

Directors' Report

Good governance and a strong corporate culture are the foundations of SSE's purpose, vision and strategy. The Board gives close consideration to the views of all stakeholders in its decision making and understands the importance of clear disclosure of this, and other material issues, in reporting how its work supports the long-term success of the Company.

Chair's introduction	114
Governance at a glance	116
Board of Directors	118
Group Executive Committee	123
Board leadership and company purpose	124
Division of responsibilities	142
Composition, succession and evaluation	143
Nomination Committee Report	145
Audit, risk and internal control	152
Audit Committee Report	152
Energy Markets Risk Committee Report	162
Safety, Sustainability, Health and Environment Advisory Committee Report	164
Remuneration	168
Remuneration Committee Chair's statement	168
Directors' Remuneration Policy	172
Remuneration at a glance	182
Annual report on remuneration	184
Other statutory information	200
Statement of Directors' responsibilities in respect of the annual report and the financial statements	203



Reporting against the UK Corporate Governance Code

Board leadership and company purpose
pages 124 to 141 

Division of responsibilities
page 142 

Composition, succession and evaluation
pages 143 to 151 

Audit, risk and internal control
pages 152 to 167 

Remuneration
pages 168 to 199 

Chair's introduction

Leading with purpose



The Board's work this year has been defined by dramatic changes in the operating context which informs our deliberations. As set out in my earlier reflections, this has included the evolution of a global pandemic which has touched us all; a sharpened focus on the climate emergency and the net zero transition; and volatility and affordability concerns in energy markets impacted by geopolitical events.

The purpose of this Directors' Report is to explain how we as a Board have assessed SSE's situation, and taken informed decisions to secure a sustainable and leading position on behalf of our key stakeholders; all underpinned by a long-standing and deeply embedded commitment to high standards of corporate governance. The strength of the Board's leadership is assessed through the clarity of the actions we take and transparency surrounding the standards, processes and culture we ultimately set.

Focused on the future

In November 2021, SSE announced its Net Zero Acceleration Programme, representing the optimum growth pathway identified by the Board to capitalise on the opportunities across the value chain in which SSE participates. In all our deliberations, we are focused on long-term success, financial resilience and shareholder value, and ensure thorough debate based on robust inputs which capture all of the available information. We have carefully assimilated the views and long-term priorities of those who invest in SSE, and have provided clarity

around funding, growth, and dividend policy. Across [pages 126 to 129](#), we provide insight into the strategic process followed in the year, alongside the governance which drove challenge and debate across each stage.

In support of strategic progress, we have continued to monitor and review current large capital programmes, and have strengthened development pipelines which represent the foundation of our accelerated investment plans. To ensure the Company has the platform it needs to succeed in the delivery of revised and accelerated ambitions, we have also spent time assessing SSE's capacity and resources for future growth.

To this end, we have refreshed the framework represented by our 2030 Goals, and (as supported by shareholders at our 2021 AGM) published a Net Zero Transition Plan, which together set the parameters within which we intend to deliver our ambition. This includes enhanced 1.5°C aligned science-based targets.

Committee support has been strong and provided in multiple ways. The Remuneration Committee has overseen proposed updates to Remuneration Policy to align with our growth ambitions. The Nomination Committee has championed talent and capability across our most important asset, people. The Audit Committee has monitored the development of our risk and opportunity reporting under the Taskforce on Climate-related Financial Disclosures framework. As indicated last year, the Safety, Sustainability, Health and Environment Advisory Committee has progressed its environmental, social and governance (ESG) role, deepening its focus on performance across ESG indices, and reviewing climate resilience and adaptation plans. The Energy Markets Risk Committee has been active in its review of SSE's exposures in an increasingly volatile energy market. Further information can be found in each of the respective Committee Reports on [pages 145 to 199](#).

“The strength of the Board’s leadership is assessed through the clarity of the actions we take and transparency surrounding the standards, processes and culture we ultimately set.”

Engaging and reconnecting

One year on from my last report, a welcome change has been the ability to reconnect in person. Throughout the pandemic virtual channels worked well, and continue to be used in the Company, as we responded to employee feedback on the benefits of our ‘Flexible First’ approach to work enabled by technology. Nonetheless, having joined at a time when face-to-face meetings were not possible, I have thoroughly enjoyed travelling across SSE and engaging with people and operations; a sentiment which is echoed by my fellow Board members.

Site visits deliver an enriched view of the reports we receive on employee sentiment, with candid discussion providing a truer understanding of how to support our people. This two-way dialogue is further enhanced through our Non-Executive Director for Employee Engagement, Dame Sue Bruce, who reports back to the Board and management after each engagement she undertakes. I am pleased to provide information on [pages 137 to 139](#) of how we have listened and acted upon the areas of importance to employees, which takes place within the maturing framework in which we discuss, monitor and review company culture.

We have resumed physical meetings for the Board in 2021/22, as well as for many of our shareholder engagements. The 2022 AGM is set to take place in a hybrid format, and I look forward to meeting with those of you who are able to attend in person and answering questions from those of you who join us virtually.

The Board takes very seriously the views of employees, shareholders and wider stakeholders to ensure we are pursuing actions that are acceptable to those we work with, and for. And as is evidenced across this Annual Report, the network in which we gather relevant insights is extensive. At Board-level, we enhance our understanding of views through work which complements the daily contact our businesses have, with the most significant external engagement in the year, in which the Directors participated, being COP26 in Glasgow.

The Board agenda further includes a stakeholder assessment of our strategy, an annual update on supply chains, confirmation of sustainability priorities and an annual report of key stakeholder work. Specifically, in 2021/22, we considered the development of SSE Distribution’s ED2 business plan, the impact of storms across communities, and the wider issue of energy affordability, to name just a few examples.

Composition and performance

In what has been my first full year as Chair, we’ve welcomed two new non-Executive Directors to the Board in Dame Elish Angiolini and Debbie Crosbie, who bring added depth and capability to our perspectives and skillset. This has been followed by the appointment of John Bason from 1 June 2022, as the intended successor to the role of Audit Committee Chair. John’s financial expertise and wealth of international experience is a strong fit, and I look forward to welcoming him to the Board.

To ensure an orderly transition within the positions of Remuneration Committee Chair and Non-Executive Director for Employee Engagement, we have further agreed a six month extension to Dame Sue Bruce’s tenure ending 31 March 2023. At this time, Melanie Smith will take on the position of Remuneration Committee Chair and Dame Elish Angiolini Non-Executive Director for Employee Engagement.

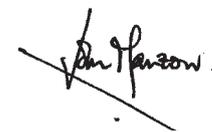
As discussed on [pages 146 to 149](#), these changes stem from the detailed assessment by the Nomination Committee of the Board’s needs, and our composition will continue to evolve in light of the fast-moving operating environment and our future-oriented focus.

A balanced Board comprises representation across a suite of diverse characteristics, which is the focus of our standalone Board Diversity Policy. We took time to consider the policy in the year and approved updates to align with our ultimate aim of enduring inclusivity and equality. Whilst good progress has been made within the Board – with gender parity across our current membership – we recognise there is

always more work to do. Notably, within the senior leadership population progress has been slower, and we have therefore continued to probe the barriers to accelerating change. We seek to address sector specific challenges through a new set of ambitions and accompanying workstreams for senior leadership, and within SSE’s Just Transition Strategy. Fuller detail of the above, and wider people matters, is set out in the Nomination Committee Report on [pages 145 to 151](#).

This year, in line with the three-yearly cycle, our annual Board evaluation process was externally-facilitated; providing objective findings and areas for continued development and future focus. Both the appointment of Lintstock as evaluator, and the methodology used to assess performance were carefully planned to ensure meaningful outcomes. We were pleased with the conclusion that we continue to operate effectively and welcome the suggested areas for improvement, which we will take forward as actions within our plan of work as set out on [pages 143 to 144](#).

I hope the following report of Board activity is a clear and engaging account of the year, and look forward to reporting further progress in 2022/23, when we will welcome continued engagement surrounding our views and actions to secure long-term success.



Sir John Manzoni
Chair, SSE plc
24 May 2022

Governance at a glance

Highlights from 2021/22

Resetting strategic ambition

Developing and approving SSE's Net Zero Acceleration Programme for all stakeholders.

see pages 126 to 129

Agreed capital investment

£12.5bn

Ensuring strong succession

Enhancing Board composition through new non-Executive Director appointments.

see pages 146 to 147

Average non-Executive Director tenure

3.8 years

Assessing Board performance

Conducting an external evaluation to drive continuous improvement.

see pages 143 to 144

External evaluation spanning

3 months

Reconnecting with our people

Reintroducing physical meetings to enhance virtual engagement approach.

see pages 137 to 139

Board-employee engagements

43

Progressing inclusion and diversity

Approving a new Board Inclusion and Diversity Policy and maintaining focus on ambitions.

see pages 150 to 151

Board female representation

50%

Realigning remuneration policy

Engaging with shareholders and investor bodies on the correct remuneration approach.

see pages 136 and 168 to 171

Related meetings to date

11



UK Corporate Governance Code

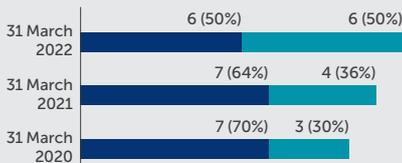
The Board continues to be guided in its approach to corporate governance through application of the FRC's UK Corporate Governance Code 2018 (the Code), a copy of which can be found at www.frc.org.uk.

To allow shareholders to evaluate how the Code's Principles have been applied, the Directors' Report has been structured around the Code's respective sections, with cross references used where supporting information is located in other parts of the Annual Report.

For the year ended 31 March 2022, the Board reports compliance against the Code Provisions for the duration of the period and upholds the spirit of the Code throughout its work and that of its Committees.

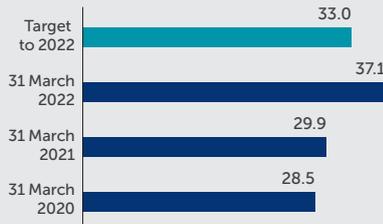
Board composition dashboard as at 31 March 2022

Board gender balance

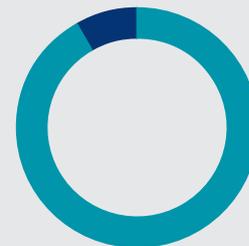


■ Male ■ Female

Rolling three-year female representation (%)



Board ethnicity



■ White British: 11 ■ Māori: 1

Skills matrix

Non-Executive Director experience

The below matrix captures the skills required to drive SSE's long-term success and support its vision of being a leading energy company in a net zero world. An essential element in addition to skills, is the innate difference in approach and thinking styles, which results from the varied backgrounds and experiences of the non-Executive Directors. This is covered more fully in the individual biographies across [pages 118 to 122](#). The below matrix therefore only represents one element of Board contribution, and is based on the depth of practical expertise which the non-Executive Directors have assimilated outside of their SSE Board role.

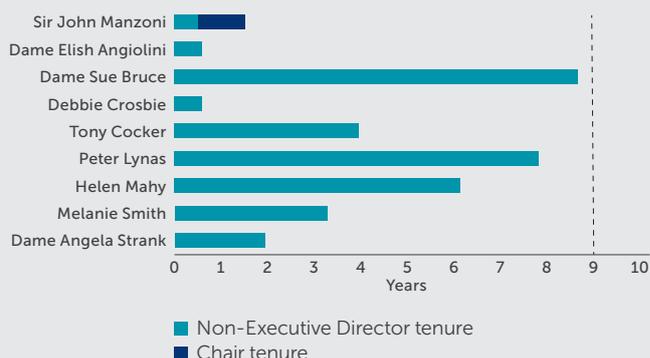
	Sir John Manzoni	Dame Elish Angiolini	Dame Sue Bruce	Tony Cocker	Debbie Crosbie	Peter Lynas	Helen Mahy	Melanie Smith	Dame Angela Strank	Number of non-Executives (/9)
Tenure (years)	1	<1	8	4	<1	7	6	3	2	
Experience of operating context and disruptive trends										
Energy sector, energy regulation and energy markets	✓			✓			✓		✓	4
Government and public policy	✓	✓	✓	✓			✓			5
Clean energy technologies (including renewables) and climate science	✓			✓			✓		✓	4
International business	✓			✓	✓	✓		✓	✓	6
Digital and data	✓			✓	✓	✓		✓	✓	6
Stakeholders and social impact	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
Skills to challenge and set a sustainable strategy										
Large capital project management	✓	✓	✓	✓		✓		✓	✓	7
Financing, economics and capital markets	✓		✓		✓	✓		✓		5
Partnering, M&A and transactions	✓	✓	✓			✓	✓	✓	✓	7
Risk management	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
Consumer insight	✓	✓	✓	✓	✓			✓	✓	7
Responsible leadership of a large organisation										
Corporate governance and leadership	✓	✓	✓	✓	✓	✓	✓	✓	✓	9
Culture, safe working and people development	✓	✓	✓	✓	✓	✓	✓	✓	✓	9

Board independence



■ Executive Directors: 3
 ■ Independent non-Executive Directors: 8
 ■ Non-Executive Chair: 1

Chair and non-Executive Director tenure



Board of Directors

CHAIR



Sir John Manzoni

Chair



Date of appointment

Non-Executive Director since September 2020 and Chair from April 2021

Board tenure

1 year

Career and experience

Sir John has wide-ranging experience across the energy industry and both the private and public sectors. Through an executive career at BP which spanned 24 years, he held a number of senior roles including Chief Executive, Refining and Marketing in which he was a Main Board member. This was followed by President and Chief Executive Officer at Talisman Energy Inc before a move to UK Government where he spent six years as Chief Executive of the Civil Service and Permanent Secretary of the Cabinet Office. He has previously been a non-Executive Director of SABMiller plc and Chair of Leysdon Energy Limited.

Skills and attributes which support strategy and long-term success

- Dynamic and engaging leadership style with diverse perspectives gained across multiple sectors, organisational settings and geographies, which complement the responsibilities of SSE Chair.
- Experienced in the governance of large scale business operations, leading reform and the management of complex projects to drive commercial performance, skills key to the fulfilment of SSE's vision and purpose.
- Strong communicator with insight into the management and development of stakeholder relations aligned with SSE's approach to decision-making.
- Working knowledge of energy regulation, government and policy considerations which underpin the success of a net zero transition.

Key external appointments and changes

- Non-Executive Director of Diageo.
- Chair of the Atomic Weapons Establishment.
- Non-Executive Director of KBR Inc from May 2022.

EXECUTIVE DIRECTORS



Alistair Phillips-Davies

Chief Executive

Date of appointment

Executive Director since January 2002 and Chief Executive from July 2013

Board tenure

20 years

Career and experience

Alistair joined SSE in 1997 and possesses extensive knowledge of the Group having held senior roles across multiple business areas. Prior to joining the Board in 2002 as Energy Supply Director, Alistair was Director of Corporate Finance and Business Development. In 2010, he became Generation and Supply Director, before Deputy Chief Executive in 2012, then Chief Executive in 2013. Alistair is a fellow of the Energy Institute and a former Vice President of Eurelectric. He is a Chartered Accountant.

Skills and attributes which support strategy and long-term success

- Sound executive leadership and a considered approach to strategy which is evidenced through continued delivery under the Group operating model, SSE's growth ambitions and progression of SSE's sustainability plans and associated targets.
- Broad knowledge of the energy markets in Great Britain and Ireland and across Europe, which informs views of long-term direction.
- Detailed understanding of the external context including the climate transition, politics and regulation enabling constructive engagement in these areas.
- Proactive approach to understanding stakeholder priorities including the impact of the coronavirus pandemic and SSE's societal response to the net zero transition.
- Focused on people development, culture and digital enablement in order to develop capabilities for future growth.

Key external appointments and changes

- Member of the Scottish Energy Advisory Board.
- Member of the UK Government's Hydrogen Advisory Council.
- Member of the COP26 Business Leaders group.



Gregor Alexander

Finance Director



Date of appointment

Executive Director and Finance Director since October 2002

Board tenure

19 years

Career and experience

Gregor joined SSE in 1990 and has been Finance Director on the Board since 2002. Prior to Finance Director, Gregor worked in senior finance roles and led specialist teams including as Group Treasurer and Tax Manager. Gregor is Chair of the Scottish and Southern Energy Power Distribution Board. He is a Chartered Accountant and member of the Accounting for Sustainability (A4S) CFO Leadership Network.

Skills and attributes which support strategy and long-term success

- Extensive knowledge of financial markets as leader of SSE's financial strategy, including the approach to sustainable financing and emerging practice in this area.
- Experienced in directing significant corporate projects and major transactions, including SSE's approach to investments, divestments and partnering.
- Oversees appropriate governance in the management of the Group risk environment including those emerging from the evolving energy sector and the transition to net zero.
- Deep appreciation of shareholder views and related ESG matters including the continued commitment to lead on fair tax and fair work as part of SSE's 2030 Goals.
- Practical regulatory insight and Board oversight of SSE's networks businesses.

Key external appointments and changes

- Non-Executive Director of Stagecoach Group plc.
- Stepped down as a Director of Scotia Gas Networks Limited in March 2022.

I N D E P E N D E N T
N O N - E X E C U T I V E D I R E C T O R S



Martin Pibworth
Chief Commercial Officer



Date of appointment

Executive Director since September 2017 and Chief Commercial Officer from November 2020

Board tenure

4 years

Career and experience

Martin joined SSE in 1998 as an energy trader, which was followed by a series of commercial roles before becoming Managing Director, Energy Portfolio Management, and a member of SSE's then Management Board in 2012. In 2014, he was appointed Managing Director, Wholesale, and a member of SSE's Group Executive Committee. In 2017 he joined the Board as Group Energy Director, a role which was expanded to Group Energy and Commercial Director in November 2020. This role was subsequently re-titled Chief Commercial Officer in March 2022, with no change in underlying responsibility or remit.

Skills and attributes which support strategy and long-term success

- Literacy in complex energy markets which is supported by technical and operational expertise.
- End-to-end experience in large capital projects including joint venture engagement and governance, which has been applied in the development of SSE's diverse and flexible generation portfolio, including the renewables pipeline.
- Commercially minded in seeking future growth within SSE's market-based businesses, and has overseen key capital recycling opportunities and transactions to refine SSE's business mix and secure optimum value from investments.
- Understanding of change management and sources of commercial risk having led on SSE's Brexit transition arrangements, and the impact of coronavirus on energy markets.

Key external appointments and changes

- Member of Energy UK Board.



Tony Cocker
Senior Independent Director



Date of appointment

Non-Executive Director since May 2018 and Senior Independent Director from October 2020

Board tenure

4 years

Career and experience

Tony possesses highly detailed knowledge of the energy sector through a 20-year career with E.ON SE and Powergen plc, with at different times, responsibility for: thermal generation; onshore and offshore wind (including Scroby Sands and the London Array, which was the world's largest offshore wind farm when built); commodity trading and risk management; and retail. Latterly, he held the position of CEO and Chair of E.ON UK plc, comprising the Company's main businesses in the UK. Previous roles include CEO of E.ON Energy Trading SE, which managed E.ON SE's commodity portfolio across Europe, and Managing Director of E.ON UK Energy Wholesale, which comprised E.ON UK's renewable, generation, and trading businesses. He has served on the Board of Energy UK.

Skills and attributes which support strategy and long-term success

- Wide-ranging insight regarding technical and operational matters, including energy infrastructure and assets, commodity markets, energy trading and risk.
- Experience delivering major renewable energy projects.
- Combined energy industry and non-Executive experience enhances Board understanding of trends relevant to SSE's operations and of utilities regulation.
- A balanced sounding board with additive experience in strategic consultancy and energy and utility stakeholder management.

Key external appointments and changes

- Chair of Infinis Energy Management Limited.
- Visiting Professor at Aston University from January 2022.
- Stepped down as Deputy Chair and Governor of Warwick Independent Schools Foundation in September 2021.

Key

Committee membership

- **NC** Nomination Committee
- **AC** Audit Committee
- **ER** Energy Markets Risk Committee
- **SHE** Safety, Sustainability, Health and Environment Advisory Committee
- **RC** Remuneration Committee
- **○** Committee Chair

External appointments

The Board considered and approved the additional external commitments taken on by Sir John Manzoni, Tony Cocker, Peter Lynas and Helen Mahy during the period. In each case, it was agreed that there would be no impact on the time commitment required as Chair and non-Executive Director, nor on the independence and objectivity required to discharge the agreed responsibilities of each role. The resultant position is believed to be consistent with recognised proxy advisor guidelines.

Board of Directors continued

INDEPENDENT NON-EXECUTIVE DIRECTORS



Dame Elish Angiolini QC

Non-Executive Director



Date of appointment

Non-Executive Director since September 2021

Board tenure

Under 1 year

Career and experience

Dame Elish has an extensive public sector legal career, serving as Lord Advocate of Scotland from 2006 to 2011, across two government administrations, having previously been Solicitor General for Scotland. Since then, she has carried out a number of independent public inquiries and reviews for both the UK and Scottish Governments and held positions in academia having served as Principal of St Hugh's College Oxford since 2012. She is also currently a Pro-Vice Chancellor of Oxford University and previous Chancellor of the University of West of Scotland. Dame Elish is Chair of the Discipline Board of the Institute of Chartered Accountants of Scotland (ICAS), Chair of the Board of trustees for the legal action non-governmental group Reprieve and a patron of several charities.

Skills and attributes which support strategy and long-term success

- Possesses significant understanding of Scottish governance and has practical experience of working with the UK and Scottish governments through involvement in independent public reviews, whilst maintaining no political affiliation.
- Strong ambassadorial skills developed through an international network of colleagues and contacts in judicial, governmental, diplomatic, and academic fields.
- Exercises a strong sense of social purpose and adds depth of perspective to Board considerations, reinforcing SSE's approach to wider value creation.

Key external appointments and changes

- Pro-Vice Chancellor of the University of Oxford.
- Principal of St Hugh's College Oxford.
- Chair of the Discipline Board of ICAS.
- Chair of the Sarah Everard Inquiry.
- Chair of Board of Trustees of Reprieve.



Dame Sue Bruce DBE

Non-Executive Director of the Board and for Employee Engagement



Date of appointment

Non-Executive Director since September 2013

Board tenure

8 years

Career and experience

Dame Sue has extensive public sector experience from a career which spanned almost 40 years, holding a variety of roles in local government. These included the positions of Chief Executive at East Dunbartonshire Council and the first female Chief Executive of both Aberdeen City Council and the City of Edinburgh Council. Sue has also held a number of Board and Board Committee positions in organisations across the arts, education and charitable sectors.

Skills and attributes which support strategy and long-term success

- Strategic and operational experience of leading organisations covering large numbers of employees, significant assets, economic development, construction projects and engaging with communities, which provides insight into SSE's approach to its social contract.
- Distinguished in stakeholder engagement with a highly personable style as is evident in the roles of Remuneration Committee Chair and Non-Executive Director for Employee Engagement.
- Expert knowledge of Scottish government and understanding of political affairs.

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.
- Chair of Trustees of the Prince's Foundation.



Debbie Crosbie

Non-Executive Director



Date of appointment

Non-Executive Director since September 2021

Board tenure

Under 1 year

Career and experience

Debbie brings over 25 years of experience in financial services leadership, having recently been appointed as the first female Chief Executive of Nationwide Building Society. Prior to this appointment, Debbie served as CEO of TSB from May 2019 and was previously an Executive Director and Chief Operating Office of Clydesdale Bank, where she led preparations for its successful demerger and subsequent IPO. Debbie worked at National Australia Bank Group Europe for 22 years. Debbie is a fellow of the Chartered Institute of Bankers and a member of the Glasgow Economic Leadership Board and the Strathclyde University Business School Advisory Board.

Skills and attributes which support strategy and long-term success

- Extensive experience of the implementation of strategy including significant corporate transaction work and execution of far-reaching transformation projects, including the changing role of digital and data in the context of a large consumer-facing organisation.
- Understanding of capital allocation and investment appraisal frameworks central to the next phase of SSE's growth.
- Knowledge of operating in a heavily regulated sector requiring a compliance-driven approach and proficiency in risk management and internal controls.

Key external appointments and changes

- Chief Executive of Nationwide Building Society (to commence in 2022).
- Member of the Glasgow Economic Leadership Board.
- Member of the Business School Advisory Board of Strathclyde University.



Peter Lynas

Non-Executive Director



Date of appointment

Non-Executive Director since July 2014

Board tenure

7 years

Career and experience

Peter has over 30 years of business experience spanning all areas of finance. He retired from the role of Group Finance Director of BAE Systems plc in March 2020, prior to which he was Director, Financial Control, Reporting and Treasury. His early career involved roles within GEC Marconi, where he was appointed Finance Director of Marconi Electronic Systems before the completion of the British Aerospace/Marconi merger. He is a Fellow of the Chartered Association of Certified Accountants.

Skills and attributes which support strategy and long-term success

- Brings recent and relevant financial experience to the Board and strong direction to the Audit Committee, as Chair of which, he drives focus on the risk and control environment including Group resilience and the ethics and compliance culture.
- International business perspective and an applied understanding of long-term project management and delivery, including investment appraisal, contracting and supply chain experience.
- Up-to-date investor relations experience through his executive career at BAE and pensions insight having been Chair of the trustee Board of a major UK scheme.

Key external appointments and changes

- Senior Independent Director of First Group plc from June 2021.



Helen Mahy CBE

Non-Executive Director



Date of appointment

Non-Executive Director since March 2016

Board tenure

6 years

Career and experience

Helen is a former Company Secretary and General Counsel of National Grid plc and an experienced non-Executive Director. Previous non-Executive roles include directorships at Bonheur ASA, Aga Rangemaster plc, Stagecoach Group plc, SVG Capital plc, Chair of MedicX Fund Limited and Deputy Chair and Senior Independent Director of Primary Health Properties PLC. Helen is currently Chair of The Renewables Infrastructure Group Limited, a member of the Parker Review steering committee into the Ethnic Diversity of UK Boards, a patron of the charity Social Mobility Business Partnership, Co-chair of the Employers Social Mobility Alliance and an Equality and Human Rights Commissioner.

Skills and attributes which support strategy and long-term success

- Long-standing energy, regulatory and renewables experience, underpinned by a comprehensive understanding of the listed company context including the applicable legal, compliance, governance and risk frameworks in which SSE's businesses operate.
- Insight into a broad range of investor and stakeholder perspectives and trends from cross-sectoral, international and external Board interests that enable wider discussion and debate.
- A decade of experience overseeing renewables infrastructure investment.
- An advocate of SSE's safety culture, inclusion and diversity, and employee wellbeing; with extensive knowledge of people matters and a focus on sustainability.

Key external appointments and changes

- Chair of The Renewables Infrastructure Group Limited.
- Commissioner for The Equality and Human Rights Commission.
- Non-Executive Director of Gowling WLG (UK) LLP from September 2021.



Melanie Smith CBE

Non-Executive Director



Date of appointment

Non-Executive Director since January 2019

Board tenure

3 years

Career and experience

Melanie has over 20 years of in-depth strategy experience and is currently CEO of Ocado Retail, the world's largest pureplay online grocer and the UK's fastest growing grocer. Prior to this she was Strategy Director for Marks & Spencer with responsibility for group strategy, M&S Bank and M&S Services. Earlier roles include Global Strategy and Marketing Director at Bupa, Chief Operating Officer at TalkTalk and a Partner in McKinsey's Consumer practice.

Skills and attributes which support strategy and long-term success

- 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.

Board of Directors continued

INDEPENDENT NON-EXECUTIVE DIRECTORS



Dame Angela Strank DBE

Non-Executive Director



Date of appointment

Non-Executive Director since May 2020

Board tenure

2 years

Career and experience

Dame Angela brings depth of executive experience from a long-standing international career in the energy sector, which included 38 years' service at BP. Prior to retirement in December 2020, she was a member of BP's Executive Management team as BP Group Chief Scientist and Head of Downstream Technology. This followed international business and technical leadership positions spanning technology and digital, innovation, engineering and renewable energy. Angela is a Fellow of the Royal Society, the Royal Academy of Engineers, and the UK Energy Institute. She was awarded a DBE for long-standing services to the energy industry and pioneering STEM careers, especially for women.

Skills and attributes which support strategy and long-term success

- Expert understanding of the current and future role of technology and science within the broader energy industry, including the impact of disruptive trends and resultant transformation.
- Knowledge of leading and collaborating on a large scale and with international outlook, having worked in culturally diverse environments in the Middle East, Europe, the Far East, Africa and America.
- Corporate social responsibility and sustainability experience through active involvement in climate science research, embracing the energy transition, reputation and safety management, pioneering women in STEM careers, and as a champion of inclusion and diversity; chairing the Corporate Sustainability Committee, and Safety, Ethics and Sustainability Committee in two FTSE 100 companies.

Key external appointments and changes

- Non-Executive Director of Rolls Royce plc.
- Non-Executive Director of Mondi plc.
- Stepped down as Non-Executive Director of Severn Trent plc in March 2022.

INDEPENDENT NON- EXECUTIVE DIRECTOR JOINING 1 JUNE 2022



John Bason

Non-Executive Director from 1 June 2022

Will join the Nomination Committee and Audit Committee on appointment.

Date of appointment

Joining 1 June 2022

Career and experience

John brings significant listed company, financial and international experience through a career in global businesses. He has been Finance Director of Associated British Foods plc (ABF) since joining the diverse food, ingredients and retail group in 1999. ABF employs 128,000 people and operates in 53 countries across Europe, Asia, the Americas, Australia and Africa. Prior to this, John was Finance Director of the international distribution and services group Bunzl plc. His non-Executive experience includes Senior Independent Director and Audit Committee Chair of Compass Group PLC. He is currently Chair of the charitable organisation FareShare and non-Executive Director of Bloomsbury Publishing Plc. John is a Chartered Accountant.

Skills and attributes which support strategy and long-term success

- Extensive leadership experience and international perspective, gained from global companies and complex operations, which will be invaluable to SSE's growth and entry into new markets.
- A proven track record in developing financial and commercial strategy, including M&A, corporate transactions and large capital projects, which complements SSE's Net Zero Acceleration Programme, and supports succession planning for the role of Audit Committee Chair.
- Understanding of the listed company context with practical experience of investor relations and ESG strategy, placing upmost importance on the role of sustainability.

Key external appointments and changes

- Finance Director of Associated British Foods plc.
- Chair of FareShare.
- Non-Executive Director of Bloomsbury Publishing Plc.

COMPANY SECRETARY



Sally Fairbairn

Company Secretary and Director of Investor Relations

Date of appointment

Company Secretary and Director of Investor Relations since December 2014

Career and experience

Sally joined SSE in 1997 as a chartered accountant working in the Corporate Finance team. Through this role, which included responsibility for long-term financial modelling of the SSE Group, she developed knowledge of the SSE's diverse operations and the UK energy industry. In 2007, Sally became Director of Investor Relations and Analysis allowing her to develop extensive experience of the shareholder and financial analyst community, and through associated engagement, has detailed understanding of investor views. Sally was appointed to the joint role of Company Secretary and Director of Investor Relations in December 2014.

Group Executive Committee



Alistair Phillips-Davies

Chief Executive



Gregor Alexander

Finance Director



Martin Pibworth

Chief Commercial Officer



Chris Burchell

MD, SSEN Distribution

Chris has been MD, SSEN Distribution since November 2020, having joined SSE from Arriva where he was MD, UK Trains since 2014. He began his career at Railtrack in 1996 and following a period as an official in the Foreign and Commonwealth Office, joined the Go-Ahead Group, where he was Director of Operations, Thames Trains and Managing Director for the Southern rail franchise.



Rob McDonald

MD, SSEN Transmission

Rob has been MD, SSEN Transmission since April 2019, having joined SSE in 1997 and holding a number of senior roles within the Group Regulation function. Prior to his current position, he was MD, Corporate and Business Services covering Legal, Regulation, Compliance, Safety and Large Capital Projects Services across SSE.



Sam Peacock

Director of Corporate Affairs and Strategy

Sam has been Director of Corporate Affairs and Strategy since April 2020 and leads SSE's teams overseeing government relations, policy development, employee communications, external affairs, corporate brand and project communications. Prior to joining SSE in 2011, Sam directed government affairs at Ofgem and worked at leading communications agency Edelman, as well as in Parliament and in Government.



John Stewart

Director of HR

John has been Director of HR since joining SSE in July 2009. Prior to this he worked in a broad range of senior management roles in the energy and water sectors and has experience of working in both the UK and in the US. He oversees all areas in relation to SSE's people including talent and capability, training and development, employee engagement and inclusion and diversity.



Liz Tanner

General Counsel

Liz is a barrister and has been Group General Counsel since March 2019, having joined SSE in 2002 as part of the acquisition of Neos Networks. Since joining SSE, Liz has held a variety of legal and commercial roles within a number of different SSE Group companies and currently oversees the corporate functions of Legal, Regulation, Compliance, Data Protection and Large Capital Project Services.



Stephen Wheeler

MD, SSE Renewables

Stephen has been MD, SSE Renewables since January 2022 having previously held the roles of MD, SSE Thermal and MD, SSE Ireland. Prior to SSE, he was part of the management team that grew the Airtricity renewable energy platform before SSE acquired it in 2008. Before joining Airtricity, he spent over 10 years working with ABB and Siemens internationally.



Sally Fairbairn

Company Secretary and Director of Investor Relations, Committee Secretary

Biographical details of the Executive Directors and Company Secretary and Director of Investor Relations.

More on pages 118, 119 and 122

Board leadership and company purpose

Corporate governance in SSE

SSE's Governance Framework



The SSEPD Board oversees SSE's economically regulated networks businesses in compliance with applicable regulatory licence conditions. SSE Energy Customer Solutions comprises SSE Airtricity and SSE Business Energy.

The role of the Board

The primary role of the Board is to lead SSE in a way that ensures its long-term success, whilst generating value for shareholders and wider stakeholders. This is a broad-ranging duty and is directed by the cornerstones of SSE's purpose and vision. The last material re-definition of these guiding statements was in 2019/20, when the Board agreed closer alignment of SSE's purpose and vision with its strategic transformation around a core of clean electricity infrastructure and its societal role in the net zero transition.

In support of SSE's purpose and vision, the Board sets and monitors SSE's strategy through a continuing programme of work. In 2021/22, this saw the approval and announcement of SSE's Net Zero Acceleration Programme. The process which identified this phase of strategic growth as the optimum pathway for all of SSE's stakeholders is covered on

[pages 126 to 129](#). Confirmation of how SSE's businesses and its associated business model provide the best possible balance to deliver long-term value, is set out on [pages 10 to 17](#).

Once set by the Board, the implementation of strategy is the responsibility of the Group Executive Committee and management across SSE's Business Units. Oversight of performance is achieved through structured operational and financial reporting from the Executive Directors at each Board meeting, in addition to presentations from each Business Unit across the year. These presentations comprise strategic updates and approvals in line with SSE's Governance Framework.

Operational and financial performance for 2021/22 is covered across the Strategic Report on [pages 1 to 111](#).

Corporate governance in SSE

Corporate governance in SSE can be explained as the minimum expectations set by the Board surrounding standards, responsible conduct and controls. SSE's Governance Framework supports this approach by mapping where accountability resides in line with delegated authorities, and in this way, forms part of SSE's System of Internal Control as set out on [page 161](#).

Areas of importance to the Board and SSE's operations influence the features of the Governance Framework, which is illustrated, in part, by the Committees which provide dedicated focus to areas on behalf of the Board and the Group Executive Committee. Clarity surrounding the responsibilities of each Committee is ensured through approved Terms of Reference, as determined by a Committee's reporting line.

Monitoring of delegated matters is supported by formal reporting channels. For Board Committees, this is a personal account from the non-Executive Director who chairs the Committee following each Committee meeting. As set out above, on executive matters, the Chief Executive, Finance Director and Chief Commercial Officer are responsible for providing full updates at each Board meeting. These mechanisms are in addition to sub-Committee minutes, written reports and agreed KPIs to monitor financial and non-financial performance.

Board reserved matters

In order to safeguard the areas material to the delivery of SSE's purpose, vision and strategy, the Board retains a schedule of matters reserved for its decision. This ensures the necessary framework and resources are in place for the Company to meet its stated objectives and covers the below areas.

Strategy and performance

- Approval and review of commercial strategy, business development and long-term strategic options.
- Oversight of performance in light of approved strategy and objectives.
- Review and approval of priorities surrounding SSE's principal sustainability impacts, including climate change.
- Major transactions and any material extension or closure of operations.

Financial management

- Approval of annual operating and capital expenditure budgets.
- Approval of dividend policy and key financial communications.
- Changes to the Group's capital structure.

Risk and control

- Ensuring sound systems of internal control and risk management.

People and culture

- Approach to people, succession, and inclusion and diversity.
- Agreement and monitoring of a healthy corporate culture including SSE's values and framework of cultural controls.

Governance

- Changes to Board and Board Committee structure, size and composition.
- Approval of shareholder communications.
- Confirmation of stakeholder approach.
- Approval of Board-level corporate governance matters.

Regulation

- Approval of the electricity distribution and transmission price control reviews proposed by Ofgem.

The Schedule of Reserved Matters is one of a collection of documents which make up SSE's Board Charter. The contents of the Board Charter govern the Board's operations and pertinent Group-wide matters and is subject to annual Board review and approval.

