Registration number: 04467860

SSE Hornsea Limited

Directors report and Financial Statements

for the Year Ended 31 March 2021

SSE Hornsea Limited

Contents

SSE Hornsea Limited

Company Information

Directors	M Beattie
	M Gillatt
	A M G Gray
	A M J Rudd
	S Wheeler (resigned 9 November 2020 and reappointed 16 April 2021)
	M R Hayward (appointed 9 November 2020)
Registered office	No.1 Forbury Place 43 Forbury Road Reading RG1 3JH
Auditors	Ernst & Young LLP G1 Building 5 George Square Glasgow G2 1DY
Registered number	04467860

SSE Hornsea Limited

Strategic Report for the Year Ended 31 March 2021

The directors present their report for the year ended 31 March 2021.

This Strategic Report has been prepared in accordance with the requirements of Section 414 of the Companies Act 2006. Its purpose is to inform shareholders and help them assess how the directors have performed their duty to promote the success of SSE Hornsea Limited.

The Strategic and Financial Review sets out the main trends and factors underlying the development and performance of SSE Hornsea Limited (the "Company") during the year ended 31 March 2021, as well as those matters which are likely to affect its future development and performance.

Fair review of the business

Overview

The Company has an ownership interest in two major energy storage facilities in East Yorkshire - Atwick near Hornsea and Aldbrough. The primary objective of these facilities is to safely offer valuable flexibility and hedging services to the UK and the interconnected gas markets.

As part of the transition to a net-zero future, opportunities are being explored to convert the facilities from storing natural gas to store low-carbon hydrogen, which can be used to decarbonise power generation, industry, heat, transport and other key sectors.

Financial performance

The profit and loss account for the year ended 31 March 2021 is set out on page 14. The loss for the year after taxation amounted to £(3.7)m (2020: profit of £5.3m). The balance sheet at 31 March 2021 is set out on page 15 and indicates net liabilities of £7.9m (2020: net liabilities of £4.4m).

The directors assess the financial performance of the Company based on 'adjusted operating profit'. This measure is used for internal performance management and is believed to be appropriate for explaining underlying performance to users of the accounts. Adjusted operating profit is derived after excluding exceptional items and certain re-measurements arising on commodity contracts. Exceptional items are those charges or credits that are considered unusual by nature and or scale and of such significance that separate disclosure is required for the financial statements to be properly understood. Derivative re-measurements are re-measurements arising on certain commodity contracts, which are accounted for as held for trading in accordance with the company's policy for such financial instruments. This excludes commodity contracts not treated as financial instruments as defined by IFRS 9 which are held for the Group's own use requirements which are not recorded until the underlying commodity is delivered.

The Company has reported an adjusted operating loss of £0.6m (2020: profit £4.4m).

Reported to adjusted operating profit reconciliation:

	2021 £m	2020 £m
Operating (loss)/profit	(1.1)	7.0
Add back: IAS 39 internal derivatives	3.9	(7.7)
Add back: Gas stock revaluation	(3.4)	5.1
Adjusted operating (loss)/profit	(0.6)	4.4

The amounts in line "Add back: IAS 39 internal derivatives" are included in the "Cost of sales" line in the Profit and loss account on page 14. The current year movement of £3.9m is the movement between the line "Derivative financial assets" in 2020 of £6.4m to "Derivative financial assets" in 2021 of £2.5m, shown in the balance sheet on page 15. The Stock movement is explained in note 12 of the financial statements.

The variance between the adjusted operating loss in the current year compared to the profit in the prior year is reflective of the market conditions in which the plant is operating on a merchant basis.

Energy Storage Operations

The Company holds around 40% of the UK's conventional underground gas storage capacity. These assets can play an important role in the transition to net zero, supporting security of supply with the UK's continuing shift away from coal-fired generation and the resulting loss of inherent energy storage in coal stocks. In 2020/21 these assets were used to respond to unpredictable and changeable weather conditions, particularly in the January to March period. SSE Thermal remains committed to working with UK Government departments and Ofgem to ensure that the critical role of UK storage in relation to security of supply and stability of gas price is properly rewarded. These assets may also prove useful in the longer-term decarbonisation of the energy system with potential repurposing for other lower carbon gases in future, including hydrogen.

