		
Pension scheme actuarial movements	**(3.1)**	(89.5)
Cash flow and net investment hedge movements	**(9.9)**	7.3
Other	**(1.7)**	–
Deferred tax charge related to historic depreciation adjustment	**–**	6.4
	(14.7)	(75.8)

All tax recognised through other comprehensive income is deferred tax.

See further Taxation disclosures at A2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2021

10. Taxation continued
10.2 Current tax liabilities

	2021 £m	2020 £m
Corporation tax liability/(asset)	**0.1**	(15.1)

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 2021, the Group has recognised provisions totalling £37.6m in respect of uncertain tax positions, primarily in relation to the availability of capital allowances (2020: £39.4m). 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.

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 being expected to decide whether they are prepared to hear an appeal by mid-2021. 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 2019	771.9	(161.3)	145.7	(144.7)	611.6
Opening balance sheet adjustment on IFRS 16 adoption	(4.8)	–	–	–	(4.8)
(Credit)/charge to Income Statement on continuing operations	86.6	(21.3)	6.0	(3.8)	67.5
(Credit)/charge to Income Statement on discontinued operations	(96.4)	–	2.8	102.5	8.9
(Credit)/charge to equity	6.4	7.2	(89.5)	0.1	(75.8)
(Credit)/charge recognised on disposal	(9.4)	34.8	–	(1.5)	23.9
Transferred to held for sale	(49.8)	–	–	64.3	14.5
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**
Exchange adjustments	**–**	**–**	**–**	**(2.7)**	**(2.7)**
At 31 March 2021	**733.8**	**(25.3)**	**67.8**	**(2.0)**	**774.3**

10. Taxation continued
10.3 Deferred taxation continued

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:

	2021 £m	2020 £m
Deferred tax liabilities	**801.6**	786.4
Deferred tax assets	**(27.3)**	(140.6)
Net deferred tax liabilities/(assets)	**774.3**	645.8

The deferred tax assets disclosed include the deferred tax relating to the Group's net pension scheme asset.

In total there are £103.5m (2020: £96.6m) of unrecognised deferred tax assets. The Group has not recognised an asset of £51.6m (2020: £47.7m) in respect of £171.8m (2020: £159.0m) of losses under Ring Fence Corporation Tax and has not recognised an asset of £10.3m (2020: £8.2m) in respect of £103.0m (2020: £81.7m) of Supplementary Corporation Tax losses. Further, the Group has not recognised £35.4m (2020: £35.1m) on activated investment allowances of £354.0m (2020: £351.3m) primarily in respect of the Greater Laggan Area fields and an asset of £6.2m (2020: £5.6m) on trading losses of £49.6m (2020: £44.6m) 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 2021 were £281.5m (2020: £381.4m).

11. Dividends and earnings per share
11.1 Ordinary dividends

	2021 Total £m	Settled via scrip £m	Pence per ordinary share	2020 Total £m	Settled via scrip £m	Pence per ordinary share
Interim – year ended 31 March 2021	**254.3**	**13.5**	**24.4**	–	–	–
Final – year ended 31 March 2020	**582.1**	**25.5**	**56.0**	–	–	–
Interim – year ended 31 March 2020	**–**	**–**	**–**	248.2	136.3	24.0
Final – year ended 31 March 2019	**–**	**–**	**–**	700.3	209.2	68.2
	836.4	**39.0**		948.5	345.5	

The final dividend of 56.0p per ordinary share declared in respect of the financial year ended 31 March 2020 (2019: 68.2p) was approved at the Annual General Meeting on 12 August 2020 and was paid to shareholders on 18 September 2020. 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. The Group had previously stated that where the take-up of the scrip dividend scheme exceeded 20% of the total dividend payment, the Group would repurchase shares to reduce the scrip's dilutive effects. In order to maintain capital reserves following the occurrence of the coronavirus pandemic, the Group will no longer repurchase shares when the scrip take-up exceeds 20%.

An interim dividend of 24.4p per ordinary share (2020: 24.0p) was declared and paid on 11 March 2021 to those shareholders on the SSE plc share register on 15 January 2021. 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 56.6p per ordinary share based on the number of issued ordinary shares at 31 March 2021 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 2021, this would equate to a final dividend of £590.4m.

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11. Dividends and earnings per share continued
11.2 Basic and adjusted earnings per share
The calculation of basic earnings per ordinary share at 31 March 2021 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 2021.

Adjusted earnings per share has been calculated by excluding the charge for deferred tax, interest on net pension liabilities under IAS 19, the depreciation charged on fair value uplifts and the impact of exceptional items and certain re-measurements (Note 7).

	2021 Earnings £m	**2021 Earnings per share pence**	2020 Earnings £m	2020 Earnings per share pence
Continuing operations				
Earnings/(loss) attributable to ordinary shareholders	**2,276.2**	**218.7**	(59.0)	(5.7)
Less: earnings attributable to discontinued operations	**(30.7)**	**(3.0)**	478.6	46.3
Basic earnings on continuing operations used to calculate adjusted EPS	**2,245.5**	**215.7**	419.6	40.6
Exceptional items and certain re-measurements (Note 7)	**(1,382.5)**	**(132.8)**	327.1	31.7
Basic excluding exceptional items and certain re-measurements	**863.0**	**82.9**	746.7	72.3
Adjusted for:				
Share of non-recurring joint venture refinancing costs	**–**	**–**	12.3	1.2
Depreciation charge on fair value uplifts	**20.6**	**2.0**	20.6	2.0
Interest on net pension scheme assets (Note 9)	**(8.3)**	**(0.8)**	(6.6)	(0.6)
Share of interest on net pension scheme liabilities in joint venture (Note 9)	**(2.7)**	**(0.3)**	(1.7)	(0.2)
Deferred tax	**32.2**	**3.1**	44.8	4.4
Deferred tax from share of joint ventures and associates	**5.7**	**0.6**	46.6	4.5
Adjusted APM	**910.5**	**87.5**	862.7	83.6
Basic	**2,245.5**	**215.7**	419.6	40.6
Dilutive effect of outstanding share options	**–**	**(0.3)**	–	–
Diluted	**2,245.5**	**215.4**	419.6	40.6

Reported earnings per share

	2021 Earnings £m	**2021 Earnings per share pence**	2020 Earnings £m	2020 Earnings per share pence
Basic				
Earnings per share on continuing operations	**2,245.5**	**215.7**	419.6	40.6
Earnings per share on discontinued operations	**30.7**	**3.0**	(478.6)	(46.3)
Earnings per share attributable to ordinary shareholders	**2,276.2**	**218.7**	(59.0)	(5.7)
Dilutive effect of outstanding share options	**–**	**(0.4)**	–	–
Diluted	**2,276.2**	**218.3**	(59.0)	(5.7)

The weighted average number of shares used in each calculation is as follows:

	31 March 2021 Number of shares (millions)	31 March 2020 Number of shares (millions)
For basic and adjusted earnings per share	**1,040.9**	1,032.5
Effect of exercise of share options	**1.6**	1.5
For diluted earnings per share	**1,042.5**	1,034.0

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.

	2021 Earnings per share (pence)	**2021 Dividend per share (pence)**	**2021 Dividend Cover (times)**	2020 Earnings per share (pence)	2020 Dividend per share (pence)	2020 Dividend Cover (times)
Reported earnings per share on continuing operations	**215.7**	**81.0**	**2.66**	40.6	80.0	0.51
Adjusted earnings per share (continuing operations) APM	**87.5**	**81.0**	**1.08**	83.6	80.0	1.05

12. Acquisitions, disposals and held for sale assets

12.1 Acquisitions

There have been no significant acquisitions in the current or prior year.

12.2 Disposals

(i) Significant disposals

Current year disposals

During the year the Group progressed with its 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 £976.0m (see Note 7) and a non-exceptional gain on disposal of £251.9m. The disposals below primarily comprise sales of stakes in non-operated investment assets, or the sale of a stake in early stage offshore windfarm developments, which aligns to the Group's stated policy to realise value from these assets.

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. 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 equity 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. Doggerbank C remains a 50:50 joint venture between SSE and Equinor.

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 has been recognised as exceptional, as it represents the fair value gain on acquisition of the joint venture investment retained by the Group. The remaining £23.3m of the gain has been 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 has been recognised as exceptional, as it represents the fair value gain on acquisition of the joint venture investment retained by the Group. The remaining £20.4m of the gain has been included in underlying operations, in line with the Group's stated exceptional policy (see Note 3.2).

Prior year disposals

SSE Energy Services: On 15 January 2020 the Group completed the disposal of its household energy and services business in Great Britain ('SSE Energy Services') to Ovo Group Limited ('Ovo'). The agreement, which was announced on 13 September 2019, was based on a 'locked box' transaction mechanism with an effective economic date of 30 June 2019. The enterprise value agreed was £500m, comprising £400m cash and £100m in 13.25% unsecured Loan Notes due 2029, less an adjustment for debt-like items of £59.9m. The Group first classified SSE Energy Services as held for disposal in its 30 September 2018 Interim Statement.

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12. Acquisitions, disposals and held for sale assets continued
12.2 Disposals continued

The carrying value of assets disposed at completion, which includes asset and liability movements subsequent to the 'locked box' date of 30 June 2019, resulted in an exceptional loss on disposal of £226.9m being recognised.

Slieve Divena II windfarm: On 30 March 2020 the Group disposed of its subsidiary Slieve Divena Wind Farm No. 2 Limited for consideration of £51.0m to Greencoat UK Wind Holdco Limited, recognising a non-exceptional gain on disposal of £25.2m.

(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.

	Total 2021 £m	Total 2020 £m
Net assets disposed:		
Property, plant and equipment	25.7	74.5
Intangible and biological assets	348.4	812.8
Investments and loans – joint ventures	490.3	11.8
Deferred tax asset	0.6	23.9
Inventories	–	0.9
Trade and other receivables	29.2	1,052.2
Cash and cash equivalents	172.8	235.6
Trade and other payables	(23.8)	(1,307.3)
Deferred tax liability	(0.2)	(1.8)
Derivative financial liabilities	(3.1)	(231.0)
Provisions	–	(5.3)
Loans and borrowings	(438.7)	(37.8)
Retirement benefit obligations	–	6.9
Net assets	601.2	635.4
Proceeds of disposal:		
Consideration	1,753.6	513.9
Fair value uplift	47.0	–
Recognition of investment on loss of control	51.5	–
Debt reduction	-	(36.6)
Costs of disposal	(23.0)	(40.6)
Net proceeds	1,829.1	436.7
(Loss)/Gain on disposal	1,227.9	(198.7)
Presentation:		
Continuing operations		
Income statement exceptional credit/(debit)	976.0	(226.9)
Income statement non-exceptional credit	251.9	28.2

12. Acquisitions, disposals and held for sale assets continued

12.2 Disposals continued

	2021 £m	2020 £m
Net proceeds of disposal	**1,829.1**	436.7
Fair value uplift	**(47.0)**	–
Debt reduction	**–**	36.6
Recognition of investment on loss of control	**(51.5)**	–
Costs of disposal	**23.0**	40.3
Deferred consideration	**(18.8)**	–
2029 13.25% unsecured Loan Notes	**–**	(100.0)
Total cash proceeds	**1,734.8**	413.6
Less: cash disposed	**(172.8)**	(235.6)
Net cash proceeds	**1,562.0**	178.0

12.3 Held for sale assets and liabilities

The Group's Gas Production assets and liabilities are deemed available for immediate sale (see Note 4.2.1) and have been separately presented on the face of the balance sheet at 31 March 2021. The assets have been written down to their fair value less costs to sell in accordance with IFRS 5, excluding the deferred tax asset which continues to be measured under IAS 12 (see Note 15). In addition, the Group announced the sale of its Enterprise Contracting and Rail business on 1 April 2021, subsequent to the balance sheet date (see Note 26.(ii)). Accordingly, the net assets of this business are also presented as held for sale at 31 March 2021.

The assets and liabilities classified as held for sale, and the comparative balances at 31 March 2020, are as follows:

	Gas Production £m	SSE Contracting £m	Total 2021 £m	2020 £m
Property, plant and equipment	**167.5**	**–**	**167.5**	168.3
Goodwill and other intangible assets	**49.6**	**–**	**49.6**	40.7
Deferred tax asset	**14.7**	**0.2**	**14.9**	14.9
Inventories	**2.6**	**2.1**	**4.7**	2.4
Trade and other receivables	**7.7**	**94.7**	**102.4**	0.5
Total assets	**242.1**	**97.0**	**339.1**	226.8
Trade and other payables	**(9.1)**	**(46.3)**	**(55.4)**	(17.0)
Current tax liabilities	**–**	**(0.1)**	**(0.1)**	–
Derivative financial liabilities	**–**	**–**	**–**	(1.6)
Provisions	**(149.3)**	**(46.5)**	**(195.8)**	(380.1)
Loans and other borrowings	**–**	**(2.2)**	**(2.2)**	–
Total liabilities	**(158.4)**	**(95.1)**	**(253.5)**	(398.7)
Net (liabilities)/assets	**83.7**	**1.9**	**85.6**	(171.9)

The aggregated pre-tax profit contribution of the held for sale businesses in the year to 31 March 2021 was a profit of £18.5m, (2020: loss of £250.2m) including exceptional charges of £302.1m, but excluding the loss on disposal of SSE Energy Services. There are no accumulated gains or losses recognised in other comprehensive income related to assets and liabilities held for sale.

Prior year assets and liabilities held for sale

The assets and liabilities classified as held for sale at 31 March 2021 were the Group's Gas Production assets and liabilities, which remain held for sale at 31 March 2021, and 50% of the Group's subsidiary SSE Slough Multifuel Limited, which was sold to Copenhagen Infrastructure Partners on 2 April 2020.

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12. Acquisitions, disposals and held for sale assets continued
12.4 Discontinued operations

The discontinued operations at 31 March 2021 represent the Group's investment in Gas Production assets which remains held for sale at the balance sheet date. In the prior year comparative, the discontinued operations also includes the SSE Energy Services which was disposed on 15 January 2020 (see Note 12.2). The profit/(loss) of the discontinued operation, after elimination of intercompany transactions, is as follows:

	2021			2020		
	Before exceptional items and certain remeasurements £m	Exceptional items and certain remeasurements £m	Total £m	Before exceptional items and certain remeasurements £m	Exceptional items and certain remeasurements £m	Total £m
Revenue (i)	105.0	–	105.0	2,732.0	–	2,732.0
Cost of sales (i)	(68.9)	–	(68.9)	(2,169.6)	–	(2,169.6)
Gross profit	36.1	–	36.1	562.4	–	562.4
Operating costs	(3.1)	–	(3.1)	(503.9)	(302.1)	(806.0)
Operating profit	33.0	–	33.0	58.5	(302.1)	(243.6)
Finance costs	(2.3)	–	(2.3)	(6.6)	–	(6.6)
Profit before taxation	30.7	–	30.7	51.9	(302.1)	(250.2)
Taxation	–	–	–	(7.7)	6.2	(1.5)
Profit/(loss) for the period	30.7	–	30.7	44.2	(295.9)	(251.7)
Loss on disposal of discontinued operations, after tax	–	–	–	–	(226.9)	(226.9)
Profit from discontinued operations, net of tax	30.7	–	30.7	44.2	(522.8)	(478.6)

Cashflows from discontinued operations

	2021 £m	2020 £m
Cashflows from operating activities	26.8	(15.9)
Cashflows from investing activities	(26.8)	(79.3)
Net (decrease)/increase in cash and cash equivalents in discontinued operations	–	(95.2)

13. Intangible assets

	Goodwill £m	Allowances & Certificates £m	Development Assets £m	Other intangibles £m	Software Assets £m	Total £m
Cost:						
At 31 March 2019	573.7	1,027.8	509.1	114.7	637.5	2,862.8
Additions	–	652.7	246.8	0.1	74.0	973.6
Transfer to Property Plant and Equipment (Note 14)	–	–	(21.5)	–	71.3	49.8
Disposals/utilised	–	(949.9)	(1.7)	–	–	(951.6)
Transferred to held for sale (Note 12)	(39.9)	–	(152.2)	–	–	(192.1)
Exchange adjustments	–	0.1	0.2	–	–	0.3
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)/from 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

13. Intangible assets continued

	Goodwill £m	Allowances & Certificates £m	Development Assets £m	Other intangibles £m	Software Assets £m	Total £m
Aggregate amortisation and impairment:						
At 31 March 2019	(235.3)	(227.5)	(205.2)	(109.6)	(324.8)	(1,102.4)
Charge for the year	(0.1)	–	–	(1.5)	(25.4)	(27.0)
Transfer (to) Property Plant and Equipment (Note 14)	–	–	–	–	(7.8)	(7.8)
Exceptional impairment credits/(charges) (Note 7)	–	–	(60.2)	–	(84.9)	(145.1)
Non-exceptional impairment charge (i)	–	–	–	–	(9.8)	(9.8)
Transferred to held for sale (Note 12)	39.9	–	111.5	–	–	151.4
Exchange adjustments	2.6	–	(0.1)	–	–	2.5
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 credits/(charges) (Note 7)	**–**	**–**	**–**	**–**	**(5.2)**	**(5.2)**
Non-exceptional impairment (charges) (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)**
Carrying amount:						
At 31 March 2021	**329.2**	**374.9**	**145.1**	**2.8**	**364.2**	**1,216.2**
At 31 March 2020	340.9	503.2	426.7	3.7	330.1	1,604.6
At 1 April 2019	338.4	800.3	303.9	5.1	312.7	1,760.4

(i) The non-exceptional impairments in both years relate to early stage Renewable development assets which have been impaired as future development of these specific assets became uncertain in the period.

Intangible assets have been analysed as current and non-current as follows:

	2021 £m	2020 £m
Current	**374.9**	503.2
Non-current	**841.3**	1,101.4
	1,216.2	1,604.6

(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	**2021 £m**	2020 £m
Onshore windfarms	SSE Renewables	**73.7**	79.5
Offshore windfarms	SSE Renewables	**214.9**	214.9
Energy Solutions[1]	Business Energy & Enterprise	**32.4**	38.3
Ireland Supply[2]	Airtricity	**8.2**	8.2
		329.2	340.9

1 Enterprise Energy Solutions includes goodwill balances arising from the historic acquisitions of The Energy Solutions Group (TESGL) of £37.6m and a further £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.

2 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 Generation and 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.

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13. Intangible assets continued
(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 Renewable and Thermal generation and network 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 (2020: £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 (2020: £48.8m) have been recognised in relation to the disposal of SSE Energy Services (recognised within continuing operations) (Note 7). In the prior year non-exceptional charges of £9.8m were recognised due to the identification of obsolete software assets.

14. Property, plant and equipment

	Power Generation Assets (i) £m	Gas Production and storage Assets (ii) £m	Land and Buildings £m	Network Assets £m	Other assets £m	Assets Under Construction £m	Total £m
Cost:							
At 31 March 2019	8,408.7	2,179.7	360.8	12,092.8	582.4	361.4	23,985.8
Right of use asset addition on adoption of IFRS 16	–	–	148.2	5.5	57.3	–	211.0
Revised opening balance at 1 April 2019	8,408.7	2,179.7	509.0	12,098.3	639.7	361.4	24,196.8
Additions	0.5	–	15.6	108.7	25.1	947.7	1,097.6
Settlement through assets	(5.0)	–	–	–	–	–	(5.0)
Adjustment to decommissioning asset	12.4	(4.5)	–	–	–	21.8	29.7
Transfer from (to)/from Intangible Assets (Note 13)	(0.6)	–	–	–	(71.6)	22.4	(49.8)
Transfer from Assets Under Construction	31.6	29.8	7.6	660.1	46.4	(775.5)	–
Disposals (iii)	(142.3)	–	(3.4)	(8.6)	(3.2)	–	(157.5)
Transfer to Assets Held for sale	(24.6)	(1,528.8)	–	–	–	–	(1,553.4)
Exchange rate adjustments	37.7	–	0.6	–	1.5	0.6	40.4
At 31 March 2020	8,318.4	676.2	529.4	12,858.5	637.9	578.4	23,598.8
Additions	**3.6**	**–**	**14.7**	**58.0**	**31.6**	**968.7**	**1,076.6**
Adjustment to decommissioning asset (i)	**(7.3)**	**(5.3)**	**–**	**–**	**–**	**–**	**(12.6)**
Transfer from Intangible Assets (Note 13); (iv)	**–**	**–**	**1.9**	**–**	**–**	**41.2**	**43.1**
Transfer from Assets Under Construction	**62.6**	**–**	**8.7**	**762.2**	**42.2**	**(875.7)**	**–**
Disposals (iii)	**(0.6)**	**–**	**(9.3)**	**(4.6)**	**(21.1)**	**(22.8)**	**(58.4)**
Transfer to Assets Held for sale	**–**	**–**	**(2.3)**	**–**	**(0.7)**	**–**	**(3.0)**
Exchange rate adjustments	**(59.3)**		**(1.0)**	**–**	**(2.2)**	**(1.4)**	**(63.9)**
At 31 March 2021	**8,317.4**	**670.9**	**542.1**	**13,674.1**	**687.7**	**688.4**	**24,580.6**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
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14. Property, plant and equipment continued

	Power Generation Assets (i) £m	Gas Production and storage Assets (ii) £m	Land and Buildings £m	Network Assets £m	Other assets £m	Assets Under Construction £m	Total £m
Depreciation:							
At 31 March 2019	(4,729.9)	(1,675.0)	(139.2)	(4,526.4)	(451.5)	(34.4)	(11,556.4)
Adjustments on adoption of IFRS 16	–	–	–	–	9.9	–	9.9
Revised opening balance at 1 April 2019	(4,729.9)	(1,675.0)	(139.2)	(4,526.4)	(441.6)	(34.4)	(11,546.5)
Adjustment in relation to historic depreciation rates	–	–	–	33.7	–	–	33.7
Charge for the year	(199.6)	(31.9)	(27.2)	(214.3)	(61.2)	–	(534.2)
Transfers (to)/from intangible assets	–	–	–	–	7.8	–	7.8
Transfers in the year	3.6	–	0.1	(3.8)	0.1	–	–
Disposals (iii)	113.8	–	0.3	1.8	1.9	–	117.8
Transfer to Assets held for sale	–	1,154.0	–	–	–	–	1,154.0
Exchange rate adjustments	(15.5)	–	(0.2)	–	(1.0)	–	(16.7)
At 31 March 2020	(4,827.6)	(552.9)	(166.2)	(4,709.0)	(494.0)	(34.4)	(10,784.1)
Charge for the year	**(207.8)**	**(0.8)**	**(27.2)**	**(229.5)**	**(58.0)**	**–**	**(523.3)**
Impairments (charges)/ reversals (Note 7); (v)	**(58.6)**		**(15.1)**	**–**	**–**	**1.9**	**(71.8)**
Transfers in the year	**–**	**–**	**(0.1)**	**(0.1)**	**0.2**	**–**	**–**
Disposals (iii)	**–**	**–**	**1.5**	**0.6**	**20.5**	**–**	**22.6**
Transfer to Assets held for sale	**–**	**–**	**0.5**	**–**	**0.3**	**–**	**0.8**
Exchange rate adjustments	**28.9**	**–**	**–**	**–**	**0.6**	**–**	**29.5**
At 31 March 2021	**(5,065.1)**	**(553.7)**	**(206.6)**	**(4,938.0)**	**(530.4)**	**(32.5)**	**(11,326.3)**
Net book value							
At 31 March 2021	**3,252.3**	**117.2**	**335.5**	**8,736.1**	**157.3**	**655.9**	**13,254.3**
At 31 March 2020	3,490.8	123.3	363.2	8,149.5	143.9	544.0	12,814.7
At 1 April 2019	3,678.8	504.7	369.8	7,571.9	198.1	327.0	12,650.3

(i) Power generation assets comprise Thermal and Renewable generation plant, related buildings, plant and machinery and include all hydro power generation and wind farm assets. The net book value of power generation assets includes decommissioning costs with a net book value of £204.9m (2020: £207.7m).
(ii) Gas storage and production assets include decommissioning costs with a net book value of £93.7m (2020: £103.3m).
(iii) Assets disposed includes £24.4m in respect of the Group's assets relating to the disposal of Slough Multifuel (2020: £28.9m in respect of the Group's assets relating to the disposal of Slieve Divena Wind Farm No. 2 Limited). Details of disposals related to assets held for sale at 31 March 2020 are provided in Note 12.
(iv) 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.
(v) Impairment charges relate to exceptional impairments of £71.3m (see Note 7) and non-exceptional impairments of £0.5m. (2020: exceptional impairments of £231.1m).