The Board Charter contains:

- SSE plc's Articles of Association.*
- Board's Schedule of Reserved Matters.*
- SSE's guide to good business ethics.*
- SSE's Guide to Governance.
- Board Committee Terms of Reference.*
- Non-Audit Services Policy.*
- Procedure for Taking Independent Advice.
- Non-Executive Directors' Shareholding Policy.
- Board Inclusion and Diversity Policy.*
- Responsibilities of key Board roles.*

* Documents available in full on [sse.com](https://www.sse.com)

Board operations

The Board, led by the Chair, seeks to nurture a culture in which informed and transparent decision-making takes place. This is supported by clearly defined Board roles and constructive dialogue within and outside of meetings. The division of responsibilities across the Board is explained on [page 142](#).

With one of the key responsibilities of the non-Executive Directors being to challenge and provide counsel, it is deemed appropriate that relationships can be built across different levels of SSE. The Board therefore has unfettered access to senior leadership, their teams and specialist functions. For details of employee engagement and knowledge development in 2021/22 see [pages 137 to 139 and 148](#).

Structured meeting agendas are developed by the Chair, Chief Executive and Company Secretary, around an agreed annual plan of Board business and the current status of projects, strategic workstreams and the overarching operating context. Adequate time is allocated to support effective and constructive discussion, and guidance is available to authors and presenters of Board materials. An electronic meeting portal allows efficient navigation of papers, information and requests.

Prior to every Board meeting, the non-Executive Directors meet without the Executive Directors present. This allows any issues surrounding meeting business to be raised in advance of full Board discussion. Further time is set aside at the end of every meeting to capture any emerging areas for non-Executive focus.

Board meetings in 2021/22

In the period to 31 March 2022, there were six scheduled meetings of the Board with update calls in alternate months to maintain coverage of key business developments, emerging issues and opportunities. Arrangements remain in place should a Board decision or approval be required outside these times.

Across the year, Board meetings were conducted in line with applicable government guidance, with the physical element returning when it was safe to do so. Details of Board meeting activity in 2021/22 can be found on [pages 126 to 133](#).

	Board	Nomination Committee	Audit Committee	EMRC	SSHEAC	Remuneration Committee
Number of meetings held	6	6	4	5	4	5
Sir John Manzoni	6/6	6/6		5/5	4/4	5/5
Alistair Phillips-Davies	6/6					
Gregor Alexander	6/6			5/5		
Martin Pibworth ¹	6/6			5/5	1/1	
Tony Cocker	6/6	6/6	4/4	5/5	4/4	
Dame Elish Angiolini ²	4/4	4/4			3/3	3/3
Dame Sue Bruce ³	5/6	6/6				5/5
Debbie Crosbie ⁴	4/4	4/4	1/1	1/1		
Peter Lynas	6/6	6/6	4/4			5/5
Helen Mahy	6/6	6/6	4/4		4/4	
Melanie Smith	6/6	6/6		5/5		4/5
Dame Angela Strank	6/6	6/6			4/4	5/5

1 Martin Pibworth joined the SSHEAC on 1 January 2022.

2 Dame Elish Angiolini joined the Board and Nomination Committee on 1 September 2021, the SSHEAC on 26 October 2021 and Remuneration Committee on 15 November 2021.

3 Dame Sue Bruce was unable to join the 2021 July Board meeting and Melanie Smith was unable to attend the 2021 July Remuneration Committee meeting – both were due to unavoidable personal matters. Full comments on meeting packs were provided in advance to the Company Secretary and Chair.

4 Debbie Crosbie joined the Board and Nomination Committee on 1 September 2021 and the EMRC and Audit Committee on 23 February 2022.

Board leadership and company purpose continued

Strategic review and Board focus in 2021/22

The following pages provide an overview of the breadth of Board work across meetings in 2021/22. This profiles both the **review and reset of SSE's long-term strategic ambition** and the **Board's continued oversight of strategic delivery** which, together, represent the suite of strategy-related principal decisions taken in the year.

Resetting strategic ambition

On 17 November 2021, SSE announced a strategic update through its Net Zero Acceleration Programme (the Programme). The Programme was the result of a robust review process conducted by the Board, which considered: SSE's integrated business model of market-based and economically-regulated; the growth opportunities

available across this mix; alongside the full range of strategic and structural alternatives. This included options for disaggregation or 'break-up' of some elements of the SSE Group. Each phase of the review was governed in line with the Board's responsibility for setting SSE's strategy and promoting long-term value for

all stakeholders. Further details of the principal decisions and considerations in 2020/21 which formed the backdrop to work in 2021/22, can be found on [pages 106 to 109](#) of [SSE's Annual Report 2021](#).

Previously agreed strategic objectives

Five-year £7.5bn capex plan to 2025

>£2bn non-core disposal programme to Autumn 2021

Five-year dividend plan to March 2023

Review of strategic situation

APR MAY JUN JUL AUG SEP

Inputs:

- Five-year financial outlook
- 2021/22 budget
- Annual strategy review preview
- Biannual broker session
- Group Principal Risk work

Assessment of strategic options

MAY JUN JUL AUG SEP

Inputs:

- Annual Group Strategy sessions
- Business Unit presentations
- Externally-facilitated sector analysis
- Board deep dives

Incorporating external views and challenge

AUG SEP OCT NOV

Inputs:

- Shareholder Engagement sub-Committee insights
- External advisor analysis and findings

Governing strategic execution

NOV DEC JAN FEB MAR

Inputs:

- Board review of progress
- Re-alignment of supporting governance and frameworks
- Continued stakeholder and shareholder engagement

Net Zero Acceleration Programme

More on pages 4 to 5

AUG SEP OCT NOV

Fully-funded
£12.5bn
capex plan
to 2026

Business Unit capital allocation

- Renewables
- Networks
- Thermal/other



Robust funding structure
~4.5x
net debt to EBITDA ratio

Growth enabling dividend plan to 2026

2031 targets including **1.5°C** science-based targets

Review of strategic situation

APR MAY

In May 2021, the Board confirmed within SSE's preliminary results statement, that it intended to assess significant and emerging potential capital and investment opportunities, across the coming months, which were not reflected in the previously agreed £7.5bn capital investment plan. This

decision was supported by the agreed capital investment being largely contracted; the strength of execution across the £2bn non-core disposal programme; and preliminary analysis of SSE's short, medium and long-term strategic situation as part of the Board's ongoing strategy review work.

With the existing dividend plan set to March 2023, the Board had further indicated it would provide an update on the approach to shareholder remuneration beyond the current dividend plan by May 2022.

Assessment of strategic options

MAY JUN JUL

Through dedicated sessions across May to July 2021, the Board confirmed SSE's strategic progress, and based on this position, engaged in targeted debate to agree further strategic opportunities for analysis and refinement. The robust quality of the information to support this phase of Board discussion was assured through a broad range of inputs. These included external energy sector analyses and dedicated work from specialist internal teams including Corporate Finance, Energy Economics, Business Unit Leadership and Group Strategy.

An overview of the topics which shaped Board debate across May to July 2021 is set out below.

- **Purpose and long-term shape of the Group**

The Board considered and reaffirmed the continued role of SSE's purpose and strategy focused on a core of low-carbon electricity infrastructure against the growing external importance of a net zero transition by 2050. This considered views on decarbonisation of

the power sector, covering: technology, security of supply and energy markets; the current policy and regulatory framework to support the sector transition; the competitive landscape; and Business Unit-specific roles and trends. Further details of the key trends within SSE's external operating context can be found on [pages 28 to 31](#).

- **Capital allocation, long term growth opportunities and strategic choices**
Substantive discussion covered net zero-linked growth options to 2050 and the view of risk-adjusted returns across SSE's current markets, pipeline and technologies. This further tested the synergies and optimum balance across the business mix to confirm where maximum value could be created; the overall fit of available long-term strategic trajectories; SSE's capability and competencies; and the strength of the existing platform for overall long-term growth across geographies, including internationally.

- **Funding and financial strategy**
Modelling and analysis assessed the sources of funding available to pursue strategic options, retain financial stability and support strong investment grade credit and credit capacity. It also considered funding for each growth opportunity, across a range of valuation scenarios and time-horizons. This further evaluated the ability to retain optionality and seize future opportunities whilst delivering sustained long-term shareholder value.

On an ongoing basis, strategic work is supported through Board participation in deep dives which cover sector specific issues and matters of potential strategic significance. These sessions are facilitated by internal and external subject matter experts. Further details of sessions held in 2021/22 are covered on [page 148](#).

Incorporating external views and challenge

AUG SEP OCT NOV

Wider stakeholder views

Stakeholder views are gathered through an extensive network of strategic engagement across SSE as explained on [pages 32 to 39](#), and within the framework set by the Board described on [page 134](#).

Across the strategic review process, the position of SSE's six key stakeholder groups was incorporated across each of the long-term pathways, with an explanation of how the Programme embodies the optimal outcome for all set out overleaf.

External analysis of SSE's appraisal

In addition to internal debate, the Board engaged external legal and financial advice to test the key elements of the identified strategic options. To preserve objectivity, two independent workstreams were created. One led by financial advisors from SSE's brokers and the other led by an independent financial advisor. The findings of each workstream were presented separately to the Board. The work was concluded over a phased three month period to allow the Board to fully appraise the respective evaluations and reflect on the priorities gathered by an agreed Shareholder Engagement sub-Committee (see [page 128](#)).

The scope of the external analysis across this period covered:

- Total Shareholder Returns of different strategic alternatives.
- Growth optionality and potential across Business Units.
- SSE's investment case and business model valuation.
- Financing, credit profile and the ability to fund growth.
- Dis-synergies and separation costs which were verified by an independent external advisor.
- Disruption to execution of investments critical to net zero.
- Wider impacts on stakeholders.

Board leadership and company purpose continued Strategic review and Board focus in 2021/22 continued

ENGAGEMENT IN ACTION SHAREHOLDERS AND DEBT PROVIDERS



ENGAGING WITH SHAREHOLDERS ON LONG-TERM PRIORITIES

The Board regularly monitors shareholder views, market sentiment and share price performance through monthly updates from the Executive Directors, the Company Secretary and Director of Investor Relations, and via feedback from shareholder meetings which may have also been attended by any member of the Board. This is supported by the formal and separate collation of market and investor data from SSE's brokers which is presented to the Board at least twice a year.

Full details of the standing programme of shareholder engagement is set out on [pages 135 to 136](#) , with shareholder views providing a crucial backdrop to the full range of Board deliberations.

To enhance monitoring of stakeholder feedback and public commentary, the Chair initiated a dedicated Shareholder Engagement sub-Committee. The role of this sub-Committee was to ensure equitable understanding of

shareholders' priorities relating to the long-term shape of SSE, and to deliver an increased speed of feedback to the Board. The sub-Committee met weekly outside of agreed Board meetings, was led by the Chair of the Board, and comprised at least 50% independent membership.

Engagement methods which the sub-Committee oversaw in this period included the offer of meetings to SSE's largest shareholders – representing around 40% of SSE's issued share capital – and proactive monitoring of the normal communication channels which remained open to all shareholders. Some of the key insights which were directly addressed in the Board's considerations are set out opposite.

In addition to its engagement role, the sub-Committee monitored SSE's share register and assessed ongoing disclosure obligations, with support from SSE's Group Disclosure

Committee, reviewing both the internal information position and external commentary across media and analyst notes across the period to November 2021.

To date, the sub-Committee has remained in place, and intends to meet as required to support an enhanced frequency and co-ordination of shareholder soundings on strategic matters following announcement of the Programme. The role and requirement for the sub-Committee will remain under review throughout the initial phase of execution in 2022/23.

Identified shareholder priorities

- Long-term value creation
- Balance and stability of growth options
- Transparency over funding and capital allocation
- Clear investment proposition



Net Zero Acceleration Programme

NOV

In November 2021, the Board was satisfied with its strategic assessment, including the level of scrutiny and challenge which had been applied to confirm the opportunities and risks across the available options. In concluding the Programme was the correct pathway in the next phase of growth for SSE, the Board assessed the following outcomes for long-term success and each of SSE's six key stakeholder groups.

• Sustainable long-term growth

Delivering on growth opportunities across SSE's core electricity infrastructure businesses is the fundamental long-term driver of value. This would be best achieved through balance sheet strength and funding options, derived from a re-balancing of the mix of market-based and economically-regulated businesses through a minority networks stake sale.

• Shareholder value and ESG

SSE's business mix continues to support a clear ESG investor story, with total long-term shareholder returns maximised from earnings and asset value growth across net zero-orientated opportunities. Recognising the importance of shareholder remuneration through dividends, a rebased dividend at an absolute level with attractive growth was deemed as the correct balance to meet the needs of those who invest for sustained annual returns, whilst promoting continued long-term success. The Programme also highlights that a minority networks stake sale will rebalance the expected allocation of capex across SSE's businesses over the longer-term, and retains SSE's ability to harness

the significant growth opportunities to SSE's networks businesses, as investment in national critical infrastructure remains central to the net zero transition.

• People, skills, capability and culture

SSE's greatest asset is the experience and expertise of its employees, and the Programme continues to champion SSE's principles for providing and creating good, green jobs (see also [page 60](#) ). The assessment of break-up scenarios concluded substantial dis-synergies, a loss of the shared services and capabilities that SSE's electricity-focused business mix provides, and an impact on culture. Significant disruption would see cost and uncertainty to the business, its people, partners and counterparties, leading to project delays.

- **Energy affordability and customers**

The Programme addresses the material issue of energy customer affordability through investment in indigenous, low-carbon power sources and flexible solutions that will help reduce reliance on the imports which are driving the current gas crisis. SSE's customer businesses, meanwhile, remain an important route to market for, and supplier of, low-carbon energy.

- **Accelerating the net zero transition**

The Programme would enable the delivery of Government policy objectives aligned to net zero, including: around 20% of the UK's 50GW offshore wind target by 2030; 20% of upcoming UK electricity networks investment; and critical options for the 20GW low-carbon flexibility to ensure security of supply by 2030, all of which are central to decarbonisation of the power sector by 2035.

- **Projects society requires for net zero**

Other scenarios, including 'break-up' or separation of some elements of the Group, such as SSE's renewables business, would see loss of scale, reduced capital structure and a weaker credit position; negatively impacting the ability to fund larger scale projects and denying growth options across the value chain, in areas such as carbon capture and storage, hydrogen and distributed energy solutions, amongst other emerging technologies. These projects are critical for society to transition to net zero through enhanced renewables deployment and system balancing.

- **Suppliers, contractors and partners**

Well-chosen equity partnering is a key element of SSE's strategy, with a proven ability to spread project risk and financial exposures, manage net debt, secure developer premiums and benefit from third party experience. This provides the

opportunity to accelerate SSE's growth plans and capture further opportunities at home and abroad. By extending the approach to SSE's network businesses through minority stake sales, the Group optimises the investment in, and growth from, market-based and economically regulated businesses whilst fully funding the investment and expecting an investment grade credit rating to be maintained. Meanwhile, the development pipeline will continue to present opportunities for local and national suppliers, support competitive domestic supply chains and support continued engagement on cutting scope 3 activity.

Governing strategic execution

NOV DEC JAN FEB MAR

The Programme sets out quantifiable deliverables to 2026 and is further supported by a set of ambitious targets to 2031. Together these represent strategic outcomes underpinned by core sustainability objectives, including the renewal of SSE's greenhouse gas emission targets to align with a 1.5°C pathway as approved by the Science Based Target initiative. The result is a comprehensive framework against which the Board can monitor and incentivise progress with clear criteria for Business Unit decision-making. In line with this, reporting to the Board has been re-aligned with the agreed ambitions and timelines.

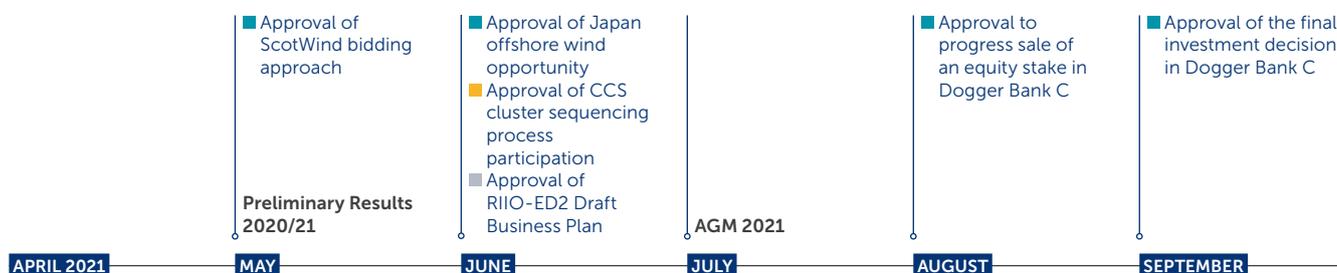
To support execution of the Programme, a number of governance-based decisions have been taken, and workstreams initiated, which are covered in detail across respective sections of the Annual Report. These include:

- Board approval of revised 2030 Goals (see [page 130](#) .
- Board approval of SSE's Net Zero Transition Plan (see [page 130](#) .
- Board support for SSE's sustainable investment criteria and Large Capital Project Framework (see [page 133](#) .
- Board approval of a revised Employee Guide to SSE's Strategy (see [page 138](#) .

- Board oversight of SSE's Just Transition Strategy (see [page 132](#) .
- Nomination Committee review of leadership, talent, succession, inclusion and diversity, and culture (see [pages 145 to 151](#) .
- Remuneration Committee review of SSE's Remuneration Policy including performance-related metrics and targets (see [pages 136 and 168 to 171](#) .

Board leadership and company purpose continued
Strategic review and Board focus in 2021/22 continued

Overseeing strategic delivery



	What did the Board consider?	What did the Board discuss and approve?
Seizing renewables growth 	<p>Opportunities to support the growth of SSE Renewables and to maintain a sustained pipeline of development opportunities.</p>	<ul style="list-style-type: none"> Parameters for participation in ScotWind, the Crown Estate Scotland's offshore wind seabed leasing process. The rationale and approach to pursuing international opportunities in Japan, Denmark, North America and Southern Europe. Sale of a 10% equity stake and Final Investment Decision for Dogger Bank C.
Powering communities to net zero 	<p>The correct ambition and strategic outcomes under SSEN Distribution's Business Plan for the price control period from 2023 to 2028 (RIIO-ED2).</p>	<ul style="list-style-type: none"> The RIIO-ED2 Final Business Plan and proposal to invest around £4bn, create 850 jobs, and ensure a fair and just transition to net zero, with no proposed increase in distribution costs on customer bills across the price control period as part of the Plan.
Supporting a successful energy transition 	<p>The role of low-carbon technology within SSE's generation portfolio and the GB energy market, together with the emerging policy framework.</p>	<ul style="list-style-type: none"> The submission of the required information to participate in the Government's CCS cluster sequencing process. The policy framework and proposed business models to secure development of low carbon infrastructure in industrial clusters.
Redefining 2030 Goals 	<p>A set of refreshed 2030 business goals against which to monitor strategic progress, with clear and continued linkage to sustainable outcomes, meeting the strategic objective to create value for both shareholders and society.</p>	<ul style="list-style-type: none"> The continued alignment of SSE's business objectives with the UN Sustainable Development Goals. Four new stretching business goals consistent with the ambition of the Net Zero Acceleration Programme.
A Net Zero Transition Plan 	<p>A Net Zero Transition Plan, in line with commitments made in July 2021, to enable SSE's shareholders to vote on its first Net Zero Transition Report in July 2022.</p>	<ul style="list-style-type: none"> The clarity of targets and actions contained in the Net Zero Transition Plan, and governance arrangements to ensure ongoing Board oversight. SSE's explicit stated ambition to achieve net zero emissions for scopes 1 and 2 by 2040, the detail on how it might achieve it and the significance of security of supply considerations.

2030 Goals



Cut carbon intensity by 80%



Increase renewable energy output fivefold



Enable low-carbon generation and demand



Champion a fair and just energy transition



What were the material stakeholder considerations?

SSE's six key stakeholder groups

[More on pages 32 to 39](#)

- Strategic proposition.** To ensure an acceptable investment case, the opportunities and risks of each project are assessed across a range of criteria, including: fit with strategy; geographic and market economics; policy and societal context; revenue certainty and future return profile.
- Risk and portfolio diversification.** Diversification across geographies and technologies creates optionality, mitigates development risk, and exploits existing in-house capabilities.
- Stakeholder approach.** The methodology used by SSEN Distribution to co-create its business plan with stakeholders, supported by evidence of how insights were shaping goals, ambition and allowances across the phases of development.
- Addressing customer needs.** The outputs and performance levels to deliver on stated customer priorities, including customer service, network reliability and inclusive support for those who are vulnerable, whilst ensuring affordability for all.
- Strong strategic fit.** The Government's ambition and policy framework through its cluster sequencing process, provides a clear opportunity for SSE's planned low-carbon thermal projects at Keadby and Peterhead, which continue to leverage SSE's existing capabilities across the energy value chain. The potential to repurpose existing assets in historically carbon-intensive areas remains a strong fit with leading a just transition and delivering socio-economic benefit.
- Full stakeholder benefit.** The ability of SSE's 2030 Goals to deliver value for both shareholders and society; by driving towards net zero at pace, and in a socially just way.
- Embedded in culture.** Employees and Business Units continue to embrace the 2030 Goals as a long-term vision and symbol of SSE's commitment to delivering social value through business operations. The alignment to the UN Global Goals framework influences the way SSE operates and the processes it embeds, including SSE's Sustainable Procurement Code and the sustainable investment criteria for Large Capital Projects.
- Alignment and expectations.** The pathways identified by the International Energy Agency and the UK Government for when the power sector generally should reach net zero, and the influence this will have on stakeholders seeking clarity surrounding how SSE intends to move towards achieving its net zero ambitions in both 2035 and 2040.
- Creating lasting value.** A key commitment in the approach to ScotWind was the delivery of local economic and social benefit through supply chain, education and community investment, in addition to supporting high carbon activities transition across to the offshore wind sector.
- Synergistic partnering.** SSE's approach to partnering looks at combining complementary skills, this includes matching SSE's development experience with local knowledge of business and culture.
- Delivering for net zero.** The level of strategic investment required to enable a smart, flexible and net zero energy system which meets local needs and delivers long-term societal benefit. This included the increased capacity required to connect low carbon technologies such as electric vehicles and heat pumps across the transport and heat sectors.
- A deliberate energy mix.** Flexible thermal generation remains critical in the transition to net zero in an energy system which increasingly comprises renewable sources. A balanced and secure energy system that delivers for all end users requires diversity, and firm generation can provide this by addressing the intermittency of wind output.
- Clear tracking of progress.** Shareholders engage constructively on SSE's 2030 Goals, citing the importance of quantifiable criteria and meaningful linkage including when considering remuneration metrics. A key consideration was therefore how to strengthen their impact in line with the next phase of SSE's growth.
- Societal backdrop and context.** The energy affordability crisis and the importance of explaining how the transition to net zero can make a value for money contribution to long-term energy affordability.

Board leadership and company purpose continued

Governing SSE for long-term success

Supporting the work on long-term strategic direction, agenda focus areas have comprised the matters required to ensure effective performance and governance of SSE. These topics are diverse and draw on the schedule of reserved matters, SSE's culture and values and the immediate operating context.

Strategy and performance

Safety, health and environment (SHE)

- Considered the application of SSE's safety value in developing the correct coronavirus protocols, support, and advice to ensure a safe working environment for all employees.
- Reviewed key indicators of SHE performance and initiatives to maintain focus on SHE culture, including a reset of SSE's 2022+ vision 'Home Safe'.
- Identified learnings from the operating context, including the front-line challenges of working in storms and the importance of continued focus on wellbeing and mental health.

SSE's Business Units

- Monitored Business Unit performance and strategic ambition through presentations from business leadership teams, and standing updates from the Executive Directors (see [pages 124 to 125](#)).
- Appraised the digital priorities proposed by each Business Unit and SSE's Group Services to ensure continued development of future capability and delivery of service for SSE's customers.
- Monitored business compliance performance in line with applicable legislative and regulatory frameworks and received updates on relevant inquiries.
- Reviewed network performance and SSEN's operational response during extreme weather events, including faults, engineering response, stakeholder communication and community support.

Operating context

- Received regular updates on commodity markets and counterparty positions; reviewing SSE's exposures and the continued governance discharged by the EMRC.
- Interrogated SSE's engagement plans as part of its role as Principal Partner of COP26, including its work with KPMG on the Hindsight is 2050 Vision report.
- Monitored developments in policy and the political landscape considering the impact on SSE's operations, long-term strategy and its key stakeholder groups; approving advocacy priorities that address energy market flexibility, security and affordability, and provide a resilient pathway to developing, building and connecting the infrastructure needed for net zero.
- Received a dedicated update on weather, covering: the observed events of 2021/22; the latest short-term forecast; climate change attribution studies; and analysis of warming scenarios, against the backdrop of SSE's asset performance and strategic plans.
- Reviewed the CMA's final determinations in SSEN Transmission's appeal against certain elements of Ofgem's RIIO-T2 price control settlement.

Sustainability

- Approved priorities to support sustainable business operations and decision-making across SSE including: accelerating SSE's science-based greenhouse gas emission targets; publication of a Net Zero Transition Plan; and the revision of SSE's 2030 Goals (see [pages 130 to 131](#)).
- Approved the focus and work undertaken to support a just transition to net zero, concentrating initially on the experience of working people transitioning from high to low carbon careers.
- Reviewed SSE's approach to reducing the risk of human rights abuse in its business and supply chain, approving SSE's Modern Slavery Statement, and continuous improvement plan co-developed with independent experts Stronger Together.
- Reviewed, clarified and monitored the governance pathways for all identified environmental, social and governance (ESG) topics assessed by ESG ratings providers.

SSE's key stakeholders

[More on page 134](#)

Financial management

Financial performance

- Monitored the financial performance of each Business Unit, and the Group, judging variance against budget and reviewing the latest financial forecast against analyst consensus and market guidance, approving updated EPS guidance as required.
- Approved and recommended half and full-year dividends of 25.5p and 60.2p respectively for 2021/22.

Capital investment

- Assessed capital expenditure and investment against strategic plans using revised project reporting and delivery indicators.
- Approved revised parameters for project investment case analysis.

Financial planning and funding

- Approved the 2022/23 budget which reflected strategic growth, large capital project plans and job creation; and reviewed the long-term financial model following updates to assumptions and outputs, in line with progress delivered and changes in SSE's external operating context.
- Reviewed net debt and Audit Committee funding work and oversaw the annual ratings review process in support of maintaining a strong balance sheet and investment grade credit ratings.
- Confirmed the funding and management of SSE's pension schemes.

Risk and internal control

Coronavirus resilience

- Evaluated SSE's resilience to the coronavirus pandemic across people, business operations and financial position, assessing the command structure which supported agile response plans.
- Endorsed lessons learned and testing of high consequence crisis management scenarios against business continuity plans.

Risks, viability and internal controls

- Reviewed and approved the methodology and findings of the Group Principal Risk and emerging risk assessment supporting SSE's Risk Appetite and risk disclosures (see [pages 68 to 81](#)).
- Confirmed the output of the assessment which forms the basis of SSE's Viability Statement (see [pages 70 and 156](#)).
- Confirmed the ongoing effectiveness of SSE's System of Internal Control (see [page 161](#)).
- Evaluated the external cyber security context alongside SSE's cyber risk appetite, security culture and strategy.
- Affirmed SSE's data privacy programme through review of GDPR metrics, controls and risk management maturity.

Large capital projects

- Reviewed the outcome of, and contributed to, an independent review of SSE's Large Capital Projects Governance Framework to support the continued safe and timely execution of approved project plans, sustainable outcomes and delivery of shareholder value.

Governance

Shareholder communications

- Approved the contents of 2021/22 trading statements, Half-year Results, the Annual Report and Accounts, and supporting regulatory announcements; considering feedback from the Audit Committee on significant judgements, fair, balanced and understandable, and the going concern basis of preparation to ensure integrity of reporting.
- Approved the notice and business of the Annual General Meeting 2022 including resolutions relating to SSE's Remuneration Policy and Net Zero Transition Report, endorsing a hybrid meeting to support shareholder participation.

Board and Board Committees

- Monitored Nomination Committee work on Board composition, succession planning and wider capability, approving, subject to ongoing shareholder approval: the appointment of Dame Elish Angiolini, Debbie Crosbie and John Bason as new non-Executive Directors; the re-appointment of Melanie Smith and Helen Mahy for a further three-year period; and the extension of Dame Sue Bruce's tenure to 31 March 2023.
- Approved updates to Board Committee membership and the succession plan for Non-Executive Director for Employee Engagement and Remuneration Committee Chair.
- Approved the enhanced role of the SSHEAC surrounding sustainability governance (see [page 166](#)).
- Approved updates to SSE's Board Inclusion and Diversity Policy (see [pages 150 to 151](#)).
- Reviewed the findings of the external evaluation of Board performance (see [pages 143 to 144](#)).

External developments

- Reviewed current and future governance developments and supported SSE's consultation responses on audit and corporate governance reform and listing rule updates surrounding inclusion and diversity reporting.

People and culture

Wider workforce remuneration

- Received updates from the Non-Executive Director for Employee Engagement and Chief Commercial Officer on constructive dialogue with trade unions on the approach to employee pay.

Ways of working

- Supported the strategy for future ways of working including locational flexibility to match employees' needs, and communications to maintain engagement and culture.

Doing the right thing

- Approved updates to SSE's employee resource 'Doing the Right Thing; SSE's guide to good business ethics' to reflect flexible working practices, the role of people leaders in embedding ethical behaviour, and to simplify messaging surrounding support channels including speak up and aftercare protocols.
- Reviewed employee sentiment on willingness to report unethical behaviour, engagement in whistleblowing arrangements, incident trends including the impact of remote working on case numbers, and future focus areas; assessing and confirming the continued effectiveness of SSE's whistleblowing arrangements.

Employee views and engagement

[More on pages 137 to 139](#)

Focusing on culture

[More on pages 140 to 141](#)

Climate on the Board's agenda

SSE's purpose, vision and strategy are fully aligned with net zero; supporting the delivery of low-carbon infrastructure and the energy solutions required for an orderly net zero transition. The physical and transitional risks and opportunities to SSE, associated with climate change, is therefore not a singular agenda item. Climate is a topic embedded across all areas of Board work.

Long-term considerations, including those trends within the operating context that have the potential to influence strategic direction, and affect the views and needs of stakeholders, are all couched in the possible pathways to net zero.

This includes changes in policy frameworks and energy regulation; how commodity markets may react within a changing energy mix; the impact of climate change on weather; the role of innovation and technology within SSE's asset base and in changes to customer behaviour; and investor views of SSE's investments and business model.

In turn, the framework set by the Board based on its view of these climate-related issues, includes strategic targets, business goals, the approved budget, net zero consistent investment criteria, risk-based parameters including SSE's Risk Appetite, and SSE's approach to stakeholder engagement.

These represent just a few of the areas which are evidenced across [pages 126 to 133](#).

Board leadership and company purpose continued

Considered decision-making

Decision-making context

The Board has an ultimate duty to lead by example and set the correct tone to ensure decisions within SSE are taken in a responsible and fair way. SSE's Governance

Framework represents the backdrop for this, with the Board confirming ambitions, key parameters and expectations to drive long-term success. These include SSE's

purpose, vision, strategy and culture and the approach to reflecting stakeholder views within long-term plans and day-to-day operations.



Engaging with stakeholders

The Board sets the framework within which stakeholder relations are developed and maintained, establishing why SSE interacts with its stakeholders and how views should be considered at both a Business Unit and Group level. The identification of SSE's key stakeholder groups and the purpose of stakeholder engagement are therefore Board-approved principles, which are explained on [pages 32 to 33](#).

To ensure meaningful reflection of stakeholder views across SSE's operations and actions, breadth and depth of stakeholder engagement is required. The Board is supported in the scale of this activity by a network of mature executive and business-led stakeholder contacts, with oversight and understanding of views achieved through both direct engagement and reporting of below-Board

activity. This allows the timely recognition of emerging stakeholder issues, with Board engagement complementing the expectation that senior leadership and SSE's Business Units take demonstrable account of stakeholder opinion in their decisions and longer-term objectives.

Addressing stakeholder priorities

Reflective of SSE's approach, the response to stakeholder priorities across business plans and within Board work is represented across the Annual Report. In the context of the Board-level principal decisions on [pages 126 to 131, 150 and 169](#), insight is provided surrounding the material stakeholder factors which shaped deliberations. Totemic issues with multi-stakeholder impact, such as the climate emergency, coronavirus pandemic, energy affordability and security of supply remain a backdrop to all Board work.

Looking ahead, the delivery of SSE's Net Zero Acceleration Programme will provide a focal point for stakeholder engagement across 2022/23, and will be supplemented by the following Board-identified priorities.

- Advocacy on energy system design to future proof a net zero transition that supports customers' needs.
- Two-way dialogue with employees on their role within SSE and net zero, and support for SSE's IN, ON and UP inclusion and diversity strategy.
- Active engagement with all stakeholders on SSE's view of a fair and just transition.
- Diversity of opinion and challenge on SSE's long-term strategic direction and approach to environmental, social and governance matters, through external soundings.

Working for stakeholders

More on pages 32 to 39

Shareholder and debt providers

Gathering views

The Board engages with equity and debt investors to help inform strategic decision making, communicate SSE's sustainable business plans, and report on environmental, social and governance (ESG) and financial performance. Engagement by the executive team is led by the Chief Executive and Finance Director with participation from the Chief Commercial Officer and other members of the Group Executive Committee, and focuses on financial and business performance in executing SSE's strategy. Engagement by the Chair leads on corporate governance, strategy development and people, with support from the non-Executive Directors.

Open and regular dialogue remains the foundation to the Board's approach, with managed communication channels in place for all to use (see [page 355](#)). In addition, the Board, executive management and the Investor Relations team proactively engage with investors through an annual programme of activity, and ongoing communication with analysts, proxy advisors, ESG ratings agencies and financial ratings agencies helps improve disclosure and allow stakeholders to better assess SSE's performance.

Institutional investors

Collectively, in 2021/22, the Board engaged directly with institutional investors representing over 40% of issued share capital. The programme of engagement – which encompassed 153 one-to-one sessions with investors – was mainly focused across three periods: the Full-year Results Roadshow; the period ahead of the Net Zero Acceleration Programme; and the Half-year Results and Strategy Roadshow thereafter. In addition to dedicated engagement surrounding long-term strategic direction (see [page 128](#)), specific feedback was sought on the proposed Remuneration Policy, and following appointment as Chair, Sir John Manzoni proactively engaged with many of SSE's largest shareholders to establish a first-hand understanding of priorities and views on corporate governance.

Supplementing one-to-one engagement, the Executive Directors attended 15 industry conferences, mainly virtual, and held 23 group meetings which were attended by a number of shareholders and prospective investors.

Retail shareholders

To allow management of an individual's shareholding, SSE's investor website provides a source of equivalent information, housing all regulatory news announcements and published financial and non-financial reports. The Investor Relations team and the Company

Secretariat, with support from SSE's Registrar, engage directly with retail shareholders in response to private shareholding queries.

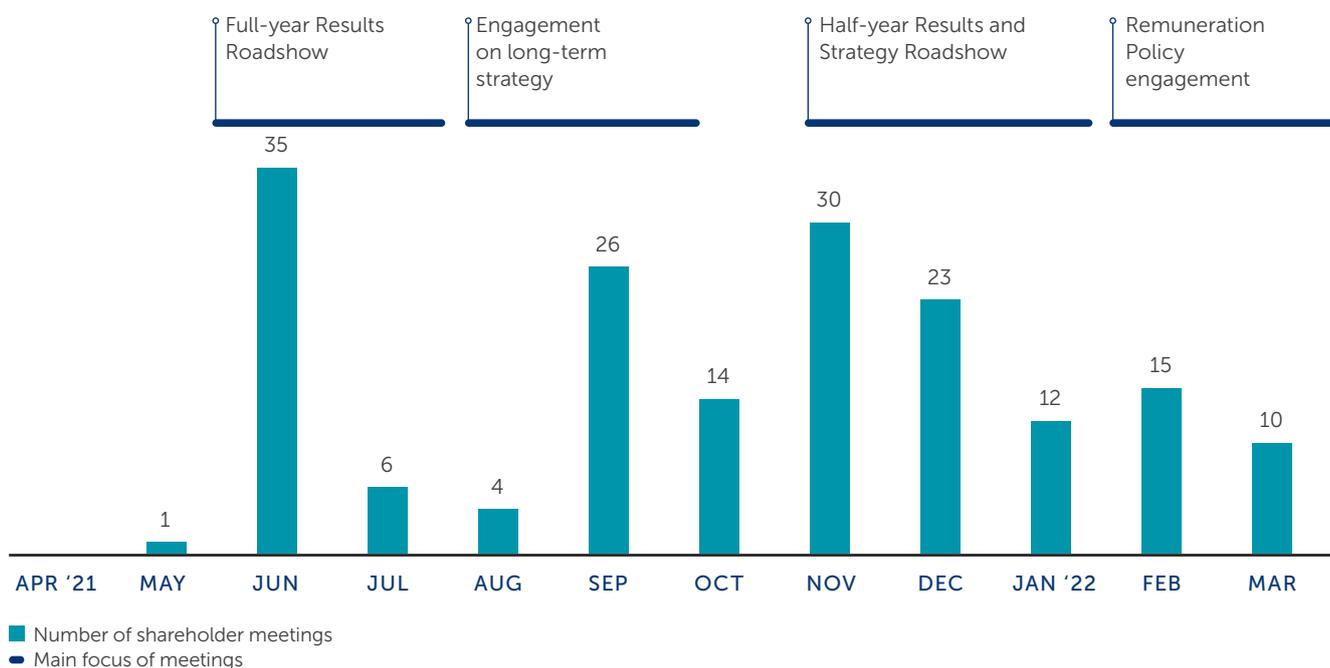
Annual General Meeting (AGM)

The Board encourages shareholders to participate in the AGM, and through shareholder approval, has introduced the necessary measures to hold a hybrid meeting in 2022. These arrangements allow full remote participation, with details of the business of the meeting and how to attend both in person and virtually set out in the separately issued Notice of AGM 2022. With all Directors available to respond to enquiries, questions are invited to be submitted both on the day and in advance. Answers to questions and the results of the meeting are published on [sse.com](#) as soon as practicable after the event. In 2021, all resolutions were passed with in excess of 94.87% votes cast in favour.