The Company auctioned gas storage capacity contracts to the market in both April 2020 and 2021, however, both auctions resulted in no contracts being secured. Therefore, the caverns are commercially operated to generate revenues; this is achieved by managing exposure to changes in the spread between summer and winter prices, market volatility and plant availability whilst also making capacity available, at fair value, to interested third parties.

Key performance indicators

The company's key financial indicators during the year were as follows:

The plant continued to operate on a merchant basis in the 2021 financial year.

	31 March 2021 £ m	31 March 2020 £ m
Revenue	773.0	594.4
Gross profit	3.4	9.8
Operating (loss)/profit	(1.1)	7.0
(Loss)/profit before tax	(4.1)	3.4
(Loss)/profit after tax	(3.7)	5.3
Net liabilities	(7.9)	(4.4)
Total assets	187.5	190.5
Dividends paid	-	-

Company priorities in 2020/21 and beyond

The company's priorities are to:

• Comply fully with all safety, environmental and commercial requirements
• Work with existing and potential customers to develop flexible products and services which add value to their portfolios
• Continuously review and optimise the assets to ensure cost effective maximum availability and utilisation, in order to meet customer demands, market conditions and contractual obligations
• Target proposed investment which prolongs the operational life of the existing facilities, and
• Working with internal and external shareholders on the development of low carbon technologies.

Principal risks and uncertainties

The directors acknowledge that they have responsibility for the company's systems of internal control and risk management and for monitoring their effectiveness. The purposes of these systems are to manage, rather than eliminate the risk of failure to achieve business objectives, to provide reasonable assurance as to the quality of management information and to maintain proper control over the income, expenditure, assets & liabilities of the Company.

No system of control can, however, provide absolute assurance against material misstatement or loss. Accordingly, the directors have regard to what controls, in their judgement, are appropriate to the Company's business and to the relative costs and benefits of implementing specific controls.

The main financial risks that the Company could face have been considered by the directors. These include mechanical failure at the Company's gas storage facilities, competition, wholesale market prices, economic regulation and government policies and other factors. To mitigate these risks, regular maintenance work is performed at the gas storage site, competitor activity is monitored; and effectiveness of performance in all key risk areas is regularly reviewed by management.

The company transacts with other companies within the SSE plc Group and is a key part of the Group's business and strategies. The principal risks and uncertainties faced by the Group are set out in the Group's annual report.

Section 172(1) Statement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In furtherance of this, section 172 requires a director to have regard amongst other matters, to the:

• likely consequences of any decisions in the long term;
• interests of the company's employees;
• need to foster the company's business relationships with suppliers, customers and others;
• impact of the company's operations on the community and environment;
• desirability of the company maintaining a reputation for high standards of business conduct; and
• need to act fairly as between members of the company.

In discharging their section 172 duties, the directors of the Company, have regard to the factors set out above. They also have regard to other factors which they consider relevant to the decision being made, for example, health and safety factors relating to the operation of Company's assets and to the overall financial health of the Company.

The directors acknowledge that every decision taken will not necessarily result in a positive outcome for all of the Company's stakeholders. However, by considering the SSE Group's, and therefore Company's, purpose, vision and values, together with its strategic priorities, and having agreed processes in place for decision-making, they do aim to ensure that decisions are consistent and appropriate in all circumstances.

As is normal for large companies, authority for day-to-day management of the Company is delegated to senior management, with the setting and oversight of business strategy and related policies, the responsibility of the directors.

The Company is represented by the directors on the Board which reviews health and safety, financial and operational performance and legal and regulatory compliance at every meeting, in addition to other pertinent areas over the course of the financial year, including: the Company's business strategy; key risks; stakeholder-related matters; diversity and inclusion; environmental matters; corporate responsibility; governance, compliance and legal matters. This is done through the consideration and discussion of reports which are sent in advance of each meeting and through presentations to the Board.

The views of the Company's stakeholders are always considered where appropriate in decision making across the SSE Group. The mechanisms which are in place to assist the director's in understanding relevant views are set on pages 2 to 4 of the Strategic Report. Information is generally provided in a range of different formats including specific reports and presentations on financial and operational performance, non-financial KPIs, risk, ESG matters and the outcomes of specific pieces of engagement, with the intended outcome being a rounded understanding of stakeholder issues and concerns.