14. Property, plant and equipment continued

Included within property, plant and equipment are the following right of use assets for leased assets:

	Power Generation Assets £m	Land and Buildings £m	Network Assets £m	Metering assets and other equipment £m	Total £m
Cost					
At 31 March 2019	369.6	4.4	–	14.8	388.8
Recognised on adoption of IFRS 16 on 1 April 2019	–	148.2	5.5	72.1	225.8
Derecognised on adoption of IFRS 16 on 1 April 2019	–	–	–	(14.8)	(14.8)
Additions	–	15.6	6.7	24.2	46.5
Disposals	–	(2.5)	–	(3.1)	(5.6)
Exchange rate adjustments	–	(0.6)	–	–	(0.6)
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**
Depreciation					
At 31 March 2019	(242.0)	(0.1)	–	(9.9)	(252.0)
Derecognised on adoption of IFRS 16 on 1 April 2019	–	–	–	(9.9)	(9.9)
Charge for the year	(18.4)	(11.8)	(0.4)	(28.9)	(59.5)
Disposals	–	(0.2)	–	(1.8)	(2.0)
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)**
Net book value					
At 31 March 2021	**97.1**	**149.6**	**9.6**	**69.3**	**325.6**
At 31 March 2020	**109.2**	**153.4**	**11.8**	**66.1**	**340.5**
At 1 April 2019	127.6	4.3	–	4.9	136.8

15. Impairment testing

Goodwill and intangibles that are not amortised are reviewed at least annually for impairment and PPE and other intangibles are assessed annually for impairment 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 operating segments. The discount rates applied in both 2021 and 2020 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 2021 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
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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 both 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	**Onshore** The VIU assessment is used to test the carrying value of £73.7m 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. 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. The Onshore Windfarm CGU includes cashflows for operational assets only, being over 50 individual windfarms across UK and Republic of Ireland, given risk and uncertainty associated with projects in the development stage. The cash flow projections are based on UK power prices between £44-£53 per MWh over the next three years and have been discounted applying a pre-tax real discount rate between 5.1% and 5.6% (2020: between 5.6% and 6.3%) based on technology and market risks.	**Impairment conclusion – Onshore** 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. **Sensitivity analysis – Onshore** 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. Similarly, a 0.5% increase in the pre-tax real discount rate to between 5.6% - 6.1% also indicated significant headroom. This view is supported by the Group's prior year profit on disposal of Slieve Divena II windfarm which, as FVLCS, is secondary corroboration of the VIU assessment.

15. Impairment testing continued
15.1 Goodwill impairment reviews – CGUs testing continued

Assets/CGUs	Cash flow period assumption	Operating and other valuation assumptions	Commentary and impairment conclusions
Offshore Wind Farms	Period to end of life of portfolio assets	**Offshore** 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. 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. 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. The cash flow projections are based on UK power prices between £49-£55 per MWh over the next three years and have been discounted applying a pre-tax real discount rate of 5.6% (2020: 6.3%) based on technology and market risks.	**Impairment conclusion – Offshore** 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. **Sensitivity analysis – Offshore** 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. Similarly, an increase in the pre-tax real discount rate of 0.5% to 6.1% also indicated significant headroom. This view is supported by the Group's current year profit on disposal of its stake in Walney Offshore windfarm which, as FVLCS, is secondary corroboration of the VIU assessment.
Enterprise Energy Solutions	5 years	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. The VIU of the business CGU has been based on a 5.6% (2020: 6.3%) pre-tax real discount rate.	At 31 March 2021, the impairment review indicates headroom on the carrying value. A decrease in forecast cashflows of 20% would result in a £0.5m impairment. An increase in the discount rate of 4% would result in an impairment of £2.0m.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
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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 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.

Changes from prior year

In the prior year the Group assessed that its Great Island CCGT plant did not display indicators of impairment following good operational performance from the asset and limited uncertainty following the implementation of the Isle of Ireland Integrated Single Electricity Market ('I-SEM') in October 2018. During the current year the asset has performed slightly below expectation. However, in the year to 31 March 2021, valuation of the asset has noted lower demand forecasts and a projection of lower infra-marginal rent from the asset in future years. These factors have been considered a trigger for an impairment review and the asset has been included in the 31 March 2021 impairment assessment below.

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	**Modelling methodology and assumptions** 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 8.9% and 19.9% (2020: between 7.7% and 12.6%). **Changes from prior year** 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. During the year the observable peak load spark price assumed for the assets has increased and there has been strong operational performance of the assets during the year. Due to historic impairments of each asset, these factors were considered an indicator of a potential change in carrying value for the GB CCGT assets at 31 March 2021.	**Conclusion** At 31 March 2021 no impairment, or impairment reversal, has been recognised on each of the GB CCGT assets. The impairment assessment returned individually non-significant impairments to Peterhead (£3.1m) and Marchwood (£1.5m), and individually non-significant impairment reversals to Keadby (£4.6m) and Medway (£4.7m). The Group judged that it was appropriate not to recognise any discrete impairment charges or reversals, as reasonably possible scenarios modelled through the sensitivity analysis included outcomes of impairments and impairment reversals on each asset. **Sensitivity analysis** A 20% decrease in gross margin would result in impairments to each asset. Medway would be impaired by £6.2m; Keadby by £3.9m; Marchwood PPA lease asset by £36.8m; and Peterhead by £31.1m. A 20% increase in gross margin would result in impairment reversals to each asset. The Medway impairment reversal would be £15.6m; Keadby £13.0m; Marchwood PPA lease asset £33.7m; and Peterhead £25.0m. A £10/KW decrease in non-contracted capacity market price would result in impairments of £24.0m on Marchwood PPA lease asset and £16.5m on Peterhead. Medway and Keadby would be within a range that an impairment would not be recognised. A £10/KW increase in non-contracted capacity market price would result in an impairment reversal of £10.3m to Peterhead and £20.9m to Marchwood PPA lease asset. Medway and Keadby would be within a range that an impairment reversal would not be recognised.

15. Impairment testing continued

15.2 PP&E, other intangibles and investment impairment reviews – asset testing continued

Assets/CGUs	Cash flow period assumption	Operating and other valuation assumptions	Commentary and impairment conclusions
Great Island CCGT	Period to end of life	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 10.8% reflecting the specific risks in the Irish market. During the year the plant performed slightly below budget. This has been considered a discrete non-recurring event by management, which in isolation would not have triggered an impairment review. However, lower future demand forecasts published by EIRGRID are expected to result in lower revenue for the plant and internal price forecasts indicate infra-marginal rent generated by the plant may be lower than previously assumed. Both of these factors have been considered impairment triggers necessitating an impairment review at 31 March 2021.	The VIU assessment performed on the asset indicated an exceptional impairment of £58.1m, which has been recognised at 31 March 2021. The carrying value of the asset following the impairment is £232.4m. **Sensitivity analysis** A 0.5% increase in the discount rate would increase the impairment to £65m and a 0.5% decrease in the discount rate would decrease the impairment to £49.7m. A 20% decrease in gross margin would increase the impairment to £139.7m, and a 20% increase in gross margin would result in headroom of £24.4m and no impairment being recognised. A €10/KW decrease in non-contracted capacity market price would increase the impairment to £75.7m and a €10/KW increase would decrease the impairment to £39.6m.

Discontinued operations – assessment of carrying value of held for sale assets & liabilities

Assets/CGUs	Operating and other valuation assumptions	Commentary and impairment conclusions
Gas Production	At 31 March 2020 the Group's Gas Production assets were held for sale and were impaired to their fair value less costs to sell based on a formal offer received for the business. At 31 March 2021 the business remains classified as held for sale, with the Group announcing an agreement to sell the business on 22 December 2020. Completion of the sale is expected to occur by 30 September 2021 subject to regulatory and partner approval. In the prior year the carrying value of the held for sale asset was impaired by £291.3m to its fair value less costs to sell in accordance with IFRS 5. At 31 March 2021 an assessment has been performed to test the recoverability of the held for sale asset against the agreed sale value.	At 31 March 2021, no adjustment to the carrying value of the held for sale asset has been recognised. The carrying value of the held for sale asset is £83.8m (Note 12.3), which is equal to the assessed fair value less costs to sell from the transaction. Under the terms of the transaction SSE will retain 60% of the decommissioning liability (Note 20), which has been excluded from the carrying value of the held for sale asset. The transaction has been agreed on a 'locked box' basis effective from 1 April 2019 resulting in cashflows generated since that date being due to the buyer.

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16. Investments
16.1 Joint Ventures and associates

	2021			2020		
Share of net assets/cost	Equity £m	Loans £m	Total £m	Equity £m	Loans £m	Total £m
At 1 April	**1,849.4**	**847.5**	**2,696.9**	1,899.0	935.4	2,834.4
IFRS 16 opening balance adjustment	**–**	**–**	**–**	(9.5)	–	(9.5)
	1,849.4	**847.5**	**2,696.9**	1,889.5	935.4	2,824.9
Additions	**9.0**	**179.9**	**188.9**	36.2	139.5	175.7
Recognition of investment on loss of control (i)	**88.5**	**10.0**	**98.5**	–	–	–
Repayment of shareholder loans	**–**	**(236.7)**	**(236.7)**	–	(218.5)	(218.5)
Dividends received	**(191.1)**	**–**	**(191.1)**	(213.1)	–	(213.1)
Share of profit/(loss) after tax (ii)	**134.1**	**–**	**134.1**	155.9	–	155.9
Share of other reserves adjustments	**1.5**	**–**	**1.5**	(3.4)	–	(3.4)
Disposals	**(226.1)**	**(264.6)**	**(490.7)**	(23.9)	–	(23.9)
Transfer – Loans to Equity	**(18.4)**	**18.4**	**–**	8.9	(8.9)	–
Transfers – Other Investments	**(2.0)**	**–**	**(2.0)**	–	–	–
Impairments	**(0.1)**	**–**	**(0.1)**	(1.7)	–	(1.7)
Exchange rate adjustments	**(1.3)**	**(0.2)**	**(1.5)**	1.0	–	1.0
At 31 March	**1,643.5**	**554.3**	**2,197.8**	1,849.4	847.5	2,696.9

(i) In the current 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 will be accounted for as equity accounted joint ventures. In the table above an equity investment of £88.6m (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 £134.1m share of profits, only £132.0m is recognised through the Income Statement. The £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 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
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 has 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 has 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 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 equity 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).

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. Doggerbank C remains a 50:50 joint venture between SSE and Equinor.

16. Investments continued

16.3 Acquisitions and disposals of equity in the previous year

There were no significant additions or disposals of equity in the prior year.

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).

Share of results of joint ventures and associates

	2021 SGN £m	2021 Windfarms £m	2021 Thermal Generation £m	2021 Other (i) £m	2021 Total £m	2020 Total £m
Revenue	411.8	169.5	143.1	77.3	801.7	854.4
Other Income	–	102.5	–	–	102.5	112.5
Depreciation and amortisation	(61.6)	(90.1)	(15.8)	(38.0)	(205.5)	(208.2)
Other operating costs	(177.2)	(71.2)	(86.2)	(40.0)	(374.6)	(349.9)
Operating profit	173.0	110.7	41.1	(0.7)	324.1	408.8
Interest expense	(64.1)	(54.4)	(13.4)	(14.6)	(146.5)	(173.8)
Changes in fair value of derivatives	1.0	–	–	–	1.0	3.2
Corporation tax	(21.3)	(17.0)	(6.1)	(0.1)	(44.5)	(82.3)
Share of post taxation results	88.6	39.3	21.6	(15.4)	134.1	155.9
Recognised in other comprehensive income						
Actuarial (loss)/gain on retirement benefit schemes	(22.7)	–	–	–	(22.7)	45.3
Taxation	4.4	–	–	–	4.4	(8.8)
Cashflow hedges	5.8	30.6	(5.8)	–	30.6	(49.6)
Taxation	(1.1)	(5.6)	1.1	–	(5.6)	9.4
Total comprehensive income	75.0	64.3	16.9	(15.4)	140.8	152.2

(i) Other comprises the investments the Group holds in Neos Networks Limited, Maple Topco Limited (disposed 23 September 2020) and Marron Activ8 Energies Limited.

Share of joint ventures and associates' assets and liabilities

	2021 SGN £m	2021 Windfarms £m	2021 Thermal Generation £m	2021 Other (i) £m	2021 Total £m	2020 Total £m
Non-current assets	2,633.8	2,587.4	200.9	273.1	5,695.2	5,335.8
Current assets	71.8	255.2	70.3	34.4	431.7	1,050.1
Cash & cash equivalents	94.5	122.2	16.7	10.8	244.2	176.4
Current liabilities	(147.3)	(295.1)	(50.5)	(72.4)	(565.3)	(1,271.7)
Non-current liabilities	(2,038.3)	(2,445.0)	(116.7)	(108.0)	(4,708.0)	(3,998.0)
	614.5	224.7	120.7	137.9	1,097.8	1,292.6
Other adjustments	11.0	486.7	4.6	43.4	545.7	556.8
Share of net assets of joint ventures and associates	625.5	711.4	125.3	181.3	1,643.5	1,849.4
Shareholder loans	118.8	299.9	74.7	60.9	554.3	847.5
Interest in joint venture and associate	744.3	1,011.3	200.0	242.2	2,197.8	2,696.9

Information on Group's investments in joint ventures and associates is provided at A3, A4 and A5.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2021

16. Investments continued
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 Wind Farm	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.

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 has 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 are held for sale at 31 March 2021.

16.6 Other investments held at fair value through other comprehensive income

	Total £m
At 31 March 2019	0.5
Dividends received in the year	(0.3)
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**

17. Inventories

	2021 £m	2020 £m
Fuel and consumables	**104.2**	111.4
Renewables Obligation Certificates	**147.2**	82.6
Gas stocks	**17.4**	11.0
Less: provisions held	**(33.9)**	(31.0)
	234.9	174.0

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. In the prior year the Group held excess ROCs following the disposal of SSE Energy Services on 15 January 2020 and the balance of ROCs held has increased in the year as a result of demand reductions due to coronavirus imposed lockdowns on the Group's Business Energy customers.

The Group has recognised £376.7m within cost of sales in the year (2020: £127.5m).

18. Trade and other receivables

	2021 £m	2020 £m
Non-current assets		
Loan note receivable	**115.9**	100.0
Current assets		
Trade receivables	**832.2**	913.8
Unbilled energy income	**325.0**	370.7
Contract related assets	**12.8**	25.6
Other receivables	**127.5**	78.1
Cash held as collateral	**2.7**	256.4
Other prepayments and accrued income	**188.0**	116.6
	1,488.2	1,761.2
Total trade and other receivables	**1,604.1**	1,861.2

The non-current loan note receivable was recognised on the disposal of SSE Energy Services on 15 January and is payable by Ovo by 2029. The 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). The Group estimates the value of residual electricity consumption uncertainty at the year end is plus or minus £4m (2020: plus or minus £4m).

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 £3.8m (2020: £6.3m). Cash held as collateral relates to amounts deposited on commodity trading exchanges of £2.7m (2020: £256.4m).

Trade receivables and other financial assets are part of the Group's financial exposure to credit risk as explained in accompanying information Note A6.

19. Trade and other payables

	2021 £m	2020 £m
Current liabilities		
Trade payables	**433.3**	413.2
Contract related liabilities (i)	**38.8**	55.9
Other creditors	**269.7**	251.4
Other accruals (ii)	**1,245.5**	1,274.9
	1,987.3	1,995.4
Non-current liabilities		
Contract related liabilities (i)	**201.8**	207.0
Other accruals (ii)	**520.7**	432.5
	722.5	639.5
Total trade and other payables	**2,709.8**	2,634.9

(i) Current contract related liabilities includes customer contributions of £55.4m (2020: £15.6m) and non-current contract related liabilities includes customer contributions of £201.8m (2020: £207.0m).
(ii) Current other accruals includes government grants of £0.1m (2020: £0.1m) and non-current other accruals includes government grants of £1.9m (2020: £2.1m).

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20. Provisions

	Decommissioning (i) £m	Contracting Provisions (ii) £m	Restructuring (iii) £m	Other (iv) £m	Total £m
At 1 April 2019	966.4	17.8	0.1	45.6	1,029.9
Charged in the year	–	4.8	18.5	22.4	45.7
Increase in decommissioning provision	18.1	–	–	–	18.1
Unwind of discount	15.7	–	–	–	15.7
Released during the year	(15.0)	(7.1)	–	1.0	(21.1)
Disposed during the year	–	–	–	–	–
Utilised during the year	(36.3)	–	–	(13.0)	(49.3)
Transfer to held for sale	(380.1)	–	–	–	(380.1)
Exchange rate adjustments	2.4	–	–	0.2	2.6
At 31 March 2020	571.2	15.5	18.6	56.2	661.5
Charged in the year	**9.0**	**4.3**	**42.3**	**64.1**	**119.7**
(Decrease) in decommissioning provision	**(11.1)**	**–**	**–**	**–**	**(11.1)**
Unwind of discount	**3.8**	**–**	**–**	**–**	**3.8**
Released during the year	**(1.2)**	**–**	**(1.4)**	**(1.5)**	**(4.1)**
Utilised during the year	**(24.8)**	**(9.2)**	**(9.1)**	**(25.0)**	**(68.1)**
Transfer (to)/from held for sale	**224.0**	**(9.4)**	**(42.3)**	**–**	**172.3**
Transfer	**7.3**	**–**	**–**	**(7.3)**	**–**
Exchange rate adjustments	**(1.4)**	**–**	**–**	**–**	**(1.4)**
At 31 March 2021	**776.8**	**1.2**	**8.1**	**86.5**	**872.6**
At 31 March 2021					
Non-current	**755.4**	**1.2**	**–**	**36.7**	**793.3**
Current	**21.4**	**–**	**8.1**	**49.8**	**79.3**
	776.8	**1.2**	**8.1**	**86.5**	**872.6**
At 31 March 2020					
Non-current	544.0	12.2	–	43.9	600.1
Current	27.2	3.3	18.6	12.3	61.4
	571.2	15.5	18.6	56.2	661.5

(i) Provision has been made for the estimated net present value of decommissioning the Group's Gas Production assets, Thermal and Renewable power generation assets and Gas Storage facilities. 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. During the year the Group reached an agreement to dispose of its Gas Production assets to Viaro Energy (see Note 12). As part of the transaction, the Group agreed to retain 60% (£224.0m) of the decommissioning provision within the business, which was previously classified as held for sale and has been included as a transfer in current year. It is expected that the costs associated with decommissioning of these Gas Production assets will be incurred between 2021 and 2040.

(ii) The Group holds provisions in relation to certain long-term construction contracts. This includes the Group's retained sub-contracts with the various street-lighting PFI companies that were disposed in prior years. On 1 April 2021, subsequent to the balance sheet date, the Group agreed to dispose of its Contracting and Rail business, therefore these provisions were classified as held for sale at 31 March 2021.