Debt investors

Engagement with solicited credit ratings agencies, being Standard & Poors' and Moody's, takes place throughout the course of the year, with increased dialogue ahead of the annual ratings review process and in line with Company related news flows. Regular dialogue is also maintained between key relationship banks, debt investors and SSE's Treasury team and the Finance Director.

CYCLE OF SHAREHOLDER ACTIVITY 2021/22



Board leadership and company purpose continued Considered decision-making continued

Sharing and interpreting feedback

The Board receives monthly updates on investor and financial market sentiment, providing insight into recent share price movements; a briefing on recent sell-side analyst commentary; and key monthly movements in the share register. This is covered through written reports and verbal feedback from meetings which have taken place.

The feedback provided by shareholders during and after Half and Full-year Results Roadshows is communicated directly to the full Board in a biannual shareholder feedback paper including updates from SSE's brokers.

The Board, through the SSHEAC, receives a full annual review of SSE's performance in investor-led ESG reviews and ratings. Key matters raised by shareholders during the period, considered across Board deliberations are set out on [page 35](#).

ENGAGEMENT IN ACTION SHAREHOLDERS AND DEBT PROVIDERS



SHAPING REMUNERATION POLICY

SSE's Remuneration Policy is subject to a three-yearly binding vote from shareholders, with it last approved at the 2019 AGM.

In February 2022, the Chair of the Remuneration Committee wrote to SSE's top 30 shareholders on the Register, as well as several advisory agencies. This set out that the Remuneration Committee was seeking to use the upcoming review cycle to further strengthen and align its approach to executive pay with SSE's purpose and long-term strategy, as directly supported by the Net Zero Acceleration Programme. The letter resulted in a number of written responses as well as virtual meetings

where views on the policy proposals were shared and discussed.

Shareholder responses were considered at the Remuneration Committee meeting at the end of March, and with agreement of the Committee, a further letter was sent to shareholders at the end of April. This reported the feedback which had been received to date and provided a summary of its response to the common themes raised.

Following approval at the Remuneration Committee meeting in May, this engagement with shareholders contributed to: a change to the proposed split of performance measures for the Performance Share

Plan – with more being financial than originally proposed; and a focus on the importance of stretching targets, with a suitable mix of quantitative and qualitative measures.

Furthermore, the engagement allowed the Remuneration Committee Chair to reassure shareholders that the proposed change to Policy wording does not represent a change in the current approach to pay, but provides greater flexibility for the future, with Executive Directors' salaries increasing by 3% with effect from 1 April 2022 in line with the negotiated pay increase for all employees.



Supporting and listening to the employee voice

How the Board engages

The two-way dialogue between the Board and employees is facilitated by a combination of engagement methods, including face-to-face discussions at meetings, during site visits and through attendance at employee events. During the coronavirus pandemic, where in-person meetings were not possible, engagement was enabled through virtual platforms to ensure continued contact with the employee voice.

These tools complemented the established annual all-employee survey and the Board's review of findings, and remain in place.

Across 2021/22, as coronavirus restrictions began to lift and when it was deemed safe to do so, the Board took the opportunity to reconnect in person, continuing to build on what had been achieved during periods of lockdown in maintaining engagement with employees.

The adoption of a diverse range of listening channels has been based on the principle that everyone in SSE should have a voice, and is consistent with employee feedback surrounding the benefit of multiple platforms through which to raise areas of interest or concern. In turn, it supports the Board in gathering a fair and representative view of the issues which are important to employees, and builds an appreciation of how these may differ by business area, role and geography.

Board listening approach

Engagement settings

All-employee setting

Offers a Board perspective which can otherwise be missed from business-led communications, and provides the Board with insight of employee opinion on life at SSE.

People leaders

Provides the opportunity to replay key messages which have been heard through listening channels, and supports and challenges management actions and response.

Senior leadership

Creates a platform for two-way interaction between senior leaders and the Board through which the Board can offer views and personal external perspectives.

Engagement methods

Director-employee sessions

Provides employees with Board accessibility and direct two-way interaction, supporting detailed discussion of specific topics.

Focus groups

Allows interaction with diverse geographies and cross-sections of employees, and being smaller in size, provides the opportunity to seek out added context surrounding employee sentiment through true conversation. The impact can be fast and influence decisions which may affect employees.

All-employee surveys

Exists as a long-standing tool with a mature strategy that attracts a strong response rate. The results are viewed as representative of the majority of employee voices, and the question set and findings shape the cultural agenda, ensuring that employee sentiment is considered in all key decision making.

Site visits by non-Executive Directors

Allows non-Executive Directors to travel across parts of SSE and feel the operational environment, enhancing understanding of employees' experience of their working environment. Site visits can be followed by informal roundtables to allow deeper two-way dialogue on matters of importance.

Blogs and written communications

Reinforces matters of importance and embeds the tone through the Board's written reflections.

Non-Executive Director for Employee Engagement

[More on page 139](#)

Engagement highlights

Board-led virtual engagement sessions

12

Total employee attendance at Board calls

22,068

Largest audience size

4,369

Non-Executive Director for Employee Engagement sessions

10

Sites visited

21

All-employee survey engagement score 2020/21

82%

Board leadership and company purpose continued Supporting and listening to the employee voice continued

Board response in 2021/22

SSE has continued to use technology together with in person meetings to allow large scale conversations to continue across Great Britain and Ireland. Discussions have been broad ranging and responsive to the changing status of the pandemic throughout the year, with focus on the specific topics outlined below.

Key themes 2021/22	Active Board engagement
<p>Strategy, net zero and climate change</p> <p>Why the Board engaged The Board acts in response to all-employee survey and call feedback, which cited a want to engage further with senior leaders on SSE's strategy and the drive to net zero.</p>	<ul style="list-style-type: none"> All-employee Climate Academy virtual calls, were hosted by the Chief Executive and the Chief Commercial Director. These were a key component of supporting COP26 activity and a direct result of employees' desire to understand SSE's net zero strategy in broader terms. The Chief Executive hosted employee engagement sessions with external experts including Chris Stark, Chief Executive of the Climate Change Committee and John Sauven, Executive Director of Greenpeace. In line with SSE's Net Zero Acceleration Programme, the Board approved an updated Employee Guide to Strategy, which was supported by the Chief Executive and Finance Director hosting a virtual people leaders session on SSE's growth ambitions. The Non-Executive Director for Employee Engagement attended a COP26 employee event hosted by SSE Distributed Energy, meeting with employees and many of SSE's Climate Pledge Team Captains who were advocating all-employee net zero commitments. The Chair of the SSHEAC judged SSE's graduate sustainability awards. The Non-Executive Director for Employee Engagement attended SSE Thermal Town Halls where employees discussed all-employee survey findings alongside the important role of the business in supporting SSE achieve its net zero ambitions.
<p>Inclusion and diversity</p> <p>Why the Board engaged The Board champions SSE's inclusion and diversity approach, and seeks broad insight surrounding the effectiveness of plans and initiatives in order to continually further progress.</p>	<ul style="list-style-type: none"> The Executive Directors and Melanie Smith hosted an all-employee call discussing inclusion and diversity and how SSE is taking actions to support progress. The Non-Executive Director for Employee Engagement met virtually with the heads of the 'Belonging in SSE' employee-led groups, which provide representation to, and champion discussion of: Menopause; Health and Wellbeing; Disability; Neurodiversity and Chronic Health; Black and Ethnic Minority; and Armed Forces. Priority areas which topped both the agenda and discussion were mental health and 'making the uncomfortable comfortable'. The Chair of the SSHEAC visited the Tealing Transmission Substation Upgrade to discuss inclusion and diversity and opportunities across technical roles, meeting with female engineers and gathering reflections of working for SSE and in a construction environment. The Chair and the Senior Independent Director met with Transmission and Distribution colleagues following a site visit and took time to understand their views on inclusion and diversity across SSE.
<p>Great place to work and ways of working</p> <p>Why the Board engaged The Board seeks views of employee needs in order to drive culture and meet expectations surrounding working practices; areas which were in sharp focus across the coronavirus pandemic.</p>	<ul style="list-style-type: none"> The Non-Executive Director for Employee Engagement presented virtually on the outcomes of the all-employee survey to people leaders, identifying clear accountabilities specific to that group. The Non-Executive Director of Employee Engagement met with colleagues in Airtricity, Ireland, to discuss the outcomes and action plans in response to the all-employee survey and understand sentiment around ways of working and returning to the office. An additional targeted survey was issued to all employees during the year to gather feedback and cultural trends on ways of working, which informed the Board's view of the flexible practices required to support employees and ensure inclusivity.
<p>Frontline operations</p> <p>Why the Board engaged The Board wants to ensure operational roles feel connected with SSE's engagement approach by listening directly to employees in the field.</p>	<ul style="list-style-type: none"> During the coronavirus pandemic a number of staff continued to maintain frontline operations due to the nature of their roles. In December 2021, the Chair and Chief Executive visited those working in the Perth Control Room, whilst they were dealing with the impact of Storm Arwen. Non-Executive Director site visits took place at the Alyth Transmission construction site, the Tealing Transmission Substation upgrade and the New Forest Depot with key takeaways being the care taken by frontline staff to preserve the local environment and wildlife whilst carrying out operations.

Non-Executive Director for Employee Engagement

The Nomination Committee oversees the recommended appointment of the Non-Executive Director for Employee Engagement, a role which Dame Sue Bruce has held since its inception in 2018. In the Nomination Committee's considerations, recognition was given to Dame Sue's depth of experience, active listening skills and empathetic approach. It was further

recognised that as Remuneration Committee Chair, relevant employee perspectives could be understood in the context of wider remuneration policy and the approach to reward.

The creation of the role remains a natural and progressive step in the evolution of SSE's employee voice strategy, providing an enhanced and more interactive understanding of employee sentiment.

Each year, the programme of work for the Non-Executive Director for Employee Engagement is structured and supported in collaboration with SSE's Group HR Employee Engagement Manager. The success of the role is measured in action, whereby the employee voice is consistently represented in meetings attended by the Non-Executive Director for Employee Engagement, allowing the views and opinions of colleagues to feature and contribute to discussions and decisions being made.

ENGAGEMENT IN ACTION EMPLOYEES



NON-EXECUTIVE DIRECTOR FOR EMPLOYEE ENGAGEMENT

I have been hugely grateful of the opportunity to re-connect with colleagues in person after the unique challenges which coronavirus presented across 2020/21. Recognising that virtual platforms provided an inclusive means of 'travelling' to different locations, we have retained a hybrid approach to engagement, delivering a more rounded and flexible means of keeping in touch with employee sentiment.

Work across the year has continued to support constructive engagement on employee survey results and business-led action plans – which saw a session with Airtricity colleagues in Ireland and a virtual employee-wide call; alongside new thought provoking sessions with the leads of Belonging in SSE Groups, which will be a biannual occurrence going forward. The essence of engaging, listening and sharing lived experiences cannot be captured through measured survey responses alone, and direct insights from colleagues is an invaluable way of deepening Board understanding of how our people feel.

Our dialogue remains two way and questions are always invited on Board-led developments. With SSE's strategy dependant on the collective skills of its diverse workforce I was able to share Board views in the lead up to COP26, meeting with Distributed Energy team members in Perth and attending virtual Thermal Town Hall sessions. A consistent observation is the personal commitment to SSE's purpose, and colleagues should continue to recognise the contribution they make to SSE's net zero ambitions.

From my constructive engagements, notable priorities which have been identified to support future work, and which have been reported to the Board, are:

- A continued pledge to support colleague wellbeing, with a particular focus on mental health for frontline workers.
- Confidence in levels of employee support as society continues to adapt to the evolving coronavirus pandemic.
- Focus on the value of SSE's 'Flexible First' working approach as a core enabler of employee engagement.
- A retained central focus on safety.

Meetings with trade union FTOs and JNCC colleagues, at least twice each year, have also continued, building on the foundations of a well-established relationship and supporting the formal industrial relations activities led by the executive team. This relationship is underpinned by openness, inclusivity and transparency whilst respecting our respective roles, allowing diverse views to be heard by the Board, in a pro-active and timely way. The collaborative role of Group HR ensures that responsive

business-led action can be channelled directly to senior leaders and informs the overall engagement approach.

I would like to reiterate the Board's pride in the continued achievements of our employees, and the strength of culture which is evident across our engagements.

Dame Sue Bruce
Non-Executive Director for Employee Engagement



“During our call Sue was inspirational and courageous, speaking very openly about the challenges she has faced. At SSE we encourage personal stories in striving to make the uncomfortable comfortable. Board engagement on this supports an inclusive workplace where diversity is valued and everyone can thrive.”

Vikki Mohammed
Neurodiversity and Chronic Health, Belonging in SSE Lead

Board leadership and company purpose continued

Focusing on culture

Aligning with purpose, vision and strategy

Company culture has internal and external influence; guiding interactions within SSE and directing decisions with stakeholder impact. This context is reflected within the Board-approved definition of a healthy corporate culture, which supports purpose, vision, strategy and long-term success, by setting a baseline against which cultural guidance can be developed and cultural indicators tested.

A **healthy corporate culture** is one in which SSE has a purpose, values and strategy that are respected by its stakeholders, and an operating environment that is inclusive, diverse and engaging; that encourages employees to make a positive difference for stakeholders; in which values guide decisions and actions; and in which attitudes and behaviours are consistent with high standards of conduct and doing the right thing.

Setting the tone

A healthy corporate culture is a shared deliverable, which starts with the Board setting the correct tone. This is supported through approval of SSE's values, and their translation into accepted attitudes and

behaviours within SSE's Group Policies and an employee guide 'Doing the Right Thing; SSE's guide to good business ethics', all of which are supported by mandatory training for everyone in SSE.

Leading by example is through the Board's own conduct and communication to employees of key Board activity. Senior leaders across SSE have the same responsibility to lead, embed and oversee cultural standards.

Culture is embedded at Board-level by:

- SSE's Governance Framework and practices (see [pages 124 to 125](#) .
- Board decision-making (see [pages 126 to 133](#) .
- People matters, appointments and succession planning (see [Nomination Committee Report](#) .
- SSE's risk, controls and compliance approach (see [Audit Committee and EMRC Reports](#) and [page 68](#) .
- Focus on safety, sustainability, health and the environment (see [SSHEAC Report](#) .
- Attitudes towards reward and remuneration (see [Remuneration Committee Report](#) .

Monitoring and measuring

The Board uses multiple sources to assess the strength of culture and understand how it manifests across employee sentiment,

observed behaviours and trends. These can be described as a combination of the below reported metrics, standing reports and listening channels.

- Feedback from Board-employee engagement.
- Non-Executive Director for Employee Engagement insights.
- Employee survey results.
- Twice yearly Cultural Dashboard review.
- Monthly people updates from the Chief Executive covering key developments and employee sentiment.
- Monthly compliance reporting from the Finance Director.
- Monthly safety and employee wellbeing data.
- Whistleblowing performance reports.
- SSE's Principal Risk 'People and Culture'.

The Cultural Dashboard remains a health check, comprising data from Group HR and Group Compliance. A key section, which is illustrated opposite, aligns measured employee survey feedback with people metrics and KPIs under cultural strands. This allows the Board to consider where there are deviations between what is being heard and underlying behaviours. There were no areas of concern raised in 2021/22, with the Board retaining oversight of ongoing culture-related workstreams through its wider agenda.



Employees such as these in SSE's Glasgow office are guided by the Company's values and an ethos of "doing the right thing".

Measuring cultural strands through our Cultural Dashboard

Our culture is determined by the way we...

Attract and retain people Work together Look after each other See ourselves Make decisions Manage performance Lead from the top

Reflected in the core themes of employee feedback...



Supported by key people metrics and KPIs...

Employee turnover 9.5%	83% of employees able to work flexibly	254 Safe Days	5 Climate Academy sessions attended by 4,000+ colleagues	90% Certification across mandatory eLearning courses	Sustaining Key Skills interventions attended by 10,036 delegates	40 Board-led employee engagements, including 10 Non-Executive Director for Employee Engagement sessions
3,195 vacancies filled	7 "Belonging in SSE" groups supporting over 6,000 colleagues	6.3 Sick days per head	>90% improved understanding of climate	47 employee contacts on Speak Up platforms		

Continually improved by cultural action plans and Board support in 2021/22...

Provided increased and direct support to talent development and SSE's IN, ON, UP approach (see pages 149 to 150 ).	In response to employee opinion, approved a 'Flexible First' hybrid working approach.	Site visits on safety and wellbeing continue to be conducted by the SSHEAC (see page 167 ).	Approval of the Net Zero Acceleration Programme and Refreshed 2030 Goals (see page 130 ).	Approved an enhanced and more accessible version of 'Doing the Right Thing' (see page 133 ).	Agreed that the revised Leadership Blueprint should remain cognisant of SSE's culture and inclusive to all future leaders (see page 149 ).	Board's approach to leading by example (see opposite).
Oversight of top leaver reasons; SSE's employer brand; and activity which communicates SSE's proposition to external candidates.	Engaged directly on the topic of inclusion and diversity with employees (see page 138 ).	Reviewed safety, health and wellbeing performance at the start of every Board meeting.	Directly supported employee communications on strategy (see page 138 ).	Continued focus on front line communications (see page 138 ).	Continues to oversee a leadership review which confirmed a strong, collaborative organisational environment in which there is trust and a want to support one another.	Board presence across SSE's full engagement approach (see pages 137 to 139 ).
				Reviewed SSE's whistleblowing performance (see page 133 ).		

See also culture on the Board agenda, [page 133](#) 

Promoting, monitoring and maintaining a healthy business culture, [page 62](#) 

Division of responsibilities

Division of responsibilities

Defining Board responsibilities

Through the Board Charter, the Board approves the clear division of responsibilities between the Chair and Chief Executive, in addition to defined role profiles for the Senior Independent Director, Non-Executive Director for Employee Engagement and non-Executive Directors. This is reflected in the below overview of key executive and non-Executive accountabilities, which support the integrity of the Board's operations.

Executive

Chief Executive

- Proposing and directing the delivery of strategy as agreed by the Board through leadership of the Group Executive Committee.
- Ensuring SSE's decisions and actions are sustainable in the long-term, through appropriate management, implementation and progress of sustainability interventions which support SSE's strategy and address material impacts including climate change.
- Communicating and providing feedback on the implementation of Board-agreed policies, and their impact on behaviours and culture, ensuring SSE operates in a way that is consistent with its values.
- Responsibility for the overall Group of businesses and leading the functions of: HR; Corporate Affairs and Strategy; and Sustainability.
- Engaging with SSE's six key stakeholder groups and leading on related activity at EU, International and UK level.

Finance Director

- Deputising for the Chief Executive.
- Proposing policy and actions to support sound financial management and leading on M&A transactions.
- Leading the functions of: Finance; Procurement and Logistics; Group Risk and Audit; IT and Cyber Security; Investor Relations and Company Secretarial; and the General Counsel areas of responsibility.
- Overseeing and reporting on SSE's networks businesses.
- Overseeing SSE's relationships with the investment community.
- Engaging with SSE's six key stakeholder groups and leading on related activity in Scotland.

Chief Commercial Officer

- Supporting the work of the Chief Executive and Finance Director.
- Leading SSE Renewables, SSE Thermal, Energy Portfolio Management, SSE Energy Customer Solutions and SSE Distributed Energy at Board level.
- Driving growth and commercial market risk activities for all of SSE's non-networks businesses at Group level.
- Leads executive relations with trade unions.
- Engaging with SSE's six key stakeholder groups and leading on related activity in Ireland and Northern Ireland.

Company Secretary

- Compliance with Board procedures and supporting the Chair.
- Ensuring the Board has high quality information, adequate time and the appropriate resources.
- Advising and keeping the Board updated on corporate governance developments.
- Considering Board effectiveness in conjunction with the Chair.
- Facilitating the Directors' induction programmes and assisting with professional development.
- Providing advice, services and support to all Directors when required.

Non-Executive

Chair

- Leading the effective operation and governance of the Board.
- Ensuring SSE's decisions are sustainable in the long-term, and the Group's approach to sustainability, including climate change, is addressed through strategic, operational and risk considerations.
- Setting agendas which support balanced decision-making.
- Demonstrating objective judgement and applying sufficient challenge to projects and proposals.
- Ensuring effective Board relationships and a culture that supports constructive debate.
- Communicating with major shareholders and key stakeholders to ensure the Board understands and considers their views.
- Overseeing the annual Board evaluation and identifying any actions required.
- Leading initiatives to assess SSE's culture and ensuring the Board sets the correct tone.

Senior Independent Director¹

- Providing a sounding board for the Chair.
- Leading the Chair's performance evaluation.
- Serving as an intermediary to other Directors when necessary.
- Being available to all stakeholders if they have any concerns requiring resolution.

Independent non-Executive Directors

- Scrutinising, measuring and reviewing the performance of management.
- Constructively challenging and assisting in the development of strategy.
- Providing independent insight and support based on relevant experience.
- Reviewing Group financial information and ensuring the System of Internal Control and Risk Management Framework are appropriate and effective.
- Reviewing succession plans for the Board and key members of senior management.
- Monitoring actions to support inclusion and diversity.
- Engaging with key stakeholders and feeding back insights as to their views, including employees in relation to culture.
- Setting executive remuneration policy.
- Serving on or chairing various Committees of the Board.

Non-Executive Director for Employee Engagement¹

- Developing, implementing and feeding-back on employee engagement initiatives; providing an employee voice in the Boardroom.
- Representing the Board in discussions with employees and communicating Board decisions on specific matters.
- Engaging with officers of trade unions and internal trade unions representatives on key strategic issues affecting the workforce.

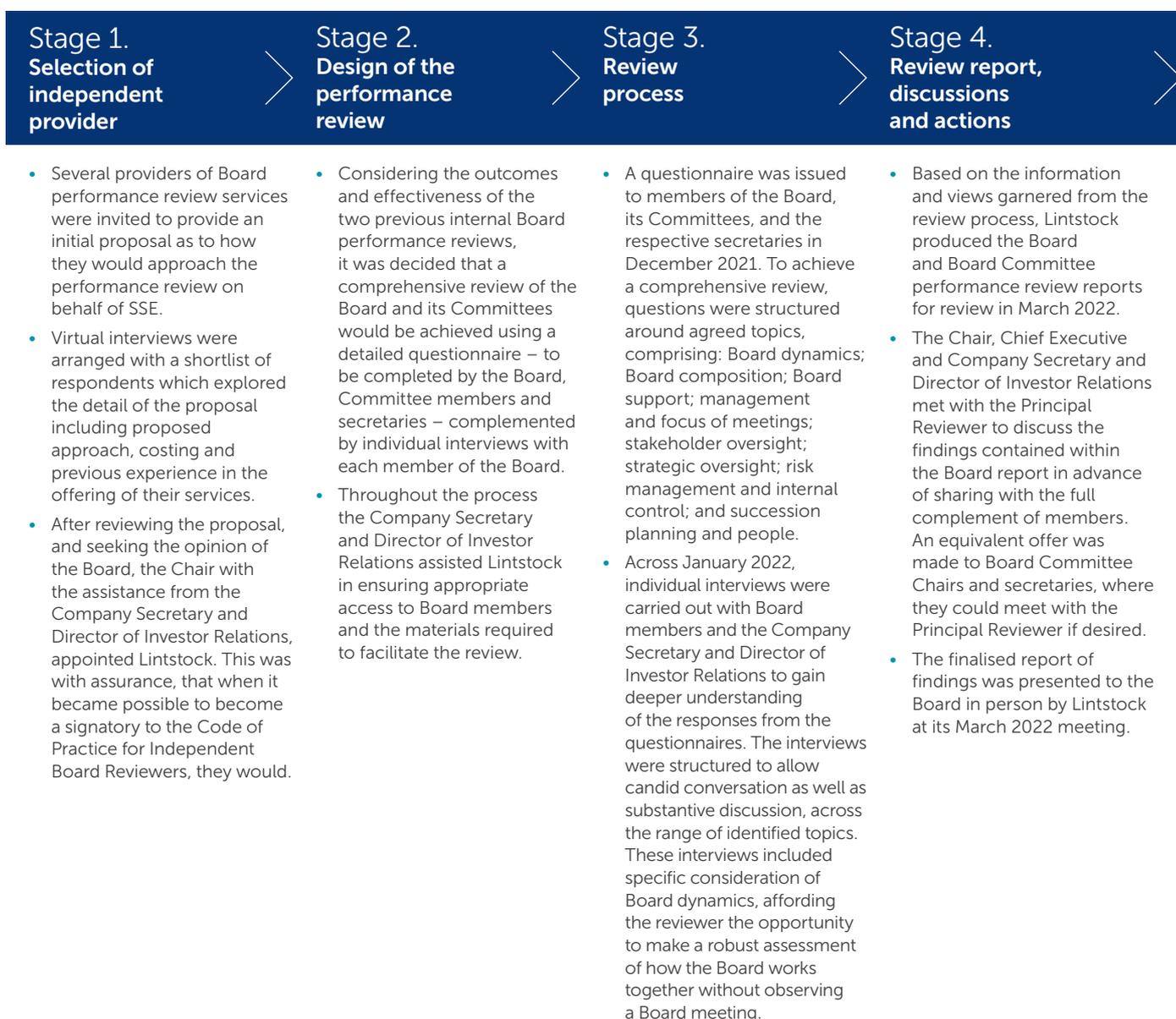
¹ The responsibilities of Senior Independent Director and Non-Executive Director for Employee Engagement apply in addition to those of non-Executive Director.

Assessing Board performance

2021/22 Independent Board performance review process

The Board monitors and improves performance by reflecting on the continuing effectiveness of its activities, the quality of its decisions and by considering the individual and collective contribution made by each Board member.

In line with recognised best practice, the 2021/22 Board and Board Committee performance reviews were externally facilitated by Lintstock Ltd (Lintstock). Besides the provision of the Board and Board Committee reviews, there was no other contractual connection between SSE or the individual directors and Lintstock. The contents of this section of the Directors' Report was reviewed by Lintstock in advance of publication, who agreed with its accuracy.



Composition, succession and evaluation continued

Assessing Board performance continued

2021/22 Independent Board performance review findings

The findings of the independent Board performance review were highly positive, with the Board characterised as confident in its level of oversight. Areas which scored particularly well, by the Board and Linstock relative to an external benchmark, included: the clarity and development of strategy; monitoring of culture; the effectiveness of risk management surrounding the coronavirus pandemic; the strength and oversight of stakeholder relations; and Board support through training.

The findings further affirmed a strong Board composition, with discussions cognisant of the attributes which would be desirable in future appointments, alongside due consideration as to how these should be balanced and prioritised within succession plans.

Whilst the findings were positive and confirmed the Board to be operating effectively, there remained as with all balanced process, opportunities for improvement and refinement.

Opportunities for refinement	Commentary and actions
Optimising oversight of strategic execution	In light of SSE's refreshed strategy, the review suggested the Board could consider the format of current strategic reporting to ensure clear alignment with growth ambitions and monitoring of progress. Supporting action agreed by the Board: <ul style="list-style-type: none"> The Board reviewed proposals for monitoring progress on strategic execution at its March 2022 meeting, and agreed updates to further optimise Board oversight, centred on the preparation and presentation of certain strategic reports on a quarterly basis.
Alignment on people issues	People matters were identified as a particular area of Board interest and the review concluded that alignment of expectations and aspirations, together with greater visibility of ongoing activities and progress, would provide a more effective platform for debate. Supporting action agreed by the Board: <ul style="list-style-type: none"> Inclusion and diversity progress, targets and reporting was considered at the Nomination Committee meeting in May 2022 (see page 150). The output of this discussion included refreshed diversity ambitions, providing a revised framework for constructive challenge and monitoring. The Board confirmed continued Nomination Committee oversight of the ongoing leadership development review, to ensure SSE is attracting the right skills and level of capacity to achieve its strategic plans (see page 149). It was agreed to enhance Board knowledge of SSE's leadership teams with continued and increased face-to-face engagement.
Leveraging external voices	The findings supported the view that the management team was highly expert and proficient in the suite of technical matters which fall under its remit. There was however an opportunity for the Board to complement this, through the use of third-party or external expertise on particular topics. Supporting action agreed by the Board: <ul style="list-style-type: none"> The use of Board deep dive sessions on certain subjects to begin from May 2022. Finding ways to leverage the expertise on the Board on specific matters, such as technology.

Board Committees

The evaluation of Board Committee performance found that each Committee remained effective in providing Board support. Specific findings and the agreement of actions was overseen by each Committee Chair, with consideration of the overall findings of the Board performance review.

Progress will continue to be monitored by each Committee, with details set out in the Reports across [pages 145 to 199](#).

Individual Director performance

Individual Director performance and contribution was assessed through one-to-one meetings with the Chair. These sessions allowed reflection on personal development and discussion of matters relevant to Boardroom culture and process. The findings, in combination with individual skills (see [page 117](#)), the time commitment, and independence assessments (see [page 148](#)) confirmed that each Director continues to contribute positively.

Chair performance

The performance of the Chair was evaluated by the Senior Independent Director based on: feedback which was proactively gathered as part of the Board performance review; a thorough discussion with the non-Executive Directors; and individual input from non-Executive and Executive Directors and selected senior

managers. The output confirmed that Sir John Manzoni had made a strong start to the role, following a smooth transition from his predecessor. He was confirmed to lead the Board with positive energy and focus, and his dedication to the role was evident. Over the past year, he provided strong challenge on strategy, contributing positively to the ambition SSE has articulated, and engaged constructively with investors on strategy and environmental, social and governance matters.

He has developed and maintains highly effective relationships with all Directors, supporting and driving a committed and inclusive culture that encourages constructive debate and diversity of views. His positive and open tone further supports the effective operation of meetings. It was confirmed that he devotes sufficient time to the role, and in all respects meets the requirements of the Code.

Progress against 2020/21 actions

Progress against the actions agreed through the 2020/21 internal evaluation process can be found on the following pages:

Continued Board engagement on strategy
(see [pages 126 to 131](#))

Restart site visits and in-person employee engagement
(see [pages 137 to 139](#))

Maintain topical deep dives and teach-ins
(see [page 148](#))

Nomination Committee Report



Role of the Committee

The Nomination Committee provides dedicated focus to the following people-led matters.

- **Board leadership.** Identifies the skills, knowledge and experience required for the effective leadership and long-term success of SSE, managing the balance of Board competencies through succession planning, knowledge development and targeted recruitment.
- **Board Committees.** Monitors the size, structure and composition of the Board's Committees to ensure the necessary support now, and going forward, in line with succession plans.
- **Talent pipeline.** Monitors the senior leadership pipeline and initiatives to develop internal capability, engaging in leadership programmes and updates on external recruitment.
- **Inclusion and diversity.** Under the Board's Policy, considers the perspectives and attributes across the Board and senior leadership, confirming ambitions and work to drive progress, reviewing overall support for Group-wide inclusion and diversity strategy.

The Committee's Terms of Reference are available on [sse.com](https://www.sse.com).

Dear Shareholder,

The Nomination Committee champions SSE's long-term success through its dedicated focus on people matters. Across the Board and management, this centres on effective and inclusive leadership, with confirmation that SSE has the breadth of capability and perspectives to drive measured decision-making and company culture. The Committee focuses on succession planning for the Board itself, and the Group Executive Committee and senior management, as well as reviewing supporting talent pipelines. Our focus group-wide, is on attracting, retaining and developing the diverse talent needed for SSE to deliver on its long-term plans.

I am pleased to confirm the successful appointment of three new non-Executive Directors to the Board, with Dame Elish Angiolini and Debbie Crosbie joining us in September 2021, and John Bason due to join us in June 2022. As explained on [pages 146 to 147](#), these changes result from two separate search processes, and defined candidate specifications, that align with SSE's strategic ambitions. The Committee, and Board, believe the unique and diverse experiences brought by Dame Elish, Debbie and John will provide additional rigour and challenge, thereby enhancing our discussions going forward.

Board Committee membership was reviewed in September 2021 when Dame Elish and Debbie joined, and we have confirmed that John will join the Nomination Committee and the Audit Committee, for which he is the intended Chair designate, upon appointment. Details of Committee membership refreshment are on [page 149](#).

Dame Sue Bruce will achieve 9 years of Board tenure in September 2022, and the Board has agreed our recommendation that her term be extended until 31 March 2023. This is to provide continuity as SSE seeks to introduce a new Remuneration Policy which will be voted on at the Annual General Meeting in July, and across the new pay policy which we have agreed with our trade unions. To ensure a smooth handover in key Board roles, the Board has further agreed that effective 1 April 2023 Melanie Smith will take over as Chair of the Remuneration Committee, and Dame Elish Angiolini as the Non-Executive Director for Employee Engagement.

SSE's Net Zero Acceleration Programme provides a clear backdrop against which to assess the competencies SSE will need in the long term. We have reviewed the Board skills matrix, which can be found on [page 117](#), in this context, and spent time on senior leadership development through enhanced updates from Group HR. This has included oversight of an externally-led leadership development review and meeting with potential future leaders. We will continue to review Board and executive skills and capacity in light of future plans.

A diverse and inclusive workplace remains a priority for the Board and Nomination Committee, and underpins discussion at every level. As at 31 March 2022, the Board is 50% female and the Board Inclusion and Diversity Policy has been updated to reflect this as an enduring aim. As this position remains sensitive to both changes in the composition and size of the Board, we will continue to assess the impact of proposals in relation to membership and succession. When John Bason joins the Board in June 2022, female representation will be 46%.

To assist our future work, we note the recommendation from the FTSE Women Leaders Review centred on increasing female representation within key Board roles, and although we are currently in line with the Parker Review recommendation on ethnic diversity, we continue to consider opportunities for further progress.

At senior leadership level, whilst diversity has improved, there is a desire to accelerate the pace of change. We have therefore set revised ambitions, and actions, which we will track the initial effectiveness of across 2022/23. Details of these ambitions and our inclusion and diversity work is set out on [pages 150 to 151](#).

I am pleased to present this report and welcome engagement on our people-led agenda.

Sir John Manzoni
Nomination Committee Chair
24 May 2022

Composition, succession and evaluation continued

Nomination Committee Report continued

Key activities in 2021/22

- Reviewed Board composition and succession.
- Recommended new non-Executive Director appointments.
- Supported a revised Board Inclusion and Diversity Policy.
- Reset diversity ambitions for senior leadership.

Membership and attendance

The membership of the Committee comprises the non-Executive Directors and the Chair of the Board, who is also Chair of the Committee. The Company Secretary is Secretary, and where appropriate, the Executive Directors are invited to attend meetings. Biographical details of the Committee members can be found on [pages 118 to 122](#). The Committee met six times in 2021/22 with meeting attendance on [page 125](#).

Board leadership

Composition and succession

The composition of the Board is informed by the Committee's plans for orderly succession across key Board and Committee roles. This is supported by regular assessment of the skills, experience and diversity the Board needs in line with agreed strategy and changes in SSE's operating context. The backdrop to these discussions comprises the spectrum of Board work set out across the Directors' Report, and the counterparts of the Board composition dashboard and skills matrix on [pages 116 to 117](#).

Following agreement through the prior year's evaluation, in September 2021, the Committee engaged in a refreshed assessment of Board skills. This was aligned to SSE's strategic situation and coupled with a view of non-Executive Director tenure, including analysis of where collective and individual capabilities reside. As an evolution of existing process, it was used to test the scope of in-flight workstreams, and confirm both optionality and coverage for Board roles across the short, medium and longer-term. Identified priorities were fed into the continuum of work on Board composition, which saw the Committee support three non-Executive Director appointments in the period to 24 May 2022.

In the 2021 Annual Report, it was confirmed that Spencer Stuart had been engaged to support a prospective non-Executive Director search process following the departure of Crawford Gillies. This

Committee evaluation

The annual review of Committee performance was considered through the formal external Board evaluation conducted by Lintstock (see [pages 143 to 144](#)). The output of the evaluation was considered at the Board in March, with follow-up actions agreed by the Committee for progression across 2022/23. The Board confirmed the effective operation of the Committee in discharging its responsibilities.

Evaluation confirmed

- The quality of information to support the Committee in discharging its responsibilities was rated positively.
- Non-Executive Director succession planning is supported by proactive process and clear oversight of Board capability.
- Inclusion and diversity is positioned high on the agenda and remains a clear priority in conjunction with the Board and Group HR.

Actions for 2022/23

- **Board composition.** In line with the refreshed view of Board skills, continue to review succession plans and the evolution of the Board to support SSE's long-term strategic ambitions.
- **Executive succession and talent pipeline.** Continue focus on talent and capability across senior leadership, reviewing Group HR reports on high-potential candidates and internal and external talent pools.
- **Inclusion and diversity.** Drive further progress surrounding inclusion and diversity across senior leadership roles, reviewing initiatives, plans and ambitions.

concluded with the appointment of Dame Elish Angiolini and Debbie Crosbie with effect from 1 September 2021, both of whom joined the Nomination Committee from the same date. In May 2022, following a process supported by Korn Ferry, it was announced that John Bason would join the Board with effect from 1 June 2022. As the intended Audit Committee Chair designate, he will join the Audit Committee and become a member of the Nomination Committee from this time. Details of the supporting process for each is set out on [page 147](#).