Set out below is an example of how the directors have had regard to the matters set out in section 172 (1) (a)-(f) when discharging their section 172 duty and the effect of that on principal decisions taken.

The Board is committed to a net-zero future and has decided to explore opportunities to convert the gas storage facilities or build new owned by SSE Hornsea Limited to be suitable to store low-carbon fuels. This supports SSE Thermals decision to join a consortium focused on using emerging carbon capture and storage (CCS) and hydrogen technologies to decarbonise energy and industry in the Humber region. The plan has the potential to contribute to the future prosperity of the UK's largest industrial hub and to safeguard jobs across the region.

Stakeholder engagement

The Company's stakeholders are people, communities and organisations with an interest or concern in its purpose, strategy, operations and actions, and who in turn, may be affected by them. This includes: shareholders; employees; government and regulators; NGOs, communities and civil society; suppliers, contractors and partners; and customers. The perspectives, insights and opinions of stakeholders are recognised as a key factor in the relevant operational, investment and business decisions taken by the Company and its Directors, to ensure that as a whole they are more robust and sustainable.

SSE Hornsea Limited sits within the SSE Thermal business unit and is represented on a dedicated Board of which all of the directors are part.

While there are cases where the directors may judge it appropriate to engage directly with certain stakeholder groups, the size and spread of both the Company's stakeholders and those of the SSE Group, of which the Company sits within, means that stakeholder engagement takes place at many different levels. This includes at SSE Group level, business unit level, company level and operational level. This holistic approach allows a broader representation and deeper understanding of all stakeholder views and contributes towards a greater outcome for business, environmental, social and governance matters than by working in isolation.

Details of the mechanisms which are used to engage with stakeholders across the SSE Group, in order to gain understanding of the issues which they deem material are set out on pages 28 to 31 of the SSE plc Annual Report 2021.

Similarly, in order to ensure that there has been adequate engagement in fostering the Company's business relationships with supplier, customers and other relevant parties representations are made on a quarterly basis at business unit level by business partners which represent the areas of Procurement and Corporate Affairs within SSE Thermal. Such representations are designed to inform the directors of the current nature of the relationship, the strategic significance that the relationship offers to support the objectives of the business and the prospects or issues associated with the continued fostering of the relationship.

For further details of the effect that the regard of such engagement has had on the principal decisions of the Company, please see the examples set out in the directors Section 172 statement.

Approved by the Board on 30 September 2021 and signed on its behalf by:

Martin Beattie

Martin Beattie (Sep 30, 2021 14:44 GMT+1)

M Beattie
Director

Directors' Report for the Year Ended 31 March 2021

The directors present their report and the financial statements for the year ended 31 March 2021.

Principal activity
The principal activity of the company is the provision of energy storage services at its two main facilities at Aldbrough and Atwick and is part of the SSE plc Group (the 'Group').

Directors
The directors who served during the year are as listed on page 1. In accordance with the Articles of Association of the Company the directors are not required to retire by rotation.

Dividends
The directors do not recommend payment of a dividend (2020: £Nil) be made in respect of the financial year ended 31 March 2021.

Political and charitable donations
During the year, the company made no political or charitable donations (2020: £Nil).

Going concern
The financial statements are prepared on a Going Concern basis which has been supported by the provision of a parental letter of support from SSE plc. The Group letter of support confirms it will provide support for a period of 12 months from the date of signing of these accounts where required. The Directors are satisfied that the Group has the ability to provide this support, should it be required.

In assessing the financial strength of the letter of support provided, the directors considered the cash balance of £1.6bn at 31 March 2021, the undrawn committed bank facilities of £1.5bn maintained by the Group, the current commercial paper market conditions, the recent success of the Group in refinancing maturing debt, as well as sensitivities on future cashflow projections that reflect the impact of the coronavirus pandemic and the Group's credit rating. The directors also considered the proceeds received through the Group's disposal programme and mitigating actions available to the Group under downside scenarios including non-essential capex postponement and refinancing of maturing debt. In considering these factors, the directors satisfied themselves that the SSE plc group has sufficient headroom to continue as a going concern and could provide support to the business as required.