(iii) Restructuring includes provisions related to the closure and exit of operations, such as the Group's Ferrybridge power station and the sale of SSE Contracting (see Note 7).

(iv) Other provisions relate to costs associated with claims and disputes and the employer financed retirement benefit provision for certain directors and former directors and employees, which is valued in accordance with IAS 19.

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 2021, the Group's long-term credit rating was BBB+ stable outlook for Standard & Poor's and Baa1 negative 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. During the year to 31 March 2021, the SSE Group successfully accessed the debt capital markets on three occasions, taking £2.5bn out the market over four senior debt tranches and two Hybrid debt securities tranches.

21. Sources of finance continued

21.1 Capital management continued

- In April 2020 SSE plc successfully launched a €1.1bn 5-year and 10-year dual tranche Eurobond with €600m maturing April 2025 and €500m maturing April 2030, with coupons of 1.25% and 1.75% respectively. Both tranches have been swapped to Sterling resulting in a funding cost of 2.4% for the five year and 2.9% for the 10 year.
- In July 2020, SSE plc issued a dual tranche equity accounted hybrid bond to replace the hybrids issued in 2015 (at an all-in rate of 4.02%), which had issuer first call dates of 10 September 2020 (£750m) and 1 April 2021 (€600m). This dual tranche issue comprises a perpetual non-call 5.75-year note at £600m with a coupon of 3.74%; and a perpetual non-call 7.0-year note at €500m with a coupon of 3.125%. The €500m tranche has been partly swapped back to Sterling, resulting in an all-in funding cost for both tranches to SSE of just under 3.8% per annum.
- In March 2021, SSEN Transmission issued a new £500m dual tranche green bond being a 7-year bond with a coupon of 1.50% and a 15-year bond with a coupon of 2.125%. This was our fourth green bond in five years and reaffirmed our status as the largest issuer of green bonds in the FTSE 100. At the same time, we set out a new framework for issuing innovative sustainability-linked bonds in the future.

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 a £1.3bn revolving credit facility with a March 2026 maturity and a £200m bilateral facility with an October 2025 maturity and an option to extend for a further year to October 2026. 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 2021 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.

The Group capital comprises:

	2021 £m	2020 £m
Total borrowings (excluding lease obligations)	**8,989.6**	9,717.2
Less: Cash and cash equivalents	**(1,600.2)**	(164.6)
Net debt (excluding hybrid equity)	**7,389.4**	9,552.6
Hybrid equity	**1,472.4**	1,169.7
Cash held as collateral and other short-term loans	**37.1**	(256.4)
Adjusted Net Debt and Hybrid Equity APM	**8,898.9**	10,465.9
Equity attributable to shareholders of the parent	**5,208.7**	3,750.4
Total capital excluding lease obligations	**14,107.6**	14,216.3

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
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21. Sources of finance continued
21.2 Loans and other borrowings

	2021 £m	2020 £m
Current		
Short-term loans	**864.7**	1,893.8
Lease obligations	**72.9**	73.1
	937.6	1,966.9
Non-current		
Loans	**8,124.9**	7,823.4
Lease obligations	**348.1**	382.1
	8,473.0	8,205.5
Total loans and borrowings	**9,410.6**	10,172.4
Cash and cash equivalents	**(1,600.2)**	(164.6)
Unadjusted net debt	**7,810.4**	10,007.8
Add/(less):		
Hybrid equity	**1,472.4**	1,169.7
Lease obligations	**(421.0)**	(455.2)
Cash held as collateral and other short term loans	**37.1**	(256.4)
Adjusted net debt and hybrid capital APM	**8,898.9**	10,465.9

Cash and cash equivalents comprise cash at bank and short term highly liquid investments with a maturity of six months or less. The cash and cash equivalents are higher year on year due to a higher surplus cash position at March 2021 as a result of disposal proceeds and proceeds from the £500m debt issue in March 2021.

21.3 Borrowing facilities
The Group has an established €1.5bn Euro commercial paper programme and as at 31 March 2021 there was no commercial paper outstanding (2020: £672.4m). 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 2021 these facilities were undrawn.

During the year to 31 March 2021, as referred at Note 21.1, the SSE Group successfully accessed the debt markets on three occasions raising £2.5bn from the market over four senior debt tranches and two hybrid equity securities tranches.

21. Sources of finance continued

21.3 Borrowing facilities continued

Analysis of borrowings

	2021 Weighted average interest rate (iv)	2021 Face value £m	2021 Fair value £m	2021 Carrying amount £m	2020 Weighted average interest rate (iii)	2020 Face value £m	2020 Fair value £m	2020 Carrying amount £m
Current								
Bank Loans – non-amortising (i)	0.8%	150.0	150.6	150.0	1.7%	574.9	577.8	574.8
Other Short term loans – non-amortising (ii)	–	–	–	–	1.1%	776.2	778.4	772.4
2.00% 600m Eurobond repayable 17 June 2020	–	–	–	–	2.7%	546.8	548.8	546.6
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		865.0	880.2	864.7		1,897.9	1,905.0	1,893.8
Non-current								
Bank loans – non-amortising (i)	2.9%	200.0	209.0	200.0	2.3%	350.0	362.2	350.0
4.25% Eurobond repayable 14 September 2021	–	–	–	–	4.3%	300.0	309.8	299.4
2.375% €500m Eurobond repayable 10 February 2022 (v)	–	–	–	–	2.4%	415.0	428.2	414.8
US Private Placement 16 April 2022	4.3%	162.7	193.5	162.6	4.3%	162.7	211.4	162.6
5.875% Eurobond repayable 22 September 2022	5.9%	300.0	323.5	299.6	5.9%	300.0	327.5	299.3
US Private Placement 28 April 2023	2.8%	35.0	36.3	34.7	2.8%	35.0	34.4	34.6
US Private Placement 6 September 2023	2.9%	120.0	124.0	119.2	2.9%	120.0	116.6	118.5
1.75% €700m Eurobond repayable 8 September 2023 (vi)	1.8%	514.6	538.5	514.1	1.8%	514.6	532.1	513.9
US Private Placement 16 April 2024	4.4%	204.1	253.8	203.9	4.4%	204.1	267.1	203.9
1.250% Eurobond repayable 16 April 2025 (ix)	1.3%	531.4	557.1	531.4	–	–	–	–
0.875% €600m Eurobond repayable 8 September 2025	0.9%	510.9	527.0	508.4	–	–	–	–
4.75% $900m NC5.5 Hybrid debt maturing 16 September 2077 (viii)	4.8%	730.0	752.2	729.0	4.8%	749.2	729.7	747.5
3.625% NC5.5 Hybrid maturing 16 September 2077 (viii)	3.6%	300.0	307.3	299.6	3.6%	300.0	293.2	299.3
Between two and five years		3,608.7	3,822.2	3,602.5		3,450.6	3,612.2	3,443.8
Bank loans – non-amortising (i)	1.6%	500.0	513.4	499.8	1.8%	500.0	519.1	499.8
US Private Placement 8 June 2026	3.1%	64.0	67.7	62.9	3.1%	64.0	63.7	63.0
US Private Placement 6 September 2026	3.2%	247.1	265.8	243.7	3.2%	247.1	265.6	243.1
US Private Placement 6 September 2027	3.2%	35.0	37.2	34.5	3.2%	35.0	34.5	34.4
0.875% €600m Eurobond repayable 8 September 2025	–	–	–	–	0.9%	530.9	526.4	527.9
1.375% €650m Eurobond repayable 4 September 2027 (vii)	1.4%	591.4	631.8	590.0	1.4%	591.4	600.9	589.8
1.50% Eurobond repayable 24 March 2028	1.5%	250.0	248.0	248.8	–	–	–	
8.375% Eurobond repayable on 20 November 2028	8.4%	500.0	732.1	496.8	8.4%	500.0	712.6	496.4
1.750% Eurobond repayable 16 April 2030 (x)	1.8%	442.9	485.3	442.9	–	–	–	–
5.50% Eurobond repayable on 7 June 2032	5.5%	350.0	476.5	350.1	5.5%	350.0	451.2	350.1
2.25% Eurobond repayable 27 September 2035	2.3%	350.0	350.1	347.0	2.3%	350.0	331.3	346.8
2.125% Eurobond repayable 24 March 2036	2.1%	250.0	246.1	248.2	–	–	–	–
4.625% Eurobond repayable on 20 February 2037	4.6%	325.0	425.3	324.2	4.6%	325.0	397.3	324.0
6.25% Eurobond repayable on 27 August 2038	6.3%	350.0	539.5	347.3	6.3%	350.0	501.2	347.1
4.454% Index linked loan repayable on 27 February 2044	4.5%	135.9	241.7	135.4	4.5%	135.5	287.1	134.2
1.429% Index linked bond repayable on 20 October 2056	2.0%	147.6	252.1	147.6	2.0%	146.2	199.7	146.2
Over five years		4,538.9	5,512.6	4,519.2		4,125.1	4,890.6	4,102.8
Fair value adjustment (iii)				3.2				276.8
Total non-current borrowings		8,147.6	9,334.8	8,124.9		7,575.7	8,502.8	7,823.4
Total borrowings		9,012.6	10,215.0	8,989.6		9,473.6	10,407.8	9,717.2

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21. Sources of finance continued
21.3 Borrowing facilities continued
Analysis of borrowings continued

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.
(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 weighted average interest rates (including the effect of interest rate swaps) for the year ended 31 March 2021 was 3.12% (2020 – 3.18%).
(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
IFRS 16 was adopted in the prior year under the Modified Retrospective approach, whereby the cumulative effect of adopting the standard was recognised as an adjustment to the opening lease liability on 1 April 2019. The opening balance below at 1 April 2019 includes this transition adjustment.

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 2019	482.6
Additions during the year	46.6
Disposals during the year	(7.5)
Unwind of discount	36.8
Repayment in the year	(103.3)
At 31 March 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**

The weighted average incremental borrowing rate applied to lease liabilities during the year was 4.84% (2020: 4.56%). Incremental borrowing rates applied to individual lease additions in the year ranged between 4.01% to 5.06% (2020: 4.06% to 5.06%).

The Group has additional committed payments under short term and low value leases at 31 March 2021 of £35.0m (2020: £36.2m).

The maturity of future lease liabilities are as follows:

	2021 £m	2020 £m
Within one year	**92.7**	96.5
Between one and five years	**262.1**	303.4
After five years	**267.2**	284.7
	622.0	684.6
Less: future finance charge	**(201.0)**	(229.4)
Present value of lease obligations	**421.0**	455.2

(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. Sources of finance continued

21.4 reconciliation of net increase in cash and cash equivalents to movement in adjusted net debt and hybrid equity

	2021 £m	2020 £m
Increase/(decrease) in cash and cash equivalents	**1,435.6**	(267.0)
Add/(less):		
Cash presented as held for sale	**–**	(95.2)
New borrowing proceeds	**(1,912.9)**	(1,122.4)
New hybrid equity proceeds	**(1,051.0)**	–
Repayment of borrowings	**1,895.9**	668.4
Disposal of borrowings	**438.6**	–
Repayment of hybrid equity	**748.3**	–
Non-cash movement on borrowings	**306.0**	(124.9)
(Decrease) in cash held as collateral and other short term loans	**(293.5)**	(87.8)
Decrease/(increase) in adjusted net debt and hybrids APM	**1,567.0**	(1,028.9)

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.

21.5 Reconciliation of movements in financing liabilities

		Financing cash flows					Non-cash movements				
	At 31 March 2020 £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	Reclassification £m	Other £m	At 31 March 2021 £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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
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21. Sources of finance continued
21.5 Reconciliation of movements in financing liabilities continued

		Financing cash flows				Non-cash movements				
	At 31 March 2019 £m	New Borrowings £m	Repayment of Borrowings £m	Repayment of lease creditor £m	Fair Value movements £m	Foreign exchange Movements £m	Lease liabilities £m	Reclassification £m	Other £m	At 31 March 2020 £m
Financing Liabilities										
Bank loans	1,421.6	–	–	–	3.0	–	–	(574.9)	–	849.7
US Private Placement	999.5	–	–	–	39.3	–	–	–	1.6	1,040.4
Fixed rate Eurobonds	4,762.6	350.0	–	–	44.3	12.8	–	(543.8)	(0.7)	4,625.2
Index Linked Loans	273.7	–	–	–	–	–	–	–	6.7	280.4
Hybrid Debt	989.3	–	–	–	21.0	12.2	–	–	1.0	1,023.5
Total long term borrowings	8,446.7	350.0	–	–	107.6	25.0	–	(1,118.7)	8.6	7,819.2
Bank loans	115.3	–	(107.7)	–	(5.8)	–	–	574.9	–	576.7
Fixed rate Eurobonds	–	–	–	–	–	4.3	–	543.8	0.8	548.9
Other short term loans – non-amortising	493.7	772.4	(493.7)	–	–	–	–	–	–	772.4
US Private placement	82.6	–	(67.0)	–	(15.6)	–	–	–	–	–
Total short term borrowings	691.6	772.4	(668.4)	–	(21.4)	4.3	–	1,118.7	0.8	1,898.0
	9,138.3	1,122.4	(668.4)	–	86.2	29.3	–	–	9.4	9,717.2
Lease liabilities	229.3	–	–	(103.3)	–	–	329.2	–	–	455.2
Total loans and borrowings	9,367.6	1,122.4	(668.4)	(103.3)	86.2	29.3	329.2	–	9.4	10,172.4
Assets held to hedge long-term borrowings	(126.1)	(51.5)	–	–	92.8	–	–	–	–	(84.8)
	9,241.5	1,070.9	(668.4)	(103.3)	179.0	29.3	329.2	–	9.4	10,087.6

22. Equity
22.1 Share capital

	Number (millions)	£m
Allotted, called up and fully paid:		
At 1 April 2019	1,046.9	523.4
Issue of shares (i)	28.2	14.1
Shares repurchased (ii)	(28.8)	(14.4)
At 31 March 2020	1,046.3	523.1
Issue of shares (i)	2.8	1.4
Shares repurchased (ii)	–	–
At 31 March 2021	1,049.1	524.5

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 56.0p per ordinary share (in relation to year ended 31 March 2020) and the interim dividend of 24.4p (in relation to the current year) under the terms of the Company's scrip dividend scheme. This resulted in the issue of 1,918,977 and 883,408 new fully paid ordinary shares respectively (2020: 19,086,291 and 9,136,089). In addition, the Company issued 0.9m (2020: 0.8m) 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 £10.4m (2020: £10.1m).

22. Equity continued
22.1 Share capital continued

(ii) No shares were purchased in the year to 31 March 2021. (2020: Under the share buyback programme announced on 1 February 2019, 28.8m shares were repurchased and cancelled in the current year for a total of £352.0m (including stamp duty and commission)). The nominal value of share capital repurchased and cancelled is transferred out of share capital and into the capital redemption reserve.

Of the 1,049.1m shares in issue, 6.1m 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 £12.9m (2020: 1.1m shares, consideration of £14.6m) to be held in trust for the benefit of employee share schemes. At 31 March 2021, the trust held 7.7m shares (2020: 7.6m) which had a market value of £112.5m (2020: £99.3m).

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

	2021 £m	2020 £m
GBP 750m 3.875% perpetual subordinated capital securities (i)	–	748.3
EUR 600m 2.375% perpetual subordinated capital securities (i)	421.4	421.4
GBP 600m 3.74% perpetual subordinated capital securities (ii)	598.0	–
EUR 500m 3.125% perpetual subordinated capital securities (ii)	453.0	–
	1,472.4	1,169.7

(i) 10 March 2015 £750m and €600m Hybrid Capital Bonds
The March 2015 hybrid equity bonds 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 £750m hybrid equity bond was executed and this hybrid bond was redeemed on 10 September 2020. The date for the first discretionary redemption of the €600m hybrid equity bond is 1 April 2021 and then every 5 years thereafter.

(ii) 2 July 2020 £600m and €500m Hybrid Capital Bonds
The new 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 a coupon payment of £17.5m (2020: £17.4m) was made on 1 April 2020 and for the £750m hybrid equity bond the final coupon payment of £29.1m (2020: £29.1m) was made on 10 September 2020. No coupon payments have been made on the new Hybrids issued in July 2020 with the first coupon payments not due until the 21/22 financial year.

The coupon payments in the year to 31 March 2021 consequently totalled £46.6m (2020: £46.5m).

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 in the following circumstances, all of which occur at the sole option of the Company:
- redemption; or
- dividend payment on ordinary shares.

Interest will accrue on any deferred coupon.

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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 2018	31 March 2019
Valuation carried out by	Hymans Robertson	Aon Hewitt
Value of assets based on valuation	£2,059.0m	£2,257.8m
Value of liabilities based on valuation	£1,902.3m	£2,544.4m
Valuation method adopted	Projected Unit	Projected Unit
Average salary increase	RPI+1%	RPI+0.5%
Average pension increase	RPI	RPI
Value of fund assets/accrued benefits	108.2%	88.7%

Future contributions
Scottish Hydro Electric Scheme
The last actuarial valuation of the scheme was carried out at 31 March 2018 and showed a surplus of £156.7m on a projected unit basis. Following this valuation, the Group agreed to cease contributions to the scheme during the year ended 31 March 2020 for a period until the actuarial valuation of the scheme is in deficit for two consecutive quarterly valuations. Consequently, the Group is not expected to make contributions to the scheme in the year ending 31 March 2022. The next triennial funding valuation will be carried out as at 31 March 2021. This process began during the year and is expected to be finalised by 30 September 2021. As part of that process the Trustee and Company will agree future contributions to the scheme based on the valuation.

Southern Electric Pension Scheme
The last actuarial valuation of the Scheme was finalised in the prior year 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. The Company also pays contributions in respect of current accrual, with some active members also paying contributions. Total contributions of approximately £54.7m are expected to be paid by the Company during the year ending on 31 March 2022, including deficit repair contributions of £40.9m.

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)	
		2021 £m	2020 £m	**2021 £m**	2020 £m
Scottish Hydro Electric	Defined benefit	**8.6**	(2.8)	**543.1**	534.2
Southern Electric	Defined benefit	**(24.4)**	11.1	**(186.1)**	(192.5)
Net actuarial gain/(loss)		**(15.8)**	8.3	**357.0**	341.7

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.

23. Retirement benefit obligations continued

Future contributions continued

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 2021 was equal to £543.1m (2020: £534.2m).

At 31 March 2021, the Southern Electric Pension Scheme has a net deficit of £186.1m, and unrecognised future contributions of £224.9m, which when paid, will result in a notional surplus of £38.8m. The Group has assessed that it has the right to recognise 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 2021 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 2021	At 31 March 2020
Rate of increase in pensionable salaries	**3.7%**	3.2%
Rate of increase in pension payments	**3.2%**	2.7%
Discount rate	**2.0%**	2.3%
Inflation rate	**3.2%**	2.7%

The assumptions relating to longevity underlying the pension liabilities at 31 March 2021 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 2021		At 31 March 2020	
	Male	Female	Male	Female
Currently aged 65	**23**	**24**	23	24
Currently aged 45	**25**	**27**	24	26

Southern Electric

	At 31 March 2021		At 31 March 2020	
	Male	Female	Male	Female
Currently aged 65	**23**	**25**	23	25
Currently aged 45	**24**	**26**	24	26

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 2021		At 31 March 2020	
	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%	+/-0.2%
Rate of increase in pension payments	**0.1%**	**+/-1.0%**	0.1%	+/-0.9%
Discount rate	**0.1%**	**+/-0.9%**	0.1%	+/-0.9%
Longevity	**1 year**	**+/-1.8%**	1 year	+/-1.8%

During the prior year a longevity swap contract in the Scottish Hydro Electric Scheme was converted to a 'buy-in' contract, reducing the Group's exposure to fluctuations in the calculation of the obligation (see Note 23.6).

Southern Electric

	At 31 March 2021		At 31 March 2020	
	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%	+/-1.6%
Discount rate	**0.1%**	**+/-1.6%**	0.1%	+/-1.7%
Longevity	**1 year**	**+/-6.0%**	1 year	+/-4.4%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
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23. Retirement benefit obligations continued
23.3 valuation of combined pension schemes

	Quoted £m	Unquoted £m	Value at 31 March 2021 £m	Quoted £m	Unquoted £m	Value at 31 March 2020 £m
Equities	626.8	–	626.8	500.6	–	500.6
Government bonds	1,139.9	–	1,139.9	857.8	–	857.8
Corporate bonds	176.7	–	176.7	145.1	–	145.1
Insurance Contracts (i)	–	780.3	780.3	–	725.4	725.4
Other investments	1,588.4	–	1,588.4	1,694.0	–	1,694.0
Total fair value of plan assets			4,312.1			3,922.9
Present value of defined benefit obligation			(3,955.1)			(3,581.2)
Surplus/(deficit) in the schemes			357.0			341.7
Deferred tax thereon (ii)			(67.8)			(64.9)
Net pension asset			289.2			276.8

(i) See details of valuations of insurance contracts in Note 23.6 (iv).
(ii) Deferred tax rate of 19% applied to net pension surplus position (2020: 19%).