An updated title for the Group Energy and Commercial Director was further recommended to the Board in March 2022, with Martin Pibworth becoming Chief Commercial Officer from 1 April 2022. This saw no change in underlying executive responsibility and brings clearer alignment between Martin's title and directorate role.

Time commitment

The expected time commitment of the Chair and non-Executive Directors is agreed and set out in writing in a Letter of Appointment. This is issued following confirmation of an individual's capacity to take on the role, based on an assessment of existing external commitments and demands on time. Any changes, such as additional external appointments which

could impair the ability to meet the above, can only be accepted following approval of the Board. The acceptance of an external appointment by an Executive Director is further subject to Board consent. Approved changes across 2021/22 are set out on [page 119](#).

Director re-appointment

All non-Executive Directors undertake a fixed term of three years subject to annual re-election by shareholders. The fixed term can be extended and consistent with best practice, does not exceed nine years unless defined circumstances are deemed to exist.

Extensions recommended in the period were: a further three-year extension to the tenure of Melanie Smith and Helen Mahy representing a second and third term in each case; and a time-limited extension to Dame Sue Bruce's tenure to 31 March 2023. This is to provide continuity as SSE seeks to introduce a new Remuneration Policy, and to allow an orderly transition in the key roles of Remuneration Committee Chair and Non-Executive Director for Employee Engagement (see [page 149](#)).

In each case, the decision was supported by the continuing independence, experience and contribution that each Director brings to both Board and Committee work (see [pages 144 and 148](#)).

Non-Executive Director recruitment process

Stage 1. Objective criteria

The Committee agreed the appointment of a search firm who would be best placed to deliver a comprehensive candidate list through access to diverse search pools. Objective criteria were set to inform the development of a detailed role specification.

Search 1

Rationale for appointment. Preserve Board diversity and breadth of capability with a focus on the Scottish operating context.

Criteria to inform role specification

- Experience of Scottish politics and business environments.
- Depth of understanding across national and local government.
- Commercial insight.

Search 2

Rationale for appointment. Support an orderly transition in the role of Audit Committee Chair and expand international experience.

Criteria to inform role specification

- Recent and relevant financial experience.
- Exposure to business scale and operational complexity.
- International perspective.

Culture, inclusion and diversity (applicable to both Search 1 and Search 2)

Complementing technical ability, role specifications reflected attributes to support SSE's culture and were assured for the use of inclusive language. Both firms engaged – Spencer Stuart and Korn Ferry¹ – were, and continue to be, signatories to the enhanced voluntary code of conduct for executive search firms. Candidate pools further comprised corporate and non-corporate backgrounds with a key requirement being longlists that encompassed diversity of gender, ethnicity, lived experience and skills, where it was possible to identify relevant characteristics.

¹ Spencer Stuart has no further connection with SSE. Korn Ferry provided its executive search service independent of other leadership development and reward consultancy support for which it is engaged by SSE.

Stage 2. Longlist review

Candidate longlists were compiled by the search firm and reviewed by a sub-group of the Committee. Considering the role specification, individuals were identified for contact surrounding scope and interest in the Board position.

Longlist diversity (Search 1)



Longlist diversity (Search 2)



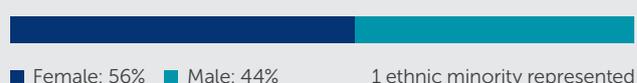
Stage 3. Shortlist meetings

Following confirmation of interested individuals, a shortlist was agreed to meet face-to-face or virtually with Committee members. Based on feedback from these meetings, and strength of fit with the agreed role specification, preferred candidates were invited to meet the full complement of Board members.

Shortlist diversity (Search 1)



Shortlist diversity (Search 2)



Stage 4. Candidate selection

Appointment recommendations, which remain subject to shareholder approval, were made to the Board based on the below assessments. This included confirmation that each individual would be deemed independent on appointment and had capacity to take on the role.

Search 1

Recommendation. The Committee agreed that Dame Elish Angiolini and Debbie Crosbie would bring strong and diverse capabilities from their respective distinguished careers; Dame Elish a legal professional and expert in policy and Debbie a business leader skilled in operations, technology and IT. Each possessed detailed understanding of SSE's stakeholder context within Scotland, a proven ability to professionally challenge, and working styles which would complement SSE's Board and people culture.

Link to strategy. Bolsters support, and challenge, for SSE's domestic growth plans and stakeholder-centric investment strategy.

Search 2

Recommendation. John Bason was identified as a sound fit, with a recognised executive and non-executive career in global complex businesses – in the roles of Finance Director and Audit Committee Chair – overseeing successful growth and international joint venture structures. This was complemented by a clear understanding of the listed company context.

Link to strategy. Contributes to experience of international operations and growth under SSE's Net Zero Acceleration Programme, with strong awareness of finance and risk matters.

Full biographical details can be found on [pages 118 to 122](#). The skills and diversity of current Board members is set out on [pages 116 to 117](#).

Composition, succession and evaluation continued Nomination Committee Report continued

Conflicts of interest and independence

Each Director has a duty to disclose any actual or potential conflict of interest situations, as defined by law, for consideration and approval if appropriate by the Board. This requirement is supported by an annual conflicts authorisation process, where the Committee reviews SSE's Conflicts of Interest Register and seeks confirmation from each Director of any changes or updates to their position.

This process informs the simultaneous assessment of a non-Executive Director's independence, as following the absence of any conflict, the Committee reflects upon the outcome of each individual Director's performance evaluation (see [page 144](#)) and the circumstances set out in the Code which could compromise an individual's position.

Following review in 2021/22, and to the exclusion of the interested Director in each case, the Committee recommended and Board confirmed: updates to the Conflicts of Interest Register; the continuing independence and objective judgement of each non-Executive Director; and the overall independence of the Board in line with the recommendations of the Code.

Additional safeguards to support Director independence are:

- Meetings between the Chair and the non-Executive Directors, individually and collectively, without the Executive Directors present (see [page 125](#)).
- Separate and clearly defined roles for the Chair, as head of the Board, and the Chief Executive, as head of executive management (see [page 142](#)). This division of responsibility is supported by a degree of contact outside of Board meetings to ensure an effective ongoing dialogue and channel for the timely escalation of external or internal developments.

Knowledge and training

Any Director can request further information to support their individual duties or collective Board role. The arrangements are overseen by the Company Secretary and can be internally or externally facilitated, with sessions typically originating from technical Board discussions, an identified training opportunity or area of general interest relating to SSE. 2021/22 sessions included:

- The role of CCS.
- An externally delivered session on energy markets dynamics and commodity pricing.

- A teach-in on international growth markets in the USA and Europe.
- A session on electrification of vehicles with Distributed Energy.
- A teach-in on SSE's cyber context from the Chief Information Office.

Through SSE's mandatory training programme, all Directors are requested to refresh their understanding of current obligations and recent developments in areas pertinent to their role. These modules address, among other matters: Directors' duties; competition law; anti-money laundering and financial sanctions; GDPR; and inclusion and diversity.

To remain abreast of, and connected to, broader societal trends, expectations and issues, the Directors are encouraged to participate in seminars and events hosted by external organisations. Discussion with peers, other sectors and individuals in different professional and personal situations develops broader perspectives and insights, which can translate into different thinking styles and new debate within Board discussions.

Director induction

Following appointment, all Directors receive a comprehensive and tailored induction programme. This is designed through discussion with the Chair and the Company Secretary and considers existing expertise and any prospective Board or Board Committee roles.

The agreed plan for Dame Elish Angiolini and Debbie Crosbie comprised over 20 interactive sessions with both internal functions and external advisors over an initial period of six months. This was structured to ensure that information material to the non-Executive Director role was delivered in the early stages of the programme. These formal briefings, which provide an initial opportunity to meet senior leadership, are supported by operational site visits to provide on-the-ground understanding of SSE's diverse business areas and working environments. Site visits are discussed further on [pages 137 to 139](#).

An appropriate induction programme for John Bason will be agreed upon joining the Board.

Dame Elish Angiolini and Debbie Crosbie induction programme

Areas covered	Sessions provided by
SSE's purpose, strategic priorities and balanced business operations.	Chief Executive Group Strategy MD of each Business Unit
Financial position, performance, investment and funding, including credit ratings and external assurance.	Finance Director Senior Finance leaders External Auditor
Energy sector and trends, energy markets, net zero, sustainability and stakeholder engagement.	Chief Commercial Officer Chief Sustainability Officer Group Corporate Affairs
Corporate governance, Board operations and shareholder and investment community perspectives.	Company Secretary and Director of Investor Relations SSE's brokers
Legal and regulatory views of the operating context and SSE's risk profile.	General Counsel SSE's Legal Advisors Director of Regulation Group Chief Information Officer
Safety, health and the environment, people and culture.	Director of HR Group Safety, Health and Environment Manager

COP26: a significant Board opportunity

As a Scottish headquartered company, the hosting of COP26 in Glasgow provided a once-in-a-lifetime experience for both the Board and employees of SSE. Maximising the development and learning opportunity provided by the large number of varied events and diverse stakeholders, was an explicit objective of SSE's Principal Partner status. To ensure SSE's Directors (non-Executive and Executive), alongside employees, would experience the process of multilateral climate negotiations; the important role of non-state actors within that process; and hear first-hand, the direct experiences of climate vulnerable nations and indigenous peoples, members of the Board in attendance in both the Blue and Green Zones of the climate conference participated in over 100 different events. These covered topics ranging from power systems innovation, the electrification of heat to human rights and a just transition.

Board Committees

Board Committee composition is designed around the following principles:

- to ensure alignment between skillset and specific Committee responsibilities;
- to prevent undue reliance on the capacity of any Director; and
- to comply with recognised guidance including the Code.

Changes are recommended following directorate appointments and succession, or in response to formal review. In 2021/22, the Board approved recommendations resulting in the below changes.

- Dame Elish Angiolini joined the SSHEAC on 26 October 2021 and Remuneration Committee on 15 November 2021.
- Debbie Crosbie joined the Audit Committee and EMRC on 23 February 2022.
- Martin Pibworth replaced Jim Smith, outgoing MD, SSE Renewables, on the SSHEAC on 1 January 2022.

In line with the recommended extension in Dame Sue Bruce's tenure, in May 2022, the Committee put forward the succession plan for the positions of Remuneration Committee Chair and the Non-Executive Director for Employee Engagement, which saw the Board approve the respective appointments of Melanie Smith and Dame Elish Angiolini to these positions from 1 April 2023.

Supporting these recommendations, was the Committee's view that Melanie's depth of strategy experience, approach to proactive engagement and focus on people development, are qualities complementary to the position of Remuneration Committee Chair; bringing a measured approach to setting relevant and stretching targets, with fair outcomes that are acceptable to all stakeholders. Melanie has further served on the Remuneration Committee since January 2020.

For the Non-Executive Director for Employee Engagement, Dame Elish brings rich experience in assimilating and interpreting views across a multitude of settings, and is skilled in concluding and communicating any required course of action. This speaks to the core purpose of having a dedicated employee-Board link and a desire to operate in an empathetic and thoughtful way.

Talent capability and development

Succession for senior leadership roles and strategy to support talent development by building capability for the future, is overseen by the Committee with support from Group HR.

On succession, at least annually, the Committee reviews the existing internal pipeline of candidates for immediate and medium to longer term movement into key leadership and functional roles. This is subject to routine challenge to ensure understanding of the breadth of internal potential and experience represented by external talent pools. In 2021/22, enhanced detail was provided on the Business Unit approach to strengthening leadership teams, and the Committee and Board remained updated on the processes resulting in the appointment of Stephen Wheeler as MD, SSE Renewables from 1 January 2022 and Catherine Raw as MD, SSE Thermal from 21 April 2022.

On talent and capability, updates are provided on: critical skills investment; people development; and performance improvement, which are centred on an agreed set of leadership capabilities and competencies required for SSE's long-term growth. In the context of SSE's Net Zero Acceleration Programme, emphasis has been placed on commercial expertise, project delivery, digital, data, and the international context, with these endorsed as key areas for benchmarking and developing through SSE's structured training interventions.

Members of the Committee engage in core talent programmes providing exposure to the talent pool and allowing reciprocal sharing of experiences, with diversity across training cohorts monitored in the approach to encouraging and progressing difference.

Additional engagement with future leaders is facilitated through presentations at Board meetings, business-led sessions and conferences which the Directors are invited to attend. The open two-way dialogue between the Board and all levels of the organisation is seen as a key tool for observing and informally coaching emerging talent.

As agreed in 2020/21, to support increased constructive discussion and measurement of SSE's position, a stepped plan of work comprising a refresh of SSE's Leadership Blueprint; agreement of an enterprise leadership profile; and an externally-led leadership development review, have been subject to Committee oversight and reflection. The outputs remain an area of focus to agree strengths and shape future talent work.

Composition, succession and evaluation continued

Nomination Committee Report continued

Inclusion and diversity

SSE's Group-wide inclusion and diversity strategy is explained across pages 64 to 65 [\[6\]](#), with the role of the Committee being to confirm the acceptability of plans, targets and progress, and to consider insights and findings from the initiatives which are in place.

The Board's Policy

The Board operates under a standalone inclusion and diversity policy which is available to view in full on [sse.com](https://www.sse.com) [\[7\]](#). Its objective is to set a Board-led culture which is inclusive to all views, perspectives and experiences, and which embraces and encourages diversity as a norm. Across Board membership, the Policy drives balance and alignment with SSE's purpose, strategy and values, through

agreed principles and targets which reflect the measures the Board will take when considering its own membership and approach.

Through review in 2021/22, the Committee recommended a number of updates to the Policy which are reflected opposite.

Senior leadership ambitions

The Committee is focussed on increasing the diversity of SSE's senior leadership population and pipelines, as championed by external initiatives such as the FTSE Women Leaders Review and Parker Review. To identify the levers for progress, close work has taken place with the Executive Directors and Group HR to develop targeted action, including revised and stretching ambitions. This represented

a Board-level principal decision in the period and is discussed further below.

Supporting wider initiatives

Comprehensive updates have continued to cover the evolution of SSE's Group-wide inclusion and diversity approach, and the factors influencing the choice of targeted initiatives alongside the extent to which they have been embedded across SSE. Diversity scorecards detail the split of diversity criteria including gender, ethnicity and disability within recruitment processes for apprentices through to senior leaders, and also across the overall employee, new entrant and leaver populations. Full details of the underlying strategic approach and progress, are set out on pages 64 to 65 [\[6\]](#), and within SSE's standalone Inclusion and Diversity Report 2022 which can be found on [sse.com](https://www.sse.com) [\[8\]](#).

BOARD-LEVEL PRINCIPAL DECISION SUPPORTING STRETCHING AND SELF-LED AMBITIONS



What did the Nomination Committee consider?

Priorities to create the environment, which will support SSE as a diverse and inclusive organisation, and realise progress across the senior leadership and talent population.

What did the Nomination Committee discuss?

- Gender diversity progress across senior leadership and management populations in 2021/22, which had been subject to quarterly Group Executive Committee review.
- The impact of attrition rates and internal vacancies to create opportunities for internal moves and hiring for difference.
- Business Unit reporting of progress including agreed diversity priorities, and short and long-list diversity requirements.
- Training to support success by going beyond policies and process, and through coaching people and challenging mindset.
- Improvements in disclosure and data across the senior pool, to better understand SSE's position and monitor change.

What did the Nomination Committee approve?

New ambitions to monitor and report progress.

- Increase the proportion of women within the **Group Executive Committee and its direct reports to 40% by 2025**.
- Increase female representation in **SSE's wider Leadership Group**, which covers around 900 employees, **to 40% by 2030**.
- Increase **overall female representation across SSE to 33% by 2030**.

What were the material stakeholder considerations?

- **Employee perspectives.** The Board considered external feedback from candidates, external partners and directly from the employee voice on the inclusivity of SSE's approach and employer proposition (see [page 138](#) [\[9\]](#)) in order to understand material issues and assess if they were being addressed.
- **Societal expectations.** As a large organisation that directly employs around 11,000 people and that serves communities and customers, reflecting wider societal expectations across the internal inclusion and diversity agenda supports sustainable and respectful business operations.
- **Driving real change.** Impacted by a historically low baseline, diversity progress across the energy sector has been slower than other industries but change is taking place. Credible ambitions, clear focus and transparent actions, are key to creating the balance which is required and to change sector bias surrounding the accessibility of roles.

Link to 2030 Business Goal



Champion a fair and just energy transition

The Board's Inclusion and Diversity Policy

Linkage to strategy

People are at the heart of the transformational change needed to achieve net zero, and SSE believes innovative solutions to climate change require diverse perspectives, different experiences and new skills. The principles of equality, fairness, inclusion and diversity must be at the heart of everything it does.

Policy principles

Implementation and progress

- | | | |
|--|---|---|
| <ul style="list-style-type: none"> • Identify Board and Committee needs and the balance of diversity characteristics. • Adopt a formal and inclusive Board recruitment process. • Engage recruitment firms which are signatories to the enhanced code of conduct and discuss ambitions for diverse candidate lists. | > | <p>See pages 146 to 147 </p> |
| <ul style="list-style-type: none"> • Recruit on an objective and shared understanding of merit. | > | <p>See pages 146 to 147 </p> |
| <ul style="list-style-type: none"> • Nurture an inclusive Board and Committee culture. • Oversee work to develop a diverse talent pipeline. • Be aware of stakeholder expectations and challenge targets in wider strategy. | > | <p>See pages 140 to 141 
 See page 144 
 See page 150 </p> |

Policy targets (from 1 April 2022)

Implementation and progress

- | | | |
|--|---|--|
| <ul style="list-style-type: none"> • An ultimate goal of enduring gender parity, whereby the Board commits to female representation of not less than 40%, with the aim to maintain as close to 50% male and female representation as possible on a rolling basis. | > | <p>The Board has met its previous target of at least 33% female membership to be maintained on average over a 3 year period and, at 24 May 2022, gender diversity is 50% female and 50% male. When John Bason joins female representation will be 46%.</p> |
| <ul style="list-style-type: none"> • Consider female representation across the roles of Chair, Senior Independent Director, Chief Executive and Finance Director. | > | <p>The Board supports female representation across key Board roles as demonstrated within Committee Chair positions and the Non-Executive Director for Employee Engagement. Targeting the positions of Chair, Senior Independent Director and Executive Directors will be considered in succession planning and when a vacancy arises.</p> |
| <ul style="list-style-type: none"> • The Board should have at least one Director from an ethnic minority background. | > | <p>The Board's membership is in line with this target and the Committee continues to proactively monitor furthering progress.</p> |

Audit, risk and internal control

Audit Committee Report



Dear Shareholder,

On behalf of the Board, I am pleased to present the Audit Committee Report. This report is intended to provide shareholders with an understanding of the work we have done to provide assurance on the integrity of the Annual Report and Financial Statements for the year ended 31 March 2022. Much of the work of the Committee is necessarily targeted around the key areas of financial reporting, external audit, internal audit, internal control and risk management, all of which is underpinned by a robust governance framework.

During the year, the Committee discussed the proposed disclosures and assurance programme to enable the Group to report against the Taskforce for Climate-related Financial Disclosures recommendations as described on pages 42 to 55. Given the increased focus and scrutiny on climate from investors, we reviewed climate risk considerations to ensure they were reported on throughout the Annual Report and Financial Statements on a consistent basis. For the first time this year, a climate consideration section is included with the Auditors' Opinion on page 339.

During the year, the Committee considered the BEIS consultation on 'Restoring Trust in Audit and Corporate Governance' and assisted the Board in formulating a position on the key issues for inclusion in SSE's consultation response.

At each meeting, we received an update on the audit and governance reform agenda, in addition to the project to further

strengthen the internal control framework and its effectiveness. As part of this project, we undertook a benchmarking exercise against current controls with support from an external adviser. The output of this exercise was used to develop a comprehensive roadmap and implementation plan which the Committee regularly oversees. The Committee will continue to review preparations for anticipated reform during the year ahead.

Cyber security remains a major focus area for the Committee. The Director of IT and the Chief Information Security Officer are regularly invited to meetings to give an assessment of cyber risk and update on progress made in protecting the Group against evolving threats.

As part of the Committee's work to support the refinement of an integrated assurance model across the Group, the Committee reviewed a draft of an Audit and Assurance Policy which is in the process of being developed for internal and external publication.

The year ahead will no doubt continue to bring challenges and opportunities, but the Net Zero Acceleration Programme gives us a clear sense of direction and the work of the Committee will remain fully aligned with the strategic direction of SSE.

I hope that you find this report informative and take assurance from the work undertaken by the Committee during the year.

Peter Lynas
Chair of the Audit Committee
24 May 2022

Role of the Committee

Financial reporting

- Review the integrity of the interim and annual Financial Statements.
- Review the appropriateness of accounting policies and practices.
- Review the significant financial judgements and estimates considered in relation to the Financial Statements, including how each was addressed.
- Review the content of the Annual Report and Accounts and advise the Board on whether taken as a whole, it is fair, balanced and understandable.

External audit

- Review and monitor the objectivity and independence of the External Auditor, and oversee the policy on the provision of Non-Audit Services.
- Review and monitor the effectiveness of the external audit process and the ongoing relationship with the External Auditor.
- Review and make recommendations to the Board on the tendering of the external audit contract, and the appointment, remuneration and terms of engagement of the External Auditor.

Internal audit

- Review and approve the Internal Audit Plan and monitor its implementation.
- Review and monitor the effectiveness of the Internal Audit function, including the adequacy of the overall Internal Audit resource.

Internal control and risk management

- Review and monitor the effectiveness of the management of risk and overall System of Internal Control.
- Review the framework and analysis to support both the Going Concern and the long-term Viability Statement.

The Committee's Terms of Reference are available on [sse.com](https://www.sse.com).

Key activities in 2021/22

The Committee has a structured forward looking planner to reflect the Group's annual financial reporting cycle. The planner informs the business considered at each meeting and is regularly reviewed and updated to reflect areas identified for additional focus. The practice of effective governance and quality reporting underpin all aspects of the work of the Committee. The key areas of focus in the year included:

- Assessing the impact of climate change on accounting assumptions and disclosure, including the reporting of TCFD recommendations.
- Overseeing a project to enhance the internal control framework for financial reporting influenced by the audit and governance reform.
- Developing the approach to integrated assurance across the Group.
- Assessing the Company's readiness and future areas of focus required to address areas of anticipated audit and corporate governance change.

Committee membership

The composition of the Committee is compliant with the Code and currently comprises four independent non-Executive Directors as Committee members. Debbie Crosbie became a member of the Audit Committee on 23 February 2022 and brings broad financial and commercial experience to the Committee. Peter Lynas has chaired the Committee since 2014 and is considered by the Board to have recent and relevant financial experience. He was Group Finance Director of BAE Systems plc until 31 March 2020 and is a Fellow of the Chartered Association of Certified Accountants. The Board considers the Audit Committee as a whole has competence relevant to the sector, with two members having had significant executive roles in the energy sector, and all members possessing an appropriate level of experience in corporate financial matters. Biographical details of the Audit Committee members can be found on [pages 118 to 122](#) and details of meeting attendance are set out on [page 125](#).

Committee evaluation

The actions identified from the evaluation of the Audit Committee in 2020/21 as reported on last year were monitored through to completion. The evaluation of the Audit Committee during 2021/22 was externally facilitated by Lintstock and was based around a bespoke questionnaire and interviews with members of the Committee. The output of the evaluation was considered at the Board in March and follow-up actions were agreed at the Committee meeting in May 2022. The Board confirmed the effective operation of the Audit Committee in discharging its responsibilities.

Evaluation confirmed

- Meetings are chaired effectively, dedicating sufficient time to key issues, and giving all members the opportunity to contribute.
- The quality of information to support the Committee in discharging its responsibilities was rated positively.
- The oversight of new developments such as TCFD and internal control over financial reporting received strong coverage.

Actions to progress during 2022/23

- Ensuring a smooth transition of Audit Committee Chair.
- Supporting developments to enhance the approach to risk management.

Meetings

The Committee met on four occasions during the year and has met once since the end of the financial year. Before each meeting, the Committee Chair meets with the Finance Director and External Auditor to ensure there is a shared understanding of the key issues to be discussed. Committee meetings are held in advance of Board meetings to facilitate an effective and timely reporting process. The Committee Chair provides a report to the Board following each meeting.

Meetings are routinely attended by: the Chair of the Board; the Finance Director; the Director of Group Risk and Audit; Partners from the External Auditor; and the Deputy Company Secretary (who is Secretary to the Committee). Senior finance and business managers are invited to attend certain meetings to enable the Committee to gain a deeper level of insight on particular items of business. The Committee meets with the External Auditor privately at least twice each year in line with the financial reporting calendar and also with the Director of Group Risk and Audit. These engagements provide an additional opportunity for open dialogue and feedback without management being present.

In addition to the scheduled meetings, the Committee Chair meets separately with the Finance Director, Director of Group Risk and Audit, External Auditor and Committee Secretary to ensure the work of the Committee is focused on key and emerging issues.

Fair, balanced and understandable assurance framework

The assurance framework used in the preparation of the 2022 Annual Report and Accounts to assist the Directors in the discharge of their requirement to state that, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy is as follows:

- a verification process dealing with the factual content;
- comprehensive reviews undertaken independently by senior management to consider messaging and balance;
- comprehensive reviews undertaken by the Company's Brokers to ensure consistency and balance;
- reporting by the External Auditor of any material inconsistencies; and
- comprehensive review by the Directors and the senior management team.

The Committee and Board received confirmation from management that the assurance framework had been adhered to for the preparation of the 2022 Annual Report.

Audit, risk and internal control continued Audit Committee Report continued

Key activities during the financial reporting cycle



Others focus areas

Internal control and risk management

- Received an update on the work undertaken by Group Compliance, including resource and progress with the compliance review programme and resulting actions.
- Received an update on the project to enhance the accessibility and coverage of the Group Financial 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 SSE Renewables.
- Received an update on Cyber Risk and Information Security audit actions and approved a reporting framework for further updates covering Information and Operational Technology.

Governance

- Reviewed a roadmap of all the governance related activity carried out during the year to support the work of the Committee.
- Considered the status of audit reform and other related governance developments likely to have an impact on the work of the Committee.

Internal audit

- Received an update on the work undertaken by Internal Audit, including progress with the 2021/22 Internal Audit Plan, significant findings and audit actions.

Others focus areas

External audit

- Received an update on progress with the audit plan and approved refinements to the audit strategy for 2021/22.
- Reviewed the independence and objectivity of the External Auditor, including the fees for the provision of external audit services.

Internal audit

- Received an update on the work undertaken by Internal Audit, including audit resource, progress with the 2021/22 Internal Audit Plan, significant findings and audit actions, in addition to areas of focus included in the three-year Internal Audit Plan.

Internal control and risk management

- Reviewed Treasury operations, including the funding plan, liquidity, going concern, hedging and credit ratings and approved a range of treasury related transactions.
- Received an update on progress with the Group Risk programme covering the assessment of Principal Risks and assurance frameworks to assess the effectiveness of the System of Internal Control.
- Received an update on anti-financial crime governance and fraud.
- Received an update on progress with the project to further strengthen the financial control framework.
- Received an update on Cyber Risk and Information Security across the Group including Operational Technology.

Governance

- Approved the Committee business planner and areas of focus for 2022.

FEBRUARY MEETING

Key focus: External Audit control testing and Internal Audit planning

The Committee considered the findings from the External Auditor's controls report and reviewed progress on delivery of the audit strategy. The Committee approved the Internal Audit Plan for 2022/23.

FEBRUARY 2022

MARCH

Full-year
31 March 2022

MAY MEETING

Key focus: Full-year Results review

The Committee reviewed and challenged the appropriateness of the accounting in relation to the significant financial judgements, estimates and exceptional items in 2021/22. The Committee received a report from the External Auditor covering the accounting, financial control and audit issues identified during the full-year audit. The Committee reviewed the Preliminary Results, 2022 Annual Report, letter of representation issued to the External Auditor and made a recommendation to the Board to approve.

APRIL

MAY

Full-year Results
25 May 2022

Others focus areas

External audit

- Reviewed the independence and objectivity of the External Auditor, including the level of non-audit fees.

Internal audit

- Received an update on the work undertaken by Internal Audit, including progress with the 2021/22 Internal Audit Plan, significant findings and audit actions.

Internal control and risk management

- Received an update on the work undertaken by Group Compliance, including resource and progress with the compliance review programme and resulting actions.
- Received an update on Group-level fraud risks, corruption and anti-financial crime governance.
- Considered scenarios aligned to the Group's Principal Risks to stress test the viability assessment.
- Received an update on progress with the project to further strengthen the financial control framework.
- Reviewed the proposed disclosure plan and assurance for TCFD.
- Reviewed Treasury operations, including the funding plan, liquidity and approved a range of treasury related transactions.

Governance

- Received an update on governance covering the Committee's Terms of Reference and Non-Audit Services Policy; the approach to the evaluation of the External Auditor, audit process and Internal Audit; and the reporting themes for the 2022 Audit Committee Report.
- Received a report on the qualifying companies in the Group required to publish reports on their payment practices, policies and payments, and sought assurances, where necessary, that further improvement plans were in place.

Others focus areas

Financial reporting

- Reviewed the TCFD disclosures.
- Reviewed a report on the Group's tax position covering adjusted underlying tax rate, areas of potential tax exposure and provisioning and Fair Tax Mark accreditation.

External audit

- Reviewed the effectiveness of the External Auditor and audit process.
- Reviewed the independence and objectivity of the External Auditor, including the level of non-audit fees.

Internal audit

- Received an update on delivery of the 2021/22 Internal Audit Plan, progress with the 2022/23 Internal Audit Plan and approved the three-year Internal Audit Plan.
- Reviewed and confirmed the effectiveness of the Internal Audit function.

Internal control and risk management

- Reviewed the effectiveness of the System of Internal Control.
- Reviewed Treasury operations, including the funding plan, liquidity, going concern, hedging and credit ratings and approved a range of treasury related transactions.
- Reviewed the analysis to support the Viability Statement.
- Received an update on progress with the project to further strengthen the financial control framework.
- Received an update on Cyber Risk and Information Security across the Group including Operational Technology.

Governance

- Approved the narrative of the 2021/22 Audit Committee Report and Principal Risk related disclosures.
- Received a report on the disclosure of information to the External Auditor.

Audit, risk and internal control continued

Audit Committee Report continued

Financial reporting

The Annual Report and Accounts seek to provide the information necessary to enable an assessment of SSE's position and performance, business model and strategy. In preparing the Financial Statements for 2022 there are several areas requiring the exercise of judgement or a high degree of estimation.

Throughout the year, the Finance team worked closely with the External Auditor to ensure SSE provides the required level of disclosure, including the appropriateness of alternative performance measures (APMs) and their consistency with IFRS financial information. This section outlines the significant areas of judgement that have been considered by the Committee – through discussion and detailed reporting by both management and the External Auditor – to ensure appropriate rigour has been applied. Other key accounting judgements and areas of estimation uncertainty applied in the preparation of the Financial Statements for 2022 are provided in notes 4.2 and 4.3.

The Independent Auditor's Report on [pages 336 to 346](#)  sets out the audit approach and highlights the other key audit matters that EY drew to the attention of the Audit Committee. These areas of audit focus include: going concern; decommissioning provisions; provisions and claims; customer debtor recoverability; Supplier of Last Resort; carrying value of tangible and intangible assets; taxation judgements; exceptional items and APMs; recoverability of £100m Ovo loan note; ROCs recycle price; contingent consideration; and segmental reporting.

Significant financial judgements and estimates

In the process of applying the Group's accounting policies, management necessarily makes judgements and estimates that have a significant effect on the amounts recognised in the Financial Statements. In consultation with the External Auditor, the Committee reviewed the significant financial judgement areas and identified five specific areas for 2021/22, an increase of one significant financial judgement areas from the prior year. Accounting for the SSE disposal programme, an area of accounting judgement and estimation uncertainty reported on last year, was no longer considered by the Committee to be a significant financial judgement at the year-end. Due to recent market volatility, management has recognised a provision for expected credit loss in relation to the recoverability of £100m loan note due from Ovo Energy Limited following the disposal of SSE Energy Services on 15 January 2020. The assessment of the value of the loan is now considered by the Committee to be a significant financial judgement. In addition, the impact of climate change and the transition to net zero has been included as a significant financial judgement this year.

The Group's most significant financial judgement areas, some of which are also areas of estimation uncertainty, are explained below. For each of these areas the Committee considered the key facts and judgements outlined by management, and requested the External Auditor to provide a professional view on whether the judgements are appropriate. The Committee specifically discussed with the External Auditor how management's judgement and assertions were challenged and how professional scepticism was demonstrated during their audit of these areas. This also included the adequacy of the disclosures within the Financial Statements.

Going Concern and Viability Statement

The Committee reviewed the information to support the assessment and disclosure of the Going Concern Statement prior to Board approval (see A6.3 Accompanying Information to the Financial Statements). Given the cash surplus of £1.0bn at 31 March 2022; the undrawn committed borrowing facilities of £1.5bn maintained by the Group; the current commercial paper market conditions, with £507m outstanding at 31 March 2022; and the assumption the Group will be able to refinance maturing debt, the Directors have concluded that both the Group and SSE plc as Parent Company have sufficient headroom to continue as a going concern. In coming to this conclusion, the Directors have considered sensitivities on future cashflow projections resulting from the Group's credit rating; the success of the Group's disposal programme through 2020/21 and 2021/22; and the successful issuance of £2.5bn of medium to long-term debt and hybrid equity during the financial year 2020/21, along with £1.2bn of long-term debt and hybrid equity since the March 2022 financial year end. In the very unlikely event of not being able to access the revolving credit facility or otherwise refinance as may be required, the Group's options include deferring uncommitted capex and implementing further cost reductions. The Financial Statements are therefore prepared on a going concern basis.

The Committee agreed the parameters and reviewed the supporting report for the Board's assessment of the prospects of the Company which is covered in the Viability Statement on [page 70](#) . In doing so, the Committee considered the Net Zero Acceleration Programme which includes a fully funded capital investment programme to 2026 and as such, the viability period has been extended to four years.

Significant financial judgements and estimates for the year ended 31 March 2022

How those were addressed by the Audit Committee

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.

Significant financial judgements and estimates for the year ended 31 March 2022

How those were addressed by the Audit Committee

Impairment testing and valuation of certain non-current assets (Financial judgement and estimation uncertainty)

The Group reviews the carrying amounts of its goodwill, other intangible assets and specific property, plant, equipment and investment assets to determine whether any impairment or reversal of impairment of the carrying value of those assets requires to be recorded. The specific assets under review in the year ended 31 March 2022 are intangible development assets and specific property, plant and equipment assets related to gas storage and thermal power generation. In addition, the Group performed an impairment review over the carrying value of its investment in Neos Networks Limited. In conducting its reviews, the Group makes judgements and estimates in considering both the level of cash generating unit (CGU) at which common assets such as goodwill are assessed against, as well as the estimates and assumptions behind the calculation of recoverable amount of the respective assets or CGUs. Changes to the estimates and assumptions arising from factors such as regulation and legislation changes (including climate change related regulation), power, gas, carbon and other commodity prices, volatility of gas prices, plant running regimes and load factors, discount rates and other inputs could impact the assessed recoverable value of assets and CGUs and consequently impact the Group's income statement and balance sheet.

An annual valuation/impairment exercise is carried out and the basis and outcome of this review is presented to the Committee by management and includes a description of the assumptions applied in deriving the recoverable values. The Committee reviewed and challenged the assumptions and projections presented in the management paper and considered the detailed reporting from, and findings by, the External Auditor. Further detail of the calculation basis and key assumptions used in the impairment review, the resulting impairment charges and reversals, and the sensitivity of this assessment to key assumptions is disclosed at note 15. Detail on the accounting policies applied is included in the Accompanying Information section A1. Following this review, the Committee supported the recommendation to recognise an impairment reversal in the financial year of £331.6m in relation to thermal assets (Peterhead, Keady, Medway, Marchwood and Great Island) and £97.3m in relation to gas storage assets. In addition, the Committee supported the recommendation to recognise an impairment of £106.9m in relation to its remaining interest in Neos Networks Limited.

Revenue recognition – customers unbilled supply of energy (Estimation uncertainty)

Revenue from energy supply activities undertaken by the Business Energy and Airtricity businesses includes an estimate of the value of electricity or gas supplied to customers between the date of the last meter reading and the year end. This estimation comprises both billed revenue (disclosed as trade receivables) and unbilled revenue (disclosed as accrued income) and is calculated based on applying the tariffs and contract rates applicable to customers against estimated customer consumption and taking account of various factors including usage patterns, weather trends and externally notified aggregated volumes supplied to customers from national settlements bodies. A change in the assumptions underpinning the calculation would have an impact on the amount of revenue recognised in any given period.

This estimation is subject to a process which compares calculated unbilled volumes to a theoretical 'perfect billing' benchmark measure of unbilled volumes (in GWh and millions of therms) derived from historical weather-adjusted consumption patterns and aggregated metering data used in industry reconciliation processes. Furthermore, actual meter readings and billings continue to be compared to unbilled estimates between the balance sheet date and the finalisation of the Financial Statements. The Committee reviewed the practical process issues and assumptions applied in determining the estimation uncertainty and considered the findings of the External Auditor. Following this review, the Committee supported the estimate for revenue recognition from energy supply activities. Further details of the sensitivity associated with this judgement is disclosed at note 18.