Having reviewed the financial strength of the Group, the directors are satisfied that the Group, and the company itself, will remain funded for the foreseeable future. The Directors have concluded it is appropriate for the financial statements to be prepared on a going concern basis.

Streamlined Energy and Carbon Reporting (SECR)
The Company is exempt from making disclosures in line with the Streamlined Energy and Carbon Reporting ('SECR') requirements as it is a wholly owned subsidiary of SSE plc. The consolidated disclosures of the Group are available on pages 38 and 43 of the Group's 2021 annual report.

Assessing the impact of coronavirus
The Directors have considered the impact of coronavirus on the future prospects of the Company. Due to the operations of the Company, the impact of the virus on the current year has been limited and the impact on future periods is also expected to be limited. The Directors have also considered the expected impact of coronavirus on the Company and the Group in reaching their assessment of the Company's ability to continue as a going concern.

Brexit
On 31 December 2020, the UK transitioned out of the European Union. The Directors have assessed that due to the nature of the Company's operations the impact of Brexit has been, and is expected to continue to be, minimal.

Disclosure of information to the auditors
Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

Reappointment of auditors
In accordance with section 485 of the Companies Act 2006, a resolution for the re-appointment of Ernst & Young LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Approved by the Board on 30 September 2021 and signed on its behalf by:

Martin Beattie

Martin Beattie (Sep 30, 2021 14:44 GMT+1)

M Beattie
Director

SSE Hornsea Limited

Statement of Directors' Responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable United Kingdom law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, and in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in FRS 101 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the group and company financial position and financial performance; and
- prepare the financial statements on the going concern basis unless it is appropriate to presume that the company will not continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. Under applicable law and regulations, the directors are also responsible for preparing a strategic report and directors' report, that comply with that law and those regulations.

Approved by the Board on 30 September 2021 and signed on its behalf by:

Martin Beattie

Martin Beattie (Sep 30, 2021 14:44 GMT+1)

M Beattie
Director

SSE Hornsea Limited

Independent Auditor's Report to the Members of SSE Hornsea Limited

Opinion

We have audited the financial statements of SSE Hornsea Limited (the 'Company') for the year ended 31 March 2021, which comprise the Profit and Loss Account, Balance Sheet, Statement of Changes in Equity, and Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the original financial statements were authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report .

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

Independent Auditor's Report to the Members of SSE Hornsea Limited (continued)

We have nothing to report in this regard.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities [set out on page 9], the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent Auditor's Report to the Members of SSE Hornsea Limited (continued)

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that relate to the reporting framework (FRS 101 and the Companies Act 2006) and relevant tax compliance legislation in the United Kingdom. We also considered non-compliance of regulatory requirements, including the Office of Gas and Electricity Markets (Ofgem), and have spoken with the SSE head of regulation to confirm our understanding.
- We understood how the Company is complying with those frameworks by making enquiries of management and those responsible for legal and compliance procedures. We verified our enquiries through our review of board minutes, regulatory correspondence and papers provided to the Audit Committee.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business to understand where it considered there was susceptibility to fraud. We also considered performance targets and their propensity to influence on efforts made by management to manage earnings. We considered the programmes and controls that the company has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved: journal entry testing, with a focus on manual journals and journals indicating large or unusual transactions based on our understanding of the business, enquiries of legal counsel and management, and focused testing. In addition, we completed procedures to conclude on the compliance of the disclosures in the financial statements with all applicable requirements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report
This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

SSE Hornsea Limited

Independent Auditor's Report to the Members of SSE Hornsea Limited (continued)

Ernst & Young LLP.

Annie Graham (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor

G1 Building
5 George Square
Glasgow
G2 1DY

Date: 30/9/21

SSE Hornsea Limited

Profit and Loss Account for the Year Ended 31 March 2021

	Note	2021 £ m	2020 £ m
Turnover	4	773.0	594.4
Cost of sales		(769.6)	(584.6)
Gross profit		3.4	9.8
Administrative expenses		(4.5)	(2.8)
Operating (loss)/profit	5	(1.1)	7.0
Interest payable and similar expenses	8	(3.0)	(3.6)
(Loss)/profit before tax		(4.1)	3.4
Tax on (loss)/profit	10	0.4	1.9
(Loss)/profit for the year		(3.7)	5.3

The above results were derived from continuing operations.