23.4 Movements in the combined defined benefit asset obligations and assets during the year

	2021			2020		
	Assets £m	Obligations (i) £m	Total	Assets £m	Obligations (i) £m	Total £m
At 1 April	3,922.9	(3,581.2)	341.7	4,329.6	(4,042.5)	287.1
Included in Income Statement						
Current service cost	–	(29.3)	(29.3)	–	(39.0)	(39.0)
Past service cost (i)	–	(5.8)	(5.8)	–	(8.1)	(8.1)
Settlements and curtailments	(7.7)	9.3	1.6	(69.4)	83.9	14.5
Interest income/(cost)	88.5	(80.2)	8.3	99.8	(93.2)	6.6
	80.8	(106.0)	(25.2)	30.4	(56.4)	(26.0)
Included in Other Comprehensive Income						
Actuarial (loss)/gain arising from:						
Demographic assumptions	–	(23.1)	(23.1)	–	6.6	6.6
Financial assumptions	–	(461.5)	(461.5)	–	284.4	284.4
Experience assumptions	–	21.8	21.8	–	36.6	36.6
(Loss)/Return on plan assets excluding interest income	447.0	–	447.0	(319.3)	–	(319.3)
	447.0	(462.8)	(15.8)	(319.3)	327.6	8.3
Other						
Contributions paid by the employer	56.3	–	56.3	72.3	–	72.3
Scheme participant's contributions	0.1	(0.1)	–	0.2	(0.2)	–
Benefits Paid	(195.0)	195.0	–	(190.3)	190.3	–
	(138.6)	194.9	56.3	(117.8)	190.1	72.3
Balance at 31 March	4,312.1	(3,955.1)	357.0	3,922.9	(3,581.2)	341.7

23. Retirement benefit obligations continued

23.4 Movements in the combined defined benefit asset obligations and assets during the year continued

Pension scheme contributions and costs

Charges/(credits) recognised:

	2021 £m	2020 £m
Service costs (charged to operating profit)	35.1	47.1
Settlements and curtailment (gains) (i)	(1.6)	(14.5)
	33.5	32.6
(Credited)/charged to finance costs:		
Interest from pension scheme assets	(88.5)	(99.8)
Interest on pension scheme liabilities	80.2	93.2
	(8.3)	(6.6)

(i) During the prior year the Group disposed of SSE Energy Services, which resulted in an exceptional gain of £14.5m being recognised in the pension schemes on the transfer values of assets and liabilities transferred from the schemes to a new Ovo defined benefit scheme. In the current year there was a further £1.6m gain related to settlements to Ovo employees who remained within the scheme following the disposal of the business. These gains have been treated as exceptional in both periods and offset against the overall loss on disposal of the business.

The return on pension scheme assets is as follows:

	2021 £m	2020 £m
(Loss)/return on pension scheme assets	535.5	(219.5)

Guaranteed minimum pension ('GMP') equalisation charge

Following the High Court ruling on GMP equalisation on 26 October 2018, the Group recognised an exceptional past service cost of £9.0m in its 31 March 2019 financial statements. The equalisation is a point estimate calculated under the C2 method of equalisation with no limit on the period of arrears. During the current year, a further court case was heard which ruled that all transfers with GMPs built up between 17 May 1990 and 5 April 1997 would also need to be equalised. Following this ruling, the Group has recognised a non-exceptional past service cost of £1.5m across both schemes in the current year.

Defined contribution scheme

The total contribution paid by the Group to defined contribution pension schemes was £61.6m (2020: £67.1m).

Employer financed retirement benefit (EFRB) pension costs

The increase in the year in relation to EFRB was £5.8m (2020: decrease of £2.4m). This is included in other provisions (Note 20).

Staff costs analysis

The pension costs in Note 8 can be analysed thus;

	2021 £m	2020 £m
Service costs	35.1	47.1
Defined contribution scheme payments	61.6	67.1
Less: pension costs of employees in discontinued operations	–	(26.1)
	96.7	88.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2021

23. Retirement benefit obligations continued
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 significant 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.

(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.

(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.

(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 vs 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.

(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. Retirement benefit obligations continued

23.7 Risk assessment

(i) Maturity profile of the defined benefit obligations

The weighted average duration of the defined benefit obligation is 18 years (2020: 17 years) for the Scottish Hydro Electric Pension Scheme and 17 years (2020: 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	28	29
Deferred members	11	9
Pensioners	61	62
	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.

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FOR THE YEAR ENDED 31 MARCH 2021

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

	2021 £m	2020 £m
Operating derivatives		
Total result on operating derivatives (i)	**429.1**	(526.4)
Less: Amounts settled (ii)	**161.0**	723.2
	590.1	196.8
Novation of derivatives held by discontinued operation (Note 12)	**–**	(231.0)
Movement in unrealised derivatives	**590.1**	(34.2)
Financing derivatives (and hedged items)		
Total result on financing derivatives (i)	**35.2**	(74.4)
Less: Amounts settled (ii)	**20.4**	(8.6)
Movement in unrealised derivatives	**55.6**	(83.0)
Net income statement impact	**645.7**	(117.2)

(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:

	2021 £m	2020 £m
Derivative financial assets		
Non-current	**114.7**	308.2
Current	**470.9**	631.2
Total derivative assets	**585.6**	939.4
Derivative liabilities		
Non-current	**(452.1)**	(620.0)
Current (i)	**(238.7)**	(785.8)
Total derivative liabilities	**(690.8)**	(1,405.8)
Net liability	**(105.2)**	(466.4)

(i) £1.6m transferred to held for sale liabilities in the prior year (see Note 12.3).

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

	2021 £m	2020 £m
Capital expenditure:		
Contracted for but not provided	**1,189.5**	596.7

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. The increase in commitments year on year is mainly attributable to the contracted commitments for the Viking Windfarm and the Shetland HVDC transmission link.

25.2 Contingent assets and liabilities

The Group has no unrecognised contingent assets at 31 March 2021 (2020: nil).

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

(i) Sale of SSE Contracting

On 1 April 2021, subsequent to the balance sheet date, the Group agreed to sell its Enterprise Contracting and Rail and business to Aurelius Group for initial consideration of £17.5m; plus a £5m loan note bearing interest of 6% per annum repayable in 2026; and £5m of contingent consideration based on earnings targets within the business. The transaction is expected to complete in June 2021.

At 31 March 2021 the assets and liabilities being disposed have been classified as held for sale and impaired to their recoverable amount, which has been calculated as their fair value less costs to sell. This resulted in an exceptional impairment of £51.2m (see Note 7).

(ii) Redemption of hybrid equity bond

On 1 April 2021, subsequent to the balance sheet date, the Group exercised its option to redeem its €600m hybrid equity bond. 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. The redemption was funded through the issuance of hybrid capital bonds in July 2020.

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

		2021	2020	Change
EUR v GBP	Year end spot rate	**1.1745**	1.1301	3.9%
	Average spot rate	**1.1249**	1.1372	(1.1)%

A1. Basis of consolidation and significant accounting policies continued

A1.2 Significant accounting policies

Revenue (Notes 2 & 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.

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.

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.

ACCOMPANYING INFORMATION CONTINUED

A1. Basis of consolidation and significant accounting policies continued

A1.2 Significant accounting policies continued

Thermal continued

Gas storage

Revenue from gas storage capacity related services is recognised 'point in time' based on the number of days the storage service has been provided at the applicable contractual rate. Revenue for the injection and withdrawal of gas is recognised at the point of gas flowing into or out of the storage facilities at the applicable contractual rate.

Revenue from gas storage secondary trading opportunities 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(iv).

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.

Enterprise

Construction related services

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.

A1. Basis of consolidation and significant accounting policies continued

A1.2 Significant accounting policies continued

EPM & I continued

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.

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 250 and for lease liability charges on page 257.

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.

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'.

ACCOMPANYING INFORMATION CONTINUED

A1. Basis of consolidation and significant accounting policies continued

A1.2 Significant accounting policies continued

Business Combinations (Note 12) continued

The cost of acquisition is measured as being the aggregate fair value of consideration to be transferred at the date control is obtained. Contingent consideration is classified as a liability and subsequently re-measured through the income statement. Acquisition costs are expensed as incurred.

Held for sale assets and liabilities and discontinued operations (Note 12)

Non-current assets are classified as held for sale 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 sale, 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 sale 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 sale 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 sale.

Assets or groups of assets and related liabilities that qualify as held for sale 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.

A1. Basis of consolidation and significant accounting policies continued

A1.2 Significant accounting policies continued

Intangible assets (Note 13) continued

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 – as discussed in Note 12.2 (i) – 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.

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.

ACCOMPANYING INFORMATION CONTINUED

A1. Basis of consolidation and significant accounting policies continued

A1.2 Significant accounting policies continued

Property, plant and equipment (Note 14) continued

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 with the exception of Gas Production Assets which are depreciated on the Units of Production basis. 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	75 to 100
Thermal and hydro power stations including electrical and mechanical assets	20 to 60
Onshore wind farms	20 to 25
Offshore wind farms	20 to 25
Gas storage facilities	25 to 50
E&P common infrastructure assets	25 to 50
Networks specific assets	
Overhead lines, underground cables and other network assets	5 to 80
Non-operational assets, fixtures, equipment, plant and machinery, vehicles and mobile plant	5 to 10
Group wide assets	
Office buildings	30 to 40
Fixtures, IT assets, vehicles and mobile plant	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.

Exploration, evaluation and production assets (Notes 13 and 14)

The Group uses the successful efforts method of accounting for exploration and evaluation expenditure associated with exploration wells or 'prospects'. This expenditure will be capitalised initially within intangible assets and will include licence acquisition costs associated with the prospects. Upon recognition of proved and probable reserves and internal approval for development, the relevant expenditure will be transferred to property, plant and equipment and depreciated on a unit of production basis. If the prospects are determined to be unsuccessful, and no future activity is planned, the intangible asset will be expensed in the period in which that determination is made.

All field development costs, including rights and concessions related to production activities, are capitalised as property, plant and equipment. Capitalised costs relate to the acquisition and installation of production assets and facilities and include specialist engineering, drilling and technical services costs. These property, plant and equipment assets are depreciated from the commencement of production in the fields concerned, using the unit of production method, based on the estimated proven and probable reserves of those fields. Changes in these estimates are dealt with prospectively.

All common infrastructure costs, such as production facilities or pipelines that are common to more than one field, are depreciated on a straight line basis, reflecting their shared usage unrelated to the production of any one field.

A1. Basis of consolidation and significant accounting policies continued

A1.2 Significant accounting policies continued

Exploration, evaluation and production assets (Notes 13 and 14) continued

All exploration and production assets are reviewed annually for indicators of impairment. Where indicators of impairment are identified, the carrying value of the field assets are compared with the expected discounted future net cashflows associated with the remaining estimated commercial reserves. An impairment loss will be recognised where it is considered that recorded amounts are unlikely to be fully recovered from the net present value of future net cashflows. Note that the Gas Production business, in which all exploration, evaluation and production assets are recorded, is classified as 'held for sale' in the financial statements to 31 March 2020 and 31 March 2021.

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 255.

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.

ACCOMPANYING INFORMATION CONTINUED

A1. Basis of consolidation and significant accounting policies continued

A1.2 Significant accounting policies continued

Impairment review (Note 15) continued

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.

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, 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 estimated cost of decommissioning at the end of the useful lives of certain assets is reviewed periodically. Provision is made for the net present value of the estimated cost of decommissioning gas production facilities at the end of the producing lives of fields, and gas storage facilities, offshore wind farms and power stations at the end of the useful life of the facilities. 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 the provision gives access to future economic benefits. Changes in these provisions are recognised prospectively. The unwinding of the discount on the provision is included in finance costs and the depreciation for the asset is straight-line over the expected useful life of the asset or, for gas production facilities, is amortised on the unit of production method.

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.

A1. Basis of consolidation and significant accounting policies continued

A1.2 Significant accounting policies continued

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.

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.

ACCOMPANYING INFORMATION CONTINUED

A1. Basis of consolidation and significant accounting policies continued

A1.2 Significant accounting policies continued

Financial instruments (Note 24) continued

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

	2021 £m	**2021 %**	2020 £m	2020 %
Group profit before tax	**2,516.2**		587.6	
Less: share of results of associates and jointly controlled entities	**(132.0)**		(153.9)	
Profit before tax	**2,384.2**		433.7	
Tax on profit on ordinary activities at standard UK corporation tax rate of 19% (2018: 19%)	**453.0**	**19.0**	82.4	19.0
Tax effect of:				
Capital allowances less than depreciation	**10.8**	**0.4**	13.4	3.1
Increase in restructuring and settlement provisions	**(5.6)**	**(0.2)**	0.5	0.1
Non-taxable gain on sale of assets	**(229.1)**	**(9.6)**	(11.6)	(2.7)
Fair value movements on derivatives	**(116.1)**	**(4.9)**	18.3	4.2
Pension movements	**(5.9)**	**(0.2)**	(6.0)	(1.4)
Relief for capitalised interest and revenue costs	**(19.3)**	**(0.8)**	(16.3)	(3.8)
Hybrid equity coupon payments	**(8.9)**	**(0.4)**	(8.8)	(2.0)
Expenses not deductible for tax purposes	**9.7**	**0.4**	13.5	3.1
Utilisation of tax losses brought forward	**(2.1)**	**(0.1)**	(4.1)	(0.9)
Other items	**3.8**	**0.2**	1.4	0.3
Adjustments to tax charge in respect of previous years	**(11.4)**	**(0.5)**	(28.6)	(6.6)
Reported current tax charge and effective rate	**78.9**	**3.3**	54.1	12.5
Depreciation in excess of capital allowances	**(2.8)**	**(0.1)**	(7.6)	(1.8)
Increase in provisions	**5.6**	**0.2**	(0.5)	(0.1)
Fair value movements on derivatives	**116.1**	**4.9**	(18.3)	(4.2)
Pension movements	**5.9**	**0.2**	6.0	1.4
Relief for capitalised interest and revenue costs	**19.3**	**0.8**	16.3	3.8
Impact of higher deferred tax rates on Gas Production profits	**1.2**	**0.1**	(4.0)	(0.9)
Adjustments to tax charge in respect of previous years	**(1.9)**	**(0.1)**	10.6	2.4
Change in rate of UK corporation tax	**–**	**–**	64.6	14.9
Tax losses utilised	**2.1**	**0.1**	2.1	0.5
Other items	**(0.1)**	**–**	(1.8)	(0.4)
Reported deferred tax credit and effective rate	**145.4**	**6.1**	67.4	15.5
Group tax charge and effective rate	**224.3**	**9.4**	121.5	28.0

A2. Taxation continued

Reconciliation of tax charge to adjusted underlying current tax continued

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'.

	2021 £m	2020 £m
Profit before tax	**2,516.4**	587.6
Add/(less):		
Exceptional items and certain re-measurements	**(1,505.6)**	328.9
Share of tax from jointly controlled entities and associates before exceptional items and certain re-measurements	**44.5**	82.3
Share of non-recurring joint venture refinancing costs	**–**	12.3
Depreciation charge on fair value uplifts	**20.6**	20.6
Interest income/(charge) on pension scheme assets/(liabilities)	**(8.3)**	(6.6)
Share of interest on net pension liabilities in jointly controlled entities and associates	**(2.7)**	(1.7)
Adjusted profit before tax APM	**1,064.9**	1,023.4

The adjusted current tax charge can therefore be reconciled to the adjusted profit before tax as follows:

	2021 £m	2021 %	2020 £m	2020 %
Adjusted profit before tax	**1,064.9**		1,023.4	
Tax on profit on ordinary activities at standard UK corporation tax rate	**202.3**	**19.0**	194.5	19.0
Tax effect of:				
Capital allowances in excess of depreciation	**(31.4)**	**(2.9)**	(33.3)	(3.3)
Non-taxable gain on sale of assets	**(47.7)**	**(4.6)**	(5.1)	(0.5)
Non-qualifying depreciation	**10.6**	**1.0**	7.8	0.8
Adjustment for profit on internal trading	**1.9**	**0.2**	1.9	0.2
Increase in restructuring and settlement provisions	**(2.7)**	**(0.3**	(5.5)	(0.5)
Pension movements	**(6.8)**	**(0.6)**	(7.2)	(0.7)
Relief for capitalised interest and revenue costs	**(4.8)**	**(0.5)**	(5.3)	(0.5)
Hybrid equity coupon payments	**(8.9)**	**(0.8)**	(8.8)	(0.9)
Expenses not deductible for tax purposes	**4.4**	**0.4**	10.8	1.1
Losses carried back to earlier years	**1.7**	**0.2**	(5.7)	(0.6)
Adjustments to tax charge in respect of previous years	**(12.0)**	**(1.1)**	(29.8)	(2.9)
Other	**1.2**	**0.1**	(0.1)	–
Adjusted current tax charge and effective rate APM	**107.8**	**10.1**	114.2	11.2

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 2021 (2020: 19%). The Group's Gas Production business, which is presented as a discontinued operation in the current 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 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.

ACCOMPANYING INFORMATION CONTINUED

A2. Taxation continued

Reconciliation of tax charge to adjusted underlying current tax continued

As explained at Accompanying Information A1 and A6, 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, 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)	**2021 Holding %**	2020 Holding %	Principal Activity
Abernedd Power Company Limited	England and Wales	B	**100.0**	100.0	Holding Company
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**	–	Holding Company
Beithe AG	Switzerland	Z	**100.0**	100.0	Holding Company
Berwick Bank Wind Holdings Limited (formerly Seagreen Charlie Wind Energy Limited)	England and Wales	B	**100.0**	100.0	Holding Company
Berwick Bank Wind Limited (formerly Seagreen Foxtrot Wind Energy Limited)	England and Wales	B	**100.0**	100.0	Power Generation
Bhlaraidh Wind Farm Limited	Scotland	A	**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
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
Forbury Assets Limited	England and Wales	B	**100.0**	100.0	Construction of utility projects
Fusion Heating Limited	Northern Ireland	W	**100.0**	100.0	Energy Related Services
Galway Wind Park Phase 3 Designated	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
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**	–	Power Generation
Hydro Electric Pension Scheme Trustees Limited	Scotland	A	**100.0**	100.0	Dormant
Keadby Developments Limited	England and Wales	E	**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 (formerly Ahalia Holdings 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
March Winds Limited	Ireland	C	**100.0**	100.0	Power Generation
Marr Bank Wind Holdings Limited (formerly Seagreen Golf Wind Energy Limited)	England and Wales	B	**100.0**	100.0	Holding Company
Marr Bank Wind Limited (formerly Seagreen Delta Wind Energy Limited)	England and Wales	B	**100.0**	100.0	Power Generation

A3. Related undertakings continued
A3.1.1. Subsidiary undertakings continued

Company	Country of Incorporation	Registered Address (Key)	2021 Holding %	2020 Holding %	Principal Activity
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
Mullananalt Wind Farm (ROI) Limited	Ireland	C	**100.0**	100.0	Power Generation
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
Slough Domestic Electricity Limited	England and Wales	B	**100.0**	100.0	Power Generation
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	Utility Services
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**	–	Power Distribution
SSE Airtricity Energy Services (NI) Limited	Northern Ireland	F	**100.0**	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**	100.0	Utility Contracting
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**	100.0	Contracting
SSE Cumarsáid Teoranta	Ireland	C	**100.0**	100.0	Telecommunications
SSE E&P UK Limited	Scotland	A	**100.0**	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**	–	Holding Company
SSE OWS Glasgow Limited	Scotland	A	**100.0**	100.0	Property Holding
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
SSE Renewables Limited	Scotland	A	**100.0**	100.0	Holding Company
SSE Renewables Off Shore Limited	Ireland	C	**100.0**	100.0	Holding Company

ACCOMPANYING INFORMATION CONTINUED

A3. Related undertakings continued

A3.1.1. Subsidiary undertakings continued

Company	Country of Incorporation	Registered Address (Key)	2021 Holding %	2020 Holding %	Principal Activity
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 UK Limited	Northern Ireland	F	**100.0**	100.0	Power Generation
SSE Renewables Services (UK) Limited (formerly SSE Renewables Developments (UK) Limited)	Northern Ireland	F	**100.0**	100.0	Renewable Development
SSE Renewables Walney (UK) Limited	England and Wales	B	**–**	100.0	Holding Company
SSE Renewables Wind (Ireland) Holdings Limited	Ireland	C	**100.0**	–	Holding Company
SSE Renewables Wind Farms (Ireland) Limited (formerly Airtiricity Europe Windfarm Holdings 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 Slough Multifuel Holdco Limited	England and Wales	B	**100.0**	100.0	Power Generation
SSE Southern Group Trustee Limited (Previously Southern Electric Group Trustee Limited)	England and Wales	B	**100.0**	100.0	Dormant
SSE Stock Limited	Scotland	A	**100.0**	100.0	Stock Holding
SSE Thermal Energy Holdings Limited	England and Wales	B	**100.0**	–	Holding Company
SSE Thermal Energy Operations Limited	England and Wales	B	**100.0**	–	Power Generation
SSE Thermal Generation (Scotland) Limited	Scotland	A	**100.0**	–	Power Generation
SSE Thermal Generation Holdings Limited	England and Wales	B	**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 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 (Previously Southern Electric 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**	–	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	Construction of utility project
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	I	**100.0**	100.0	Renewable Development

All shares in subsidiary companies are ordinary share capital, unless otherwise stated.