Impact of climate change and transition to net zero (Financial judgement and estimation uncertainty)

To fulfil SSE's strategy, its Net Zero Acceleration Programme which is a clearly articulated response to climate change, will drive SSE's capital investment and financial activity in both the short and medium term. With Audit Committee oversight, in 2021/22 SSE enhanced the governance and elevated its response to the recommendations from the Task Force on Climate-related Financial Disclosures (TCFD) which involve, among other requirements, financial impact assessment of the Group's identified climate-related risks and opportunities, which are disclosed on [pages 42 to 55](#), and the impact of climate change on the Group's accounting policies and financial valuations.

The process which the Group adopted in relation to identification and quantification of its climate-related risks and opportunities is explained at [Page 49](#) along with the governance processes established to oversee and approve the associated reporting. The Audit Committee reviewed the approach adopted by the TCFD Steering Group in relation to this matter and was also briefed by the External Auditor, EY, on the audit requirements associated with the adoption of the TCFD including the need for consistency of disclosure throughout the Annual Report and the technical basis for those disclosures. Following presentation of the proposed disclosures and the report of the external auditor on SSE's approach to the adoption project, the Committee approved the basis of reporting and the related financial judgement disclosures included throughout the financial statements for the year ended 31 March 2022.

Disposal programme and valuation of other receivables (Financial judgement and estimation uncertainty)

With the disposal of its investment in SGN in March 2022, the Group's strategic disposal programme came to an end. There had been significant judgement around certain of the accounting issues associated with the disposal during the year, including the timing of the investment being 'held for sale' and the treatment of the investment as a discontinued operation. At March 2022, the most significant financial judgement associated with the disposal programme was the recoverability of the Group's £100m loan note due from Ovo Energy Limited following the disposal of SSE Energy Services on 15 January 2020. The loan carries interest at 13.25% and is presented cumulative of accrued interest payments, discounted at 13.25%. Due to recent market volatility, the Group's assessment of the value of the loan note is now considered a more significant financial judgement. While the carrying value is considered to be appropriate, changes in economic conditions could lead to a change in the level of expected credit loss incurred by the Group.

The Audit Committee considered the accounting judgements associated with the disposal programme throughout the year and reviewed the accounting for the gains and losses recognised and other judgements associated with consideration elements, timing and presentation. The Committee also considered the steps applied by management in making its assessment of the significant financial judgements associated with the Ovo loan note. Management has assessed the recoverability of the loan based on publicly available financial information, the established SSE methodology for considering relevant credit default spreads, knowledge of the business and made direct enquiries to Ovo Energy Limited management. The External Auditor explained the work carried out to corroborate and challenge the position taken by management on all judgmental matters and the audit work carried out to validate the accounting associated with the disposals in the year.

Audit, risk and internal control continued

Audit Committee Report continued

External audit

External Auditor

Following a competitive tender process, EY were appointed by shareholders as SSE's External Auditor for the financial year commencing 1 April 2019. EY were re-appointed by shareholders at the 2021 AGM and have continued to serve as SSE's External Auditor. Hywel Ball is the Senior Advisory Partner and Annie Graham is the Lead Audit Partner with responsibility for signing the SSE plc Audit Opinion on behalf of EY. Annie Graham leads the engagement team and has been in post since EY were appointed and will be required to rotate after five years.

EY presented the strategy and scope of the audit for the forthcoming financial year at the meeting of the Committee held in September 2021, highlighting key areas of audit focus (included within the Auditor's Report on [page 336](#)). EY reported against their audit scope at subsequent Committee meetings, providing an opportunity for the Committee to monitor progress and raise questions, and challenge both EY and

management. EY shared an independent perspective on certain aspects of the Group's financial control and IT systems arising from its work, and reported findings to the Committee in February 2022.

During the course of the year, EY shared insights and feedback with management, and held debriefs to refine the planned audit approach for the financial year ended 31 March 2022.

External Auditor and audit process effectiveness

An important part of the Committee's work consists of overseeing the Group's relationship with the External Auditor to ensure the independence, quality, rigour and challenge of the external audit process is maintained. The Committee reviews the effectiveness of the audit throughout the year taking into account:

- the detailed audit strategy for the year and coverage of the highlighted risks, scope, and level of fees for the audit;
- the quality, knowledge and expertise of the engagement team;

- insight around the key accounting and audit judgements and the competence with which the External Auditor has applied constructive challenge and professional scepticism in dealing with management; and
- the outcome of the review of effectiveness of the External Auditor and audit process discussed below.

Independence and objectivity

In addition to the annual review of effectiveness, the Committee considered the independence and objectivity of the External Auditor through: a combination of assurances provided by the External Auditor on the safeguards in place to maintain independence; oversight of the Non-Audit Services Policy and fees paid; and oversight of SSE's policy on employing former auditors. The External Auditor confirmed that all its partners and staff complied with their ethics and independence policies and procedures including that none of its employees working on the audit hold any shares in SSE plc.

Effectiveness of External Audit

Feedback to inform the review of the effectiveness of External Audit

External Audit

Assurance from EY covering independence (relationships, services and related threats and safeguards) and the matters raised in the FRC's Annual Quality Review inspection reports and remedial actions (if any) taken by the audit firm.

Management

Assess output from survey of those subject to the external audit process. Assurance on the disclosure process for the provision of information to the auditors has been adhered to.

External Auditor

Assess delivery of the audit strategy and Independent Auditors' Report. Assess output from survey of Audit Partners on the external audit process. Assurance on the operation of audit quality process at audit firm.

Audit Committee

Assess output from annual Audit Committee evaluation. Assess output from survey of Audit Committee members, regular attendees and Group Finance.

Outcome

Following consideration of all elements of the audit effectiveness review process, in addition to taking account of the engagement and communication between the Audit Committee, management and External Auditor, the Committee confirmed it was satisfied that the external audit process provided by EY had been delivered effectively. The Committee concluded that EY had demonstrated a depth of knowledge, as well as an appreciation of complex issues, whilst providing constructive, independent and objective challenge to management. The Committee requested that debrief sessions be held between the External Auditor and finance management team to consider any areas to enhance the audit process control environment going forward.

Non-Audit Services Policy

The Committee oversees the Non-Audit Services Policy which governs the process for approving certain Non-Audit Services provided by the External Auditor. The Policy was reviewed by the Committee during the year to ensure that it remained fit for purpose and aligned to the FRC's whitelist of Permitted Audit-Related and Non-Audit Services. In addition, SSE is required to cap the level of non-audit fees paid to its External Auditor at 70% of the average audit fees paid in the previous three consecutive financial years. Services provided by the External Auditor are split into two categories for the purposes of approval:

- **Audit-Related Services.** These services are largely carried out by members of the audit engagement team. The work

involved is closely related to the work performed in the audit and the threats to auditor independence are 'clearly insignificant'. Such engagements are routinely pre-approved by the Audit Committee as part of their approval of the total annual audit fee. Before engaging in any work of this type, approval is required from the Finance Director.

- **Non-Audit Services.** These are services other than 'Audit-Related Services' for which the External Auditor is an appropriate provider. The threats to independence arising from such services are not necessarily 'clearly insignificant' and the Committee and External Auditor must consider the threats to independence and whether any safeguards should be applied. In

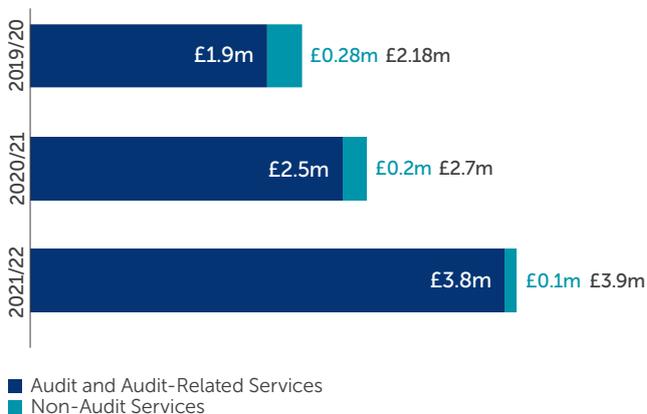
the absence of any apparent threat to auditor independence, approval for the provision of any Non-Audit Service must be obtained from the Audit Committee. The Audit Committee has pre-approved the use of the External Auditor for whitelist Non-Audit Services subject to the following limits: The Finance Director up to £50,000 and Audit Committee Chair up to £100,000.

External Auditor fees

The Committee considered the audit fee proposal for the year to 31 March 2022 at its meetings in September 2021 and agreed the fee at its meeting in November 2021. The factors driving the increase in the level of fees over the last three years were discussed with the External Auditor. The impact of increasing regulatory requirements, changes in the business and composition of the Group and the level of complexity requiring an increased proportion of specialist resource were amongst some of the factors taken into consideration by the Committee when agreeing fair commercial arrangements with the External Auditor. The Committee keeps under review the services provided by the External Auditor by reviewing a fee report at each meeting.

Non-Audit Services amounted to £0.1m and principally related to regulatory accounts and returns required by Ofgem and comfort letters in connection with funding and debt issuance. The Committee was satisfied that the work was best handled by the External Auditor because of its knowledge of the Group and the services provided did not give rise to threats to independence. All Non-Audit Services were approved in accordance with the Non-Audit Services Policy and adhere to the FRC Ethical Standard. Fees paid to EY during the year are made in note 6 to the Financial Statements.

EXTERNAL AUDITOR FEES



Re-appointment of the External Auditor

The external audit contract will be put out to tender at least every 10 years and will be conducted by no later than 2029 in line with prevailing best practice. The Committee confirms ongoing compliance with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

The Committee concluded that it is satisfied with the objectivity and independence of the External Auditor, and that the effectiveness of the external audit process delivered by EY was robust. The Committee proposed to the Board that it seek shareholder approval for the re-appointment of EY for the financial year ending 31 March 2023.

Audit, risk and internal control continued

Audit Committee Report continued

Internal audit

Role of Internal Audit

Internal Audit plays an important role in helping the organisation deliver its vision and objectives by providing independent and objective assurance to management, the Committee and Board on the effectiveness of SSE's risk management activities, internal controls and corporate governance framework. Internal Audit, led by the Director of Group Risk and Audit, reports to the Committee and functionally to the Finance Director. The purpose, scope and authority of Internal Audit is defined within its charter which is approved annually by the Committee.

In fulfilling its role, Internal Audit seeks to add value by encouraging continual improvement in the effectiveness of business planning, operations and systems, promoting wherever possible enhancements to internal control processes, and seeking to embed 'best practice' throughout the SSE Group.

At each Committee meeting, an update on Internal Audit is provided covering an overview of the work undertaken in the period, actions arising from audits conducted, the tracking of remedial actions, and progress against the Internal Audit Plan. The Committee routinely meets independently with the Director of Group Risk and Audit to discuss the results of the audits performed and any additional insights obtained on the risk management and control environment across the organisation.

Internal Audit Plan

The Internal Audit Plan is structured to align with SSE's operating model, risk profile, control environment and assurance arrangements. The Internal Audit Plan is split between a one-year plan and a three-year strategy setting out the broader areas of Internal Audit focus, together with the vision and resource for the function. External providers may be engaged to support delivery of the Internal Audit plan where specific skills and expertise require to be co-sourced. An integrated assurance mapping and planning process is undertaken to ensure that Internal Audit work is appropriately aligned to, and coordinated with, the activities of other relevant assurance providers across the Group. The Plan includes audits of key transformational programmes, financial control and areas relating to responsible behaviour and non-financial risk.

Internal Audit effectiveness

The Committee keeps under review and assesses the independence and effectiveness of Internal Audit by adopting the process outlined below.

The assessment considered Internal Audit's positioning within the organisation and the quality of its planning and operational procedures. The assessment incorporated a survey of Internal Audit's stakeholders across the Group, along with a review of outputs from a number of recent internal audits. During the year, a review of the Internal Audit function was carried out by

the Director of Group Risk and Audit who joined SSE in early 2020. The Committee received an update with an overview of the strategic objectives for the function and supported the objective to strengthen the skills and experience of the team.

Internal control and risk management

Internal control

The Board has delegated to the Committee responsibility for reviewing the effectiveness of SSE's System of Internal Control. This covers all material controls including financial and compliance controls, in addition to the financial reporting process. Internal control and risk management in relation to SSE's energy market related exposures are overseen by the Energy Markets Risk Committee and further information can be found on [pages 162 to 163](#).

During the year, the Committee received an update at each meeting from the project team established to assess and strengthen the financial reporting control environment in anticipation of a SOX style framework being introduced in the UK. The timing of the implementation legislation remains unclear, however, management has continued to monitor regulatory developments and provide regular updates to the Committee.

To assist the Committee's review of the System of Internal Control, the different elements are evaluated by relevant key stakeholders.

Effectiveness of Internal Audit

Feedback to inform the review of the effectiveness of Internal Audit

Internal Audit

Assess delivery of the Internal Audit Plan.
Assess audit resource and expertise.

Management

Assess output from survey of Group Executive Committee and other key members of senior management.

External

Assess feedback provided from the External Auditor.
Assess progress against the actions identified during the previous evaluation.

Audit Committee

Views from members of the Audit Committee.

Outcome

Following consideration of all elements of the review, the Committee recognised the progress made during the year and confirmed it was satisfied with the overall performance of the Internal Audit function. The key areas of focus for 2022/23 include: recalibrating the Internal Audit function to adopt leading practices through digital, technology and data analytics; implementation of a people based strategy that can support talent, career development and succession; and an enhanced approach to identification, management and mitigation of risk.

These evaluations are assessed by the Finance Director and a letter is provided to the Committee summarising the work conducted in the year to improve the control environment and making a recommendation on the overall effectiveness of the System of Internal Control. In addition, when undertaking the review of the effectiveness of the System of Internal Control, the Committee considers the assurance evaluations undertaken annually by the Managing Directors of each of SSE's seven Business Units. These assurance evaluations consider each framework of the system of internal control from a Business Unit perspective and include any planned improvements to enhance controls. These improvements are tracked, with updates reported to the executive-level Group Risk Committee on a regular basis.

Risk management

The Group's Risk Management Framework is designed to manage rather than eliminate the risk of failure to achieve business objectives. It can only therefore provide reasonable and not absolute assurance against material misstatement or loss. In addition to the ongoing review of emerging risks, the Board carried out a robust assessment of the Principal Risks facing the Group, being those that have the potential to threaten its business model, future performance, solvency or liquidity. Further details of the Group Principal Risks are set out on [pages 71 to 81](#).

Internal control and risk management effectiveness

Following the Committee's review and recommendation, the Board agreed that SSE's System of Internal Control (including risk management) continues to be effective. This was in accordance with the requirements of the FRC Guidance on Risk Management, Internal Control and related Financial and Business Reporting. Taking into account continuous improvement actions, the Board also confirms that no significant failings or weaknesses have been identified during the financial year. Processes are in place to ensure that necessary action is taken and progress is monitored where areas for improvement have been identified.

System of Internal Control

The elements that make up the System of Internal Control are:

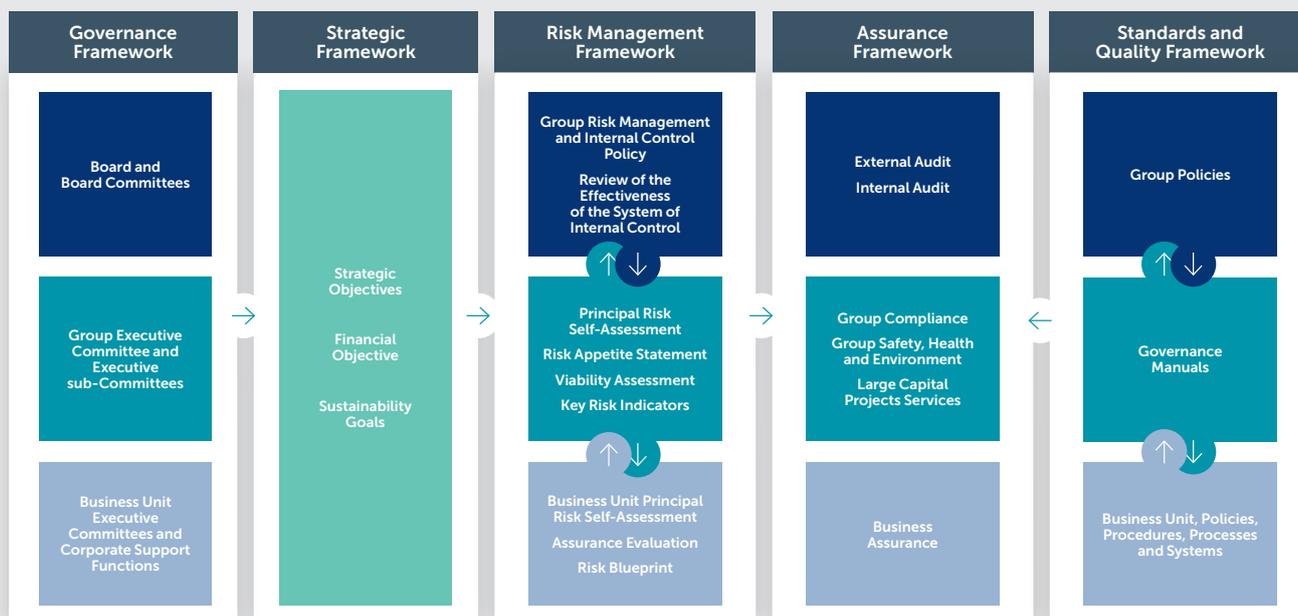
- **Governance Framework.** Designed to ensure focus on the key components of high quality and effective decision making – clarity, accountability, transparency and efficiency. For further details please see [page 124](#) of the Directors' Report.
- **Strategic Framework.** This includes Group's strategic objectives, financial objective and sustainability goals and forms the basis for all activity within the Risk Management Framework.

For further details please see [pages 2 to 5](#) of the Strategic Report.

- **Risk Management Framework.** This framework supports each Business Unit in managing its risks and helps to ensure that the Board can meet its obligations. The framework is underpinned by the fundamental principle that everyone at SSE is responsible for the management of risk.
- **Assurance Framework.** An integrated programme of audit and assurance activity that is independent of the day to

day operations of the Business Units and corporate functions. It is made up of Internal Audit, Group Compliance, Large Capital Projects Services and Group Safety, Health and Environment.

- **Standards and Quality Framework.** Sets out the expected standards and guidelines to be followed in the delivery of the Group's core purpose.



Audit, risk and internal control continued

Energy Markets Risk Committee Report



Role of the Committee

The Committee oversees SSE's energy markets risk exposures by:

- monitoring and supervising SSE's hedging approach;
- assessing any potential emerging energy market issues and risks; and
- reviewing SSE's internal control and risk management in this area.

In doing so, it assists the Board in the effective discharge of its responsibilities in relation to risk management and internal control in this area.

The Committee's Terms of Reference are available on [sse.com](https://www.sse.com).

SSE approach to hedging

SSE has an established approach to hedging through which it generally seeks to reduce its broad exposure to commodity price variation in relation to electricity generation and supply at least 12 months in advance of delivery. As market conditions change, SSE may be required to vary its hedging approach to take account of any resultant new or additional exposures. SSE will continue to provide a summary of its current hedging approach, including details of any changes in the period, within its Half and Full-year Results Statements. Details of SSE's latest hedging approach and hedging position are set out on [pages 88 to 89](#).

Dear Shareholder,

This report aims to give insight into how the Energy Markets Risk Committee (EMRC) operates, provide an outline of our activities, and to summarise the role we have played in overseeing SSE's energy markets risk exposures and ensuring the effectiveness of related risk management, controls and processes, for the year ending 31 March 2022.

Our main responsibility is to oversee governance arrangements, which provide transparency surrounding SSE's approach to managing commodity price exposures. Reports of these exposures are reviewed and discussed at each EMRC meeting. When required, actions are recommended to the Board for approval, including any changes to SSE's hedging approach.

Recently, we have overseen SSE Renewables' continued assessment of its approach to hedging, including:

- Further refinement, where appropriate, of the use of equivalent gas and carbon trades as a replacement for power trades along the forward curve. This aims to both optimise the hedge prices achieved and reduce the exposure of SSE's wind assets to volatile spot power market outcomes, while still providing a hedge for most of the anticipated energy and carbon commodity price exposure.
- Ongoing assessment of market conditions to optimise hedging outcomes. This has included an increase in SSE Renewables' position against its target hedge volume for financial year 2024/25, in response to continued high prices and observed volatility in energy markets.

I would like to highlight that during the year, despite the historically high and volatile prices seen on energy markets, SSE was served well by its measured hedging approach and successfully managed any increasing credit and collateral requirements. As a committee, we will continue to monitor and oversee these exposures, and should circumstances lead to any change in approach being required, these will be fully discussed, challenged and appropriately reported in

SSE's Half and Full-year Results statements. For further details of SSE's latest hedging approach and hedging position see [pages 88 to 89](#).

To enhance the internal control and risk management approach in relation to energy markets, a Group Energy Markets Exposure Risk Committee was established in 2021/22, to provide a forum for SSE's senior management to discuss and consider energy market risks and exposures monthly. This forum reports to the Group Executive Committee and minutes of meetings are provided to the EMRC for review and comment.

Across the period, we continued to monitor the coronavirus pandemic receiving regular updates on its economic consequences and energy market related impacts. This included reports and minutes from the Group-level Demand Management Committee, which was set up to monitor the impact of the coronavirus pandemic on SSE Business Energy's and SSE Airtricity's customer demand profile.

For the year ahead, the main priority for the EMRC is to continue its oversight role in relation to SSE's energy markets risks and exposures. Given the ever-changing external environment, we will provide particular focus to the impact, management, and mitigation of relevant macroeconomic and geopolitical events. This will include the impact of a prolonged or an escalated conflict between Ukraine and Russia and its influence on energy market prices and volatility.

I hope you find this report informative and reflective of the activities undertaken by the EMRC during 2021/22.

Tony Cocker
Chair of the EMRC
24 May 2022

Key activities in 2021/22

- Continued to monitor the impact of the coronavirus pandemic; developments in international commodity markets; and the impact of the geopolitical tension and then Russia's invasion of Ukraine.
- Reviewed and received updates on energy markets which experienced historically high and volatile prices.

Membership and attendance

The EMRC comprises three non-Executive Directors, the Chair of the Board and two Executive Directors. Full details of membership and meeting attendance are set out on [page 125](#). The Chief Executive and the Managing Director, Energy Portfolio Management also routinely attend meetings, with an Assistant Company Secretary acting as Secretary to the EMRC. To assist the EMRC in carrying out its responsibilities, relevant senior managers can be invited to attend to present certain items of business and provide additional levels of insight.

The EMRC membership is approved by the Board following recommendation of the Nomination Committee. In line with new appointments to the SSE Board, the EMRC membership was reviewed during the year with Debbie Crosbie becoming a member from the February 2022 meeting. This change continues to enhance the skills

and expertise across the EMRC's membership, ensuring it is able to effectively discharge its duties. Upon joining, Debbie Crosbie was provided with a committee induction by senior managers which covered the key focus areas of the EMRC.

The composition of the EMRC allows for the utilisation of the relevant experience held by the non-Executive Directors. As EMRC Chair, Tony Cocker brings extensive knowledge from his career in the energy industry, Debbie Crosbie, Melanie Smith and Sir John Manzoni, provide invaluable insights and a wealth of knowledge from various senior roles in the private and public sectors. Biographical information of the EMRC members' backgrounds and experience is contained on [pages 118 to 122](#).

Meetings and focus areas in 2021/22

The EMRC held four scheduled meetings in 2021/22, and one additional meeting to receive a report on the market volatility seen in Winter 2021. After each meeting, the Committee Chair reports to the Board on its work. Meeting agendas are informed by a forward plan of business, which is designed to ensure the EMRC carries out its responsibilities in line with its Terms of Reference. In addition, and outside of the cycle of scheduled meetings, the EMRC Chair meets with the Chief Commercial Officer, Managing Director, Energy Portfolio Management, and the Committee Secretary to ensure that key and emerging issues are brought to the EMRC's attention in a timely manner.

Committee evaluation

The annual review of Committee performance for 2021/22 was considered through the formal external Board evaluation conducted by Lintstock (see [pages 143 to 144](#)). The evaluation rated the performance of the EMRC and the Chair highly. It also indicated that the EMRC is operating effectively, and continues to provide appropriate challenge and oversight of the areas within its remit. The evaluation also identified that to continue to adapt to the focus of the demands of the business and environment in which the EMRC operates, the agenda and business planner should continue to be kept under review to ensure material issues and developments were being discussed at each EMRC meeting.

The EMRC continues to develop and regularly review its forward plan of business, to capture any emerging issues and risks to SSE arising from energy markets.

Details of the key focus areas and action taken in the year are set out below.

Key EMRC focus areas in 2021/22

Overseeing SSE's hedging approach

- As part of a quarterly report on Energy Markets Risk, 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 on 31 March 2022 included in the Full-Year Preliminary Results Statement and Annual Report 2022.

Energy Markets Risks

- Received reports on emerging energy market issues and risks (for example in relation to volatile gas markets due to the tension, and then ongoing conflict, between Russia and Ukraine) and recommended relevant changes to risk management arrangements, in line with SSE's hedging approach, to the Board.
- Considered a report on key energy market risks, risk appetites and risk management controls and governance.
- Received reports on reviews of GB and ROI energy markets.
- Received and reviewed a report on the long term price forecasts for gas, carbon and power.

Internal Control and Risk Management relating to Energy Market Exposures

- Considered a report on the key risks and controls arising from operations within Energy Portfolio Management.
- Reviewed the Energy Portfolio Management MD Letter of Assurance.
- Received an in-depth review of risk control metrics provided internally.
- Received quarterly reports from Internal Audit and details of resulting action plans related to the Energy Portfolio Management business.
- Reviewed minutes from the Group-level Demand Management Committee, which provided updates on activities as a result of alterations to customer demand profile due to the coronavirus pandemic.
- Reviewed minutes from the Group Energy Markets Exposure Risk Committee which provides executive-level oversight of SSE's energy market exposures and their associated management.

Governance and other

- Considered the output of the EMRC performance evaluation.
- Approved the narrative of the EMRC Report 2022.
- Regularly reviewed the forward business planner.

Audit, risk and internal control continued

Safety, Sustainability, Health and Environment Advisory Committee Report



Dear Shareholder,

I am pleased to present the Safety, Sustainability, Health and Environment Advisory Committee (SSHEAC) Report for the year ended 31 March 2022; a period in which we expanded our responsibilities to assist the Board in its oversight of sustainability governance and assurance on a range of environmental, social and governance (ESG) topics. The purpose of this Report is to explain the work of the SSHEAC during the year, alongside the progress that has been made in relation to safety, sustainability, health and wellbeing, and the environment. A more in-depth review of these areas, together with a range of other ESG reporting can be found on [pages 40 to 67](#) and in SSE's Sustainability Report 2022 which is available on [sse.com](#).

Our Safety Family licence, 'If it's not safe, we don't do it' and genuine drive to take care of ourselves and each other has helped many navigate their way through the coronavirus pandemic. Now, as we move into a 'new normal', we have spent time reviewing our SHE strategy for the next five years. There was evidence that SSE's SHE engagement programmes continue to drive improved SHE performance, and 'We all get home safe' provides a measurable goal to aim for. Moving forward, the engagement and activity across the organisation will therefore build on the progress made with added focus around the SHE strategy aim of 'making it easier to do the right thing'.

We're proud to provide our people with the tools and flexibility they need to balance work and life. As coronavirus restrictions have eased, we have seen our colleagues returning to offices and we have also been able to resume the programme of physical site visits. Across this transition, we have been exploring technology to establish how we can better support our employees. Apart from investing significantly in the platforms for agile working, extensive digital resources have been developed to support the wellbeing of our colleagues. The Company has reviewed mental health and wellbeing programmes, trained some of our colleagues as Mental Health First Aiders and supported the 'Time to Change' initiative – a commitment to change how we think and act about mental health at SSE.

SSE was proud to be a Principal Partner of COP26 in Glasgow and the event was powered by 100% renewable energy generated by SSE's Griffin Wind Farm in Perthshire. SSE also became the first company to publish a Just Transition Strategy in November 2020, this will help to guide our decision-making and influence greater fairness for those impacted by the decline of high-carbon economic activity and increase the opportunities of climate action. This was followed in September 2021 by a report focused on moving from just transition principles to action. In November 2021, SSE announced an ambitious £12.5bn capital investment plan which will accelerate progress towards net zero over the five years to 2026, the majority of which will go to low-carbon infrastructure.

To support ongoing engagement with shareholders on climate-related issues, the Board has proposed a resolution, within the business of the Annual General Meeting 2022, that will allow shareholders to vote on SSE's first Net Zero Transition Report. The Report is based on our Net Zero Transition Plan which was published in March 2022. The aim of the Plan is to provide SSE's stakeholders with clarity around the actions SSE intends to take towards achieving its net zero ambitions in both 2040 and 2050. The Net Zero Transition Plan is available on [sse.com](#).

On behalf of the SSHEAC, I would like to thank all employees and those that work with SSE for their sustained effort, hard work and commitment. I would also like to welcome Dame Elish Angiolini and Martin Pibworth who were appointed as new members of the Committee in the year.

I hope you find the following report a useful explanation of our work and of SHE performance during the year.

Helen Mahy CBE
Chair of the SSHEAC
24 May 2022

Role of the Committee

- Supports and advises the Board on matters relating to safety, sustainability, health and the environment.
- Provides a leadership forum for non-Executive Directors to work with senior management and shape policy, targets and strategy to improve safety, sustainability, health and environmental performance.
- Reviews the implementation of SSE's Group Policies relating to: safety and health; the environment; climate change; and sustainability.
- Reviews the effectiveness of SSE's strategy, initiatives, training and targets in relation to safety, occupational health and wellbeing of employees and contractors, sustainability and the environment.
- Monitors the level of resource, competence and commitment applied to the management of safety, health, the environment, and sustainability issues to ensure a culture of continuous improvement across SSE.
- Maintains access to a range of both internal and external stakeholder perspectives to better achieve the creation of shared value for society.
- Supports SSE's commitment to being a sustainable company that makes a positive contribution to the communities in which it operates.

The Committee's Terms of Reference are available on [sse.com](#).

Key activities in 2021/22

- Resumed physical site visits.
- Reviewed wellbeing support.
- Reformed the Committee.
- Reviewed SHE strategy.

Membership and attendance

The membership of the SSHEAC comprises four non-Executive Directors; the Chair of the Board; the Chief Commercial Officer; the Chief Sustainability Officer; the Managing Director, SSEN Distribution; the Managing Director, SSE Distributed Energy; and the Director of Group Safety, Health and Environment. An Assistant Company Secretary is Secretary to the Committee and the Chief Executive routinely attends meetings. The Committee invites operational managers and specialists to attend certain meetings to gain a deeper level of insight on particular items of business. Biographical details of the non-Executive members can be found on pages 118 to 122 [↗](#) and details of non-Executive meeting attendance are set out on page 125 [↗](#). During the year, a number of changes to the Board and executive membership of the Committee were considered by the Nomination Committee and subsequently agreed by the Board. The detail of these changes are set out on page 149 [↗](#).

Meetings and focus areas in 2021/22

The SSHEAC met four times in 2021/22. Working closely with the Group Safety, Health and Environment Committee (which reports to the Group Executive Committee), the SSHEAC has an annual work plan to: review SHE performance at Group-level and in each of SSE's seven business areas; consider in-depth reviews of certain key topics such as contractor, asset and process safety; and review a range of SHE governance and assurance requirements. Other matters which the SSHEAC has focused on during the year include: SHE strategy; SHE targets; SHE engagement; the environment, including natural environment; occupational health and wellbeing; a review of the SHE Risk Matrix; fatigue management; and legislative and regulatory developments.

Committee evaluation

The actions identified from the evaluation of the SSHEAC in 2020/21 as reported on last year were monitored through to completion. A detailed review of the SSHEAC's remit was completed and its Terms of Reference updated accordingly. More information about the process can be found in this Report under Reform of the SSHEAC.

The annual review of Committee performance for 2021/22 was considered through the formal external Board evaluation conducted by Lintstock (see pages 143 to 144 [↗](#)). The output of the evaluation was considered at the Board in March, with follow-up actions agreed by the Committee for progression across 2022/23. The Board confirmed the effective operation of the Committee in discharging its responsibilities.

Evaluation themes

- Good coverage of the key aspects of safety and environmental issues. The revised scope of the Committee enhanced oversight of ESG matters with a range of sustainability topics now being reviewed.
- The SSE safety language was described as outstanding, and the Safety Conference in November 2021 demonstrated how well safety messages have been embedded.
- The SSHEAC's contribution have supported and encouraged the ambition and direction of travel on safety, health and environmental matters.

Actions for 2022/23

- **Site visits.** The continuation of site visits is a top priority.
- **Agenda.** Develop an overall framework for the Committee's agenda, to promote a more holistic oversight of safety, health and wellbeing, the environment and sustainability.
- **Deep dives.** Consider focused sessions on The Construction (Design and Management) Regulation, Task Force on Climate-Related Financial Disclosures, carbon reductions plans and biodiversity.

To discharge its new responsibilities the SSHEAC also considered:

- A climate adaptation and resilience review developed collaboratively by Group Sustainability, SSE's Weather and Thermal Environment teams, that looked at the effects of climate change on SSE's businesses and outlined the actions taken so far to support the consistency of climate adaptation reporting for the SSE Group.
- An ESG performance review that summarised SSE's 2020/21 environmental, social and governance performance, as assessed by external ratings agencies and investor-led initiatives.
- Prior to sign-off, the plan for SSE's Sustainability Report 2022 that reports on SSE's economic, social and environmental impacts.

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.

To ensure people across SSE continue to work safely, the Committee monitored the approach taken by the Company to pro-actively manage the evolving coronavirus position, and a range of processes, procedures and guidance were followed and widely communicated. At an early stage, SSE introduced coronavirus testing when needed for its critical workers and has worked closely with trade union partners throughout to extend flexible working practices, particularly for those with caring responsibilities. The priority remains continuing to take care of, and supporting employees.

In 2021/22, SSE launched its Flexible First employee guidelines which have been shaped by employee feedback. The guidelines are designed to harness the benefits of flexibility, balanced with the need to connect and work together in the most effective way. The SSHEAC acknowledges the well documented link between the pandemic and the impact on mental health, and the importance of making the return to work a pragmatic and positive journey.

Audit, risk and internal control continued

Safety, Sustainability, Health and Environment Advisory Committee Report continued

Reform of the SSHEAC

The output from the 2020/21 performance evaluation of the Board and its Committees identified a need to evolve the scope and coverage of the SSHEAC, to assist the Board in its oversight of sustainability governance and assurance on a range of ESG topics. In support of this, the Board agreed a series of recommendations at its meeting in May 2021 to enhance the role of the renamed Safety, Sustainability, Health and Environment Advisory Committee. The key recommendations that were approved by the Board and which have impacted the work of Committee are summarised below.

- **Responsibilities.** The responsibilities of the Committee were expanded to cover: (a.) a review of SSE's comparative ESG ratings performance; (b.) approval of the Sustainability Report; (c.) a review of the physical risks of climate change on SSE's activities with a focus on climate adaptation and resilience; and (d.) increased oversight of SSE's policy, practice and performance surrounding environmental impacts, including waste, air emissions, biodiversity and water consumption.
- **Committee name.** The SHEAC was renamed the Safety, Sustainability, Health and Environment Advisory Committee (SSHEAC) to reflect its enhanced role.
- **Meetings.** A review of the length, frequency and timing of Committee meetings was carried out.

SHE Strategy

During the year, the SSHEAC reviewed SSE's SHE strategy for the next 5 years. A 'hybrid' SHE Conference to engage key local influencers and a wider community on SSE's SHE strategy took place on 30 November 2021. An employee survey showed that colleagues feel committed to the goals of the previous 50by20 SHE Strategy which had been successful in delivering improvements in SHE performance. The SHE Goals, Safety Family and Enduring Goals were key features of the 50by20 Strategy and understood and recognised across the organisation. These features have therefore been maintained as part of the updated SHE strategy.

As part of the SHE Strategy development activity, feedback from engaging with colleagues, peer benchmarking and a review of the learning outcomes from past incidents, further led to exploring the concept of 'how to make it easy for people to do the right thing'. In this context, the following focus areas were set out: (a.) strengthening of controls and assurance; (b.) enablers to help people do the right

thing; and (c.) drive progress with the 8 Enduring Goals. The five Golden Safety Rules have also been integrated into the SHE strategy.

SHE performance

Safety

SSE uses the concept of 'Safe Days' as a way to monitor and track its safety progress and performance. On a 'Safe Day', there are no minor, serious or major, SSE or contractor, safety or environmental incidents or any incident with high potential for harm to people or the environment. During 2021/22, 254 Safe Days were achieved, compared to 271 in the previous year. In addition to Safe Days, SSE continues to measure safety performance using the rolling Total Recordable Injury Rate (TRIR) for employees and contractors. This measure is used for benchmarking and trend analysis, and in 2021/22 it increased to 0.17 per 100,000 hours worked, compared to 0.15 in the previous year. This increase reflects a significant surge in construction associated with SSE's record capex and increased activity following the recovery from coronavirus.