The company had no other comprehensive income in the current or prior financial years

SSE Hornsea Limited

(Registration number: 04467860)
Balance Sheet as at 31 March 2021

	Note	31 March 2021 £ m	31 March 2020 £ m
Fixed assets			
Tangible assets	11	119.0	123.2
Deferred tax	10	20.8	21.9
Derivative financial assets		2.5	6.4
		142.3	151.5
Current assets			
Stocks	12	19.8	10.9
Debtors	13	25.4	28.1
		45.2	39.0
Current liabilities			
Creditors: amounts falling due within one year	14	(18.2)	(15.6)
Net current assets		27.0	23.4
Total assets less current liabilities		169.3	174.9
Creditors: Amounts falling due after more than one year			
Amounts due to Group undertakings	14	(47.8)	(45.0)
Provisions for liabilities	15	(129.4)	(134.3)
Net liabilities		(7.9)	(4.4)
Capital and reserves			
Called up share capital	17	126.9	126.9
Capital Contribution		302.2	302.2
Profit and loss account		(437.0)	(433.5)
Shareholders' deficit		(7.9)	(4.4)

Approved by the Board on 30 September 2021 and signed on its behalf by:

Martin Beattie

Martin Beattie (Sep 30, 2021 14:44 GMT+1)

M Beattie
Director

The notes on pages 17 to 29 form an integral part of these financial statements.

SSE Hornsea Limited

Statement of Changes in Equity for the Year Ended 31 March 2021

	Share capital £ m	Capital contribution £ m	Retained earnings £ m	Total £ m
At 1 April 2019	126.9	302.2	(438.9)	(9.8)
Profit for the year	-	-	5.3	5.3
Credit in respect of employee share awards	-	-	0.1	0.1
At 31 March 2020	126.9	302.2	(433.5)	(4.4)

	Share capital £ m	Capital contribution £ m	Retained earnings £ m	Total £ m
At 1 April 2020	126.9	302.2	(433.5)	(4.4)
Loss for the year	-	-	(3.7)	(3.7)
Credit in respect of employee share awards	-	-	0.2	0.2
At 31 March 2021	126.9	302.2	(437.0)	(7.9)

The notes on pages 17 to 29 form an integral part of these financial statements.

1 General information

The company is a private company limited by share capital, incorporated and domiciled in UK.

These financial statements were authorised for issue by the Board on 30 September 2021.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates
The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation
These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statements, the company has applied the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU, but has made amendments, where necessary, in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

Presentation currency
The presentation currency used in the financial statements is the Great British Pound (£), and the amounts have been presented in millions (m), rounded to the nearest hundred thousand.

Summary of disclosure exemptions
In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A cash flow statement and related notes required by IAS 7;
- Comparative period reconciliations for share capital, tangible fixed assets and intangible assets required by IAS 1, IAS 16 and IAS 36 respectively;
- The effect of new, but not yet effective, IFRSs required by IAS 1;
- Disclosures in respect of the compensation of key management personnel required by IAS 24;
- Disclosures in respect of capital management required by IAS 1; and
- Related party disclosures required by IAS 24.

As the consolidated financial statements of SSE plc include the equivalent disclosure, the company has also taken advantage the exemptions , under FRS 101, available in respect of the following disclosures:

- Certain disclosures required by IAS 36, Impairment of assets, in respect of the impairment of goodwill and life intangible assets; and
- Certain disclosures required by IFRS 13, Fair value measurement, and the disclosures required by IFRS 7, Financial instrument disclosures.

Employee share based payments have not been disclosed on the basis of materiality.

2 Accounting policies (continued)

Going concern
The financial statements are prepared on a Going Concern basis which has been supported by the provision of a parental letter of support from SSE plc. The Group letter of support confirms it will provide support for a period of 12 months from the date of signing of these accounts where required. The Directors are satisfied that the Group has the ability to provide this support, should it be required.

In assessing the financial strength of the letter of support provided, the directors considered the cash balance of £1.6bn at 31 March 2021, the undrawn committed bank facilities of £1.5bn maintained by the Group, the current commercial paper market conditions, the recent success of the Group in refinancing maturing debt, as well as sensitivities on future cashflow projections that reflect the impact of the coronavirus pandemic and the Group's credit rating. The directors also considered the proceeds received through the Group's disposal programme and mitigating actions available to the Group under downside scenarios including non-essential capex postponement and refinancing of maturing debt. In considering these factors, the directors satisfied themselves that the SSE plc group has sufficient headroom to continue as a going concern and could provide support to the business as required.