A3.1.2. Partnerships

Company	Country of Incorporation	Registered Address (Key)	2021 Holding %	2020 Holding %	Principal Activity
The Glasa LLP	Scotland	A	**90.0**	90.0	Renewable Development

A3. Related undertakings continued
A3.1.3 Joint arrangements (incorporated)

Company	Country of Incorporation	Registered Address (Key)	2021 Holding %	2020 Holding %	Principal Activity
3SE (Barnsley, Doncaster & Rotherham) Holdings Limited	England and Wales	J	**25.0**	25.0	Holding Company
3SE (Barnsley, Doncaster & Rotherham) Limited	England and Wales	J	**25.0**	25.0	Waste Management
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**	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**	–	Warehousing and storage facilities
Doggerbank Offshore Windfarm Project 1 Holdco Limited	England and Wales	B	**40.0**	50.0	Holding Company
Doggerbank Offshore Windfarm Project 1 Projco Limited	England and Wales	B	**40.0**	50.0	Renewable Development
Doggerbank Offshore Windfarm Project 2 Holdco Limited	England and Wales	B	**40.0**	50.0	Holding Company
Doggerbank Offshore Windfarm Project 2 Projco Limited	England and Wales	B	**40.0**	50.0	Renewable Development
Doggerbank Offshore Windfarm Project 3 Holdco Limited	England and Wales	B	**50.0**	50.0	Holding Company
Doggerbank Offshore Windfarm Project 3 Projco Limited	England and Wales	B	**50.0**	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
Ferrybridge MFE 2 Limited	England and Wales	B	**–**	50.0	Development Company
Ferrybridge MFE Ltd	England and Wales	B	**–**	50.0	Power Generation
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
Kerry Power Limited	Ireland	O	**49.0**	49.0	Power Generation
Maple HoldCo 1 Limited	England and Wales	R	**–**	33.3	Energy Related Services
MapleCo1 Ltd	England and Wales	R	**–**	33.3	Energy Related Services
Maple HoldCo 2 Limited	England and Wales	R	**–**	33.3	Energy Related Services
MapleCo2 Ltd	England and Wales	R	**–**	33.3	Energy Related Services
Maple HoldCo 3 Limited	England and Wales	R	**–**	33.3	Energy Related Services
MapleCo3 Ltd	England and Wales	R	**–**	33.3	Energy Related Services
Maple Topco Limited	England & Wales	R	**–**	33.3	Holding Company
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
Multifuel Energy 2 Limited	Scotland	A	**–**	50.0	Power Generation
Multifuel Energy Limited	Scotland	A	**–**	50.0	Power Generation
Neos Networks Limited (formerly SSE Telecommunications Limited)	England and Wales	B	**50.0**	50.0	Telecommunications
NNXYZ Limited (formerly Neos Networks Limited)	England and Wales	B	**50.0**	50.0	Telecommunications
North Falls Offshore Wind Farm Holdco Limited	England and Wales	B	**50.0**	–	Holding company
North Falls Offshore Wind Farm Limited	England and Wales	B	**50.0**	–	Renewable Development
PriDE (Serp) Ltd	England and Wales	Q	**50.0**	50.0	Estate Maintenance and Improvement
Scotia Gas Networks Limited	England and Wales	R	**33.3**	33.3	Gas Distribution
Scotland Gas Networks plc	Scotland	AC	**33.3**	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**	100.0	Renewable Development

ACCOMPANYING INFORMATION CONTINUED

A3. Related undertakings continued
A3.1.3 Joint arrangements (incorporated) continued

Company	Country of Incorporation	Registered Address (Key)	2021 Holding %	2020 Holding %	Principal Activity
Seagreen 1A Limited	England and Wales	B	49.0	100.0	Renewable Development
Seagreen Alpha Wind Energy Limited	England and Wales	B	49.0	100.0	Renewable Development
Seagreen Bravo Wind Energy Limited	England and Wales	B	49.0	100.0	Renewable Development
Seagreen Holdco 1 Limited	England and Wales	B	49.0	100.0	Renewable Development
Seagreen Wind Energy Limited	England and Wales	B	49.0	100.0	Renewable Development
SSE Slough Multifuel Limited	England and Wales	B	50.0	100.0	Power Generation
SGN Belvedere Limited	England and Wales	R	33.3	33.3	Property
SGN Brighton Limited	England and Wales	R	33.3	33.3	Property
SGN Commercial Services Limited	England and Wales	R	33.3	33.3	Energy Related Services
SGN Connections Limited	England and Wales	R	33.3	33.3	Gas Distribution
SGN Contracting Limited	England and Wales	R	33.3	33.3	Energy Related Services
SGN Epsom Limited	England and Wales	R	33.3	33.3	Property
SGN Greenwich Limited	England and Wales	R	33.3	33.3	Property
SGN Kennington Limited	England and Wales	R	33.3	33.3	Property
SGN Lessona Limited	England and Wales	R	33.3	33.3	Holding company
SGN MidCo Limited	England and Wales	R	33.3	33.3	Holding company
SGN Motspur Park Limited	England and Wales	R	33.3	33.3	Property
SGN Natural Gas Limited	England and Wales	R	33.3	33.3	Gas Distribution
SGN Old Kent Road Limited	England and Wales	R	33.3	33.3	Property
SGN Place Limited	England and Wales	R	33.3	33.3	Holding company
SGN PledgeCo Limited	England and Wales	R	33.3	33.3	Holding company
SGN Property Holdings Limited	England and Wales	R	33.3	33.3	Property
SGN Property Services Limited	England and Wales	R	33.3	33.3	Property
SGN Rotherhithe Limited	England and Wales	R	33.3	33.3	Property
SGN Smart Limited	England and Wales	R	33.3	33.3	Gas Distribution
SGN Southampton Limited	England and Wales	R	33.3	33.3	Property
SGN Wandsworth Limited	England and Wales	R	–	33.3	Property
Skelton Grange EFW Holdings Limited	England and Wales	AD	–	50.0	Holding Company
Skelton Grange EFW Limited	England and Wales	AD	–	50.0	Waste Disposal
Southern Gas Networks plc	England and Wales	R	33.3	33.3	Gas Distribution
Stronelairg Wind Farm Limited	Scotland	A	50.1	50.1	Power Generation

A3.1.4 Associates

Company	Country of Incorporation	Registered Address (Key (i))	2021 Holding %	2020 Holding %	Principal Activity
Murphy Asset Services Limited	England and Wales	AD	16.6	16.6	Holding Company
Shetland Land Lease Limited	England and Wales	T	20.0	20.0	Development Company
St Clements Services Limited	England and Wales	U	25.0	25.0	Utilities Software
Walney (UK) Offshore Windfarms Limited	England and Wales	V	–	25.1	Power Generation

A3. Related undertakings continued

A.3.1.5 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 OAJ
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, SWIP 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

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	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
Multifuel Energy Limited	Power Generation	UK	Ordinary	–	50.0	31 March	Equity
Clyde Windfarm (Scotland) Limited	Power Generation	UK	Ordinary	50.1	50.1	31 March	Equity
Walney (UK) Offshore Windfarms Limited	Power Generation	UK	Ordinary	–	25.1	31 December	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
Stronelairg Wind Farm Limited	Power Generation	UK	Ordinary	50.1	50.1	31 March	Equity
Neos Networks Limited (formerly SSE Telecommunications Limited)	Telecoms	UK	Ordinary	50.0	50.0	31 March	Equity

ACCOMPANYING INFORMATION CONTINUED

A4. Joint ventures and associates continued

Summary information for material joint ventures and associates from unaudited financial statements is as follows:

	SGN 2021 £m	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	Beatrice Offshore Windfarm Limited 2021 £m	Dunmaglass Wind Farm Limited 2021 £m	Stronelairg Wind Farm Limited 2021 £m	Neos Networks Limited* 2021 £m	Other 2021 £m	Total 2021 £m
Revenue	1,235.4	144.6	88.0	53.7	135.7	57.8	87.5	26.7	51.0	133.2	65.5	2,079.1
Other income	–	–	–	–	–	–	256.2	–	–	–	–	256.2
Depreciation and amortisation	(184.7)	(11.6)	(2.2)	(17.9)	(29.4)	(22.9)	(89.0)	(7.8)	(13.9)	(70.6)	(38.7)	(488.7)
Other operating costs	(531.7)	(115.9)	(47.6)	(9.0)	(37.5)	(27.5)	(74.6)	(6.4)	(18.6)	(71.8)	(16.6)	(957.2)
Operating profit	519.0	17.1	38.2	26.8	68.8	7.4	180.1	12.5	18.5	(9.2)	10.2	(889.4)
Interest expense	(189.3)	(0.2)	(7.7)	(18.9)	(17.9)	(1.1)	(75.2)	(6.1)	(12.3)	(22.6)	(24.1)	(375.4)
Profit before tax	329.7	16.9	30.5	7.9	50.9	6.3	104.9	6.4	6.2	(31.8)	(13.9)	514.0
Corporation tax	(63.9)	(3.9)	(6.8)	(1.6)	(11.5)	(1.2)	(23.2)	(1.6)	(1.8)	–	(1.3)	(116.8)
Profit after tax	265.8	13.0	23.7	6.3	39.4	5.1	81.7	4.8	4.4	(31.8)	(15.2)	397.2
Recognised in other comprehensive income												
Actuarial gain on retirement benefit schemes	(68.1)	–	–	–	–	–	–	–	–	–	–	(68.1)
Taxation	13.3	–	–	–	–	–	–	–	–	–	–	13.3
Cash flow hedges	17.4	–	–	–	–	–	75.1	–	–	–	(13.7)	78.8
Taxation	(3.3)	–	–	–	–	–	(14.3)	–	–	–	1.7	(15.9)
	(40.7)	–	–	–	–	–	60.8	–	–	–	(12.0)	8.1
Total comprehensive income/(loss)	225.1	13.0	23.7	6.3	39.4	5.1	142.5	4.8	4.4	(31.8)	(27.2)	405.3
SSE share of profit (based on % equity)	88.6	6.5	11.9	3.2	19.7	1.3	32.7	2.4	2.2	(15.9)	(18.5)	134.1

* Formerly SSE Telecommunications Limited.

A4. Joint ventures and associates continued

	SGN 2021 £m	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	Beatrice Offshore Windfarm Limited 2021 £m	Dunmaglass Wind Farm Limited 2021 £m	Stronelairg Wind Farm Limited 2021 £m	Neos Networks Limited* 2021 £m	Other 2021 £m	Total 2021 £m
Dividends paid to shareholders	38.3	17.0	16.6	–	66.1	–	56.4	15.8	28.9	4.4	–	243.5
Non-current assets	7,901.3	107.5	228.5	–	612.0	–	1,994.1	191.4	353.9	535.1	2,885.8	14,809.6
Current assets	215.5	39.7	36.6	–	53.6	–	478.7	9.8	20.7	67.9	111.6	1,034.1
Cash and cash equivalents	283.6	25.7	3.9	–	35.5	–	95.2	5.1	22.7	18.5	123.8	614.0
Current liabilities	(441.8)	(5.7)	(26.5)	–	(7.7)	–	(495.3)	(1.7)	(14.9)	(145.8)	(246.5)	(1,385.9)
Non-current liabilities	(6,114.9)	(37.3)	(128.7)	–	(410.8)	–	(2,111.0)	(132.0)	(244.9)	(216.0)	(2,869.6)	(12,265.2)
Net assets	1,843.7	129.9	113.8	–	282.6	–	(38.3)	72.6	137.5	259.7	5.1	2,806.6
Group equity interest	33.3%	50.0%	50.0%	–	50.1%	–	40.0%	50.1%	50.1%	50.0%	–	–
Net assets	1,843.7	129.9	113.8	–	282.6	–	(38.3)	72.6	137.5	259.7	5.1	2,806.6
Group's share of ownership interest	614.5	65.0	56.9	–	141.6	–	(15.3)	36.3	68.9	129.9	–	1,097.8
Other adjustments	11.0	(19.7)	1.9	–	49.0	–	(6.3)	80.1	250.4	61.3	118.0	545.7
Carrying value of group's equity interest	625.5	45.3	58.8	–	190.6	–	(21.6)	116.4	319.3	191.2	118.0	1,643.5

* Formerly SSE Telecommunications Limited.

ACCOMPANYING INFORMATION CONTINUED

A4. Joint ventures and associates continued

	SGN 2020 £m	Seabank Power Limited 2020 £m	Marchwood Power Limited 2020 £m	Multifuel Energy Limited 2020 £m	Clyde Windfarm (Scotland) Limited 2020 £m	Walney (UK) Offshore Windfarms Limited 2020 £m	Beatrice Offshore Windfarm Limited 2020 £m	Dunmaglass Wind Farm Limited 2020 £m	Stronelairg Wind Farm Limited 2020 £m	Neos Networks Limited* 2020 £m	Other 2020 £m	Total 2020 £m
Revenue	1,271.7	112.6	68.7	106.7	133.1	137.3	91.1	32.4	73.6	136.5	79.8	2,243.5
Other income	–	–	–	–	–	–	281.4	–	–	–	–	281.4
Depreciation and amortisation	(184.0)	(11.5)	(24.5)	(22.1)	(29.4)	(50.8)	(86.7)	(7.9)	(13.9)	(58.7)	(45.4)	(534.9)
Other operating costs	(480.8)	(79.2)	(28.5)	(23.6)	(41.6)	(68.2)	(62.3)	(7.4)	(16.7)	(61.1)	(16.8)	(886.2)
Operating profit	606.9	21.9	15.7	61.0	62.1	18.3	223.5	17.1	43.0	16.7	17.6	1,103.8
Interest expense	(215.1)	(0.1)	(7.5)	(24.8)	(18.2)	(2.6)	(112.7)	(6.2)	(12.6)	(14.2)	(26.3)	(440.3)
Profit before tax	391.8	21.8	8.2	36.2	43.9	15.7	110.8	10.9	30.4	2.5	(8.7)	663.5
Corporation tax	(149.4)	(6.1)	(1.3)	(7.7)	(14.2)	(6.8)	(21.1)	(4.0)	(7.6)	(2.5)	(2.1)	(222.8)
Profit after tax	242.4	15.7	6.9	28.5	29.7	8.9	89.7	6.9	22.8	0.0	(10.8)	440.7
Recognised in other comprehensive income												
Actuarial gain on retirement benefit schemes	(136.0)	–	–	–	–	–	–	–	–	–	–	(136.0)
Taxation	26.3	–	–	–	–	–	–	–	–	–	–	26.3
Cash flow hedges	16.9	–	–	–	–	–	(110.3)	–	–	–	0.7	(92.7)
Taxation	(4.5)	–	–	–	–	–	21.0	–	–	–	(0.1)	16.4
	(97.3)	–	–	–	–	–	(89.3)	–	–	–	0.6	(186.0)
Total comprehensive income/(loss)	145.1	15.7	6.9	28.5	29.7	8.9	0.4	6.9	22.8	–	(10.2)	254.7
SSE share of profit (based on % equity)	80.8	7.9	3.4	14.3	14.9	2.2	35.9	3.5	11.4	–	(18.4)	155.9
Dividends paid to shareholders	50	6.0	9.7	–	72.8	75.3	252.7	18.7	45.9	–	4.5	535.6
Non-current assets	8,081.8	118.7	257.5	626.4	646.1	639.9	2,071.9	199.9	369.0	461.0	842.9	14,315.1
Current assets	449.6	23.6	36.1	34.3	53.2	12.3	455.0	8.4	21.2	1,219.1	37.5	2,350.3
Cash and cash equivalents	8.8	41.4	10.7	28.5	28.6	15.5	128.2	8.2	30.8	0.6	113.4	414.7
Current liabilities	(676.7)	(3.7)	(33.3)	(80.5)	(9.2)	(15.5)	(500.2)	(1.1)	(13.2)	(1,233.4)	(322.2)	(2,889.0)
Non-current liabilities	(6,127.5)	(29.3)	(150.7)	(453.5)	(406.6)	(129.3)	(2,189.6)	(129.5)	(240.1)	(265.3)	(597.5)	(10,718.9)
Net assets	1,736.0	150.7	120.3	155.2	312.1	522.9	(34.7)	85.9	167.7	182.0	74.1	3,472.2
Group equity interest	33.3%	50%	50%	50%	50%	25.1%	40%	50%	50%	50%	–	–
Net assets	1,736.0	150.7	120.3	155.2	312.1	522.9	(34.7)	85.9	167.7	182.0	74.1	3.472.2
Group's share of ownership interest	578.7	75.3	60.2	77.6	156.4	131.2	(13.9)	43.0	83.8	91.0	8.0	1,291.3
Other adjustments	16.3	(19.6)	3.3	(19.7)	51.2	23.9	(8.0)	84.5	262.7	116.1	47.4	558.1
Carrying value of group's equity interest	595.0	55.7	63.5	57.9	207.6	155.1	(21.9)	127.5	346.5	207.1	55.4	1,849.4

* Formerly SSE Telecommunications Limited.

A4. Joint ventures and associates continued

In addition to the above at 31 March 2021, the Group was owed the following loans from its principal joint ventures: Scotia Gas Networks Limited £118.8m (2020: £109.1m), Multifuel Energy Limited £nil (2020: £257.1m), Marchwood Power Limited £47.1m (2020: £59.2m); Clyde Windfarm (Scotland) Ltd £127.1m (2020: £127.1m); Beatrice Offshore Windfarm Limited £nil (2020: £16.5m); Dunmaglass Wind Farm Limited £46.5m (2020: £46.5m); Stronelairg Wind Farm Limited £88.2m (2020: £88.2m) and Neos Networks Limited £60.9m (2020: £28.3m).

This represents 88.2% (2020: 86.2%) of the loans provided to equity-accounted joint ventures and associates.

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.

	2021 Sale of goods and services £m	2021 Purchase of goods and services £m	2021 Amounts owed from £m	2021 Amounts owed to £m	2020 Sale of goods and services £m	2020 Purchase of goods and services £m	2020 Amounts owed from £m	2020 Amounts owed to £m
Joint ventures:								
Seabank Power Ltd	**75.2**	**(86.7)**	**0.1**	**(16.8)**	44.3	(66.1)	0.1	(5.8)
Marchwood Power Ltd	**45.3**	**(142.3)**	**0.6**	**(11.2)**	13.6	(96.2)	0.2	(6.8)
Scotia Gas Networks Ltd	**29.9**	**(13.1)**	**17.3**	**(1.1)**	39.5	(113.7)	12.1	(16.4)
Clyde Windfarm (Scotland) Ltd	**4.3**	**(116.1)**	**0.1**	**(38.2)**	4.2	(118.0)	1.3	(41.3)
Beatrice Offshore Windfarm Ltd	**5.3**	**(43.7)**	**1.1**	**(5.3)**	7.1	(40.8)	1.9	(3.3)
Stronelairg Windfarm Ltd	**1.9**	**(44.7)**	**–**	**(17.1)**	2.2	(55.4)	0.4	(16.3)
Dunmaglass Windfarm Ltd	**0.9**	**(22.2)**	**–**	**(6.6)**	0.9	(24.5)	–	(6.7)
Neos Networks Ltd	**38.0**	**(26.3)**	**41.4**	**(1.4)**	14.4	(59.5)	11.8	(11.6)
Other Joint Ventures	**22.5**	**(193.8)**	**54.8**	**(1.9)**	45.3	(205.5)	12.8	(60.5)
Associates	**–**	**(16.2)**	**–**	**–**	–	(36.7)	–	–

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 has operated the gas distribution networks in Scotland and the South of England from 1 June 2005. The Group's gas supply activity incurs gas distribution charges while the Group also provides services to Scotia Gas Networks in the form of a management service agreement for corporate services, stock procurement services and the provision of the capital expenditure on the development of front office management information systems.

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.

SSE has a Group-wide risk committee reporting to the Group Executive Committee, 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 a Board level sub-committee, the Energy Markets Risk Committee, chaired by Non-Executive Director Tony Cocker, which was established to oversee the Group's approach to hedging.

ACCOMPANYING INFORMATION CONTINUED

A6. Financial risk management continued

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. Following the disposal of SSE Energy Services, 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 or side agreements are typically included or entered into to protect 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 by category of credit risk and are subject to approved limits. At 31 March 2021, EPM had pledged £201.8m (2020: £183.1m) of cash collateral and letters of credit and had received £80.1m (2020: £182.8m) 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. Financial risk management continued

A6.2 Concentrations of risk

Trade receivables recorded by reported segment held at the 31 March were:

	2021 £m	2020 £m
Continuing operations		
SSEN Transmission	**7.8**	1.3
SSEN Distribution	**96.2**	101.8
SSE Renewables	**77.3**	72.0
Thermal Generation	**7.0**	13.7
Gas Storage	**1.4**	4.0
Business Energy	**199.3**	197.1
Airtricity	**228.8**	153.2
Enterprise	**5.3**	102.0
EPM	**192.4**	258.9
Corporate Unallocated	**16.7**	9.8
Total continuing operations	**832.2**	913.8
Held for sale assets and discontinued operations		
Gas Production	**7.7**	0.3
Contracting and Rail	**70.2**	–
Total discontinued operations	**77.9**	0.3
Total SSE Group	**910.1**	914.1

The Customers segment (Business Energy and Airtricity) accounts for 51.4% (2020: 38.3%) 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 biggest customer balance, due from an EPM customer (also an EPM supplier), is 4% (2020: 13%) of the total trade receivables.

The ageing of trade receivables at the reporting date was:

	2021 £m Continuing operations	2021 £m HFS Assets and Discontinued Operations	2021 £m Total SSE Group	2020 £m Total SSE Group
Not past due	**743.4**	**68.6**	**812.0**	838.5
Past due but not individually impaired:				
0 – 30 days	**55.2**	**3.0**	**58.2**	56.9
31 – 90 days	**26.0**	**1.9**	**27.9**	36.7
Over 90 days	**84.7**	**5.1**	**89.8**	59.7
	909.3	**78.6**	**987.9**	991.8
Less: allowance for impairment	**(77.1)**	**(0.7)**	**(77.8)**	(77.7)
Net Trade receivables	**832.2**	**77.9**	**910.1**	914.1

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 £3.8m (2020: £6.3m).

ACCOMPANYING INFORMATION CONTINUED

A6. Financial risk management continued

A6.2 Concentrations of risk continued

The movement in the allowance for impairment of trade receivables on continuing operations was:

	2021 £m	2020 £m
Balance at 1 April	**77.7**	41.9
Increase in allowance for impairment	**17.6**	39.2
Impairment losses recognised	**(17.5)**	(3.4)
Transfer to held for sale	**(0.7)**	–
Balance at 31 March	**77.1**	77.7

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 such as the coronavirus pandemic.