Focus on ensuring everyone gets home safe remains central to SSE and the work of the SSHEAC. In March 2022, the Committee therefore set a TRIR target of 0.15 for 2022/23 and re-iterated the need to keep focus on having no life changing injuries or major SHE incidents. This will continue to be monitored, alongside a measure of environmental permit breaches against key Business Units' milestones to provide a framework in which to assess SHE performance in a rounder way. At the end of April 2022, the longer-term trend on TRIR had tracked back to the 0.15 level.

Health and wellbeing

Health and wellbeing is at the core of SSE's Safety Family. It reinforces very directly how we can take care of ourselves and each other.

To strengthen the occupational support SSE offers; it recruited a new Head of Health and Wellbeing during the year. A supporting review of occupational benefits concluded that there is a very good range of support with the ability for some services to be used more and/or expanded upon. Building on the good foundation that is already in place and using all-employee survey findings, SSE is looking to integrate the following into the health and wellbeing support model: (a.) making it easy to do the right thing; (b.) making the uncomfortable, comfortable; and (c.) service and support.

A range of resources are available to employees to help them take care of themselves and others, including Employee Assistance and Back to Health programmes supported by Nuffield Health. A wellbeing app provides home workout videos and tailored programmes and the 'Mental Health Toolkit', that is being developed, is designed to support managers by providing information on various concerns all related to mental health. SSE's priority for 2022/23 will be to continue to support employees to adapt to new working conditions and look after their mental and physical health.

Environment

To achieve its core purpose to provide energy today while building a better world of energy for tomorrow, SSE's strategy seeks to simultaneously create value for both shareholders and society. The framework it uses to achieve this objective is the United Nations Sustainable Development Goals. SSE's Environment strategy sits firmly within the sustainability hierarchy within the UN Global Goal framework. Operationally, SSE focuses on three priority pillars: (a.) environmental management and governance; (b.) responsible resource use; and (c.) natural environment.

In 2021/22, the number of environmental incidents as a result of SSE's activities totalled 60, compared to 44 in the previous year. Of these, there were no major environmental incidents. SSE's environmental permit breaches increased to 7 in 2021/22 from 4 the previous year. The majority of environmental incidents were minor and most permit breaches were self-reported to the relevant environmental agencies. All incidents were dealt with quickly when identified. During the year, SSE's carbon footprint benefited by having reduced travel, with most colleagues using the Flexible First approach to work combining office and home working, and utilising technology.

Sustainability

Significant progress was made across the most material areas of sustainability in 2021/22, with the SSHEAC reviewing SSE's performance in each environmental and social category identified by ESG-focussed investors and ratings agencies, approving areas for development and improvement in the next financial year. In terms of SSE's approach to the disclosure of its sustainability impacts, the aim is to bring about continuous improvement in both the quality of information disclosed and across stakeholder engagement. SSE's Sustainability Report aims to demonstrate the way SSE creates value for shareholders and society

in a sustainable way and provides detailed information on the policies, practices, performance and governance of a range of economic, social and environmental matters. The SSHEAC has responsibility for approving the Sustainability Report which is available at [sse.com/sustainability](https://www.sse.com/sustainability). Complementary information can also be found on [pages 40 to 67](#).

Site visits

Easing of coronavirus restrictions allowed for the programme of SSHEAC site visits to resume in 2021/22. Instead of all members participating in the same site visit, it was agreed to broaden the coverage through two members of the SSHEAC teaming up and focusing on a particular area during September 2021. Site visits included: Slough Heat and Power; Keadby 1 and 2; Walton Park; Solent Park; and the Viking Windfarm construction site on Shetland, followed by a visit to the Transmission HVDC convertor station site and to Lerwick Power Station. A large part of the meeting held in October 2021, which had been organised outside of the schedule of Committee meetings, was dedicated to receiving feedback and agreeing next steps in the process of continuous improvement. Overall, it was agreed that the safety site visits were powerful in providing members of the SSHEAC with a breadth and depth of knowledge across a range of projects and operational activity.

A structured approach to site visits ensures that feedback is collected and acted upon. This is facilitated by a dedicated feedback template which is completed by members of the Committee following completion of an engagement. The SSHEAC has agreed the site visit programme for 2022 which will be reported on next year.



Site visit to Keadby 1 – our Safety Language in action

The below represents feedback provided by the members of the SSHEAC on a visit to Keadby 1 in September 2021.

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

- The site is currently operating under a number of operational access restrictions which is being monitored closely. The leadership team provided a clear account of how operational teams were engaged on the approach, to ensure effective management of this risk.

- Weeds in the HV compound had been identified by the on-site team and work to address had been planned.

Plan, scan and adapt

- The Gated process for outages was presented, and judged as being very effective in ensuring that the work being done was well planned and appropriate.
- Work coordination between Keadby 1 and Keadby 2 was in place, with weekly integration meetings and an embedded Keadby 1 team member in the Keadby 2 team.

What would make it easy (or easier) for people to do the right thing?

- The on-site team were comfortable with the steps being taken to address coronavirus.
- Supervision was highlighted as an important area. The benefit of the empowering supervisor training was noted, alongside ensuring adequate time was allocated for supervisory activities.

We take pride in our work and our environment

- A good level of housekeeping and appropriate coronavirus signage was observed.
- A remote induction in addition to a local site orientation was provided.
- The approach taken during outages – external tents for coordinating meetings – was seen as best practice.

We take care of ourselves and each other

- The local SHE community group operates effectively with the 45 people on site engaged. This includes representatives from Engineering, Operations and Maintenance teams.

We see it, sort it and report it

- The contractor workshop was a well set up area and work being done was highly organised.
- Coronavirus restrictions in the permit office were well managed.

Overall impression

Keadby 1 is moving towards the end of its operations and the site are managing the transition well, in addition to preparatory work for the operation of Keadby 2.

Remuneration Committee Chair's statement



Role of the Committee The Remuneration Committee is responsible for the following:

- The Remuneration of SSE's most senior Executives and also Chair of the Board. The Committee also reviews but does not decide the remuneration of SSE's employees. This ensures that the decisions on executive pay take full account of pay across the Company.
- The Directors' Remuneration Report and for ensuring that, at least every three years, shareholders are asked to approve a new Directors' Remuneration Policy at the Annual General Meeting. The Terms of Reference of the Committee which are reviewed annually and are available on [sse.com](https://www.sse.com) .

The Committee bases its activities with four principles and objectives in mind. 1.) the Company's culture and values; 2.) the link between the remuneration framework with the Company's purpose and strategy 3.) ensuring the remuneration framework is designed to promote the long-term success of the Company and 4.) ensuring the performance-related elements of pay are transparent, stretching and consistently applied as well as linked to the successful delivery of strategy.

An Assistant Company Secretary is secretary to the Committee and the Chief Executive and the Company Secretary and Director of Investor Relations are invited to attend all meetings. The Committee ensures, however, that no individual is ever present when their own remuneration is under discussion or decisions are made. The Committee also takes independent external advice on remuneration and corporate governance and appoints its own professional advisers for this purpose.

Performance and delivery in a year of volatility

Dear Shareholder,

This Directors' Remuneration Report sets out simply and transparently how SSE pays its Directors (both Executive and non-Executive); the decisions made on their pay in 2021/22; and how much they received in relation to the financial year ended 31 March 2022.

Delivering on strategy

In November 2021 SSE set out its strategic Net Zero Acceleration Programme for sustainable, long-term growth aligned to a 1.5°C global warming pathway. As detailed earlier in this Annual Report, good progress against the programme – with its £12.5bn capital expenditure plan to 2026 and new medium-term business goals to 2031 – has been made in the intervening months. SSE has been investing around £7m a day in low-carbon infrastructure at home and has started to export its developer expertise abroad, creating tangible value for stakeholders.

In addition, throughout 2021/22, SSE has delivered solid operational performance. Highlights include strong earnings performance despite unfavourable weather for renewable generation, the conclusion of the disposals and re-structuring programme with £2.8bn of proceeds, improvements in employee engagement despite the pandemic, a positive reaction to our involvement with COP26 where SSE was a Principal Partner and strong Total Shareholder Returns. Our employees have once again contributed amazingly throughout the year and a special payment has been made of £500 or €600 to employees in recognition of their excellent contribution.

2021/22 AIP outcomes

The Annual Incentive Plan (AIP) is determined against a broad range of financial, operational, strategic, and personal performance targets collectively designed to reflect business performance each year. The measures used for 2021/22 were chosen to support our strategic delivery and longer-term goals.

Performance in the year has been strong across a range of metrics which resulted in an assessment of the 2021/22 award being up to 83% of the maximum. The Committee considered the results in the context of other performance indicators and the wider stakeholder experience and determined that the result was fair and reasonable so did not apply any discretion. As a reminder, the Committee has used downward discretion three times in the previous five years. A detailed AIP scorecard can be seen on [pages 186 to 189](#) .

2021/22 PSP outcomes

The Performance Share Plan (PSP) awards granted in 2019 are due to vest following the 2021/22 financial year, subject to financial, operational, and value-creation performance measures over the three-year period. These have been objectively assessed, resulting in an outturn of 66% of maximum. The Committee confirmed that the formulaic outcome for these awards is appropriate and no discretion was applied. More details on the performance measures used, the targets set, and the performance outturn is set out on [pages 189 to 190](#) .

Linking policy to purpose

Our current Directors' Remuneration Policy was approved by shareholders at the 2019 AGM, with over 99% support. The policy is built on our core reward principles which endure. They are:

1. Sustainability, reinforcing SSE's commitment to being a responsible employer
2. Simplicity, maximising transparency and avoiding unnecessary complexity
3. Stewardship, encouraging good decision-making for the long term
4. Stakeholders, reflecting SSE's strategic goal of creating value for shareholders and society.

The policy expires at the AGM and the Remuneration Committee is seeking to use the three-yearly review cycle to strengthen and align the approach to pay with SSE's purpose and long-term strategy as set out by the Net Zero Acceleration Programme. The changes to the Policy will play a key role in the successful execution of SSE's strategy, including the stated investment and growth plans to create the conditions for SSE to succeed, the Remuneration Committee took the view that changes to pay were necessary at this time for four main reasons.

- Sustainability is central to SSE's purpose and strategy. Operational excellence will be key to successful delivery of the Net Zero Acceleration Programme. Hence, we propose to include sustainability measures in the Performance Share Plan (PSP), to reflect the long-term nature of these targets, whilst also retaining an

"in-year" focus on progress by including a smaller element within the Annual Incentive Plan (AIP). This increases the emphasis on sustainability overall, as well as focusing it more to the longer term. We also plan to introduce operational measures into the AIP and strategic measures into the PSP.

- Our total remuneration arrangements currently place insufficient emphasis on long-term performance-related pay and a market correction is required. This applies to both the level of awards under the Performance Share Plan and SSE's share ownership requirements which are both below market. The performance share awards are key to ensuring that we are paying fairly and competitively in exchange for delivery and higher levels of performance. We are not proposing to make increases to basic salaries above the norm for all SSE employees.
- SSE's overall approach to executive remuneration is in line with SSE's historic policy positioning because of long standing pensions arrangements in place for incumbent executives. The Board is keen to structure the policy to ensure that it can attract world-class talent for whom existing historic pension arrangements will not exist. This is particularly important as SSE becomes more international and recruits from new geographies.
- Our Executive Directors are key to the success of the Net Zero Acceleration Programme, and we shall be asking more of them than ever before as we move into a new phase of accelerated growth for SSE.

As Chair of the Remuneration Committee, I consulted extensively with our largest shareholders and other interested parties. The engagement process began in February to allow as much time as possible to listen to the views of our shareholders. I am extremely grateful to everyone who was generous with their time and shared their views on the proposals. Most shareholders were supportive of the changes. All the feedback we received from investors was considered by the Remuneration Committee. As a result, we have adapted the proposals in a number of ways. We changed the proposal to reduce the weighting of financial and share-based measures under the PSP in light of the feedback. EPS and relative TSR still account for 70% of the award. Dividend Per Share remains a crucial KPI but we shall reward instead achievement against specific strategic and sustainability goals. Some shareholders asked us to link incentives to return on capital or return on equity. The Committee debated this at length and, at this stage, take the view that stretching targets could not readily be set for ROCE given the range of returns across SSE's businesses. The key inputs of ROCE are, however, linked to incentives. The new strategic and operational measures are also more robust. The Remuneration Committee expects of course that it will be required to use its judgement, as it currently does, when assessing the extent to which targets have been met.

Details of the Policy changes can be found in full on [page 172](#) , but in summary the key changes are set out overleaf.

Remuneration Committee Chair's statement continued

Element of pay	Change in approach	Rationale
Fixed pay	The current policy limits SSE to paying total remuneration levels below the median. No material changes are proposed to base salaries, benefits nor pensions for incumbent Executive Directors (other than pension allowance for the Chief Commercial Officer which will now reduce to the employee-aligned level of 15% of salary at the end of 2022 rather than April 2023).	The overall policy objective is to set a competitive, but not excessive, total remuneration position against our chosen benchmarks. There is no plan to make any market adjustments to the basic salaries of the current Executive Directors. The change is intended to 'future proof' our Policy.
Annual Incentive Plan	No changes to levels. The award will continue to be delivered as 67% in cash and 33% in deferred shares, but the last award of career shares will be made in 2022 on the basis that a more conventional post-cessation shareholding will be introduced (see below).	The Policy will provide greater flexibility to reward operational excellence which will be central to the success of SSE's Net Zero Acceleration Programme and hence we plan to place a heavy weighting on it (see below).
Performance Share Plan awards	Increase headroom and the 2022 awards by 50% of salary to 250% of salary for the Chief Executive and 225% of salary for the Finance Director and Chief Commercial Officer. Changes to the measures and raising the standards of performance targets.	The increase in the level of awards is proposed to put more emphasis on long-term pay and performance and to reflect the increase in the standard of achievement required to reach 'stretch' levels of performance and reward (see below). The increases also improve SSE's market competitiveness now and for the future albeit that award levels remain at or below median of the peer group. We debated whether to delay the increase in the award levels and after careful consideration decided not to. The reasons for this are: 1.) the successful delivery of SSE's Net Zero Acceleration Programme is more important than ever to alleviate continuing energy pricing pressures on consumers 2.) the performance targets set in line with the Net Zero Acceleration Programme are tougher than hitherto (see below) and 3.) our proposed new Policy is expressly designed to place greater emphasis on longer-term goals and reward long-term performance. The Chief Executive's maximum total pay will be 93% of the market median if shareholders approve the change.
Share ownership	The shareholding requirement will increase to 250% of salary for the Chief Executive and 225% of salary for other Executive Directors. All will be required to continue to hold shares for two years after cessation of employment.	This change aligns the in service and post-employment service holdings to the new annual PSP award levels and with current market practice. Career shares already awarded and future awards under the new PSP awards from 2022 will count towards the post-employment share ownership requirement.
Malus and clawback	Updated to include: <ul style="list-style-type: none"> • Corporate failure • Material risk failure • Material detriment to stakeholders or to the Company's market reputation • Unreasonable failure to protect stakeholders' interests 	The additional triggers reflect developments in market practice since the last policy review. The same triggers will apply in the case of both malus and clawback.

Policy implementation

The Committee reviewed Executive Directors' base salaries and concluded that in light of continued strong performance and leadership throughout the year, an increase of 3% was appropriate. This is in line with the negotiated increase for collectively-bargained employees and the broader pot for all other employees with effect from 1 April 2022.

The structure and quantum of the AIP remains unchanged. However, as noted above, we have considered the importance of operational excellence as central to the success of the Net Zero Acceleration Programme and have therefore reweighted the AIP measures to support this objective.

For 2022/23 the proposed measures and weightings are:

- EPS growth – 30%
- Cash flow (defined as net debt to EBITDA) – 20%
- Operational measures – 30%
- Sustainability – 10%
- Individual/strategic objectives – 10%

Measures will be both quantitative and qualitative. The operational measures include seven core areas which are Renewables, Distribution, Transmission, Thermal, Customer, People, and Other Growth and Transactions. The sustainability measures, which will also appear in the longer-term plan, will be linked to SSE's relative sustainability as assessed against four external ESG ratings agencies using their own benchmarks. Individual strategic measures will include progress being made towards inclusion and diversity targets.

The PSP award levels, subject to shareholder approval, will be 250% for the Chief Executive and 225% for the Finance Director and Chief Commercial Officer. Reflecting the higher award levels, the Committee has set tougher target ranges.

The proposed measures and weightings are:

- Relative TSR – 50%
- EPS growth – 20%
- Strategic measures – 15%
- Sustainability – 15%

The Remuneration Committee will also adjust any total pay outcomes downwards (to zero if necessary), for example, if they are deemed by the Committee to be disproportionate or out of line when we take into account the interests of our stakeholders or where there has been a mismatch between financial and non-financial performance over the relevant period.

More details of the performance measures, weightings and targets are set out on [pages 196 to 198](#).

Summary

The Committee believes that the changes to policy, and the performance measures and targets for 2022/23 incentives, will sharpen our focus on delivering the Net Zero Acceleration Programme and support the retention and recruitment of the high calibre talent in a very competitive market.

Looking ahead, we will continue to apply our core principles in terms of transparency in both decision-making and reporting and do so in a way that is fully cognisant of the perspectives of SSE's stakeholder groups. In line with that, I welcome any feedback or comments on this Report or on remuneration matters more generally and can be reached via Sally Fairbairn at sally.fairbairn@sse.com.



Dame Sue Bruce DBE
Chair of the Remuneration Committee
24 May 2022

Directors' Remuneration Policy

Introduction

SSE's Directors' Remuneration Policy (the "Policy") is set out as follows. The Policy is subject to a binding shareholder vote at SSE's AGM on 21 July 2022 and, if approved, will apply from this date. It is intended that the Policy will apply for a period of up to three years and will need to be re-approved at the 2025 AGM at the latest.

The Policy was reviewed and approved by the Remuneration Committee. As part of the process, the views of our larger shareholders and other shareholder advisory bodies were sought. In addition, the thoughts of other Board members, management and external advisers were considered. The members of the Committee then made decisions independently without inappropriate influence. No person participates in decisions relating to their personal remuneration.

Principles

The Committee believes it is essential that our overall remuneration policy is strongly aligned to SSE's purpose and strategy. It aims to ensure this by focusing on our core principles which are: Sustainable, Simple, Stewardship, Stakeholder-focused. In addition, we have reviewed our policy in line with the UK Corporate Governance Code which encourages a description of how the policy addresses the following:

Clarity

- Our directors' remuneration policy is designed to be sustainable and simple and to support and reward diligent and effective stewardship that is vital to the delivery of SSE's core purpose of providing energy needed today while building a better world of energy for tomorrow, and our strategy of creating value for shareholders and all stakeholders.
- The Policy updates the previous Policy, with minimal structural changes so is already embedded into the business and is well understood by participants and shareholders alike.
- The Policy clearly sets out the terms under which it can be operated including appropriate limits in terms of quantum, the measures which can be used and discretions which could be applied if appropriate.
- Transparency in approach has been a cornerstone of our Policy. Detailed disclosure of the relevant performance assessments and outcomes is provided for shareholders to consider.

Simplicity

- Our pay arrangements include a market standard annual incentive and long-term share plan, each of which is explained in detail in our Policy.
- No complex or artificial structures are required to operate the plans.
- We explain our approach to pay clearly and simply.

Risk

- Appropriate limits are stipulated in the Policy and within the respective plan rules.
- The Committee also has appropriate discretions to override formulaic outturns under the assessment of the variable incentive plans.
- The Committee undertakes an annual risk review of the Policy and its operation. Identified risks are considered with appropriate mitigation strategies or tolerance levels agreed.
- Regular interaction with the Audit Committee and the SSHEA Committee ensures relevant risk factors are considered when setting or assessing performance targets.
- Clawback and malus provisions are in place across all incentive plans and the 'triggers' have been reviewed and strengthened.

Predictability

- The possible reward outcomes can be easily quantified, and these are reviewed by the Committee.
- The graphical illustrations provided in the Policy, clearly show the potential scenarios of performance and pay outcomes which would result.
- Performance is reviewed regularly so there are no surprises when performance is assessed at the end of the period.

Proportionality

- Variable incentive pay outcomes are clearly dependent on delivering the strategy.
- Performance is assessed on a broad basis, including a combination of financial, operational and sustainability which ensures there is no undue focus on a single metric which may be at the detriment of other stakeholders.
- The Committee also has the discretion – which it has used – to override formulaic outcomes if they are deemed inappropriate in light of the wider performance of the Company and considering the experience of stakeholders.

Alignment to culture

- At the heart of the Policy is a focus on the long-term sustainability of the business.
 - This reflects the whole business culture which is aligned to effective stewardship which creates value for all stakeholders.
 - Our incentive plans and, in particular the approach to measuring performance reflect our values which means doing the right thing, promoting fairness at work and paying our fair share.
-

Changes from current policy

The key changes between this Policy and the policy which was approved by shareholders at SSE's 2019 AGM are as follows:

- Base pay – change is proposed to the market posture against the comparators and reference points used when setting salaries.
- Pension – updated to reflect the acceleration of the pension alignment for the Chief Commercial Officer and includes a maximum limit for any new Executive Director which is aligned to the wider workforce.
- Annual Incentive Plan – replacement of the career shares facility by a more market-standard post-shareholding requirement and scope to use operational performance measures as well as financial and strategic measures.
- Performance Share Plan – provides for additional headroom for annual awards of up to 250% of salary for the Chief Executive and 225% of salary for other Executive Directors in return for tougher performance targets.
- Share ownership – an increase in the shareholding expectation to 250% of salary for the Chief Executive and 225% for other Executive Directors which will apply during employment and for two years post cessation of employment.
- Malus and clawback – the list of triggers has been extended and strengthened and the same triggers apply to both.

Any other changes in wording or presentation are considered to be immaterial to the operation of the Policy.

Policy Table

Base Salary

Purpose and link to strategy	The base salary supports the retention and recruitment of Executive Directors of the calibre required to develop the Company's strategy, deliver efficient operations and investments, and engage effectively with the Company's key stakeholders. It is intended to reflect the role and its responsibilities, business and individual performance measured against SSE's strategy and core purpose of providing the energy people need in a reliable and sustainable way, and to have an awareness of competitive market pressures.
Operation	<p>The Committee sets base salary taking into account:</p> <ul style="list-style-type: none"> • the individual's skills, experience and performance; • salary levels at other UK listed companies of a similar size and complexity and other energy businesses; • remuneration of different groups of employees and wider internal pay arrangements; and • the overall policy objective is to set a competitive, but not excessive, total remuneration position against our chosen benchmarks. <p>Base salary is normally reviewed annually with changes effective from 1 April. It may be reviewed more frequently or at different times of the year if the Committee determines this is appropriate.</p>
Maximum opportunity	<p>Salary increases will normally be capped at the typical level of increases awarded to other employees in the Company. However, increases may be above this level in certain circumstances, including but not limited to:</p> <ul style="list-style-type: none"> • where a new Executive Director has been appointed to the Board at an initially lower base salary with the intention that larger salary increases would be awarded for an initial period of time as the Executive Director gains experience; • where there has been a significant increase in the scope and responsibility of an Executive Director's role or where they have been promoted; and • where a larger increase is considered necessary to reflect significant changes in market practice.
Performance measures	When setting and reviewing salaries annually, the Remuneration Committee considers Executive Directors' performance to ensure that SSE fulfils its core purpose of providing energy needed today and striving for a better world of energy for tomorrow. They should also assess delivery on SSE's strategic focus of creating value for shareholders and society from developing, operating and owning energy and related infrastructure and services in a sustainable way.

Directors' Remuneration Policy continued

Pension

Purpose and link to strategy	<p>Pension planning is an important part of SSE's remuneration strategy because it is consistent with the long-term goals of the business.</p> <p>The approach to pension supports the Company's ability to retain experienced Executive Directors and develop talent internally.</p>
Operation	<p>The current Chief Executive and Finance Director participate in either the Southern Electric Pension Scheme or the Scottish Hydro-Electric Pension Scheme, the same schemes which any employee recruited at that time participates in. These schemes are funded final salary (subject to the cap on future increases in pensionable pay described below) pension schemes. Where an Executive Director is subject to the scheme-specific salary cap (which mirrors the provisions of the previous HMRC cap arrangements) the Company provides top-up unfunded arrangements ("UURBS") up to the maximum benefit outlined below.</p> <p>The current Chief Commercial Officer receives a cash allowance in lieu of accruing future pension benefits. This allowance predates his appointment as an Executive Director and is in line with other former defined benefit scheme members who have opted out. The Committee will operate alternative pension provisions for new appointments to the Board, in line with arrangements for SSE employees. The pension allowance is in the process of being aligned with those for other employees with a similar service profile. From 1 April 2022, his pension allowance will be 20% of salary, reducing to 15% on 1 January 2023.</p>
Maximum opportunity	<p>For existing Executive Directors, the pension arrangements provide for a maximum pension of two-thirds of final salary, normally at age 60. From 1 April 2017, future pensionable pay increases will be capped at RPI + 1% (regardless of the level of any actual increases in salaries).</p> <p>For new appointments, employer's pension contributions are capped in line with arrangements for all new SSE employees (which is currently 12% of base salary).</p>
Performance measures	Not applicable.

Benefits

Purpose and link to strategy	To provide a market-competitive level of benefits for Executive Directors.
Operation	<p>The objective is to provide the appropriate level of benefits taking into account market practice at similarly sized companies and the level of benefits provided for other employees in the Company.</p> <p>Core benefits currently include car allowance, private medical insurance and health screening.</p> <p>Executive Directors are eligible to participate in the Company's all-employee share plans on the same terms as UK colleagues. The Company currently operates the Share Incentive Plan and the Sharesave Scheme.</p> <p>In the event that an Executive Director was required to relocate to undertake their role, the Committee may provide additional reasonable benefits to reflect the relevant circumstances.</p> <p>The Committee may introduce or remove particular benefits if it is considered appropriate to do so.</p> <p>Travel and business-related expenses incurred which may be treated as taxable benefits will be reimbursed in accordance with the Company's expenses policy.</p>
Maximum opportunity	When determining the level of benefits the Committee will consider the factors outlined in the "Operation" section. The cost will depend on the cost to the Company of providing individual items and the individual's circumstances and there is no maximum benefit level.
Performance measures	Not applicable.

Annual Incentive Plan (AIP)

Purpose and link to strategy	<p>In line with the need to achieve a suitable balance of fixed and variable remuneration, the purpose of the AIP is to reward Executive Directors' performance during the year, based upon achievement of performance targets. The performance targets are linked to SSE's strategy and core purpose.</p> <p>Compulsory deferral into SSE shares provides alignment between Executive Directors' interests and the long-term interests of shareholders.</p>
Operation	<p>The Committee determines the level of incentive at its absolute discretion taking into account performance in each of the measures, the underlying performance of the business and Executive Directors' management of, and performance in, all of the business issues that arise during the year.</p> <p>Performance is typically assessed over a financial year. Below threshold performance, no payment is made. Where performance reaches or exceeds the maximum, 100% of bonus for this element is payable.</p> <p>The award will normally be delivered:</p> <ul style="list-style-type: none">• 67% in cash; and• 33% in deferred shares. <p>The Committee may determine that a different balance of cash and deferred shares may be awarded. Deferred shares will normally vest three years from the award date (unless the Committee determines an alternative vesting period is appropriate) subject to continued employment with accrual of dividends over that period. Until vesting, the awards may accrue additional dividend shares. Dividend equivalents may be determined by the Committee on a cumulative basis and may assume reinvestment of dividends in the Company's shares.</p> <p>In certain circumstances as set out in the plan rules the Committee may at its discretion apply malus to outstanding awards under the AIP or unvested deferred share awards prior to the relevant vesting or payment date, and/or claw back the cash or share portion of awards under the AIP for up to three years after the cash payment date of the relevant award.</p>
Maximum opportunity	<p>Maximum annual incentive opportunity is equal to 150% of base salary for the Chief Executive and 130% of base salary for the Finance Director and Chief Commercial Officer.</p>
Performance measures	<p>The annual incentive is normally based on a mix of financial, operational, strategic and stakeholder measures reflecting the key values and priorities of the business. A minimum of 50% of the annual incentive will be based on financial performance metrics. The Committee determines the exact metrics each year depending on the key strategic objectives for the forthcoming year and ensures that they are appropriately stretching in the context of the business plan. The measures for the current year are set out on page 197.</p> <p>The Committee may review the detailed targets and weightings of measures year on year, as well as the appropriate threshold levels of vesting and performance.</p> <p>Around 50% of the incentive is paid if target levels of performance are delivered with the full incentive being paid for delivering stretching levels of performance.</p> <p>The part of the AIP that is deferred in the form of deferred shares or a career share award is not subject to any further performance conditions.</p>

Directors' Remuneration Policy continued

Performance Share Plan (PSP)

Purpose and link to strategy	The purpose of the PSP is to reward Executive Directors, over a three-year performance period and a further two-year holding period, for their part in delivering the sustained success of SSE and to ensure that their interests are aligned with those of the shareholders who invest in the Company.
Operation	<p>Shares are awarded which normally vest based on performance over a period of three years. Awards granted to Executive Directors will be subject to an additional two-year post-vesting holding period during which time the Executive must retain the post-tax number of shares vesting under the award.</p> <p>No vestings is possible for below threshold performance. The percentage of shares that vest at threshold takes account of the toughness of the target and varies accordingly. All the shares vest if the maximum performance standard is reached or exceeded.</p> <p>The Committee shall determine the extent to which the performance conditions have been met. No shares shall vest unless the Committee is satisfied with the underlying financial performance of the Company. Awards do not vest until after the end of the performance period.</p> <p>Until vesting, PSP awards may accrue additional dividend shares. Dividend equivalents may be determined by the Committee on a cumulative basis and may assume reinvestment of dividends in the Company's shares.</p> <p>In certain circumstances set out in the PSP rules the Committee may at its discretion apply malus to outstanding awards prior to vesting and/or claw back vested awards for up to three years after the vesting date of the relevant award.</p> <p>The Committee may adjust and amend awards in accordance with the PSP rules.</p>
Maximum opportunity	The maximum annual value of award that can be granted under the PSP is up to 250% of base salary for the Chief Executive and up to 225% of base salary for other Executive Directors. See also the share ownership policy requirement.
Performance measures	<p>The Committee determines targets each year to ensure that they are stretching and represent value creation for shareholders while remaining realistically achievable for management.</p> <p>Awards vest based on a range of measures which may include total shareholder return, financial, operational, strategic or stakeholder-based measures. A minimum of 70% of the award will be based on financial and total shareholder return measures. The Committee will review the most appropriate measures, detailed targets and weightings of measures year on year, as well as the appropriate threshold levels of vesting and performance.</p>

Share Ownership Policy

Purpose and link to strategy	A key element of SSE's remuneration policy is to align the interests of Executive Directors with those of shareholders who invest in the Company.
Operation	<p>Shareholding is normally built up via shares vesting through the PSP, deferred shares from the AIP and all employee share schemes and Executive Directors may also choose to buy shares.</p> <p>The requirement to retain shares continues after employment, and Executive Directors are required to hold their in-employment shareholding for a further two years following cessation of employment.</p>
Maximum opportunity	Executive Directors are expected to maintain a shareholding. This is linked to the level of the annual award under the PSP. The requirement will be met through career shares unless awards under the PSP exceed 200% of salary. Where PSP levels exceed 200% of salary the holding requirement will be 250% of base salary in the case of the Chief Executive and 225% in the case of other Executive Directors built up within a reasonable timescale.
Performance measures	Not applicable.

Chair and Non-Executive Directors' Fees

Purpose and link to strategy	Fees are set at a level which provides reward for undertaking the role and are sufficient to attract and retain individuals with the calibre and experience to contribute effectively at Board level.
Operation	<p>The Committee is responsible for determining fees for the Chair. The Board is responsible for determining fees for other non-Executive Directors.</p> <p>Fees are reviewed at appropriate intervals against companies of a similar size and complexity. Fees are set in a way that is consistent with the wider remuneration policy.</p> <p>The fee structure may be made up of:</p> <ul style="list-style-type: none">• a basic Board fee or Chair fee;• an additional fee for any committee chairship or membership; and• an additional fee for further responsibilities e.g. Senior Independent Director, non-Executive Director for Employee Engagement or periods of increased activity. <p>Non-Executive Directors do not participate in the Annual Incentive Plan, Deferred Bonus Scheme or any of the share schemes, or contribute to any group pension scheme.</p> <p>Non-Executive Directors do not currently receive any benefits. Benefits may, however, be provided in the future for non-Executive Directors if in the view of the Board this was considered appropriate and they may also be provided in the future for the Chair if in the view of the Committee this was considered appropriate.</p> <p>Reasonable travelling and other expenses for costs incurred in the course of the non-Executive Directors undertaking their duties are reimbursed (including any tax due on the expenses).</p> <p>It is also expected that all non-Executive Directors should build up a minimum of 2,000 shares in the Company.</p>
Maximum opportunity	The aggregate level of non-Executive Director fees shall not exceed the maximum limit set out in the Articles of Association.
Performance measures	There are no direct performance measures relating to Chair and non-Executive Director fees, although the performance of the Board is subject to annual evaluation, including an evaluation of individual members.

Performance measures and targets

The Committee sets a range of performance measures linked to Executive Directors' remuneration that are simple, transparent and balanced. They all have a clear link to strategic objectives and support value creation for shareholders. Performance targets will be stretching and maximum performance will only be attained for true out-performance. The longer-term financial targets set for the awards under the Performance Share Plan will be reviewed and set in the light of the relevant business plan. Where possible, targets will be disclosed prospectively unless commercial sensitivity precludes this, in which case they may be disclosed at an appropriate time retrospectively.

Committee discretion

All incentive awards are subject to the terms of the relevant plan rules under which awards are made. The Committee may adjust or amend awards in accordance with the provisions of the relevant plan rules. This includes, but is not limited to, the following discretions:

- In the event of a variation of the Company's share capital or reserves, or a demerger, special dividend, rights issue or other event, the number of shares subject to an Award and/or any performance condition attached to Awards, may be adjusted.
- The Committee may adjust PSP performance conditions for subsisting awards as it considers appropriate to take account of any factors which are relevant in the opinion of the Committee, for example to reflect modifications of accounting standards.
- In the event of a voluntary winding-up of the Company, the Committee may allow some or all of the outstanding PSP awards to vest (and be deemed exercised) on the date the resolution for the winding-up is passed.

The Committee may make minor changes to this Policy (for example for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation or corporate governance requirements or guidance) without seeking shareholder approval for that amendment.

Directors' Remuneration Policy continued

Legacy commitments

The Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretion available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out in this report where the terms of the payment were agreed:

- (i) before 17 July 2014 (the date the Company's first shareholder approved Directors' Remuneration Policy came into effect),
- (ii) before this Policy came into effect provided that the terms of the payment were consistent with the shareholder-approved Directors' Remuneration Policy in force at the time they were agreed or,
- (iii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company.

As well as remuneration payments and payments for loss of office under the Directors' Remuneration Policy which was approved by shareholders on 17 July 2014, this includes commitments relating to the defined benefit pension arrangements which were made before 27 June 2012. "Payments" includes the Committee sanctioning awards of variable remuneration and an award over shares is "agreed" at the time the award is granted. Any payments made outside of the Directors' Remuneration Policy pursuant to legacy commitments will be disclosed in full in the relevant year's Annual Report.

Directors' service contracts and non-Executive Directors' letters of appointment

Current Executive Directors have service contracts terminable by the Company immediately without notice upon breach by the individual or by the Company giving to the individual 12 months' notice or, at its discretion, payment in lieu of salary only during that notice. The payment in lieu of notice may be made in staged payments and may either reduce or cease completely where the departing Executive Director gains new employment. The Executive Director may terminate the contract by giving the Company 12 months' notice. Contracts for new Executive Directors will be limited to 12 months' notice by both parties (or payment in lieu of notice in respect of the Company). The service contracts are available to view at the Company's registered office.

The non-Executive Directors have letters of appointment, and are appointed for fixed terms of three years, subject to retirement and re-appointment at AGMs. Non-Executive Directors on termination are not entitled to any payment in lieu of notice or any compensation for loss of office.

The letters of appointment are available for shareholders to view on www.sse.com.

Loss of office policy

The Committee takes a number of factors into account when determining leaving arrangements for Executive Directors:

- The Committee must satisfy any contractual obligations provided they are consistent with the Policy or have been entered into on a date on or before 27 June 2012 in accordance with relevant legislation.
- The treatment of outstanding share awards is governed by the relevant share plan rules, as set out below.
- The Committee may determine that the Executive Director should receive reasonable outplacement support and legal advice at the expense of the Company and any payments required by statute.
- The Company may at its discretion terminate any Executive Director's contract by providing notice or payment in lieu of notice (as set out above).

AIP

The Executive Director may, at the discretion of the Committee, remain eligible to receive an AIP award for the financial year in which they ceased employment if the Committee has decided that good leaver terms should apply. Any such AIP award will be determined by the Committee taking into account time in employment and performance. If an AIP award is received in such cases it may not be subject to deferral into deferred shares provided the post-employment share ownership policy has already been fulfilled or will be by other means.

Deferred and career shares

If an Executive Director's employment terminates in circumstances such as death, injury, disability, ill-health (as agreed by the Committee) or other circumstances that the Committee deems appropriate, unvested deferred and career shares shall vest in full at the time of termination of employment.

If an Executive Director leaves the business in other circumstances their deferred shares and unvested career shares shall lapse. Vested career shares shall not lapse.