Having reviewed the financial strength of the Group, the directors are satisfied that the Group, and the company itself, will remain funded for the foreseeable future. The Directors have concluded it is appropriate for the financial statements to be prepared on a going concern basis.

Revenue recognition
Energy storage
Revenue from energy storage trading opportunities is recognised "point in time" as injected back into the network. Revenue is measured at either the spot price at the time of delivery, or trade price where that trade is eligible for "own use" designation.

Revenue from energy storage capacity related services is recognised "point in time" based on the number of days the storage service has been provided at the applicable contractual rate. Revenue for the injection and withdrawal of gas is recognised at the point of gas flowing into or out of the storage facilities at the applicable contractual rate.

Finance income and costs policy
Interest income and costs are recognised in the income statement as they accrue, on an effective interest method.

Interest on the funding attributable to major capital projects is capitalised during the period of construction and depreciated as part of the total cost over the useful life of the asset.

2 Accounting policies (continued)

Tax
The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates taxable income.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

Tangible assets
Owned assets
Property, plant and equipment is stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation
Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives, as follows:

Asset class	Years
Land and Buildings	30 to 40
Gas storage facilities	25 to 50

Development assets
Expenditure on development activities is capitalised as intangible assets if the project or process is considered to be technically and commercially feasible and the company intends to complete the project or process for use or for sale. Development projects include gas storage projects, prospective gas production assets and other developments relating to proven technologies. Costs incurred in bringing these projects to the consent stage include options over land rights, planning application costs and environmental impact studies and may be costs incurred directly or part of the fair value exercise on acquisition of an interest in a project. At the point that the project reaches the consent stage and is approved by the Board, the carrying value of the project is transferred to property, plant and equipment as assets under construction. Once in operation, depreciation will be charged over the expected useful life of the asset. The asset is derecognised on disposal, or when no future economic benefits are expected to arise.

2 Accounting policies (continued)

Impairment
The carrying amount of the company's PP&E and other intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, or where there are indications that a previously recognised impairment loss has reduced. For PP&E assets that have previously been identified as exhibiting indications of impairment, the review of impairment will be performed annually until there is sufficient evidence to confirm that any potential impairment loss has been appropriately recognised, or until previously recognised impairment losses have been fully written back. For goodwill and other intangible assets with an indefinite life or which are not yet ready for use, the test for impairment is carried out annually. In addition, financial assets measured at amortised cost are also reviewed for impairment annually.

For assets subject to impairment testing, the asset's carrying value is compared to the asset's recoverable amount.

If the carrying amount of the asset exceeds its recoverable amount, an impairment charge will be recognised immediately in the income statement. Reversals of previous impairment charges are recognised if the recoverable amount of the asset significantly exceeds the carrying amount. Previous impairments of goodwill are not reversed.

Value in use (VIU) calculations require the estimation of future cash flows to be derived from the respective assets and the selection of an appropriate discount rate in order to calculate their present value. The VIU methodology is consistent with the approach taken by management to evaluate economic value and is deemed to be the most appropriate for reviews of PP&E assets. The methodology is based on the pre-tax cash flows arising from the specific assets or underlying assets, and discounted using a pre-tax discount rate based on the company's cost of funding and adjusted for any specific risks. The estimation of the timing and value of underlying projected cash flows and the selection of appropriate discount rates involves management judgement. Subsequent changes to these estimates or judgements may impact the carrying value of the assets.

Trade debtors
Trade debtors are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade debtors are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade debtors is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the debtors.

Stock
Gas inventory purchases for secondary trading opportunities is held at fair value with reference to the forward month market price. Gains and losses on remeasurement at fair value are recognised within the Income Statement.

Trade creditors
Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade creditors are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

2 Accounting policies (continued)

Borrowings

All borrowings are initially recorded at the amount of proceeds received, net of transaction costs. Borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the income statement over the period of the relevant borrowing.

Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that the group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

Decommissioning

The estimated cost of decommissioning at the end of the useful lives of certain assets is reviewed periodically. Provision is made for the net present value of the estimated cost of decommissioning gas storage facilities at the end of their useful life. The estimates are based on technology and prices at the balance sheet date and excludes any salvage value related to those assets. A corresponding decommissioning asset is recognised and is included within property, plant and equipment when the provision gives access to future economic benefits. Changes in these provisions are recognised prospectively. The unwinding of the discount on the provision is included in finance costs and the depreciation for the asset is straight-line over the expected useful life of the asset or, for gas production facilities, is amortised on the unit of production method.

Share capital

Ordinary shares are classified as equity.

Defined contribution pension obligation

A defined contribution plan is a pension plan under which fixed contributions are paid into a separate entity and has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans contributions are paid publicly or privately administered pension insurance plans on a mandatory or contractual basis. The contributions are recognised as employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as an asset.

2 Accounting policies (continued)

Share based payments
The company operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the entity. The fair value of the employee services received is measured by reference to the estimated fair value at the grant date of equity instruments granted and is recognised as an expense over the vesting period. The estimated fair value of the option granted is calculated using the Black Scholes option pricing model. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Financial instruments

Derivative financial instruments
Derivative financial instruments are contracts, the value of which is derived from one or more underlying financial instruments or indices, and include forward hedges for gas.

Derivative financial instruments are recognised in the statement of financial position at fair value. Fair values are derived from prevailing market prices.

In balance sheet, derivative financial instruments with positive fair values (unrealised gains) are included as assets and derivative financial instruments with negative fair values (unrealised losses) are included as liabilities.

The changes in the fair values of derivative financial instruments entered into for trading purposes are included in cost of sales.

Accounting estimates and assumptions
The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of certain financial assets, liabilities, income and expenses.

The use of estimates and assumptions is principally limited to the determination of provisions for impairment and the decommissioning provision as explained in more detail below:-

Provisions for impairment
In determining impairment of financial assets, judgement is required in the estimation of the amount and timing of future cash flows as well as an assessment of whether the credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of Expected Credit Loss.

Decommissioning provision
Judgement is required when determining the decommissioning provision, in the estimation of the amount and timing of future cashflows as well as the discount rate used. Sensitivity analysis on the discount rate and future costs is included in note 15.

2 Accounting policies (continued)

Uncertain tax positions
The company invests in infrastructure, on which significant amounts of capital allowances are potentially available. The extent to which capital allowances are available on any single asset is, however, very much dependent upon the fact pattern for the asset involved, and there will often be an element of uncertainty as to how capital allowances legislation applies in those circumstances. Reaching agreement with tax authorities as to the amount of capital allowances available can take a number of years, and sometimes can only be resolved through a formal legal process.

The calculation of the company's total tax charge therefore necessarily involves a degree of estimation and judgement in relation to certain items for which the tax treatment cannot be finally determined until resolution has been reached with the tax authorities or, if required, through a formal legal process.

3 Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses.

It should be noted that the impact of variation in some assumptions, judgements and estimates can have a particularly material impact on the reported results. These include, but are not limited to:

Provisions
Future costs required to settle provisions. These liabilities are disclosed in note 15.

Corporation tax
The tax position as explained in the accounting policy above under "Accounting estimates and assumptions" and "Uncertain tax positions".

Impairment of non-financial assets
Impairment testing of specific property, plant and equipment assets are disclosed in note 11.

4 Turnover

The analysis of the company's revenue for the year from continuing operations is as follows:

	2021 £ m	2020 £ m
Gas trading	765.9	585.5
Gas capacity	1.8	3.4
Joint venture contract	5.3	5.5
	773.0	594.4

5 Operating (loss)/profit

Arrived at after charging

	2021 £ m	2020 £ m
Depreciation expense	0.8	0.8

6 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	2021 £ m	2020 £ m
Wages and salaries	4.8	4.6
Social security costs	0.5	0.5
Pension costs	0.9	0.8
Share-based payment expenses	0.2	0.1
	6.4	6.0

The average number of persons employed by the company (including directors) during the year, was as follows:

	2021 No.	2020 No.
Average employees employed during the year	80.0	82.0

7 Directors' remuneration

The total remuneration received by the directors for qualifying and non-qualifying services during the year was £1.4m (2020: £1.1m). The above value is for 6 directors (2020: 6), who were remunerated via another Group company in the year. A value of services to the Company for these directors cannot be determined, therefore the above value reflects the remunerations received for services to the SSE Group as a whole.