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 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 period to 31 December 2022 is £2.5bn, including £1.0bn of voluntary calls on hybrid instruments. The view of the Directors is that the Group's 105% funding policy is currently met out to 31 December 2022, after the voluntary redemption of hybrid instruments, through £1.6bn of surplus cash at 31 March 2021 and £1.5bn of undrawn committed facilities.

Given the cash surplus of £1.6bn at 31 March 2021; the undrawn committed borrowing facilities of £1.5bn maintained by the Group; the current commercial paper market conditions; 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 coronavirus pandemic; the Group's credit rating; the success of the Group's disposal programme through 2020/21; and the successful issuance of £2.5bn of medium to long term debt and Hybrid equity during the year. 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 not calling the £1.0bn Hybrid debt instruments due in September 2022, deferring uncommitted capex and implementing further cost reductions. The statement of going concern is included in the Audit Committee Report on page 128.

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 2021, due to the favourable mark-to-market position of the Group's derivative financial instruments, the Group currently holds £37.1m of third party cash deposits in respect of margin calls on exchange traded positions (2020: £256.4m deposited).

A6. Financial risk management continued

A6.3 Liquidity risk and going concern continued

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 numbers in the following tables have been included in the Group's cashflow forecasts for the purposes of considering Liquidity Risk as noted above.

The following are the undiscounted contractual maturities of financial liabilities, including interest and excluding the impact of netting agreements:

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**	2020 Carrying Value £m	2020 Contractual Cash Flows £m	2020 0-12 months £m	2020 1-2 years £m	2020 2-5 years £m	2020 > 5 years £m
Financial Liabilities												
Loans and Borrowings												
Commercial paper and cash advances	**–**	**–**	**–**	**–**	**–**	**–**	772.4	(776.3)	(776.3)	–	–	–
Loans – floating	**350.0**	**(362.0)**	**(152.2)**	**(1.6)**	**(4.9)**	**(203.3)**	824.8	(855.9)	(485.9)	(153.8)	(8.1)	(208.1)
Loans – fixed	**1,496.8**	**(1,937.3)**	**(47.9)**	**(359.0)**	**(519.2)**	**(1,011.2)**	1,594.1	(1,977.1)	(149.5)	(49.5)	(656.6)	(1,121.5)
Unsecured bonds – fixed	**7,139.6**	**(9,344.5)**	**(956.3)**	**(1,534.4)**	**(1,935.6)**	**(4,918.2)**	6,249.1	(8,379.9)	(780.7)	(934.3)	(2,318.3)	(4,346.6)
Fair value adjustment	**3.2**	**–**	**–**	**–**	**–**	**–**	276.8	–	–	–	–	–
	8,989.6	**(11,643.8)**	**(1,156.4)**	**(1,895.0)**	**(2,459.7)**	**(6,132.7)**	9,717.2	(11,989.2)	(2,192.4)	(1,137.6)	(2,983.0)	(5,676.2)
Lease liabilities	**421.0**	**(622.0)**	**(92.7)**	**(86.2)**	**(175.9)**	**(267.2)**	455.2	(684.5)	(96.5)	(83.7)	(219.7)	(284.6)
	9,410.6	**(12,265.8)**	**(1,249.1)**	**(1,981.2)**	**(2,635.6)**	**(6,399.9)**	10,172.4	(12,673.7)	(2,288.9)	(1,221.3)	(3,202.7)	(5,960.8)
Derivative Financial Liabilities												
Operating derivatives designated at fair value	**138.1**	**(1,590.1)**	**(1,475.5)**	**(81.3)**	**(33.3)**	**–**	844.7	(5,106.1)	(4,096.8)	(901.9)	(107.4)	–
Interest rate swaps used for hedging	**164.6**	**(165.3)**	**(63.3)**	**(38.1)**	**(42.9)**	**(21.0)**	114.3	(113.7)	(30.1)	(14.7)	(32.8)	(36.1)
Interest rate swaps designated at fair value	**325.1**	**(328.1)**	**(20.0)**	**(20.0)**	**(57.1)**	**(231.0)**	430.3	(436.4)	(28.4)	(28.4)	(70.3)	(309.3)
Forward exchange contracts held for hedging	**52.0**	**(890.1)**	**(292.7)**	**(430.7)**	**(166.7)**	**–**	8.2	(288.5)	(121.2)	(167.3)	–	–
Forward exchange contracts designated at fair value	**11.0**	**(274.7)**	**(262.8)**	**(11.4)**	**(0.5)**	**–**	8.3	4.4	(28.2)	24.7	7.9	–
Other financial liabilities	**690.8**	**(3,248.3)**	**(2,114.3)**	**(581.5)**	**(300.5)**	**(252.0)**	1,405.8	(5,940.3)	(4,304.7)	(1,087.6)	(202.6)	(345.4)
Trade payables	**433.3**	**(433.3)**	**(433.3)**	**–**	**–**	**–**	413.2	(413.2)	(413.2)	–	–	–
	433.3	**(433.3)**	**(433.3)**	**–**	**–**	**–**	413.2	(413.2)	(413.2)	–	–	–
Total	**10,534.7**	**(15,947.4)**	**(3,796.7)**	**(2,562.7)**	**(2,936.1)**	**(6,651.9)**	11,991.4	(19,027.2)	(7,006.8)	(2,308.9)	(3,405.3)	(6,306.2)
Derivative Financial Assets												
Financing derivatives	**(240.9)**	**697.7**	**581.0**	**85.8**	**30.7**	**0.2**	(478.8)	(1,039.4)	(1,300.3)	124.8	119.0	17.1
Operating derivatives designated at fair value	**(344.7)**	**2,250.6**	**1,932.8**	**213.5**	**104.3**	**–**	(460.6)	4,780.5	4,003.4	726.6	50.5	–
	(585.6)	**2,948.3**	**2,513.8**	**299.3**	**135.0**	**0.2**	(939.4)	3,741.1	2,703.1	851.4	169.5	17.1
Net total (i)	**9,949.1**	**(12,999.1)**	**(1,282.9)**	**(2,263.4)**	**(2,801.1)**	**(6,651.7)**	11,052.0	(15286.1	(4,303.7)	(1,457.5)	(3,235.8)	(6,289.1)

(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'.

ACCOMPANYING INFORMATION CONTINUED

A6. Financial risk management continued

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 Airtricity, and to procure fuel and other commodities and provide a route-to-market for SSE Renewables, Thermal Generation, Gas Storage and the discontinued Gas Production business.

Current hedging approach

The Group has traded in four principal commodities during the year, as well as the spreads between two or more commodity prices: power (baseload and other products); gas; carbon (emissions allowances); and oil. Trading in oil ceased during the year, as a result of the agreement to dispose of the Group's Gas Production business on an unhedged basis. 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. Historically this target was set at 85%, but will be at least 90% going forward.	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
Gas Production (discontinued operation)	As the E&P business remains held for sale on an unhedged basis, the Group has ceased forward hedge activity for the likely production profiles of the business.	Gas, Oil

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, Brexit or coronavirus) 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.

In November 2020, SSE Thermal temporarily adjusted its approach to forward hedging of its thermal generation output for periods beyond March 2021 in response to the uncertainty of long-term carbon pricing due to the UK's exit from the European Union.

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.

A6. Financial risk management continued

A6.4 Commodity risk continued

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.

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.

	2021		2020	
	Base Price (i)	**Reasonably possible increase/ decrease in variable**	Base Price (i)	Reasonably possible increase/ decrease in variable
Commodity prices				
UK gas (p/therm)	**44**	**+/-20**	35	+/-8
UK power (£/MWh)	**53**	**+/-24**	39	+/-9
UK coal (US$/tonne)	**72**	**+/-11**	61	+/-7
UK emissions (€/tonne)	**43**	**+/-11**	18	+/-6
UK oil (US$/bbl)	**59**	**+/-11**	42	+/-8

(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 impacts of reasonably possible changes in commodity prices on profit after taxation based on the rationale described are as follows:

Incremental profit/(loss)	**2021 Impact on profit and equity £m**	2020 Impact on profit and equity £m
Commodity prices combined – increase	**428.5**	104.7
Commodity prices combined – decrease	**(428.5)**	(104.7)

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.

ACCOMPANYING INFORMATION CONTINUED

A6. Financial risk management continued

A6.5 Currency risk continued

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:

	2021 £m	2020 £m
Forward foreign exchange contracts	4,395.5	5,738.7

The Group's exposure to foreign currency risk was as follows:

	2021						2020					
	SEK (million)	€m	$m	CNH	NOK (million)	CHF (million)	SEK (million)	€m	$m	CNH	NOK (million)	CHF (million)
Loans and borrowings	–	4,125.0	1,719.0	–	–	–	–	4,615.0	1,719.0	–	–	–
Purchase and commodity contract commitments	2,383.4	518.1	27.9	–	–	–	12.6	2,001.1	(182.6)	3,035.7	647.8	70.6
Gross exposure	2,383.4	4,643.1	1,746.9	–	–	–	12.6	6,616.1	1,536.4	3,035.7	647.8	70.6
Forward exchange/ swap contracts	2,383.4	3,443.0	1,746.9	–	–	–	12.6	4,796.7	1,254.9	1,816.5	388.7	70.6
Net exposure (in currency)	–	1,200.1	–	–	–	–	–	1,819.4	281.5	1,219.2	259.1	–
Net exposure (in £m)	–	1,021.8	–	–	–	–	–	1,610.0	227.1	138.6	19.9	–

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 2021 £m	At 31 March 2020 £m	At 31 March 2021 £m	At 31 March 2020 £m
US Dollars	–	–	–	(20.4)
Euro	90.0	109.5	1.9	35.4
CNH	–	–	–	(12.5)
NOK	–	–	–	(1.8)
	90.0	109.5	1.9	0.7

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.

A6. Financial risk management continued

A6.6 Interest rate risk continued

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 £1.6bn.

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.

The net exposure to interest rates at the balance sheet date can be summarised thus:

	2021 Carrying Amount £m	2020 Carrying Amount £m
Interest bearing/earning assets and liabilities:		
– fixed	**(9,804.2)**	(8,900.3)
– floating	**1,721.7**	(1,209.4)
	(8,082.5)	(10,109.7)
Represented by:		
Cash and cash equivalents	**1,600.2**	164.6
Derivative financial liabilities	**(272.1)**	(102.7)
Loans and borrowings	**(8,989.6)**	(9,717.2)
Lease liabilities	**(421.0)**	(454.4)
	(8,082.5)	(10,109.7)

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.

	2021 £m	2020 £m
Income statement	**(0.9)**	11.0

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.

ACCOMPANYING INFORMATION CONTINUED

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:

	2021 Amortised Cost (i) £m	2021 FVTPL/ FVTOCI (ii) £m	2021 Total Carrying Value £m	2021 Fair Value £m	2020 Amortised Cost (i) £m	2020 FVTPL/ FVTOCI (ii) £m	2020 Total Carrying Value £m	2020 Fair Value £m
Financial Assets								
Current								
Trade receivables	832.2	–	832.2	832.2	913.8	–	913.8	913.8
Other receivables	3.8	–	3.8	3.8	6.3	–	6.3	6.3
Cash collateral and other short term loans	2.7	–	2.7	2.7	256.4	–	256.4	256.4
Cash and cash equivalents	1,600.2	–	1,600.2	1,600.2	164.6	–	164.6	164.6
Derivative financial assets	–	470.9	470.9	470.9	–	631.2	631.2	631.2
	2,438.9	470.9	2,909.8	2,909.8	1,341.1	631.2	1,972.3	1,972.3
Non-current								
Unquoted equity investments	–	3.6	3.6	3.6	–	0.2	0.2	0.2
Loan note receivable	115.9	–	115.9	115.9	100.0	–	100.0	100.0
Loans to associates and jointly controlled entities	554.3	–	554.3	554.3	847.5	–	847.5	847.5
Derivative financial assets	–	114.7	114.7	114.7	–	308.2	308.2	308.2
	670.2	118.3	788.5	788.5	947.5	308.4	1,255.9	1,255.9
	3,109.1	589.2	3,698.3	3,698.3	2,288.6	939.6	3,228.2	3,228.2
Financial Liabilities								
Current								
Trade payables	(433.3)	–	(433.3)	(433.3)	(413.2)	–	(413.2)	(413.2)
Outstanding liquid funds	(39.8)	–	(39.8)	(39.8)	–	–	–	–
Loans and Borrowings	(864.7)	–	(864.7)	(880.2)	(1,893.8)	–	(1,893.8)	(1,905.0)
Lease liabilities	(72.9)	–	(72.9)	(72.9)	(73.1)	–	(73.1)	(73.1)
Derivative financial liabilities	–	(238.7)	(238.7)	(238.7)	–	(785.8)	(785.8)	(785.8)
	(1,410.7)	(238.7)	(1,649.4)	(1,664.9)	(2,380.1)	(785.8)	(3,165.9)	(3,177.1)
Non-current								
Loans and Borrowings	(8,121.7)	(3.2)	(8,124.9)	(9,373.1)	(7,546.6)	(276.8)	(7,823.4)	(8,502.8)
Lease liabilities	(348.1)	–	(348.1)	(348.1)	(382.1)	–	(382.1)	(382.1)
Derivative financial liabilities	–	(452.1)	(452.1)	(452.1)	–	(620.0)	(620.0)	(620.0)
	(8,469.8)	(455.3)	(8,925.1)	(10,173.3)	(7,928.7)	(896.8)	(8,825.7)	(9,505.1)
	(9,880.5)	(694.0)	(10,574.5)	(11,838.2)	(10,308.8)	(1,682.6)	(11,990.4)	(12,681.0)
Net financial liabilities	(6,771.4)	(104.8)	(6,876.2)	(8,139.9)	(8,020.2)	(743.0)	(8,762.2)	(9,452.8)

(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).

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.

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 continued

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.

	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.

	2020 Level 1 £m	2020 Level 2 £m	2020 Level 3 £m	2020 Total £m
Financial Assets				
Energy derivatives	–	460.6	–	460.6
Interest rate derivatives	–	441.9	–	441.9
Foreign exchange derivatives	–	36.9	–	36.9
Loan note receivable	–	–	100.0	100.0
Unquoted equity investments	–	–	0.2	0.2
	–	939.4	100.2	1,039.6
Financial Liabilities				
Energy derivatives	(230.6)	(614.1)	–	(844.7)
Interest rate derivatives	–	(544.6)	–	(544.6)
Foreign exchange derivatives	–	(16.5)	–	(16.5)
Loans and borrowings	–	(276.8)	–	(276.8)
	(230.6)	(1,452.0)	–	(1,682.6)

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 2020. The level 3 movements during the year were related to the recognition of £100m of unquoted loan notes due from Ovo Group Limited following the disposal of SSE Energy Services.

ACCOMPANYING INFORMATION CONTINUED

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	2021 Carrying amount	2021 Expected cash flows	2021 0-12 months	2021 1-2 years	2021 2-5 years	2021 > 5 years	2020 Carrying amount	2020 Expected cash flows	2020 0-12 months	2020 1-2 years	2020 2-5 years	2020 > 5 years
Interest rate swaps:												
Assets	**0.1**	**0.2**	**–**	**(0.1)**	**–**	**0.3**	334.0	334.0	101.1	99.0	116.8	17.1
Liabilities	**(8.4)**	**(8.5)**	**–**	**(1.9)**	**(5.5)**	**(1.1)**	(113.7)	(113.7)	(30.1)	(14.7)	(32.8)	(36.1)
	(8.3)	**(8.3)**	**–**	**(2.0)**	**(5.5)**	**(0.8)**	220.3	220.3	71.0	84.3	84.0	(19.0)
Cross currency swaps:												
Assets	**137.1**	**142.3**	**4.5**	**17.0**	**123.0**	**(2.2)**	–	–	–	–	–	–
Liabilities	**(157.0)**	**(151.1)**	**(7.6)**	**(98.6)**	**(49.1)**	**4.2**	–	–	–	–	–	–
	(19.9)	**(8.8)**	**(3.1)**	**(81.6)**	**73.9**	**2.0**	–	–	–	–	–	–
Forward exchange contracts:												
Assets	**11.7**	**169.6**	**169.6**	**–**	**–**	**–**	28.3	(1,558.7)	(1,556.4)	(2.3)	–	–
Liabilities	**(52.6)**	**(890.1)**	**(292.7)**	**(430.7)**	**(166.7)**	**–**	(8.2)	(288.5)	(121.2)	(167.3)	–	–
	(40.9)	**(720.5)**	**(123.1)**	**(430.7)**	**(166.7)**	**–**	20.1	(1,847.2)	(1,677.6)	(169.6)	–	–

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 (2021: £37.3m gain, 2020: £28.7m loss). Gains and losses on the ineffective portion of the hedge are recognised immediately in the income statement (2021: £nil, 2020: £0.7m).

COMPANY BALANCE SHEET
AS AT 31 MARCH 2021

	Note	2021 £m	2020 £m
Assets			
Equity investments in joint ventures and associates	3	**139.2**	12.7
Loans to joint ventures and associates	3	**226.8**	196.8
Investments in subsidiaries	4	**2,004.5**	2,112.9
Trade and other receivables	5	**8,386.5**	10,009.9
Derivative financial assets	11	**68.1**	238.7
Retirement benefit assets	10	**543.1**	534.2
Non-current assets		**11,368.2**	13,105.2
Trade and other receivables	5	**902.6**	354.9
Current tax asset	7	**3.8**	1.1
Cash and cash equivalents	8	**1,564.7**	109.0
Derivative financial assets	11	**149.5**	227.5
Current assets		**2,620.6**	692.5
Total assets		**13,988.8**	13,797.7
Liabilities			
Loans and other borrowings	8	**714.7**	1,893.8
Trade and other payables	6	**2,146.8**	1,967.6
Provisions	13	**20.3**	–
Derivative financial liabilities	11	**83.4**	60.4
Current liabilities		**2,965.2**	3,921.8
Loans and other borrowings	8	**5,723.8**	5,772.2
Deferred tax liabilities	7	**49.1**	39.0
Provisions	13	**–**	7.0
Derivative financial liabilities	11	**399.4**	477.0
Non-current liabilities		**6,172.3**	6,295.2
Total liabilities		**9,137.5**	10,217.0
Net assets		**4,851.3**	3,580.7
Equity:			
Share capital	9	**524.5**	523.1
Share premium		**847.1**	875.6
Capital redemption reserve		**49.2**	49.2
Hedge reserve		**(14.2)**	(3.6)
Retained earnings		**1,972.3**	966.7
Equity attributable to ordinary shareholders of the parent		**3,378.9**	2,411.0
Hybrid equity	9	**1,472.4**	1,169.7
Total equity		**4,851.3**	3,580.7

Result for the year

The profit for the year attributable to ordinary shareholders dealt with in the financial statements of the Company was £1,726.0m (2020: loss of £639.4m, including an exceptional loss on disposal of SSE Energy Services Group of £1,408.2m).

These financial statements were approved by the Board of Directors on 25 May 2021 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 2021

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 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 (ii)	–	(27.1)	–	–	24.6	(2.5)	–	(2.5)
Adjustment in relation to historic remeasurement of financial instruments, net of tax (i)	–	–	–	(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) 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 period. 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. It has been assessed that the cumulative effect of this revision does not materially impact the prior year financial statements.

(ii) Investment in own shares is the purchase of own shares less the settlement of Treasury shares for sharesave schemes.

	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 2019	523.4	879.6	34.8	(44.2)	2,467.4	3,861.0	1,169.7	5,030.7
Loss for the year	–	–	–	–	(639.4)	(639.4)	46.5	(592.9)
Other comprehensive income	–	–	–	40.6	83.8	124.4	–	124.4
Total comprehensive income for the year	–	–	–	40.6	(555.6)	(515.0)	46.5	(468.5)
Dividends to shareholders	–	–	–	–	(948.5)	(948.5)	–	(948.5)
Scrip dividend related share issue	14.1	(14.1)	–	–	345.5	345.5	–	345.5
Distributions to Hybrid equity holders	–	–	–	–	–	–	(46.5)	(46.5)
Issue of shares	–	10.1	–	–	–	10.1	–	10.1
Share repurchase	(14.4)	–	14.4	–	(352.0)	(352.0)	–	(352.0)
Credit in respect of employee share awards	–	–	–	–	24.5	24.5	–	24.5
Investment in own shares	–	–	–	–	(14.6)	(14.6)	–	(14.6)
At 31 March 2020	523.1	875.6	49.2	(3.6)	966.7	2,411.0	1,169.7	3,580.7

NOTES TO THE COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

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 FRS 101 (Reduced Disclosures) ('FRS 101') and its interpretations as issued by the International Accounting Standards Board ('IASB') and adopted by the European Union ('adopted IFRS').

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 2021 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 accounted for using the equity method of accounting where the joint venture and associate investments are carried at historical cost plus the Company's share of post-acquisition results, less any impairment in value. The Company recognises its share of the results of these equity-accounted operations after tax and interest in the income statement.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2021

1. Principal accounting policies continued
1.2 Basis of preparation continued
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, page 258).
- Defined benefit pension scheme (Supplementary information A1.2, page 258).
- Taxation (Supplementary information A1.2, page 253).
- Financial instruments (Supplementary information A1 and A6, pages 259 and 271).

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 (2020: £0.3m).

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 (2020: 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 144 to 165. 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

	2021			2020		
	Equity £m	**Loans £m**	**Total £m**	Equity £m	Loans £m	Total £m
Share of net assets/cost						
At 1 April	**12.7**	**196.8**	**209.5**	139.2	208.4	347.6
Additions	**–**	**42.0**	**42.0**	–	1.6	1.6
Repayment of shareholder loans	**–**	**(12.0)**	**(12.0)**	–	(13.2)	(13.2)
Transfer from/(to) subsidiary (i)	**126.5**	**–**	**126.5**	(126.5)	–	(126.5)
At 31 March	**139.2**	**226.8**	**366.0**	12.7	196.8	209.5

(i) The transfer of investment to/from subsidiary during the current and prior year relate to the Company's disposal of investment in SGN to its wholly owned subsidiary Beithe AG in the prior year and re-acquisition of the company in the current year.