Vested awards in the form of career shares awarded under previous Directors' Remuneration Policies shall, except in the case of death or change of control, be released two years after the date of cessation of employment, irrespective of the reason for such cessation.

Performance share plan

If an Executive Director's employment terminates in circumstances such as death, injury, disability, ill-health (as agreed by the Committee) or other circumstances that the Committee deems appropriate, PSP shares may continue to vest. The PSP shares will normally be reduced to reflect the time elapsed in the three-year performance period when the Executive Director's employment ends and will normally remain subject to performance at the end of the performance period.

The Committee may determine, in exceptional circumstances, that PSP shares may be released at the time of cessation of employment. In this circumstance, it will determine the level of vesting taking into account the extent to which the performance conditions have been met at the time (subject to modification if the Committee considers that the performance condition would be met to a greater or lesser extent at the end of the original performance period) and the period the Executive Director has been in employment.

The Committee has the discretion to disapply time pro-rating or alter the time pro-rating fraction if it considers that the Executive Director's contribution to the business of the Company would not otherwise be properly recognised. In this circumstance, the vesting of PSP shares would remain subject to performance until the end of the performance period.

If the Executive Director's employment ends for any other reason, unvested PSP share awards will lapse. Vested PSP shares which are subject to a mandatory holding period will not lapse as a result of cessation of employment for any reason.

Pension

When an Executive (including Executive Directors) who participate in the defined benefit pension scheme retire through ill-health they are entitled to an unreduced pension based on service to expected retirement.

In the event of any reorganisation or redundancy, Executives who are aged 50 or more with at least five years of service will be provided with an unreduced accrued pension. If an Executive has not reached age 50 at the time of this event their pension will be paid from age 50.

From age 55 Executives are entitled to leave the Company and receive a pension, reduced for early payment, unless the Company gives consent and funds the pension being paid on an unreduced basis.

Dependent upon the circumstances surrounding the departure of the Executive Director and the financial health of the Company at the time, the Committee's policy is to give consideration to a cash commutation of the UURB pension at the time of leaving. Any cash commutation would limit SSE's liability, taking into account valuations provided by independent actuarial advisors, and would be undertaken on what was judged by the Committee to be on a cost neutral basis to SSE.

The following is information relating to the pension of Gregor Alexander as a participant in the HMRC-approved Scottish Hydro- Electric Pension Scheme the terms of which also apply to the UURBS arrangement.

- (i) Dependants' pensions on death are half of the member's pension entitlements, together with a capital sum equal to four times pensionable pay. On death in retirement, the Executive Director's spouse will receive a pension equal to half of that payable to the Director. In addition, on death within the first five years of retirement, a lump sum is payable equal to the balance outstanding of the first five years' pension payments
- (ii) Post retirement increases are expected to be in line with RPI.

The following is information relating to the pension of Alistair Phillips-Davies, as a participant in the HMRC approved Southern Electric Group of the Electricity Supply Pension Scheme, the terms of which also apply to the UURBS arrangement.

- (i) Dependants' pensions on death are four-ninths of the member's pensionable pay, together with a capital sum equal to four times pensionable pay. If death occurs after attaining the age of 55 an additional lump sum between three to five times notional pension is payable dependent upon age and length of service.
- (ii) On death in retirement, the Director's spouse will receive a pension equal to two-thirds of that payable to the Director. In addition, on death within the first five years of retirement, a lump sum is payable equal to the balance outstanding of the first five years' pension payments.
- (iii) Post retirement increases are expected to be in line with RPI (guaranteed up to the level of 5% per annum and discretionary above that level).

Other arrangements

If buyout awards are made on recruitment, the treatment on leaving would be determined at the time of the award.

For all-employee share plans, such as the Sharesave Scheme and the Share Incentive Plan, leavers will be treated in accordance with the HMRC approved plan rules.

Change of control

On a change of control, Executive Directors' awards will be treated in accordance with the rules of the applicable plan(s). In summary, in the event of a change of control of the Company, performance in the PSP will be measured to that date subject to modification if the Committee considers that the performance conditions would be met to a greater or lesser extent at the end of the original performance period. Awards will normally be scaled down to reflect the period up to the change of control, but the Committee has discretion to disapply or alter the pro-rating fraction if it considers that participants' contribution to the creation of shareholder value during the performance period would not otherwise be properly recognised.

Directors' Remuneration Policy continued

Any outstanding unvested deferred or career shares from the AIP will vest automatically, and any vested shares subject to a holding period will be released.

Recovery provisions

The Committee believes that it is right that it should have the ability to recover pay in circumstances where that pay is later proved to have been unfairly earned. The PSP and AIP have recovery provisions under malus and clawback.

Malus is the ability to reduce or cancel unvested deferred AIP and PSP share awards. Clawback is the ability to take back value delivered through the cash element of AIP or vested AIP awards at any point: up to three years post-payment of cash under the AIP; and up to three years post-vesting of PSP shares. They would apply under the following circumstances at any point between the grant date and vesting date:

- Material misstatement or restatement of accounts
- Misconduct which results in a materially adverse financial effect
- Serious reputational damage including material environmental or safety issue, or material operational or business failing
- Factual error in calculating payment/vesting
- Serious misconduct
- Corporate failure
- Material risk failure
- Material detriment to stakeholders or to company's market reputation
- Unreasonable failure to protect stakeholders' interests

Recruitment policy

The Committee will seek to align the remuneration package offered with its Directors' Remuneration Policy outlined on [page 172](#).

The overriding objective in determining a total remuneration package for a new recruit would be to make decisions which are in the best interests of the Company, its shareholders and other stakeholders.

Base salary would be set taking into account the individual's skills and experience and performance, salary levels at other similar sized UK companies and other energy businesses, remuneration of different groups of employees, and the wider internal pay arrangements.

The Committee will determine appropriate pension provision for any new Executive Director. When determining pension arrangements for new external appointments the Committee will limit contributions to those in line with employees generally, currently 12% of salary.

Variable incentive levels will be in line with those set out in the policy table, with the maximum being no more than the current Chief Executive (AIP 150% of salary, PSP 250% of salary). Whilst it would generally be intended to set consistent performance measures across the executive team, depending on the timing and circumstances of a new appointment, it may be necessary to set alternative measures for the initial awards. PSP awards may be granted shortly following an appointment, subject to the Company not being in a closed period.

The Committee may make awards on appointing an Executive Director to "buy out" remuneration arrangements forfeited on leaving a previous employer. In doing so the Committee will take account of relevant factors including any performance conditions attached to these awards, the form in which they were granted (e.g. cash or shares) and the time over which they would have vested. Generally buy-out awards will be made on a comparable basis to those forfeited. To facilitate these awards, the Committee may make awards under Company incentive plans and other available structures.

The Committee may make awards under SSE's incentive plans and under the Listing Rules exemption in LR9.4.2 which allows Companies to make grants to a Director to facilitate, in unusual circumstances, the recruitment or retention of that Director. The use of the latter shall be limited to the granting of buy-out awards or share awards within the limits described above.

Shareholders' views

The Committee Chair, on behalf of the Committee, consulted with SSE's largest shareholders in developing the new Policy, as well as representatives from The Investment Association. This included a number of meetings which allowed a discussion of the proposals in the context of SSE's business strategy and the environment in which it operates. The feedback received was extremely helpful in informing the Committee's decisions. The Committee adopted its proposals following input from shareholders. The weighting of financial and non-financial measures in the PSP is one example. The balance of quantitative and qualitative measures and targets is another.

More generally, the Committee Chair, on behalf of the Committee, periodically undertakes consultation with a number of institutional shareholders regarding a broad range of remuneration issues. The Committee finds such consultation meetings a valuable opportunity to receive feedback on the work of the Committee and the key issues that it is considering. The feedback received is extremely helpful in informing the Committee's decisions.

In addition, the Committee also monitors the views of other stakeholders and broader developments in executive remuneration generally.

Remuneration engagement across the Company

The Committee appreciates the importance of an appropriate relationship between the remuneration levels of the Executive Directors, senior executives, managers and other employees within the Company although comparison metrics are not used to determine pay policy. Remuneration at all levels in SSE is designed to support its remuneration principles, long-term business strategy and core purpose of providing the energy people need in a reliable and sustainable way. It is also designed to be consistent with and support the Company's core values of Safety, Service, Efficiency, Sustainability, Excellence and Teamwork. The structure of reward necessarily differs based on scope and responsibility of role, level of seniority and location.

The table in the At a Glance Section ([page 182](#)) illustrates how the core elements of executive pay align with the wider workforce.

In summary,

- The senior management population also participate in annual and long-term incentive arrangements. In line with Executive Directors' arrangements, incentives for senior management have an emphasis on share awards and the performance metrics support those used at Board level.
- All employees have the opportunity to be share owners through the Share Incentive Plan and the Sharesave Plan and those participating are able to express their views in the same way as other shareholders.
- Pension planning is an important part of SSE's reward strategy for all employees because it is consistent with the long-term goals and horizons of the business, an approach it has been practising for a number of years. The terms of the funded final salary pension schemes apply equally to all members.
- As part of its Employee Engagement Survey SSE invites all employees to provide a view on the benefits and pay that it provides.

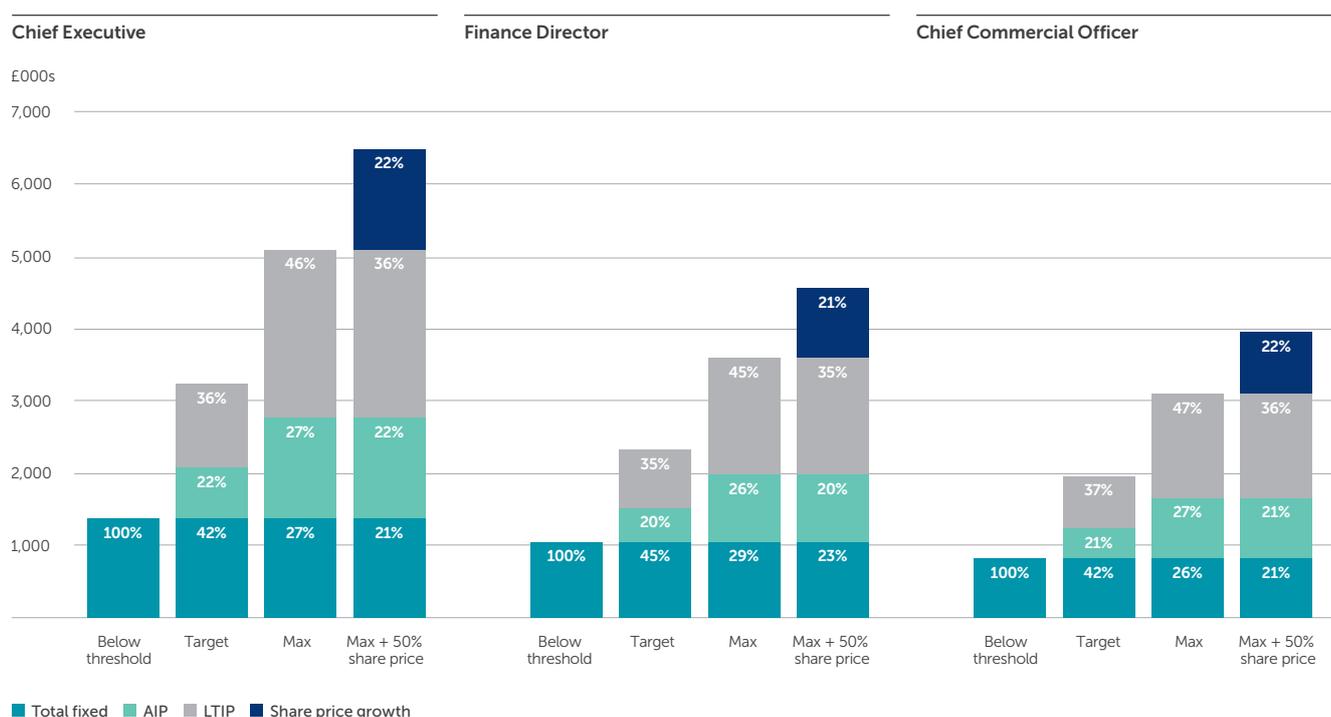
The Remuneration Committee is responsible for the remuneration of SSE's most senior Executives and the Chair of the Board and reviews the remuneration arrangements for all employees across the Group.

The Chair of the Remuneration Committee meets at least annually with SSE's recognised Trade Unions to discuss SSE's position on executive remuneration. They met in May and discussed aspects of policy explained in this report. Feedback from this meeting was shared with the Remuneration Committee.

Illustration of the Directors' Remuneration Policy for 2022/23

The charts below indicate a forward-looking potential single figure of remuneration value for 2022/23 at below threshold, target and maximum for each of the Executive Directors. With the increase in base salaries in 2022 and the proposed increase to PSP quantum the scenarios below have increased from the previous year.

Single total figure of remuneration – an illustration of the application of our policy



Remuneration at a glance

Directors' Remuneration Policy in 2022/23

The illustration below shows how SSE intends to operate its Directors' Remuneration Policy in 2022/23.

	Element	Max	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Fixed pay	Salary	Set with reference to pay increases for the wider employee base	Salary paid					
	Benefits	Market competitive	Benefits paid					
	Pension	Final salary and top up/pension allowance	Pension accrual/ allowance paid					
Variable pay – at risk	Annual Incentive Plan (AIP)	CEO 150% of salary. FD and CCO 130% of salary 67% cash/33% deferred shares	Performance period	AIP cash paid AIP deferred share awards granted	Vesting period		Awards vest	
	Performance Share Plan (PSP)	CEO 250% of salary. FD and CCO 225% of salary 2-year holding period	PSP awards granted	Performance/vesting period		PSP awards vests	Holding period	Holding period ends
Additional governance	Share ownership requirement	250% of salary for CEO and 225% of salary for FD and CCO	Share ownership requirement					
	Recovery and withholding	All incentives	Malus and clawback: Material misstatement or restatement of accounts; Misconduct which results in a materially adverse financial effect; Serious reputational damage including material environmental or safety issue, or material operational or business failing; Factual error in calculating payment/vesting; Serious misconduct; Corporate failure; Material risk failure; Material detriment to stakeholders or to company's market reputation; Unreasonable failure to protect stakeholders' interests					
	Post-employment	Career shares	Holding requirement for career shares until two years after cessation of employment					

Strategic performance

Executive Directors' remuneration is strongly linked to strategic performance. Some of SSE's strategic performance measures are detailed below, with an indication of how they link to remuneration. SSE has delivered against its dividend target and performed well against a range of financial and non-financial measures. Full details can be seen on [pages 186 to 189](#).

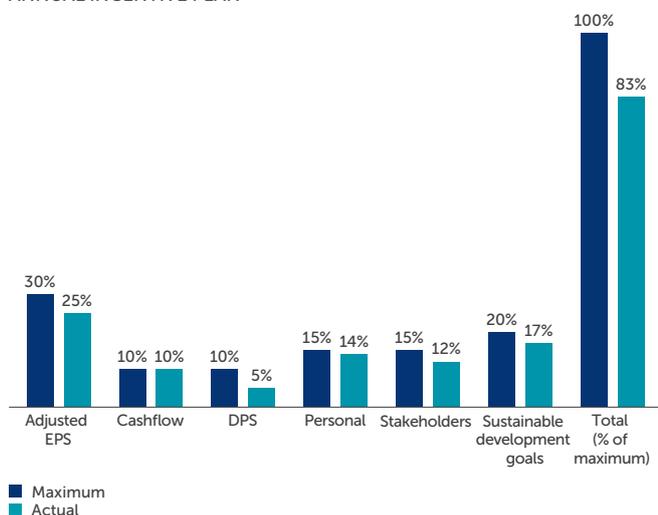
ADJUSTED EARNINGS PER SHARE AIP and PSP	TOTAL SHAREHOLDER RETURN (FTSE 100)	EMPLOYEE ENGAGEMENT	CARBON INTENSITY OF ELECTRICITY GENERATED
95.4p	Rank 13 of 95 PSP (66.6%)	82% Engagement index score AIP (Stakeholders)	258gCO ₂ e/ kWh*
			gCO ₂ e per kWh. AIP (Sustainable Development Goals)
DIVIDENDS PER SHARE AIP and PSP	TOTAL SHAREHOLDER RETURN (MSCI)	TOTAL RECORDABLE INJURY RATE	TOTAL RENEWABLE GENERATION OUTPUT*
85.7p	Rank 6 of 23 PSP (66.6%)	0.17 per 100,000 hours worked AIP (Stakeholders)	9.5TWh**
			GWh. AIP (Sustainable Development Goals)

* The 2030 Goal for 2021/22 measured progress based on electricity generation GHG emissions only. SSE's new science-based target for GHG emissions intensity, set in November 2021, is based on all scope 1 GHG emissions. Progress on [page 54](#) is provided against this updated target, therefore figures differ slightly.

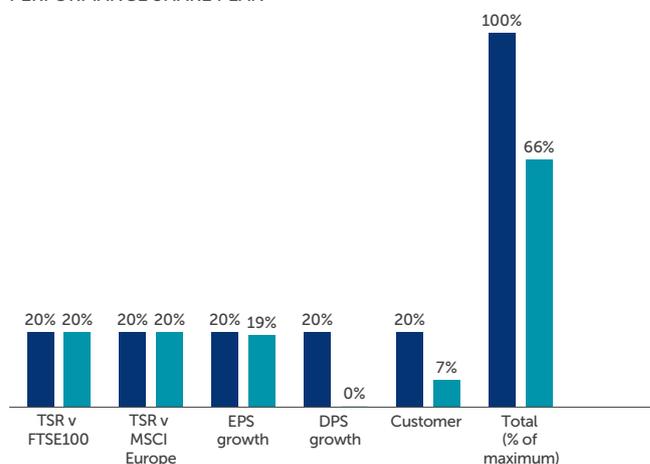
** Includes pumped storage, biomass and constrained off wind in GB.

Incentive Plan Performance in 2021/22

ANNUAL INCENTIVE PLAN



PERFORMANCE SHARE PLAN



How Pay Links to Wider SSE Workforce

	Base Salary	Benefits	Pension	Short-Term Incentive	Long-Term Incentive
Executive Directors	Base salary is typically set with reference to the market and wider workforce considerations. 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.	Annual Incentive Plan linked directly to business performance – 50% financial, 50% non-financial. 33% of the total award is deferred into shares for three years.	The Performance Share Plan is a share award with performance linked to strategic performance measures.
Group Executive Committee			The arrangements are diverse and the employer cost typically ranges from 3% to 38% of salary when both defined contribution and defined benefits schemes are taken into account.	Annual Incentive Plan considering performance of the Group (directly linked to the above), the business area and the individual. 25% of the total award is deferred as shares for three years.	The Leadership Share Plan is also linked to strategic performance measures over the longer-term and those with direct impact on strategic output are eligible.
Senior Management					
Wider Workforce	Base salary levels are subject to negotiation with recognised trade unions and/or are set in line with market requirements. 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 Executive Director for the financial year ending 31 March 2022 relative to the previous year.

		Alistair Phillips-Davies		Gregor Alexander		Martin Pibworth		Total	
		2021/22 £000s	2020/21 £000s	2021/22 £000s	2020/21 £000s	2021/22 £000s	2020/21 £000s	2021/22 £000s	2020/21 £000s
Fixed Pay	Base Salary ¹	924	915	714	707	636	571	2,274	2,193
	Benefits ²	26	25	23	22	18	18	67	65
	Pension ³	413	458	303	344	159	171	875	973
	Total Fixed Pay	1,363	1,398	1,040	1,073	813	760	3,216	3,231
Variable Pay	AIP ⁴	1,150	947	771	634	678	512	2,599	2,093
	PSP ⁵	1,972	700	1,334	473	998	354	4,304	1,527
	Total Variable Pay	3,122	1,647	2,105	1,107	1,676	866	6,903	3,620
Total⁶		4,485	3,045	3,145	2,180	2,489	1,626	10,119	6,851

- 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.
- Benefits relate to company car, Share Incentive Plan company contributions and medical benefits. These benefits are non-pensionable.
- 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.
- The AIP figures above show the value of the award including the portion deferred as shares.
- The PSP figures for 2020/21 have been readjusted in line with statutory reporting requirements, following last year's report to show the actual value upon vesting. The estimated value shown in the table for 2021/22 is based on the average share price in the three months to 31 March 2022 of £16.165, as required by the reporting regulations. The award remains subject to service until May 2022 and so the prior year comparative will be restated in next year's report to show the actual value on vesting, as is required by the regulations. There was no share price appreciation.
- Directors have not received any other items in the nature of remuneration other than as disclosed in the table.

Rationale for 2021/22 single total figure of remuneration

There has been a year-on-year increase of 48% in the single total figure of remuneration. For the Executive Directors, remuneration has increased between 44% and 53%. This change is attributable to an increase in base salary aligned to the wider workforce, and an increase in AIP/PSP outcomes following a year of strong financial, operational and strategic performance. The PSP, in particular, has performed well. The share price has also increased by 27% in the year to 31 March 2022 and TSR, over the three years to the end of March 2022, has increased by over 66%.

The Remuneration Committee is satisfied that the total single figure of remuneration for each Executive Director is appropriate.

Base salary

In line with the average base salary increase for the wider employee population, Executive Directors' salaries were increased on 1 April 2021 by 1% from £914,776 to £923,924 for the Chief Executive, from £707,047 to £714,117 for the Finance Director and from £630,000 to £636,300 for the Chief Commercial Officer.

Benefits

Benefits are provided at an appropriate level taking into account market practice at similarly sized companies and the level of benefits provided for other employees in the Company. Core benefits include car allowance, private medical insurance and health screening. The Executive Directors also participate in the Company's all-employee share schemes on the same terms as other employees.

Pension

The Chief Executive and Finance Director are members of the Southern Electric Pension Scheme and the Scottish Hydro Electric Pension Scheme respectively, and their plan membership predates their Board appointments. They participate in the same defined benefit pension arrangements that were available to all employees recruited at that time. The schemes were closed in 1999 and the service costs range from 32.5% to 37.5% of salary. These are both funded final salary pension schemes and the terms of these schemes apply equally to all members. The Executive Directors' service contracts provide for a possible maximum pension of two thirds final salary from the age of 60.

In relation to Executive Directors who are subject to the scheme-specific salary cap (which mirrors the provisions of the previous HMRC cap arrangements) the Company provides top-up (unfunded) arrangements which are designed to provide an equivalent pension on retirement from the age of 60 to that which they would have earned had they not been subject to the salary cap. From 1 April 2017 pensionable earnings increases were capped at RPI +1%. These are legacy arrangements and would not be used for any new external appointments.

The Chief Executive and Finance Director, in common with all other employees who joined at the same time (25 and 31 years ago respectively), have the following pension provisions relating to leaving the Company:

- for retirement through ill-health an unreduced pension based on service to expected retirement is paid;
- in the event of any reorganisation or redundancy an unreduced accrued pension is paid to a member who is aged 50 or above, with at least five years' service or, for a member who has not yet reached that age, it will be payable with effect from 50;
- and from the age of 55, a scheme member is entitled to leave the Company and receive a pension, reduced for early payment, unless the Company gives consent and funds this pension on an unreduced basis.

Dependent on the circumstances surrounding the departure of the Executive Director and financial health of the Company at the time, the Committee's policy is to give consideration to a cash commutation of the unfunded unapproved retirement benefit (UURB) pension at the time of leaving. Any cash commutation will limit SSE's liability, taking into account valuations provided by independent actuarial advisors, and will be calculated on what was judged to be a cost neutral basis to SSE.

The Chief Commercial Officer, who has been with SSE since 1998, was already in receipt of a pension allowance of 30% of salary prior to his appointment as an Executive Director. While the arrangement was consistent with the approach used for all other members who have elected to receive a cash allowance in lieu of accruing future pension benefits, the Committee agreed that his future pension arrangements would be aligned with the level of contributions available to the wider workforce at 15% of salary on a phased basis over five years. Following confirmation of his expanded role from 1 November 2020, it was agreed that the phased reduction would be accelerated by two years. As part of the revised directors' remuneration policy, this change has again been accelerated. This means that his pension allowance will be in line with the employer contribution for the majority of SSE's employees taking into account length of service of 15% of salary from 1 January 2023.

The table below details pension accrued for each of the Executive Directors as at 31 March 2022 and 2021.

	Accrued pension as at 31 March 2022 £000s	Accrued pension as at 31 March 2021 £000s
Alistair Phillips-Davies	513	489
Gregor Alexander	461	443
Martin Pibworth ¹	0	0

¹ Martin Pibworth received an allowance in lieu of a pension contribution of 25% of salary.

Annual report on remuneration continued

Annual Incentive Plan and Performance Share Plan

In setting targets and assessing performance, the following process is used for both the AIP and PSP:



2021/22 Annual Incentive Plan

1. Set performance measures aligned with strategy

AIP requires broad performance across a number of financial metrics (Adjusted EPS, DPS Growth and Cashflow) and strategic metrics (Personal, Stakeholders and Sustainable Development Goals). The performance measures and their weightings are shown below.

Financial (50%)			Personal (15%)	Stakeholders (15%)			Sustainable Development Goals (20%)			
Adjusted EPS (30%)	Cashflow (10%)	DPS (10%)	Individual Objectives (15%)	Customers (5%)	Employees (5%)	Suppliers (5%)	Carbon Intensity (5%)	Renewable Output (5%)	Elective Vehicle Infrastructure (5%)	Fair Tax & Living Wage (5%)

2. Set stretching performance targets

The financial performance targets were set at the start of the financial year taking into account internal financial plans, external consensus where it exists and the expected impact of identified opportunities and threats to the business in the context of wider economic conditions. The performance target range is set on a realistic basis but requires true outperformance for Executive Directors to achieve the maximum. The Remuneration Committee has a history of setting challenging targets, evidenced by the average AIP payout of 54% since 2012 as shown on [page 193](#).

3. Assess performance

The table below shows how performance measures are linked to strategy and how performance was ultimately delivered.

AIP	Performance measure							Total
	Adjusted EPS	Cashflow	DPS	Personal	Stakeholders	Sustainable development goals		
Link to strategy	Simple Stewardship Stakeholders	Simple Sustainable Stakeholders	Simple Sustainable Stakeholders	Simple Sustainable Stewardship Stakeholders	Simple Sustainable Stewardship Stakeholders	Simple Sustainable Stewardship Stakeholders		
Rationale	Underlying measure of financial performance	Net debt/ EBITDA	Return on investment through payment of dividends	To reflect those activities which go beyond the responsibilities of the role	Customers, employees and suppliers	Contribution to the four UN SDGs for 2030		
Weighting	30%	10%	10%	15%	15%	20%		
Threshold	85.8p	5.0	85.7p					
Max	99.4p	4.5	93.8p					
Outcome	95.4p	4.3	85.7p	See next section				
Performance	82%	100%	50%	92%	78%	86%		
Outturn (% of max incentive)	25%	10%	5%	14%	12%	17%	83%	

The Committee generally sets non-financial measures and targets that are specific, measurable, attainable, relevant and timely ('SMART' objectives) but also recognises that important measures and targets in support of the Company's vision, purpose and strategy may require some subjective assessment, and this is done by the Committee following the input from the wider Board and other Board Committees as appropriate. The Committee is committed to providing as much retrospective detail of the measures as possible, setting out clearly the decision-making process and the levels of attainment achieved, but mindful that any information which could be considered commercially sensitive cannot be disclosed.

The tables below and on the following pages provide detail on each of the non-financial measures and the assessment of performance against each one.

High-level measure	Detailed measure	Factors to be assessed	Summary performance	Assessment	Outcome (% of max)
Personal 15%	Chief Executive	Culture and the SSESET, Financial, People	Strong year for the Executive Directors Positive activity around net zero strategy, COP26 and on the Net Zero	✓✓✓	91%
	Finance Director	Development, Succession, Stakeholder Management, Strategy and Growth	Acceleration Plan, continued strong progress made on disposals and good underlying business performance during the ongoing pandemic despite a difficult year with the weather. International acquisitions made during the year and more in the pipeline.		90%
	Chief Commercial Officer				89%

x= Below expectation ✓= Met expectation ✓✓= Exceeded expectation ✓✓✓= Far exceeded expectation

High-level measure	Detailed measure	Factors to be assessed	Summary performance	Assessment	Outcome (% of max)
Stakeholders 15%	Customers 2.5%	Business Energy – A range of measures including customer complaints and satisfaction. Gateway for threshold performance at median performance of Citizens Advice league table.	Currently sitting at 6th out of 17 suppliers in Citizen's Advice Non-Domestic League Table.	✓✓✓	60%
	2.5%	Electricity Networks – A range of measures including customer interruptions and customer minutes lost.	Margin between performance in the North v South. Improvement plan in place for the South. In overall DNO Customer Performance league table SHEPD sat 8/14 and SEPD at 14/14. Dealt with unprecedented level of storms handling a typical year's worth of calls in 5 months.	x	40%
	Employees 2.5%	Safety – Total Recordable Injury Rate (TRIR) and Accident Frequency Rate (AFR) for direct employees. TRIR target of <0.15.	Similar strong results to last year at this year-to-date with TRIR up slightly (0.09 v 0.08) and AFR the same at 0.04. Overall TRIR slightly up at year end with significant increase in hours worked.	✓✓✓	90%
	2.5%	Engagement – A range of measures including employee engagement survey score, employee uptake of share plans and retention rate. Board and leadership engagement with employees.	Very strong set of results for 2021 with key Sustainable Engagement Index indicator ahead of sector norm and at 82%, 8% up from 2019. Connection to Strategy up 18% at 85%. Strong employee survey and verbatim feedback around flexible working and company's COVID response.	✓✓✓	95%
	2.5%	Inclusion and diversity – progress made closing SSE's median UK gender pay gap and progress made against SSE's Inclusion Strategy including progress on Return on Inclusion.	Return on Inclusion champion status retained with improved index score from 75.5 to 83.3. Inclusive hiring measures up in all categories (open advertising, flexible working, diverse panels and gender diverse shortlist. Increased female representation in talent programmes averaging at 40%. Positive increases in diversity questions in GPTW survey. Increase in number of female leavers year-on-year currently being looked into, GPG median down slightly and more women receiving performance bonus.	✓✓✓	85%
	Suppliers 2.5%	Safety – Total Recordable Injury Rate (TRIR) and Accident Frequency Rate (AFR) for contractors.	TRIR the same as last year at 0.32 and AFR (0.14 v 0.19) improved significantly.	✓✓✓	95%

x= Below expectation ✓= Met expectation ✓✓= Exceeded expectation ✓✓✓= Far exceeded expectation

Annual report on remuneration continued

High-level measure	Detailed measure	Factors to be assessed	Summary performance	Assessment	Outcome (% of max)
Contribution to the UN Sustainable Development Goals 20% (see the Sustainability Report )	Climate action (5%): Take urgent action to combat climate change and its impacts	Reduce the carbon intensity of electricity generated by 60% by 2030, compared to 2017/18 levels, to around 120gCO ₂ e/kWh.	The carbon intensity of electricity generated increased by 1.2% in 2021/22. Planned and unplanned outages in Thermal Generation and extremely low wind and rain in North of Scotland led to a reduction in overall output. Correspondingly GHG emissions from electricity generation fell by 19%. Keadby 2, expected to be the most efficient CCGT station in Europe, on track to be online by end 2021. Keadby 3 progressing well through planning. SSE set updated science-based carbon targets in November 2021, aligned to a 1.5°C pathway. As a result, this goal has been increased to a reduction of 80% (from 60%) from 2022/23 onwards.	✓✓	90%
	Affordable and clean energy (5%): Affordable, reliable and sustainable energy for all	Develop and build by 2030 more renewable energy to contribute renewable output of 30TWh a year.	Renewable generation output (inc. biomass, pumped storage and constrained off wind in GB) fell in the year due to unfavourable weather conditions. However, excellent progress was made on key offshore projects, including reaching financial close on Dogger Bank C and construction progressing well at Seagreen and Dogger Bank A and B. SSE Renewables, along with partners, also won rights to develop what will become one of the world's largest floating offshore wind farms in the January ScotWind leasing round.	✓✓✓	90%
	Industry, innovation and infrastructure (5%): Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation	Build electricity network flexibility and infrastructure that helps accommodate 10 million electric vehicles in GB by 2030.	SSEN Distribution published its RIIO-ED2 business plan with key goal to facilitate connection of 1.3m EVs by 2028. It has progressed a number of key projects to support low-carbon technology solutions, including several ongoing strategic initiatives and partnerships in this area. 30% of SSE's car fleet now fully electric with emissions down by 21%. Employee EV salary sacrifice car scheme launched so that every employee will have access to a fully electric car.	✓✓✓	85%
	Decent work and economic growth (5%): Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	Be the leading company in the UK and Ireland championing Fair Tax and a real Living Wage.	SSE maintained its Fair Tax Mark accreditation for the eighth consecutive year and published its Talking Tax 2021 report. Living wage increased in line with real Living Wage rate increase and from April now has Living Hours accreditation. Work has begun to roll the new accreditation out in its supply chain. Goal in this area has been reviewed in 21/22, broadening it to encompass a just transition.	✓✓✓	80%

x= Below expectation

✓= Met expectation

✓✓= Exceeded expectation

✓✓✓= Far exceeded expectation

4. Take account of wider environment

The Remuneration Committee believes that the range of measures used in the AIP ensures that performance is assessed using a balanced approach, without undue focus on a single metric which could be achieved at the expense of wider initiatives. AIP outturns for the wider employee population were also taken into account by the Committee.

AIP earned for each of the Executive Directors is shown in the table below. The total award is made up of 67% cash and 33% which is deferred into shares and vests after three years.

5. Apply discretion if required

The Committee considers the outcomes in the light of SSE's performance in the round and pay principles. While mindful of current cost of living pressures the Committee felt that the reward was reflective of performance and decided that no further discretion was required.

	Maximum (% of salary)	AIP earned ¹	AIP cash	AIP deferred
Alistair Phillips-Davies	150%	1,150,285	770,691	379,594
Gregor Alexander	130%	770,532	516,256	254,276
Martin Pibworth	130%	678,296	454,458	223,838

1 Both the cash and deferred element are subject to clawback provisions.

2019 – 2022 Performance Share Plan

1. Set performance measures aligned with strategy

PSP performance measures are designed to encourage sustainable value creation, consistent with effective stewardship, encouraging good decision-making for the long term. The measures and their weightings are shown below:

Value Creation (40%)		Financial (40%)		Operational (20%)	
Total Shareholder Return relative to FTSE 100 (20%)	Total Shareholder Return relative to MSCI Europe Index (20%)	Adjusted EPS growth (20%)	DPS growth (20%)	Customer: Distribution (10%)	Customer: Business Energy (10%)

2. Set stretching performance targets

The performance target ranges for PSP are set each year to ensure they are stretching and represent value creation for shareholders.

3. Assess performance

The vesting of shares under the PSP is subject to the performance measures and targets shown in the table below which also details the actual outturn for the 2019 PSP award vesting this year.

PSP	Performance measure						Total
	TSR v FTSE 100	TSR v MSCI Europe	EPS growth	DPS growth	Customer (Distribution)	Customer (Business Energy)	
Link to strategy	Simple Stewardship Stakeholders	Simple Stewardship Stakeholders	Simple Stewardship Stakeholders	Simple Sustainable Stakeholders	Simple Stewardship Stakeholders	Simple Stewardship Stakeholders	
Rationale	Relative measure of performance	Relative measure of performance	Underlying measure of financial performance	Return on investment through payment of dividends	Meeting customers needs is at core of our business	Meeting customers needs is at core of our business	
Weighting	20%	20%	20%	20%	10%	10%	
Threshold	50th percentile	50th percentile	RPI	RPI	Median ranking	Median ranking	
Max	75th percentile	75th percentile	RPI +10%	RPI +5%	Rank 1	Rank 1	
Outcome	Rank 13 of 95 (above 75th percentile)	Rank 6 of 23 (above 75th percentile)	RPI + 8.1%	Below RPI	Below median	Average 4 of 16	
Performance	100%	100%	93%	0	0%	73%	
Outturn (% of max)	20%	20%	19%	0	0%	7%	66%

Annual report on remuneration continued

4. Take account of wider environment

SSE's TSR has performed at the maximum level relative to both the FTSE 100 and the MSCI European Utilities Index, and performance in relation to Business Energy customer service ranking is also above median. EPS growth over the performance period has been close to the level for maximum vesting. While SSE's dividend commitment has been met over the three-year period, threshold performance at RPI has not been achieved following the resetting of the dividend policy in 2019.

While the PSP applies to Executive Directors only, the Committee is mindful of the outturns of the long-term incentive arrangement (Leadership Share Plan – LSP) which applies to senior managers. On average, the LSP award has paid out at a higher level than the PSP outturn.

5. Apply discretion if required

The Committee believes that the formulaic outcome is a fair reflection of wider performance over this three-year period, in particular the value created for shareholders and taking account of shareholders' interests.

The table below shows the maximum number of shares available, the dividends accrued over the three-year performance period, the total number of shares vesting based on the performance outturn and the estimated value of these shares.

	Awards available (% of salary)	Awards available (number of shares)	Additional awards in respect of accrued dividends	Total number of shares vesting	Estimated value of awards vesting ¹
Alistair Phillips-Davies	200%	153,763	31,056	121,981	1,971,815
Gregor Alexander	175%	103,991	21,002	82,495	1,333,538
Martin Pibworth	175%	77,828	15,718	61,740	998,033

1 The estimated value of the awards vesting has been calculated on the same basis as the PSP value in the single figure table on [page 184](#).