4. Subsidiary undertakings
Details of the Company's subsidiary undertakings are disclosed in the Accompanying Information section (A3) on page 262.

Investment in subsidiaries

	2021 £m	2020 £m
At 1 April	**2,112.9**	2,679.6
Decrease in existing investments (i)	**(108.4)**	(566.7)
At 31 March	**2,004.5**	2,112.9

(i) The overall decrease in investments held by the Company relates to the net of: the transfer of SGN from Beithe AG to SSE plc and the subsequent reduction in the carrying value of Beithe AG (£126.5m); 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 (2021: £18.1m; 2020: £17.0m (both before tax)). The decrease in the prior year also includes the acquisition of Beithe AG (£126.5m); less the disposal of SSE Energy Services (£593.5m) and the recognition of a provision against the carrying value of the investment in SSE Services plc (£116.8m).

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 2021 the Company assessed its exposure to expected credit losses on related party receivables under IFRS 9 and held a provision against future losses of £61.0m (2020: £55.1m).

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.

7. Taxation

Current tax asset

	2021 £m	2020 £m
Corporation tax asset	**3.8**	1.1

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 2019	(53.0)	188.2	12.2	147.4
Charge/(credit) to income statement	(21.0)	(0.1)	0.5	(20.6)
Charge/(credit) to equity	7.2	(86.6)	(8.4)	(87.8)
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**

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:

	2021 £m	2020 £m
Deferred tax liabilities	**103.2**	105.8
Deferred tax assets	**(54.1)**	(66.8)
Net deferred tax (asset)/liability	**49.1**	39.0

The deferred tax assets/liabilities disclosed include the deferred tax relating to the Company's pension scheme liabilities.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2021

8. Loans and borrowings

	2021 £m	2020 £m
Current		
Other short-term loans	**714.7**	1,893.8
	714.7	1,893.8
Non-current		
Loans	**5,723.8**	5,772.2
	5,723.8	5,772.2
Total loans and borrowings	**6,438.5**	7,666.0
Cash and cash equivalents	**(1,564.7)**	(109.0)
Unadjusted Net Debt	**4,873.8**	7,557.0
Add/(less):		
Hybrid equity (Note 9)	**1,472.4**	1,169.7
Adjusted Net Debt and Hybrids	**6,346.2**	8,726.7

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 2021 there was no commercial paper outstanding (2020: £671.4m). 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 2021 these facilities were undrawn.

During the year to 31 March 2021, the Company successfully accessed the debt capital markets on two occasions, taking £2.0bn out the market over two senior debt tranches and two Hybrid debt securities tranches.

In April 2020 SSE plc successfully launched a €1.1bn 5 and 10 year dual tranche Eurobond with €600m maturing April 2025 and €500m maturing April 2030, with coupons of 1.25% and 1.75% respectively. Both tranches have been swapped to Sterling resulting in a funding cost of 2.4% for the five year and 2.9% for the 10 year.

In July 2020, SSE plc issued a dual tranche equity accounted hybrid bond to replace the hybrids issued in 2015 (at an all-in rate of 4.02%), which have issuer first call dates of 10 September 2020 (£750m) and 1 April 2021 (€600m). This dual tranche issue comprises a perpetual non-call 5.75-year note at £600m with a coupon of 3.74%; and a perpetual non-call 7.0-year note at €500m with a coupon of 3.125%. The €500m tranche has been partly swapped back to Sterling, resulting in an all-in funding cost for both tranches to SSE of just under 3.8% per annum.

8. Loans and borrowings continued

8.1 Borrowing facilities continued

Analysis of borrowings

	2021 Weighted average interest rate	2021 Face value £m	2021 Fair value £m	2021 Carrying amount £m	2020 Weighted average interest rate	2020 Face value £m	2020 Fair value £m	2020 Carrying amount £m
Current								
Bank Loans – non-amortising (i)	–	–	–	–	1.7%	574.9	577.8	574.8
Other short term loans – non-amortising (ii)	–	–	–	–	1.1%	776.2	778.4	772.4
2.00% €600m Eurobond Repayable 17 June 2020	–	–	–	–	2.7%	546.8	548.8	546.6
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		715.0	729.6	714.7		1,897.9	1,905.0	1,893.8
Non-current								
US Private Placement 16 April 2022	4.3%	162.7	193.5	162.6	4.3%	162.7	211.4	162.6
US Private Placement 28 April 2023	2.8%	35.0	36.3	34.7	2.8%	35.0	34.4	34.6
US Private Placement 6 September 2023	2.9%	120.0	124.0	119.2	2.9%	120.0	116.6	118.5
US Private Placement 16 April 2024	4.4%	204.1	253.8	203.9	4.4%	204.1	267.1	203.9
4.25% Eurobond repayable 14 September 2021	–	–	–	–	4.3%	300.0	309.8	299.4
2.375% €500m Eurobond repayable 10 February 2022 (iv)	–	–	–	–	2.4%	415.0	428.2	414.8
5.875% Eurobond repayable 22 September 2022	5.9%	300.0	323.5	299.6	5.9%	300.0	327.5	299.3
1.75% €700m Eurobond repayable 8 September 2023 (v)	1.8%	514.6	538.5	514.1	1.8%	514.6	532.1	513.9
1.25% Eurobond Repayable 16 April 2025 (vi)	1.3%	531.4	557.1	531.4	–	–	–	–
0.875% €600m Eurobond Repayable 8 September 2025	0.9%	510.9	527.0	508.4	–	–	–	–
4.75% $900m NC5.5 Hybrid maturing 16 September 2077 (vii)	4.8%	730.0	752.2	729.0	4.8%	749.2	729.7	747.5
3.625% NC5.5 Hybrid maturing 16 September 2077	3.6%	300.0	307.3	299.6	3.6%	300.0	293.2	299.3
Between two and five years		3,408.7	3,613.2	3,402.5		3,100.6	3,250.0	3,093.8
Bank Loans – non-amortising (i)	0.8%	100.0	100.4	100.0	1.2%	100.0	100.5	99.9
US Private Placement 8 June 2026	3.1%	64.0	67.7	62.9	3.1%	64.0	63.7	63.0
US Private Placement 6 September 2026	3.2%	247.1	265.8	243.7	3.2%	247.1	265.6	243.1
US Private Placement 6 September 2027	3.2%	35.0	37.2	34.5	3.2%	35.0	34.5	34.4
0.875% €600m Eurobond repayable 8 September 2025	–	–	–	–	0.9%	530.9	526.4	527.9
1.375% €650m Eurobond repayable 4 September 2027 (viii)	1.4%	591.4	631.8	590.0	1.4%	591.4	600.9	589.8
8.375% Eurobond repayable on 20 November 2028	8.4%	500.0	732.1	496.8	8.4%	500.0	712.6	496.4
1.750% Eurobond Repayable 16 April 2030 (ix)	1.8%	442.9	485.3	442.9	–	–	–	–
6.25% Eurobond repayable on 27 August 2038	6.3%	350.0	539.5	347.3	6.3%	350.0	501.2	347.1
Over five years		2,330.4	2,859.8	2,318.1		2,418.4	2,805.4	2,401.6
Fair value adjustment (iii)		–	–	3.2		–	–	276.8
Total non-current borrowings		5,739.1	6,473.0	5,723.8		5,519.0	6,055.4	5,772.2
Total borrowings		6,454.1	7,202.6	6,438.5		7,416.9	7,960.4	7,666.0

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2021

8. Loans and borrowings continued
8.1 Borrowing facilities continued
(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 (none outstanding at 31 March 2021).
(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 14 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 14 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 2019	1,046.9	523.4
Issue of shares (i)	28.2	14.1
Share repurchases (ii)	(28.8)	(14.4)
At 31 March 2020	**1,046.3**	**523.1**
Issue of shares (i)	2.8	1.4
At 31 March 2021	**1,049.1**	**524.5**

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 56.0p per ordinary share (in relation to year ended 31 March 2020) and the interim dividend of 24.4p (in relation to the current year) under the terms of the Company's scrip dividend scheme. This resulted in the issue of 1,918,977 and 883,408 new fully paid ordinary shares respectively (2020: 19,086,291 and 9,136,089). In addition, the Company issued 0.9m (2020: 0.8m) 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 £10.4m (2020: £10.1m).
(ii) No shares were purchased in the year to 31 March 2021. (2020: Under the share buyback programme announced on 1 February 2019, 28.8m shares were repurchased and cancelled in the current year for a total of £352.0m (including stamp duty and commission)). The nominal value of share capital repurchased and cancelled is transferred out of share capital and into the capital redemption reserve.

Of the 1,049.1m shares in issue, 6.1m 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 £12.9m (2020: 1.1m shares, consideration of £14.6m) to be held in trust for the benefit of employee share schemes. At 31 March 2021, the trust held 7.7m shares (2020: 7.6m) which had a market value of £112.5m (2020: £99.3m).

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

	2021 £m	2020 £m
GBP 750m 3.875% perpetual subordinated capital securities	**–**	748.3
EUR 600m 2.375% perpetual subordinated capital securities	**421.4**	421.4
GBP 600m 3.74% perpetual subordinated capital securities	**598.0**	–
EUR 500m 3.125% perpetual subordinated capital securities	**453.0**	–
	1,472.4	1,169.7

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	
		2021 £m	2020 £m	**2021 £m**	2020 £m
Scottish Hydro Electric	Defined benefit	**8.6**	(2.8)	**543.1**	534.2
Net actuarial gain/(loss)		**8.6**	(2.8)	**543.1**	534.2

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 2021 was equal to £543.1m (2020: £534.2m).

The individual pension scheme details based on the latest formal actuarial valuations are as follows:

	Scottish Hydro Electric
Latest formal actuarial valuation	31 March 2018
Valuation carried out by	Hymans Robertson
Value of assets based on valuation	£2,059.0m
Value of liabilities based on valuation	£1,902.3m
Valuation method adopted	Projected Unit
Average salary increase	RPI +1.%
Average pension increase	RPI
Value of fund assets/accrued benefits	108.2%

10.1 Pension scheme assumptions

The scheme has been updated to 31 March 2021 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 2021	At 31 March 2020
Rate of increase in pensionable salaries	**3.7%**	3.2%
Rate of increase in pension payments	**3.2%**	2.7%
Discount rate	**2.0%**	2.3%
Inflation rate	**3.2%**	2.7%

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2021

10. Retirement benefit obligations continued
10.1 Pension scheme assumptions continued

The assumptions relating to longevity underlying the pension liabilities at 31 March 2021 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 2021 Male	At 31 March 2021 Female	At 31 March 2020 Male	At 31 March 2020 Female
Currently aged 65	23	24	23	24
Currently aged 45	25	27	24	26

The impact on the scheme's liabilities of changing certain of the major assumptions is as follows:

	At 31 March 2021		At 31 March 2020	
	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%	+/-0.2%
Rate of increase in pension payments	0.1%	+/-1.0%	0.1%	+/-0.9%
Discount rate	0.1%	+/-0.9%	0.1%	+/-0.9%
Longevity	1 year	+/-1.8%	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 2021 £m	Quoted £m	Unquoted £m	Value at 31 March 2020 £m
Equities	50.3	–	50.3	107.1	–	107.1
Government bonds	660.9	–	660.9	482.9	–	482.9
Corporate bonds	–	–	–	–	–	–
Insurance contracts	–	780.3	780.3	–	725.4	725.4
Other investments	482.6	–	482.6	530.2	–	530.2
Total fair value of plan assets			1,974.1			1,845.6
Present value of defined benefit obligation			(1,431.0)			(1,311.4)
Surplus in the scheme			543.1			534.2
Deferred tax thereon (i)			(103.2)			(101.5)
Net pension asset			439.9			432.7

(i) Deferred tax is recognised at 19% (2020: 19%) on the surplus.

10. Retirement benefit obligations continued
10.3 Movements in the defined benefit asset obligations and assets during the year:

	2021			2020		
	Assets £m	Obligations £m	Total £m	Assets £m	Obligations £m	Total £m
At 1 April	**1,845.6**	**(1,311.4)**	**534.2**	2,078.4	(1,540.7)	537.7
Included in Income Statement						
Current service cost	**–**	**(11.4)**	**(11.4)**	–	(16.8)	(16.8)
Past service cost	**–**	**(1.7)**	**(1.7)**	–	(0.3)	(0.3)
Settlements and curtailments	**(0.6)**	**0.6**	**–**	(21.8)	20.4	(1.4)
Interest income/(cost)	**41.5**	**(29.2)**	**12.3**	46.3	(34.3)	12.0
	40.9	**(41.7)**	**(0.8)**	24.5	(31.0)	(6.5)
Included in Other Comprehensive Income						
Actuarial gain/(loss) arising from:						
Demographic assumptions	**–**	**(8.1)**	**(8.1)**	–	12.3	12.3
Financial assumptions	**–**	**(161.1)**	**(161.1)**	–	103.2	103.2
Experience assumptions	**–**	**5.8**	**5.8**	–	56.1	56.1
Return/(loss) on plan assets excluding interest income	**172.0**	**–**	**172.0**	(174.4)	–	(174.4)
	172.0	**(163.4)**	**8.6**	(174.4)	171.6	(2.8)
Other						
Contributions paid by the employer	**1.1**	**–**	**1.1**	5.8	–	5.8
Benefits Paid	**(85.5)**	**85.5**	**–**	(88.7)	88.7	–
	(84.4)	**85.5**	**1.1**	(82.9)	88.7	5.8
Balance at 31 March	**1,974.1**	**(1,431.0)**	**543.1**	1,845.6	(1,311.4)	534.2

10.4 Pension scheme contributions and costs
Charges/(credits) recognised:

	2021 £m	2020 £m
Current service cost (charged to operating profit)	**11.4**	16.8
Past service cost	**1.7**	0.3
Settlement and curtailment losses (i)	**–**	1.4
	13.1	18.5
Charged/(credited) to finance costs:		
Interest from pension scheme assets	**(41.5)**	(46.3)
Interest on pension scheme liabilities	**29.2**	34.3
	(12.3)	(12.0)

(i) During the prior year the Group disposed of SSE Energy Services which resulted in a loss of £1.4m being recognised in the pension scheme on the transfer values of assets and liabilities transferred from the schemes to a new Ovo defined benefit scheme. The loss was treated as exceptional and included in the overall loss on disposal of the business.

The return on Pension Scheme assets is as follows:

	2021 £m	2020 £m
Return/(loss) on Pension Scheme assets	**213.5**	(128.1)

Employer financed retirement benefit (EFRB) pension costs
The increase in the year in relation EFRB was £5.8m (2020: decrease of £2.4m). This is included in other provisions.

Further discussion of the pension scheme assets, liabilities, polices, risk and strategy can be found on page 242 of the Group consolidated financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2021

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:

Derivative Financial Assets	**2021 £m**	2020 £m
Non-current	**68.1**	238.7
Current	**149.5**	227.5
	217.6	466.2
Derivative Liabilities		
Non-current	**(399.4)**	(477.0)
Current	**(83.4)**	(60.4)
Total derivative liabilities	**(482.8)**	(537.4)
Net liability	**(265.2)**	(71.2)

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:

	2021				2020
	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	**754.6**	**–**	**–**	**754.6**	754.7
Performance of contracts (i)	**3,462.5**	**579.7**	**157.0**	**4,199.2**	2,953.2

Subsidiaries have provided guarantees on behalf of the Company as follows:

	2021 £m	2020 £m
Bank borrowing	**1,494.7**	1,687.1

(i) Included within the performance contracts above are guarantees of £nil (2020: £nil) relating to discontinued operations.

During the year, two new 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. The unlimited guarantee (which was provided in the prior year) on behalf of TESGL Limited, a wholly owned subsidiary of the Company, in favour of The Scottish Ministers in respect of the Scottish Non-Domestic Energy Efficiency Framework expired during the course of the year.

Around £871m of guarantees have been provided during the year in connection with Seagreen Wind Energy Limited and an additional £813m of guarantees have also been provided during the year in connection with the Doggerbank Offshore Windfarm Holdings Limited. The £400m drawdown facility with the European Investment Bank, guaranteed by SSE Renewables Holdings Limited and SSE Generation Limited on behalf of SSE plc was repaid.

In the prior year to 31 March 2020, in addition to the unlimited guarantee provided to TESGL Limited (as noted above), SSE plc provided around £600m of guarantees in connection with the Doggerbank Offshore Wind Farm Joint Venture project.

In addition to the two new unlimited guarantees in favour of Total gas and Power Infrastructure Limited, the Company has previously provided unlimited guarantees on behalf of subsidiary undertakings in relation to a further eight contracts in respect of performance of work and any liabilities arising. 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, 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 (Stroke on Trent) Ltd in respect of provision and maintenance of public street lighting and illuminated traffic signage. SSE E&P (UK) Limited, 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.

12. Commitments and contingencies continued

Guarantees, indemnities and other contingent liabilities continued

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

	Other £m	Total £m
At 1 April 2019	–	–
Charged in the year	7.0	7.0
At 31 March 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**
At 31 March 2021		
Non-current	**–**	**–**
Current	**20.3**	**20.3**
	20.3	**20.3**
At 31 March 2020		
Non-current	7.0	7.0
Current	–	–
	7.0	7.0

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 2021 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union;
- 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 2021 which comprise:

Group	Parent company
Consolidated income statement for the year ended 31 March 2021	Balance sheet as at 31 March 2021
Consolidated statement of comprehensive income for the year then ended	Statement of changes in equity for the year then ended
Consolidated balance sheet as at 31 March 2021	
Consolidated 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, International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union. 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 are independent of the group 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.

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 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 2022, ensuring the same forecasts are used elsewhere within the group for accounting estimates. 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 and understanding how any anticipated continued impact of coronavirus has been modelled. We performed reverse stress testing to understand how plausible the severe downside scenarios would need be to result in negative liquidity or a covenant breach. The EY assessment reflects all maturing debt through to 31 March 2023;
- 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 effected by management. We have obtained analysis 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;
- Performing a detailed review of borrowing facilities to assess their continued availability to the group and to ensure completeness of covenants identified by management;
- Reviewing market data for indicators of potential contradictory evidence to challenge the 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.
- We considered whether management's disclosures in the financial statements sufficiently and appropriately reflect the going concern assessment and outcomes.

Conclusions relating to going concern continued

The audit procedures performed in evaluating the director's assessment were performed by the Group audit team, however we also considered the financial and non-financial information communicated to us from our components teams as 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 maintain adequate liquidity and headroom within its covenants and the reverse stress test scenario suggests that the group would need to be exposed to severe downside events impacting profitability and cash flows in order to breach liquidity or covenants. In this remote scenario, management still consider that the impact can be mitigated by further cash and cost saving measures which are within their control 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) and we have not identified plausible scenarios where management would need to source additional or alternative sources of cash during the going concern period.

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 the period of to 31 December 2022.

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	• We performed an audit of the complete financial information of 20 components, audit procedures on specific balances for a further 17 components and specified procedures for 4 components. • The components where we performed full or specific audit procedures accounted for 95% of adjusted profit before tax, 94% of Revenue and 93% of Total assets.
Key audit matters	• Impairment of certain power stations; • Group and parent pension obligations; • Accounting for estimated revenue recognised; • Accounting for the SSE disposal programme.
Materiality	• Overall group materiality of £54.1m 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 group 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.

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 131 (2020: 141) reporting components of the group, we selected 37 components (including the parent entity) covering entities within the UK and Ireland, which represent the principal business units within the group.

Of the 37 components selected, we performed an audit of the complete financial information of 20 (2020: 19) components ('full scope components') which were selected based on their size or risk characteristics. For the remaining 17 (2020: 21) components selected ('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 95% (2020: 94%) of the group's adjusted Profit before tax, 94% (2020: 92%) of the group's Revenue and 93% (2020: 87%) of the group's Total assets. For the current year, the full scope components contributed 56% (2020: 62%) of the group's adjusted Profit before tax, 92% (2020: 91%) of the group's Revenue and 83% (2020: 74%) of the group's Total assets. The specific scope component contributed 39% (2020: 32%) of the group's adjusted profit before tax, 2% (2020: 1%) of the group's Revenue and 10% (2020: 13%) 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 tested for the group. We also instructed 4 location to perform specified procedures over certain aspects of cash and bank due to significant balances held within that location.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SSE PLC CONTINUED

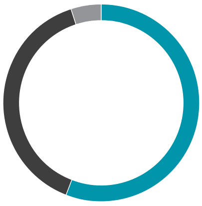
An overview of the scope of the parent company and group audits continued

Tailoring the scope continued

Of the remaining 97 (2020: 102) components that together represent 5% (2020: 6%) of the group's adjusted Profit before tax, none are individually greater than 1% of the group's 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.

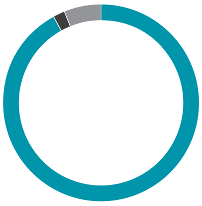
The charts below illustrate the coverage obtained from the work performed by our audit teams.

ADJUSTED PROFIT BEFORE TAX



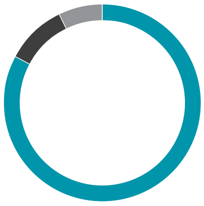
- 56% Full scope components
- 39% Specific scope components
- 5% Other procedures

REVENUE



- 92% Full scope components
- 2% Specific scope components
- 6% Other procedures

TOTAL ASSETS



- 83% Full scope components
- 10% Specific scope components
- 7% Other procedures

Changes from the prior year

There have been minimal changes in scoping from the prior year, with one new full scope entity included within the Airtricity division to maintain overall coverage after disposals in the period.

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 20 full scope components, audit procedures were performed on 2 of these directly by the primary audit team.

For the 18 full scope and 17 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 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 file reviews performed by the primary team over audit documentation that has not been retained within the group canvas file.

Following the move to remote working during the year-end audit in the prior year, the current year audit was also required to be conducted remotely due to coronavirus restrictions and social distancing requirements at both component and Group locations. This was supported through remote access to the group's financial systems and the use of EY software collaboration platforms for the secure and timely delivery of requested audit evidence. Due to coronavirus, we have been unable to perform physical site visits due to travel restrictions. The primary team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed key working papers, were responsible for the scope and direction of the audit process and virtually attended closing meetings. This, together with the additional procedures performed at group level, gave us appropriate evidence for our opinion on the group financial statements.

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.

Key audit matters continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Impairment of certain power stations (Impairment charged 2021: £58.1m, 2020: £291.3m) Refer to the Audit Committee Report (page 128); Accounting policies (page 251); and Note 15.2 of the group financial statements (page 228) **Forecast based estimate:** Certain power stations 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: Great Island, Peterhead, Keadby, Medway and Marchwood. The key assumptions include future power prices, forecast power demand, carbon prices, discounting and operating expenditure. 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. The key change in risk from the prior year is the removal of the E&P impairment as this is now classified as held for sale and is valued per IFRS 5. As such the risk is now solely focussed on specific power stations as aforementioned.	**Scoping:** Testing was performed over this risk area, covering both full and specific scope components (covering four components), which represented 100% of the risk amount. All audit work in relation to this key audit matter was undertaken by the component audit teams, with oversight from the group audit team. We obtained management's assessment of potential impairment indicators in accordance with IAS 36 for powerplants. **Audit procedures included:** We have understood management's process and methodology for assessing assets for indicators of impairment and, where applicable, we have understood management's modelling of value in use cash flows including the source of the key input assumptions. We checked the historical accuracy of management's forecasting and verified that the assumptions are consistent with those used in other areas. 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. We embedded modelling expertise within the audit team to assess the appropriateness of the model parameters and clerical accuracy of the models used. We applied sensitivities to management's models to evaluate headroom. We considered prior period impairments for indication of reversal. **Key assumptions:** Using our sector experience and our specialists we benchmarked, where appropriate, the directors' judgement on the key assumptions including, power prices, forecast power demand, carbon prices and, discount rates. **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 calculated headroom.	We confirmed that the impairment charge of £58.1m recognised by management for Great Island was appropriate and was driven predominately by reduction market driven demand and price assumptions. For the remaining power plant assets described in this section, we are satisfied that it was appropriate for management not to recognise any impairment charge. We communicated that the pricing assumptions applied were appropriate. The assumptions were in line with EY tracking of expected future price movements and highlighted the minimal headroom on the power station assets. We also note that the disclosures made in the accounts on page 228 reflect this. We are satisfied that no events have occurred that would result in previously recorded impairments being reversed. We are satisfied with the adequacy of disclosure within the group financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SSE PLC CONTINUED

Key audit matters continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Group and parent pension obligation (2021: £357.0m, 2020: £341.7m) Refer to the Audit Committee Report (page 128); Accounting policies (page 251); and Note 23 of the group financial statements (page 242) **Subjective valuation:** Small changes in the assumptions and estimates used to value the group's and parent's pension obligation (before deducting scheme assets) would have a significant effect on the carrying value of those pension obligations. 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. The financial statements (Note 4.1(ii)) disclose the estimation uncertainty identified by the group and company. There has been no change in this risk from the prior year.	**Scoping:** We performed audit procedures over this risk area centrally by the group team, which covered 100% of the risk amount. **Our procedures included:** **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. **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. **Assessing source data:** We tested a sample of the membership data used by the actuaries to the group's records. **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 had derived from broader market data. **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 obligation to the key assumptions.	We conclude that management's actuarial assumptions are appropriate and fall within a central range or have been deemed an appropriate assumption basis. We are satisfied with the adequacy of disclosure within the financial statements.

Key audit matters continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Accounting for estimated revenue recognition (2021: £325.0m, 2020: £370.7m) Refer to the Audit Committee Report (page 128); Accounting policies (page 251); and Note 18 of the group financial statements (page 233) **Subjective estimate:** 73% 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. 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. As a result of the estimation uncertainty this has been identified as a significant risk. There has been no change in this risk from the prior year.	**Scope:** This balance relates to one component, Business Energy. Testing was performed covering 100% of the balance in Business Energy which accounts for 73% of the unbilled balance at 31 March 2021. All audit work in relation to this key audit matter was undertaken by the component audit teams with oversight from the group audit team. **Audit methodology:** Our response to the assessed risk included understanding and testing selected IT general and application key controls, substantive audit procedures and revenue data analytics. **Tests of detail:** We agreed the opening unbilled accrued income to the closing 31 March 2020 balance sheet, 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. We have tested the unbilled unit pricing by agreeing historical pricing to sample bills, sensitising the pricing, testing a sample of billing dates from the listing to confirm billing frequency and agreeing to post year end billing prices. We have understood and tested the historical accuracy of management's forecasting of unbilled revenue. We assessed the impact of coronavirus on demand and consumption volatility and benchmarked assumptions in the underlying unbilled calculations to external publications from the industry. **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. We compared the unbilled revenue estimation to benchmark expectation. Benchmark 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 benchmark and the appropriateness of manual adjustments made by management. **Disclosure:** We assessed the adequacy of the group's disclosures about the degree of estimation involved in arriving at the estimated revenue.	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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SSE PLC CONTINUED

Key audit matters continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Accounting for the SSE disposal programme (2021: £976.0m, 2020: £30.6m) Refer to the Audit Committee Report (page 128); Accounting policies (page 251); and Note 12 of the group financial statements (page 217) **Subjective estimate:** SSE announced a £2bn disposal programme in FY21. 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 and any transitional services arrangements arising. The risk also covered the assessment of businesses being classified as held for sale (HFS) at the balance sheet date and the IFRS 5 accounting considerations arising. The risk is focussed on the following key areas: **Disposals in the current period:** • Seagreen (divestment of 51% ownership) • Slough Multifuel (divestment of 50% ownership) • Walney (divestment of remaining 25.1% ownership) • Maple (divestment of remaining 33.3% ownership) • Multifuel (divestment of 100% ownership) • Doggerbank (divestment of 10% ownership) **HFS considerations:** • E&P (HFS at 30 September 2020 and 31 March 2021) • Contracting (HFS at 30 September 2020 and 31 March 2021) • SGN (not disclosed as HFS at 31 March 2021) This is a new risk in the year reflecting the divestment programme. This replaces the prior year risk of 'Accounting for the disposal of Energy Services'.	**Scope:** Testing was performed across the primary and component teams for 95% of the disposal programme. The Maple divestment, and all HFS considerations were audited by the group audit team. 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. **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. 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. We agreed the cash consideration received to the SPA and traced cash receipts to bank accounts. Where disposed of in the current year, we verified that the initial HFS date was appropriate and appropriate accounting commenced upon this date. We verified that the balances that related to the entity were deconsolidated from the group financial statements at the date of disposal. This included verifying that the assets and liabilities disposed of were adjusted accordingly to reflect closing adjustments in line with the SPA. 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. We have assessed non-cash consideration terms within the deals and assessed the appropriateness of contingent consideration recognised at 31 March 2021. We have assessed the completion obligations warranties and any assessments for additional disposal costs within the gain/loss on sale calculations.	We conclude that the accounting for the current year disposals is appropriate. We are satisfied that the contingent consideration recognised is appropriate. We are satisfied that the HFS classifications at 31 March 2021 are appropriate. We are satisfied that the group financial statements appropriately disclose these transactions.

Key audit matters continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
	HFS considerations: We have assessed whether the Contracting and E&P businesses continues to meet the IFRS 5 HFS classification. We have considered the appropriateness of the carrying value of the contracting and E&P businesses against the expected Fair Value less cost to Dispose and confirmed this was accurate. We assessed the £51.2m impairment recognised for Contracting to the terms of the sale agreement announced on 1 April 2021. We reviewed correspondence and the final signed sale and purchase agreement between SSE and the buyer of the E&P assets to assess the carrying value of the assets and to challenge if further impairment or write back of previous impairment was required. Noting the previous announcement to consider a disposal of the Groups shareholding in SGN, we reviewed the group board approved minutes to evidence the most recent considerations to confirm that it does not meet the held for sale classification at 31 March 2021. **Disclosure:** We assessed the adequacy of the disclosures within the financial statements.	

In the prior year, our auditor's report included a key audit matter in relation to 'Accounting for the disposal of Energy Services'. In the current year, this has been amended to cover the full disposal programme 'Accounting for the SSE disposal programme'.

In the prior year, our auditor's report also included a key audit matter in relation to 'First year audit transition', which was designed to be a one-off key audit matter relating to the audit transition between KPMG and EY for the 31 March 2020 audit.

Our auditor's report also included a key audit matter in relation to 'Impact of coronavirus, including the group's Going Concern Assessment'. As a result of the continued resilience of SSE plc and accurate forecasting of the coronavirus impact on the performance to 31 March 2021, this key audit matter has been removed. Please refer to page 298 for coronavirus considerations in relation to our audit procedures.

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 £54.1 million (2020: £48.8 million), which is 5% (2020: 5%) of adjusted Profit before tax. We believe that adjusted Profit before tax provides us with a 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SSE PLC CONTINUED

Our application of materiality continued

Materiality continued

We determined materiality for the parent company to be £97.0 million (2020: £72.5 million), which is 2% (2020: 2%) of Net Assets. The materiality has been capped at the group materiality of £54.1 million (2020: £48.8m).

Starting basis	• Profit Before Tax – £2,516.4m
Adjustments	• Movement on operating and financing derivatives – (£655.2m) • Non-recurring exceptional items – (£824.1)m • JV tax – £44.5m
Materiality	• Totals £1,081.6m adjusted Profit before tax • Materiality of £54.1m (5% of materaility 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% (2020: 50%) of our planning materiality, namely £27.0m (2020: £24.4m). 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 £3.9m to £7.9m (2020: £4.2m to £9.3m). The lower allocation was driven through an expectation of coronavirus impact on the financial statements, lowering the initial materiality assessment. This was subsequently revised during the year-end audit procedures after testing had been performed by component entities.

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 £2.7m (2020: £2.4m), 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 169, including the strategic report and the directors' report set out on pages 2 to 93 and 94 to 169 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 there is 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 annual report on remuneration 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

The Listing Rules require us to review 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.

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 75;
- 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 56;
- Directors' statement on fair, balanced and understandable set out on page 133;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 137;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 137; and;
- The section describing the work of the audit committee set out on page 128.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 169, 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.

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 those that relate to the reporting framework (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.

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 continued

- 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 2 years, covering the years ending 31 March 2020 to 31 March 2021.
- 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.
- 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
25 May 2021

CONSOLIDATED SEGMENTAL STATEMENT
FOR THE YEAR ENDED 31 MARCH 2021

SSE consolidated segmental statement for the year ended 31 March 2021

		Electricity Generation			Electricity supply	Gas supply	
Year ended 31 March 2021	Unit	Thermal	Renewable	Aggregate Generation business	Non-domestic	Non-domestic	Aggregate Supply business
Total revenue	£m	1,102.8	984.4	2,087.1	1,793.5	171.5	1,965.0
Sales of electricity & gas	£m	658.5	823.4	1,481.8	1,789.8	171.5	1,961.3
Other revenue	£m	444.3	161.0	605.3	3.7	–	3.7
Total operating costs	£m	921.1	321.9	1,243.0	1,793.6	170.7	1,964.3
Direct fuel costs	£m	446.0	–	446.6	687.1	104.3	791.5
Transportation costs	£m	82.3	92.8	175.1	437.5	44.8	482.3
Environmental & social obligation costs	£m	172.8	–	172.8	571.3	0.6	571.9
Other direct costs	£m	146.5	26.8	173.3	10.3	2.3	12.5
Indirect costs	£m	72.9	203.3	275.2	87.3	18.8	106.1
EBITDA	£m	181.6	662.5	844.1	(0.1)	0.8	0.7
Depreciation and Amortisation	£m	47.3	188.2	235.5	3.9	0.7	4.6
EBIT	£m	134.3	474.3	608.7	(4.0)	0.1	(3.9)
Volume	TWh/ mTherms	15.5	9.6	25.1	13.1	216.6	229.7
WACOF/E/G	£/MWh/p/th	28.8			52.6	48.2	
Customer numbers	'000s				425.0	71.8	496.8

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	Electricity 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	Electricity Distribution	The economically regulated lower voltage distribution of electricity to customer premises in the North of Scotland and the South of England. 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.
	Gas Distribution	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.
Renewables	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 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.

CONSOLIDATED SEGMENTAL STATEMENT CONTINUED
FOR THE YEAR ENDED 31 MARCH 2021

Basis of preparation and disclosure notes continued

Business Area	Reported Segments	Description
Thermal	Thermal Generation (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 to SSE EPM is recognised as generated, based on the 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, providing a mix of capacity products to the external gas market with excess capacity used to develop secondary trading opportunities. For capacity products, revenue from the injection and withdrawal of gas is recognised when provided, with revenue from the provision of storage services is recognised based on the number of days utilised at the contractual rate. Revenue arising on secondary trading activities is recognised as gas is injected into the network, based on the spot price at the time of delivery.
Customers	Business Energy (covered by CSS)	The supply of electricity and gas to business customers in GB. 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 domestic 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.
Enterprise	Enterprise	The integrated provision of services in competitive markets for industrial and commercial customers including distributed energy, electrical contracting, private heat and energy networks, lighting services and SSE's share of telecoms capacity and bandwidth. Revenue is recognised by reference to the progress towards completion of the contractual performance obligation, based on the proportion of costs incurred to date relative to total expected costs, provided the contract outcome can be assessed with reasonable certainty.
EPM & I	Energy Portfolio Management (EPM)	The optimisation of SSE's electricity, gas and other commodity requirements. 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 are 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.

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 2021. 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 coal and 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, coal, 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 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 138 of SSE Annual Report for the year ended 31 March 2021.

Renewable Electricity Generation

The Renewables profit and loss account above is based on the Group's electricity generation activity derived from sources where no fuel is consumed to produce electricity and includes wind, hydro and pump storage powered generation.

Renewables as presented in the CSS includes revenue and operating profit for wholly owned renewable generation assets and also a proportion of turnover and operating profit in respect of joint ventures, joint operations and associate generation companies[1]. The principal Joint Ventures, Joint Operations and Associates included are Beatrice Offshore Windfarm Limited, Clyde Windfarm (Scotland) Limited, Stronelairg Windfarm Limited, Dunmaglass Windfarm Limited, Walney (UK) Offshore Windfarms Ltd (disposed 1 September 2020 and excluded beyond this date) 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.

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 waste fuelled generation. The Group closed its last remaining coal fired power station in March 2020 and no revenue was derived from this generation source in the year ended 31 March 2021.

Thermal Generation as presented in the CSS includes revenue and operating profit for wholly owned thermal generation assets and also a proportion of turnover and operating profit in respect of joint ventures[2]. The principal joint ventures included are Seabank Power Ltd, Marchwood Power Ltd and Multifuel Energy Ltd (disposed 13 October 2020 and excluded beyond that date). A full list can be found in Note A3 of SSE's audited financial statements.

1 The Power Purchase Agreements ('PPAs') that SSE has with its joint venture companies Clyde Windfarm (Scotland) Limited, Stronelairg 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.

2 The tolling arrangements that SSE has with its joint venture companies Seabank Power Ltd, Marchwood Power Ltd and Multifuel Energy Limited 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.

CONSOLIDATED SEGMENTAL STATEMENT CONTINUED
FOR THE YEAR ENDED 31 MARCH 2021

Thermal Electricity Generation continued

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 actually sold to the wholesale market.

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

Direct Fuel Costs – Thermal Generation procures fuel and carbon from EPM at wholesale market prices. The cost of fuel also includes the long term external purchase contracts and the impact of financial hedges. The WACOF (weighted average cost of fuel) calculation includes the costs of carbon emissions (reported in the environmental and social obligations cost line in the CSS).

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

Environmental and Social Costs – include carbon costs (EUETS and Carbon Price Floor).

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.

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 meter reading and the year end. Non-domestic volumes are expressed at customer meter point, net of transmission and distribution losses and are based on external settlements data.

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 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 the energy cost element of Reconciliation by Difference (RbD) 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 2020.

Transportation Costs – these are network type costs and include: electricity transmission and distribution use of system costs; gas transportation costs including the transportation element of RbD and market participation costs.

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).

Other Direct Costs – include: settlement costs, management charges from EPM and other miscellaneous costs.

Indirect Costs – include: sales and marketing, customer service, bad debts, commercial costs, central costs – including information technology, property, corporate, telecoms costs, metering asset and meter reading costs and operational Smart Metering costs (net of revenues). Where costs cannot be directly allocated to a fuel (electricity/gas), they have been allocated using costing models based on activity, customer billing 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 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 25.8TWh and the total UK Generation output was 22.8TWh (88%).
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 2021

Reconciliation of CSS to SSE Financial Statements 2020/21

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		1,965.0	(3.9)
Exceptional items	1	–	(20.1)
Total Business Energy in SSE Financial Statements		**1,965.0**	**(24.0)**
Generation Business			
Renewables			
CSS Renewables Electricity Generation		984.4	474.3
Non-GB Generation	2	100.6	31.7
JVs/Associates revenue in CSS	3	(258.9)	–
Non-recurring disposal gains	4	–	225.8
Total Renewables in SSE Financial Statements		**826.1**	**731.8**
Thermal			
CSS Thermal Electricity Generation		1,102.8	134.4
Non-GB Generation	5	233.3	26.1
JVs/Associates revenue in CSS	3	(133.1)	–
Total Thermal in SSE Financial Statements		**1,203.0**	**160.5**

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 Exceptional items relate to bad debt charges related to coronavirus, which have been classified as exceptional within SSE's financial statements.
2 Non-GB Electricity Generation relates to SSE's Renewables business in the Republic of Ireland and Northern Ireland.
3 SSE applies equity accounting for 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.
4 During the year the Group disposed of a 10% stake in Doggerbank A & Doggerbank B windfarms, and a 51% stake in Seagreen 1A windfarm, recognising total gain on disposal of £225.8m (see Note 12.2 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.
5 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 2021, 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 2021 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 307 to 311.

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 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.

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 2022.

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 307 to 311, which describes 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 23 March 2021, 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 Ofgem's Standard condition 16B of Electricity Generation licences and Standard 19A of Electricity and Gas Supply Licences, and for such internal control as management determines is necessary to enable the preparation of the CSS that is 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 for preparation of the CSS is compliance with Ofgem.
- We understood how SSE plc is complying with those frameworks by making enquiries of management and those charged with governance to understand how the Company maintains and communicates its policies and procedures in these areas and corroborated this by reviewing supporting documentation. We also reviewed correspondence with relevant authorities.
- We assessed the susceptibility of the Company's CSS to material misstatement, including how fraud might occur by considering the risk of manipulation of the CSS reconciliation. We vouched information back to supporting documentation and agreed to audited numbers within the Annual Report.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved making enquiries with the entity's in-house legal counsel, and circulating enquiry letters to external legal counsel to confirm our understanding of matters communicated by the Company.

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
25 May 2021

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	18 June 2021
Q1 Trading Statement	22 July 2021
Ex-dividend date for final dividend	29 July 2021
Record date for final dividend	30 July 2021
AGM	22 July 2021
Final date for Scrip elections	26 August 2021
Payment date	23 September 2021
Notification of Close Period by	30 September 2021
Results for six months to 30 September	17 November 2021

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 is seeking to implement a sustainable communications strategy which reduces the volume of paper being used in its communications with shareholders and other stakeholders. This is in line with SSE's sustainability values and approach to providing a more environmentally-friendly service. The first step in this strategy was the move away from paper dividend cheques in 2019/20 and SSE continues to encourage shareholders to use online services to manage their holding.

Through the dedicated Shareholder Portal provided by Link Registrars at www.sse-shares.com/ shareholders can:

- **Elect for electronic communications.** By joining our eCommunications Programme and choosing to receive shareholder documents electronically. Shareholders are notified by email that documents such as the Annual Report or Notice of Annual General Meeting are available on our website.
- **Update personal details.**
- **Buy and sell shares online using Link's share dealing service.**
- **Vote in advance of company general meetings.**

If you have not used this service before, you will require your Investor Code (IVC) to register. You will find this on your share certificate.

Removal of dividend confirmations

As part of SSE's commitment to a more environmentally friendly service, following the removal of cheques in 2019/20, the Company intends to take the next step in its paperless dividend strategy. In 2022, dividend confirmations will only be available online. If you are an ordinary shareholder and have not yet elected to receive your dividend communication electronically please register at 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 http://ips.linkassetservices.com/ for further information.

Alternatively, shareholders may want to join the Scrip dividend alternative and receive future dividends in the form of additional new shares. Further details of the Scrip scheme can be found at www.sse.com/investors/shareholder-services/dividends-and-scrip-scheme/. You should still complete a bank mandate to enable future dividend payments should you ever withdraw from the Scrip scheme.

Amalgamation of multiple share accounts

Many shareholders receive several copies of the Annual Report and dividend documentation who could merge their shareholdings. If you receive more than one copy of these documents you could help SSE reduce its impact on the environment and save paper by merging your accounts into one. Please contact Link Asset Services to amalgamate your accounts or visit www.sse.com/investors/shareholder-services/shareholder-forms/

SHAREHOLDER INFORMATION CONTINUED

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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