Other remuneration disclosures

Fees paid to the Chair and the other non-Executive Directors during 2021/22 were as follows:

Non-Executive Directors	Fees £000s	
	2021/22	2020/21
Dame Sue Bruce	101	100
Tony Cocker ¹	105	95
Crawford Gillies ²	0	45
Richard Gillingwater CBE ³	0	400
Peter Lynas	91	90
Helen Mahy CBE	87	86
Sir John Manzoni ⁴	400	42
Melanie Smith	73	72
Dame Angela Strank ⁵	73	66
The Rt Hon Elish Angiolini QC ⁶	42	0
Debbie Crosbie ⁷	42	0
Total	1,014	996

1 Tony Cocker became Senior Independent Director on 1 October 2020.

2 Crawford Gillies left the Board on 30 September 2020.

3 Richard Gillingwater CBE left the Board on 31 March 2021.

4 Sir John Manzoni joined the Board as a non-Executive Director on 1 September 2020.

5 Dame Angela Strank joined the Board as a non-Executive Director on 1 May 2020.

6 The Rt Hon Elish Angiolini joined the Board as a non-Executive Director on 1 September 2021.

7 Debbie Crosbie joined the Board as a non-Executive Director on 1 September 2021.

Share interests and share awards (audited)

Directors' share interests

The table below shows the share interests of the Executive and non-Executive Directors at 31 March 2022.

Director	*Shareholding requirement as a % of salary (Actual/% met)	Shares owned outright at 31 March 2022	Number of shares		Number of options		Shares owned outright at 31 March 2021
			Interests in shares, awarded without performance conditions at 31 March 2022 (DBS Awards)	Interests in shares, awarded subject to performance conditions at 31 March 2022 (PSP Awards)	Interests in share options, awarded without performance conditions at 31 March 2022	Interests in share options, awarded subject to performance conditions at 31 March 2022	
Gregor Alexander	608% (200% – met)	248,434	26,326	275,349	1,967	–	220,782
Elish Angiolini		2,000					
Sue Bruce		2,484	–	–	–	–	2,484
Tony Cocker		5,000	–	–	–	–	5,000
Debbie Crosbie		2,000					
Peter Lynas		5,000	–	–	–	–	5,000
Helen Mahy		3,310	–	–	–	–	2,027
John Manzoni		2,437					2,311
Alistair Phillips-Davies	556% (200% – met)	293,747	39,302	407,138	1,997	–	253,462
Martin Pibworth	268% (200% – met)	97,525	20,524	217,855	2,662	–	78,557
Melanie Smith		2,100	–	–	–	–	2,000
Angela Strank		1,669	–	–	–	–	388

* Shareholding requirement:
Executive Directors – 200% of salary.
Non-Executive Directors – minimum 2,000 shares.

Price used to calculate shareholding requirement as % of salary as at 31/03/22 £17.4850.

Directors' Long-term Incentive Plan interests

Deferred Bonus awards granted in 2021 and PSP awards granted in 2021

The tables below shows the deferred bonus awards and PSP awards granted to Executive Directors in 2021.

Deferred bonus awards granted 2021

Recipient	Date of Grant	Shares Granted	Market Value on date of award	Face Value
Gregor Alexander	06/07/2021	13,832	£15.2400	£210,799.68
Alistair Phillips-Davies	06/07/2021	20,650	£15.2400	£314,706.00
Martin Pibworth	06/07/2021	11,174	£15.2400	£170,291.76
				£695,797.44

PSP awards granted 2020

Recipient	Date of Grant	Shares Granted	Market Value on date of award	Face Value
Gregor Alexander	06/07/2021	82,597	£15.2400	£1,258,778.28
				£1,258,778.28
Alistair Phillips-Davies	06/07/2021	122,131	£15.2400	£1,861,276.44
				£1,861,276.44
Martin Pibworth	06/07/2021	73,597	£15.2400	£1,121,618.28
				£1,121,618.28

Annual report on remuneration continued

Directors' Long-term Incentive Plan interests

The table below details the Executive Directors' Long-term Incentive Plan interests.

	Share plan	Date of Award	Normal Exercise Period (or Vesting Date)	No. of shares under award as at 1 April 2021	Option Exercise Price	Additional shares awarded during the year incl. dividend shares	No. of shares lapsed during the year incl. dividend shares	No. of shares realised during the year incl. dividend shares	No. of shares under award at 31 March 2022
Gregor Alexander	DBP 2016 ²	28/06/2018	28/06/2021	16,640				16,640 ⁴	
	DBP 2016 ²	28/06/2019	28/06/2022	0					0
	DBP 2016 ²	26/06/2020	26/06/2023	12,494					12,494
	DBP 2016 ²	06/07/2021	06/07/2024			13,832 ³			13,832
	PSP ¹	28/06/2018	28/06/2021	89,466			79,913	31,076 ⁴	
	PSP ¹	28/06/2019	28/06/2022	103,991					103,991
	PSP ¹	26/06/2020	26/06/2023	88,761					88,761
	PSP ¹	06/07/2021	06/07/2024			82,597 ³			82,597
Sharesave	12/07/2019	- 31/03/23	1,837	901p				1,837	
Sharesave	21/07/2020	- 31/03/24	130	1,107p				130	
Alistair Phillips-Davies	DBP 2016 ²	28/06/2018	28/06/2021	24,841				24,841 ⁴	
	DBP 2016 ²	28/06/2019	28/06/2022	0					0
	DBP 2016 ²	26/06/2020	26/06/2023	18,652					18,652
	DBP 2016 ²	06/07/2021	06/07/2024			20,650 ³			20,650
	PSP ¹	28/06/2018	28/06/2021	132,287			118,16 ²	45,951 ⁴	
	PSP ¹	28/06/2019	28/06/2022	153,763					153,763
	PSP ¹	26/06/2020	26/06/2023	131,244					131,244
	PSP ¹	06/07/2021	06/07/2022			122,131 ³			122,131
Sharesave	12/07/2019	- 31/03/23	1,997	901p				1,997	
Martin Pibworth	DBP 2006 ²	28/06/2018	28/06/2021	10,398				10,398 ⁴	
	DBP 2016 ²	28/06/2019	28/06/2022	0					0
	DBP 2016 ²	26/06/2020	26/06/2023	9,350					9,350
	DBP 2016 ²	06/07/2021	06/07/2024			11,174 ³			11,174
	PSP ¹	28/06/2018	28/06/2021	66,957			59,807	23,258 ⁴	
	PSP ¹	28/06/2019	28/06/2022	77,828					77,828
	PSP ¹	26/06/2020	26/06/2023	66,430					66,430
	PSP ¹	06/07/2021	06/07/2024			73,597 ³			73,597
Sharesave	12/07/2019	- 31/03/23	998	901p				998	
Sharesave	12/07/2019	- 31/03/25	1,664	901p				1,664	

Shares which are released under the DBP 2016 and PSP Awards attract additional shares in respect of the notional reinvestment of dividends. In addition to the shares released under these schemes, as indicated in the table above, the following shares were realised arising from such notional reinvestment of dividends:

Gregor Alexander received 10,027 shares, Alistair Phillips-Davies received 14,885 shares and Martin Pibworth received 7,006 shares.

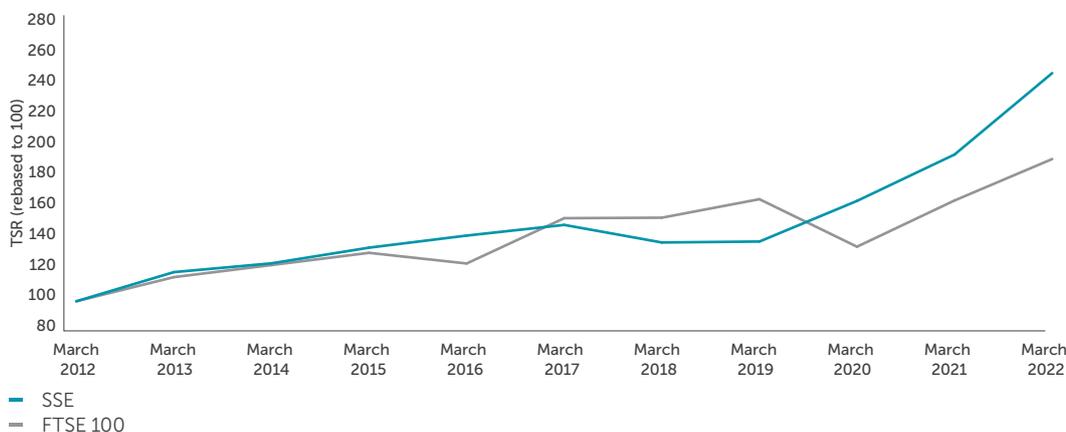
- The performance conditions applicable to awards under the PSP are described on [page 189](#). The 2018 awards under the PSP vested at 28%.
- 25% of annual bonus payable to Executive Directors and Senior Managers is satisfied as a conditional award of shares under the DBP 2016. Vesting of shares under the DBP 2016 is dependent on continued service over a three-year period. In view of the linkage to annual bonus.
- The market value of a share on the date on which these awards were made was 1,513p.
- The market value of a share on the date on which these awards were realised was 1,522,599p.

The closing market price of shares at 31 March 2022 was 1,74850p and the range for the year was 1,455p to 1,749p. Awards granted during the year were granted under the PSP. The aggregate amount of gains made by the Directors on the exercise of share options and realisation of awards during the year was £2,506,172 (2021 - £2,392,187).

2. Historical remuneration disclosures

Change in Chief Executive total remuneration

The graph below shows SSE TSR performance over the last ten years relative to FTSE 100 performance.



The table below shows the Chief Executive's annual remuneration over the same period.

Directors	Single total figure of remuneration ¹ (£'000)	Annual variable element award ² (% of maximum)	Long-term incentive vesting ³ (% of maximum)	Application of discretion
2021/22 (Alistair Phillips-Davies)	4,485	83	66	
2020/21 (Alistair Phillips-Davies)	3,045	69	28	Downward discretion applied to AIP
2019/20 (Alistair Phillips-Davies)	2,418	59	27	
2018/19 (Alistair Phillips-Davies)	1,639	0	26	Downward discretion applied to AIP
2017/18 (Alistair Phillips-Davies)	2,693	78	30	
2016/17 (Alistair Phillips-Davies)	2,917	72	46	Downward discretion applied to AIP
2015/16 (Alistair Phillips-Davies)	1,696	54	0	
2014/15 (Alistair Phillips-Davies)	2,311	64	0	
2013/14 (Alistair Phillips-Davies and Ian Marchant) ⁴	2,546	63	22	
2012/13 (Ian Marchant)	2,241	0	53	Chief Executive waived AIP

1 The single total figure of remuneration is calculated on the same basis as the 'single total figure of remuneration' table on [page 184](#).

2 The annual variable element award (AIP) is the figure shown on [page 186](#) and reflected in the 'single total figure of remuneration table' on [page 184](#).

3 The long-term incentive (PSP) vesting is the figure shown on [page 189](#), and reflected in the 'single total figure of remuneration table' on [page 184](#).

4 For 2013/14, an aggregate number has been applied by combining pro-rata values for each CEO based upon their time in role.

Alignment of Directors' Remuneration Policy with pay across the wider employee population

In setting Executive Directors' pay, a number of factors are taken into account including importantly, relativity to the wider workforce. For a number of years, a Chief Executive pay ratio has been disclosed voluntarily. In 2018/19, the methodology was revised to meet the new reporting requirements. The methodology used is a hybrid approach combining Gender Pay Gap data (as disclosed in the [Sustainability Report](#)) with additional elements of pay which are important components of SSE employees' pay such as overtime, employer's contribution to pension and excluding salary sacrifice arrangements. This is believed to allow the most appropriate and consistent comparison.

As shown in the table below, the pay ratio has increased from 71:1 at median in 2020/21 to 102:1 in 2021/22. While the median remuneration for all employees has increased by 3.5%, the Chief Executive's remuneration has increased by 47%. This is due mainly to increased variable pay for the Chief Executive following a strong performance year and a 27% increase in the share price during the year and an increase in SSE's TSR over the three-year period of over 66%.

SSE's is committed to being a responsible employer, and the remuneration policy is designed with fairness in mind – fairness to Executive Directors in recognition of the extent of their responsibilities and, fairness relative to the rest of the SSE team. More information on SSE's responsible employer ethos can be found within the [Sustainability Report](#) which includes information on the commitment to being a real Living Wage employer, and other initiatives which help to ensure value is created and retained for employees and the organisation.

Annual report on remuneration continued

Year	Calculation Methodology	25th percentile		Median		75th percentile		Total employee earnings (m)
		Total Remuneration	Ratio	Total Remuneration	Ratio	Total Remuneration	Ratio	
2021/22	C	£33,046	136:1	£43,793	102:1	£61,195	73:1	591.0
2020/21	C	£32,268	93:1	£42,295	71:1	£59,454	51:1	£543.1
2019/20	C	£29,234	83:1	£40,908	59:1	£54,863	44:1	£510.0
2018/19	C	£28,611	57:1	£39,010	41:1	£54,066	30:1	£495.3

Annual percentage change in remuneration of the Directors

Each year, when the Remuneration Committee is considering salary increases, incentive awards and benefits for Executive Directors, it is mindful of the treatment of the wider workforce. The table below shows how the Chief Executive's change in remuneration in 2021/22 compares to that of the wider workforce.

	Non-Executive Directors					Executive Directors			
	Dame Sue Bruce	Tony Cocker	Peter Lynas	Helen Mahey CBE	Melanie Smith	Energy and Commercial Director	Finance Director	Chief Executive	All Employees
2021/22									
Base Salary/Fee	1.0%	10.5%	1.1%	1.2%	1.4%	11.4%	1.0%	1.0%	5.9%
Benefits ¹						0.0%	4.5%	4.0%	3.2%
Bonus						32.4%	21.6%	21.4%	50.5%
2020/21									
Base Salary/Fee	2.0%	13.1%	2.3%	2.4%	2.9%	10.9%	2.8%	2.8%	6.2%
Benefits ¹						5.9%	0.0%	0.0%	8.0%
Bonus						29.6%	21.9%	20.2%	10.3%

1 All employee benefits include car benefits, Share Incentive Plan Company contributions and medical benefits in alignment with the benefits reported for the Executive Directors in the single total figure of remuneration on [page 184](#).

Non-Executive Directors do not earn benefits or bonus.

Four Non-Executive Directors (Sir John Manzoni, Dame Angela Strank, The Rt Hon Elish Angiolini and Debbie Crosbie) are excluded from this table as they have not been in post for a full two years to make a viable comparison.

Relative importance of the spend on pay

The table below indicates how the earnings of Executive Directors compare with SSE's other financial dispersals. The movement in Executive Directors' earnings in 2022 is explained on [page 184](#).

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Executive Directors' earnings ¹	5.3	3.6	5.1	6.8	10.1
Dividends to shareholders	926.1	973.0	948.5	836.4	862.3
Adjusted investment, capital and acquisition expenditure	1,503.0	1,422.9	1,371.9	912.0	2,073.7
Total UK taxes paid (profits, property, environment and employment taxes) ²	484.1	403.7	421.6	379.0	335.3
Staff costs ³	665.6	653.5	684.7	700.4	688.7

1 Calculated on the same basis as the 'single total figure of remuneration' table on [page 184](#).

2 Includes corporation tax, employers' National Insurance contributions and business rates.

3 Staff costs for all employees, as per note 8.1 of the accounts, excluding Executive Directors.

For every £1 spent on Executive Directors' earnings by SSE in 2021/22, £33 was paid in tax, £68 was spent on employee costs and £205 was spent on capital and investment expenditure. In addition, £123 was made in dividend payments to shareholders for every £1 spent on Executive Directors' earnings.

3. Governance

External appointments

Executive Directors are able to accept a non-Executive appointment outside the Company with the consent of the Board, as such appointments can enhance their experience and value to the Company. Any fees received are retained by the Director. Gregor Alexander was a non-Executive Director of Stagecoach Group plc during 2021 and received £53,000 in fees.

Payments for loss of office and payments to past Directors

There were no payments for loss of office or to former Directors during the year.

Advice to the Remuneration Committee

The Chief Executive, the Director of Human Resources and Head of Reward advised the Committee on certain remuneration matters for the Executive Directors and senior executives although they were not present for any discussions related to their own remuneration.

The Director of Human Resources and Head of Reward advised on HR strategy and the application of HR policies across the wider organisation.

FIT Remuneration Consultants LLP (FIT) provided a range of information to the Committee which included market data drawn from published surveys, governance developments and their application to the Company, advice on remuneration disclosures and regulations and comparator group pay. FIT received fees of £96,569 in relation to their work for the Committee, calculated on a time and materials basis. FIT are founding members of, and adhere to, the Remuneration Consultants' Group Code of Conduct. The Code defines the roles of consultants, including the requirement to have due regard to the organisation's strategy, financial situation, pay philosophy, the Board's statutory duties and the views of investors and other stakeholders. The Committee reviews the advisers' performance annually to determine that it is satisfied with the quality, relevance, objectivity and independence of advice being provided. FIT provides no other services and has no other connection to the Company or individual Directors.

Freshfields LLP also provided advice on legal matters, such as share plan rules, during the year.

Evaluation

Through the internal Board evaluation process which was carried out during the year, it was confirmed that the Remuneration Committee continued to operate effectively. Details of the wider annual evaluation process are set out on [pages 143 to 144](#).

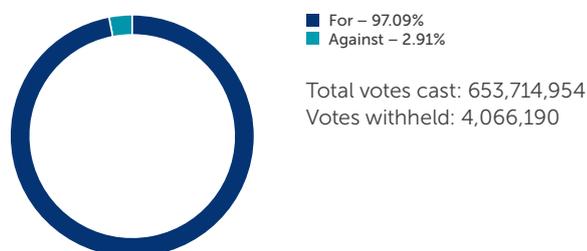
Risk assessment

The Remuneration Committee carries out a remuneration risk assessment on an annual basis to identify and evaluate the risks inherent in our Directors' Remuneration Policy. Important risk mitigators identified included the broad balance of clear financial and non-financial performance measures, targets which are set in line with SSE's business plans and an overall approach to pay design which rewards the delivery of strong, yet sustainable, performance. The review of the Directors' Remuneration Policy during the year has also involved the systematic assessment of a variety of risks including strategic, operational, behavioural, talent and governance.

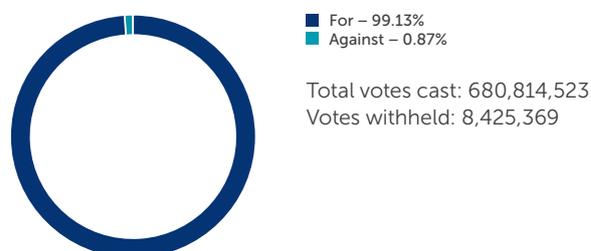
Shareholder voting in 2021

On 22 July 2021, shareholders approved the Annual report on remuneration for the year ended 31 March 2021 and the result is shown below. Also shown below is the result of shareholder voting on the current Directors' Remuneration Policy which was approved at the AGM on 18 July 2019.

ANNUAL REPORT ON REMUNERATION – SHAREHOLDING VOTING IN 2021



DIRECTORS' REMUNERATION POLICY – SHAREHOLDER VOTING IN 2019



Annual report on remuneration continued

Remuneration Committee

The Terms of Reference for the Committee were reviewed during 2021/22 and are available on the Company's website (sse.com). In summary, the Committee determines and agrees with the Board, the Company's framework and policy for executive remuneration including setting remuneration for all Executive Directors, the Company Chair, the Group Executive Committee and Company Secretary. During the year, a minor amendment was made relating to the approval of incentive design across the wider Company.

The members of the Committee and the meetings attended are set out on [page 125](#). The following agenda items were considered:

Meeting date	Agenda items
May 2021	Market and governance update, Executive Directors' pensions, base salary and fee review, AIP and PSP year-end performance, all employee remuneration, 2021 Directors' Remuneration Report, review of executive share plan leavers, 2021-23 Remuneration Committee Plan.
August 2021	Leadership Share Plan target update, Directors' Remuneration Policy planning.
November 2021	Market and governance update, AIP and PSP mid-year performance update, Directors' Remuneration Policy discussion, 2021-23 Remuneration Committee plan.
December 2021	Remuneration Policy – follow-up discussion
March 2022	Shareholder consultation feedback, incentive measures design, market and governance update, AIP and PSP performance update, Executive Directors' salaries and the Chair's fee, below-Board remuneration, 2021 Directors' Remuneration Report, Remuneration Committee terms of reference review, 2021-23 Remuneration Committee plan, Remuneration Committee evaluation.

4. Implementation of the Directors' Remuneration Policy for 2022/23

The table below sets out how the Remuneration Committee intends to operate the remuneration policy for the year ending 31 March 2023:

Element of pay	Implementation for 2022/23	Comment
Base salary	Salaries will be increased by 3% with effect from 1 April 2022.	The increase is in line with the negotiated settlement for collectively bargained employees and the general pay pot for all other employees. Although the new Policy gives SSE some flexibility in respect of market positioning there are no plans to make any market adjustments to the base salaries of the current executive directors.
Benefits	No changes proposed.	
Pension	No changes proposed.	The phased alignment of the Chief Commercial Officer's cash allowance in lieu of pension will be accelerated and reduced to 15% of salary at the end of 2022.
Annual Incentive Plan (no change to quantum)	The performance measures and weightings (in brackets) are as follows: Adjusted EPS (30%) Cash flow as measured by Net Debt/EBITDA (20%) Operational (30%) Personal/team (10%) Sustainability (10%)	The weighting and the definition of cash flow have been changed to increase the focus on cash flow. The operational and sustainability measures are new. Measures will be assessed on both a quantitative and qualitative basis. A portion (33%) of any bonus earned will continue to be deferred into shares which vest after three years. From 2022, the new post-employment share ownership supersedes the requirement to retain all deferred shares from the AIP for two years after employment. The targets for the 2022/23 Annual Incentive Plan will be disclosed in next year's Directors' Remuneration Report provided they are not, for any reason, commercially sensitive. Full details of the measures are shown below. The operational metric combines a mix of qualitative and quantitative goals. The sustainability goals measure SSE's relative performance.
Performance Share Plan (increase in maximum of 50% of salary to align with tougher targets)	The face value of the awards Chief Executive: 250% of salary Finance Director and Chief Commercial Officer: 225% of salary The performance measures and weightings (in brackets) are as follows: Relative TSR (50%) Adjusted EPS (20%) Sustainability (15%) Strategic (15%)	In response to the feedback from investors, the weighting of financial/share-based measures and non-financial measures moves to 70% and 30% respectively. The weighting of relative TSR has also been increased from 40% to 50% of the total award and the weighting of adjusted EPS growth is 20%. Performance standards have been increased in response to the higher quantum potential. Any vested shares from the Performance Share Awards made in 2022 and beyond are subject to the new post-employment share ownership policy. Full details of the performance measures are shown below. The strategic and sustainability measures are qualitative.

AIP – the measures for 2022/23

Adjusted Earnings Per Share and cash flow remain key measures for the AIP. The definition of cash flow has been updated and the weighting has been increased in the light of the Net Zero Acceleration Programme (NZAP). Targets will be set annually in light of NZAP and disclosed in next year's Directors' Remuneration Report.

Performance measure	Adjusted EPS	Cash flow	Personal/Individual*	Operational**	Sustainability
Weighting	30%	20%	10%	30%	10%
Description	Underlying measure of financial performance and a strategic KPI.	Net debt divided by EBITDA.	Rewards actions which go beyond the normal responsibilities of the role. May be individual or team based.	Measures and targets are set in priority areas including people (safety and inclusion and diversity), renewables, distribution, thermal, customers and other growth and transactions.	SSE's performance will be rated by four external ratings agencies – MSCI, V.E, Sustainalytics and S&P Global. Performance at the median will be deemed the threshold and performance at the upper quintile or above, the maximum.

* Examples of the personal goals include the active engagement in and cascading of SSE's Inclusion & Diversity development programmes and the implementation of SSE's cultural action plan as measured by the Great Place To Work (GPTW) assessment using WTW's methodology and other agreed engagement scorecard metrics.

** Examples of the operational goals include: **People:** Health & Safety performance as measured by Total Recordable Incident Rate (TRIR); recruitment plans and inclusion and diversity as measured by time to hire, filling of vacancies and the percentage increase in gender diversity across SSE. **Renewables:** cost per MW hour, plant availability, progress on renewables pipeline. **Distribution:** progress against ED2 business plan; incentive income against agreed target. **Transmission:** contract awards achieved against agreed plan; delivery of outputs and approval of projects that maintain a trajectory of RAV greater than £6bn by 2026. **Thermal:** plant availability; balancing market performance. **Customer:** finish above median in the Citizen's Advice non-domestic supplier league table. **Other Growth & Transactions:** progress building pipeline across business areas including solar, storage, hydrogen, and other priority business development areas; progress made on financial sell down of T & D businesses.

The personal and operational goals will be assessed using a scoring framework as follows:

Score	Illustrative performance assessment	Illustrative outturn as % of maximum
1	Below threshold	Zero
2	Threshold performance	20%
3	Majority of goals at target	40%
4	Substantial majority of goals at or above target	70%
5	All goals at or above target	100%

The Remuneration Committee can decide to award an outturn between levels if warranted.

Annual report on remuneration continued

The measures for awards under the Performance Share Plan for 2022

Relative Total Shareholder Return (TSR) and EPS account for 50% and 20% respectively of the total and the new sustainability and strategic measures 30% of the total award as follows:

Performance measure	Total Shareholder Return relative to the FTSE 100	Total Shareholder Return relative to the MSCI European Utilities	Adjusted Earnings per Share	Strategic	Sustainability
Weighting	20%	30%	20%	15%	15%
Threshold performance	50th percentile (20% outturn)	50th percentile (20% outturn)	Compound annual growth of 4% (20% outturn)	See below	See below
Maximum performance	80th percentile (100% outturn)	80th percentile (100% outturn)	Compound annual growth of 11% (100% outturn)	See below	See below

The TSR performance targets have been strengthened with 20% of that element vesting for median performance (previously 25%) and full vesting of that element only achieved at 80th percentile ranking (increased from 75th percentile).

The growth targets for EPS have been set based on SSE's current plan for the next three years. The top end of range exceeds the Board's expectations, is stretching and will result in EPS of 130.5p. The Committee will assess the growth targets for future awards under the PSP to ensure that they remain challenging and linked to the business plan.

Strategic measures and targets for the 2022 PSP award

The measures and targets for this element are linked to the Remuneration Committee's assessment of SSE's performance over the three years to 31 March 2025 in the three main areas of the implementation of the NZAP strategy.

Strategic area in NZAP	Measures and targets
Renewables	>10GW pipeline of net installed capacity potential by FY26. 2GW to be built by FY26.
Networks growth	Transmission and Distribution to exceed NZAP RAV growth targets.
Energy businesses	Low carbon thermal installed capacity to meet 0.9GW by FY26. DE installed capacity to reach 0.6GW by FY26.

Sustainability measures and targets for the 2022 PSP award

SSE's UN SDG 2030 Goal	Measure and Targets
SDG 13 Climate Action: Reduce scope 1 carbon intensity by 80% by 2030, compared to 2017/18 levels, to 61g CO ₂ e/kWh.	Scope 1 carbon intensity reduction to 61gCO ₂ e/kWh
SDG 7 Affordable and Clean Energy: Build a renewable energy portfolio that generates at least 50TWh of renewable electricity a year by 2030.	Renewables output TWh tracked to 2025/26. Renewables output TWh by 2030/31.
SDG 9 Industry, Innovation and Infrastructure: Enable at least 20GW of renewable generation and facilitate around 2 million EVs and 1 million heat pumps on SSEN's electricity networks by 2030.	GW renewable generation capacity connected to SSEN's electricity transmission network by 2026. Low-carbon technologies connected to SSEN's local electricity distribution networks by 2028.
SDG 8 Decent Work and Economic Growth: Be a global leader for the just transition to net zero, with a guarantee of fair work and commitment to paying fair tax and sharing economic value.	Achieve performance in the top 10% of rankings on average for progress on Just Transition, including in the World Benchmarking Alliance (WBA) and others as they emerge.

Performance against the strategic and sustainability measures and targets will be assessed using the same scoring framework shown above in respect of the personal and operational measures and targets for the AIP.

Chair's and non-Executive Directors' fees

For 2022/23 Sir John Manzoni's fee of £400,000 was increased by 3%, in line with the wider employee population, to £412,000.

Last year, non-Executive Directors' fees were increased by 1% in line with the wider employee population. For 2022/23, it was agreed that fees are increased by 3% which is also in line with the wider employee population.

Chair and non-Executive Director fee levels for 2022/23 are shown in the table below. Non-Executive Directors receive a base fee plus an additional fee for chairing a Committee or for performing the role of Non-Executive Director for Employee Engagement.

Fee	2022/23
Chair	£412,000
Base fee	£74,867
Senior Independent Director	£18,717
Audit Committee Chair	£18,717
Remuneration Committee Chair	£18,717
SHEAC Chair	£14,965
Energy Markets Risk Committee Chair	£14,965
Non-Executive Director for Employee Engagement	£10,689

Dame Sue Bruce DBE

Chair of the Remuneration Committee

24 May 2022

Other statutory information

The Directors submit their Annual Report and Accounts for SSE plc, together with the consolidated Financial Statements of the SSE Group of companies, for the year ended 31 March 2022.

The Strategic Report is set out on [pages 1 to 111](#) and the Directors' Report is set out on [pages 112 to 203](#). The Strategic Report and the Directors' Report together constitute the management report as required under Rule 4.1.8R of the Disclosure Guidance and Transparency Rules.

As permitted by section 414C (11) of Companies Act 2006 the below matters have been disclosed in the Strategic Report:

	Page reference
An indication of likely future developments in the business of the Company	pages 1 to 111
Particulars of important events affecting the Company since the financial year end	page 289
Greenhouse gas emissions	page 54
Energy consumption	page 57
Energy efficiency action	page 57
Employee engagement and involvement	page 34 and 60 to 63
Engagement with suppliers, customers and others in a business relationship with the Company	pages 36,39 and 58 to 67
A summary of the principal risks facing the Company	pages 71 to 81

Information required to be disclosed under Listing Rule 9.8.4R is contained on the pages detailed below.

	Page reference
Statement of amount of interest capitalised by the Group during the financial year	pages 247 to 248
Details of any long-term incentive schemes	pages 168 to 199

Results and dividends

The Group's results and performance highlights for the year are set out on [pages 20 to 21 and 82 to 94](#). An interim dividend of 25.5 pence per Ordinary Share was paid on 10 March 2022. The Directors propose a final dividend of 60.2p per Ordinary Share. Subject to approval at the AGM 2022, the final dividend will be paid on 22 September 2022 to shareholders on the Register of Members at close of business on 29 July 2022.

Board of Directors

Director appointment and retirement

The Company's Directors who served during the financial year ending 31 March 2022 are provided on [pages 118 to 122](#).

The rules governing the appointment and retirement of Directors are set out in the Company's Articles of Association, the UK Corporate Governance Code, the Companies Act 2006 and other related legislation.

Indemnification of Directors and insurance

The Directors have the benefit of an indemnity provision contained in the Company's Articles of Association. In addition, the Directors have been granted a qualifying third-party indemnity provision which was in force throughout the financial year and remains in force. Also, throughout the financial year, the Company purchased and maintained Directors' and Officers' liability insurance in respect of itself and for its Directors and Officers.

Political donations and expenditure

SSE operates on a politically neutral basis and does not make any donations to political parties, political organisations, or independent election candidates. During the year, no political expenditure was incurred, and no political donations were made by the Group.

Accounting policies, financial instruments, and risk

Details of the Group's accounting policies, together with details of financial instruments and risk, are provided in note 24 to the Financial Statements and Notes A6 to A8 of the Accompanying Information.

Research and development

SSE is involved in a range of innovative projects and programmes which are designed to progressively transform the energy system. A number of these projects and programmes are referred to in the Strategic Report in [pages 1 to 111](#).

Employment of disabled people

SSE has a range of employment policies which clearly detail the standards, processes, expectations and responsibilities of its people and the organisation. These policies were in place for the duration of the year, and are designed to ensure that everyone, including those with existing or new disabilities and people of all backgrounds, are dealt with in an inclusive and fair way from the recruiting process on through their career at SSE. This include access to appropriate training, development opportunities and job progression. Further details of this approach can be found on [pages 60 to 65](#).

Shares

Share capital

The Company has a single share class which is divided into Ordinary Shares of 50 pence each. The issued share capital of the Company as of 31 March 2022, together with details of any changes during the year, is set out in note 22 to the Financial Statements.

As of 31 March 2022, the issued share capital of the Company consisted of 1,073,136,776 Ordinary Shares. This figure includes 5,474,759 ordinary shares which are held in treasury (representing 0.51% of the Company's issued share capital), with these shares voting and dividend rights automatically suspended.

The Company was authorised at the AGM 2021 to allot shares or grant rights over shares up to an aggregate nominal amount equal to £173,851,098 (representing 347,702,196 Ordinary Shares of 50 pence each excluding Treasury Shares), representing one-third of its issued share capital. A renewal of this authority will be proposed at the AGM 2022.

The Company was authorised at the AGM 2021 to allot up to an aggregate nominal amount of £26,077,664 (representing 52,155,328 Ordinary Shares of 50 pence each and 5% of issued share capital) for cash without first offering them to existing shareholders in proportion to their holding. A renewal of this authority will be proposed at the AGM 2022.

Transfer of Ordinary Shares

There are no restrictions on the transfer of Ordinary Shares in the Company other than certain restrictions which may from time-to-time be imposed by law. The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and/or voting rights.

Substantial shareholdings

At 31 March 2022, the following percentage interests in the Ordinary Share capital of the Company, had been notified under Rule 5 of the Disclosure Guidance and Transparency Rules, ('DTR 5'). The Company is not aware of any changes in the interests disclosed under DTR 5 between 31 March 2022 and 24 May 2022.

Shareholder	Voting rights attached to shares*		Voting rights through financial instruments*		Total of both in %	Nature of holding
BlackRock, Inc.	70,784,883	6.64%	21,521,537	2.01%	8.65%	Indirect, Securities Lending, ADR, CFD
The Capital Group Companies, Inc.	50,981,817	4.90%	–	–	4.90%	Indirect, ADR
Invesco Limited	45,775,918	4.69%	–	–	4.69%	Indirect
Caisse de dépôt et placement du Québec	41,492,159	3.98%	–	–	3.98%	Direct

* At date of disclosure by relevant entity.

Authority to purchase shares

At the AGM 2021, the Company obtained shareholder approval to purchase up to 104,310,659 of its own Ordinary Shares (representing 10% of its issued share capital) up until the earlier of the conclusion of the AGM 2022 and close of business on 30 September 2022.

The Company did not undertake any share repurchase programmes during the financial year ending 31 March 2022.

During the financial year, and up until 31 March 2022, the Company used 584,806 of the treasury shares acquired under the 2016/17 share repurchase programme to satisfy the requirements of the all-employee Sharesave scheme.

The Directors will, again, seek renewal of their authority to purchase in the market the Company's own shares at the AGM 2022.

Voting

Each Ordinary Share of the Company carries one vote at general meetings of the Company. Any Ordinary Shares held in treasury have no voting rights.

Other statutory information continued

A shareholder entitled to attend, speak and vote at a general meeting may exercise their right to vote in person, by proxy, or in relation to corporate members, by corporate representatives. To be valid, notification of the appointment of a proxy must be received not less than 48 hours before the general meeting at which the person named in the proxy notice proposes to vote. The Directors may in their discretion determine that in calculating the 48-hour period, no account be taken of any part of a day which is not a working day.

Employees who participate in the Share Incentive Plan whose shares remain in the schemes' trust give directions to the trustees to vote on their behalf by way of a Form of Direction. SSE also has a Share Plan Account service with Computershare available to employees with shares arising from a SAYE option maturity, which are voted through the nominee.

Annual General Meeting (AGM)

The AGM of the Company will be held at the Perth Concert Hall, Mill Street, Perth PH1 5HZ on Thursday 21 July 2022 at 12.30pm. Following the necessary approvals being granted at the AGM 2022, shareholders will also be able to attend virtually via the use of an electronic platform and ask questions and vote in real time. Details of the full arrangements for the AGM, resolutions to be proposed, how to vote and ask questions are set out in the Notice of Annual General Meeting 2022 which accompanies this report for shareholders receiving hard copy documents, and which is available at sse.com for those who elected to receive documents electronically.

Articles of Association changes

The Company's latest Articles of Association were adopted at the 2022 AGM. Any amendments to the Articles of Association can only be made by a special resolution at a general meeting of shareholders.

Change of control

The Company is party to several agreements that take effect, alter or terminate upon a change of control of the Company following a takeover. At 31 March 2022, change of control provisions were included in agreements for committed credit facilities, EIB debt, US Private Placements, Senior Bonds and Hybrid instruments. The Company is not aware of any other agreements with change of control provisions that are significant in terms of their potential impact to the business.

Disclosure of information to the auditor

Each of the Directors who held office at the date of approval of this Directors' Report confirms that, so far as each Director is aware, there is no relevant audit information of which the Company's Auditors are unaware and each Director has taken all the steps that ought to have been taken in his or her duty as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

Related party transactions

Related party transactions are set out in Note A5 of the Accompanying Information.

The Directors' Report set out on [pages 112 to 203](#) has been approved by the Board of Directors in accordance with the Companies Act 2006.

By order of the Board

Sally Fairbairn
Company Secretary
24 May 2022