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid director was £0.5m (2020: £0.5m) including company pension contributions of £nil (2020: £nil) which were made to a money purchase scheme on their behalf.

8 Interest payable and similar expenses

	2021 £ m	2020 £ m
Interest payable to Group companies	2.0	1.3
Decommissioning provision - unwind of discount	1.1	2.3
Interest capitalised	(0.1)	-
	3.0	3.6

9 Auditors' remuneration

The company incurred an audit fee of £14,436 in the year (2020: £27,183). The fee in both the current and previous year was borne by another group company.

10 Income tax

Tax charged/(credited) in the profit and loss account

	2021 £ m	2020 £ m
Current taxation		
UK corporation tax	(1.5)	(1.1)
UK corporation tax adjustment to prior periods	-	(0.3)
	(1.5)	(1.4)
Deferred taxation		
Arising from origination and reversal of temporary differences	1.1	2.0
Arising from changes in tax rates and laws	-	(2.5)
Total deferred taxation	1.1	(0.5)
Tax receipt in the profit and loss account	(0.4)	(1.9)

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2020 - lower than the standard rate of corporation tax in the UK) of 19% (2020 - 19%).

The differences are reconciled below:

	2021 £ m	2020 £ m
(Loss)/profit before tax	(4.1)	3.4
Corporation tax at standard rate of 19% (2019: 19%)	(0.8)	0.7
Decrease in current tax from adjustment for prior periods	-	(0.3)
Increase from effect of expenses not deductible in determining taxable profit (tax loss)	0.4	0.2
Deferred tax credit relating to changes in tax rates or laws	-	(2.5)
Total tax credit	(0.4)	(1.9)

10 Income tax (continued)

Deferred tax

Deferred tax movement during the year:

	At 1 April 2020 £ m	Recognised in income £ m	At 31 March 2021 £ m
Tangible fixed assets	15.2	(1.4)	13.8
Provisions	6.7	0.3	7.0
Fair value movements on financial instruments	-	-	-
Net tax assets/(liabilities)	21.9	(1.1)	20.8

The Government announced in the Budget on 3 March 2021 that the main rate of corporation tax will increase to 25% for the financial year beginning 1 April 2023. Prior to this date, the rate of corporation tax will remain at 19%. The increase to 25% rate was not substantively enacted at 31 March 2021, therefore the Company has continued to measure deferred tax balances at 19%. The Company has estimated that the increase to 25% would increase the Company's deferred tax assets by £1.2m.

11 Tangible assets

	Gas storage assets £ m	Assets under construction £ m	Decommissioning assets £ m	Total £ m
Cost or valuation				
At 1 April 2020	561.5	2.0	123.1	686.6
Additions	0.3	1.8	-	2.1
Disposals	-	-	(5.5)	(5.5)
At 31 March 2021	561.8	3.8	117.6	683.2
Depreciation				
At 1 April 2020	539.6	-	23.8	563.4
Charge for the year	0.8	-	-	0.8
At 31 March 2021	540.4	-	23.8	564.2
Carrying amount				
At 31 March 2021	21.4	3.8	93.8	119.0
At 31 March 2020	21.9	2.0	99.3	123.2

12 Stock

	31 March 2021 £ m	31 March 2020 £ m
Gas, raw materials and consumables	19.8	10.9

Working Gas Stocks held in storage are revalued at year end to be held at fair market price. This adjustment has resulted in an upward revaluation being recognised as at 31 March 2021 of £3.4m (2020 - downward revaluation of £5.1m).

13 Trade and other debtors

	31 March 2021 £ m	31 March 2020 £ m
Trade debtors	1.4	4.0
Amounts owed by Group undertakings	24.0	24.1
	25.4	28.1

14 Trade and other creditors

Amounts falling due within one year

	31 March 2021 £ m	As restated 31 March 2020 £ m
Trade creditors	0.1	0.7
Amounts due to Group undertakings	6.7	3.0
Other creditors	-	0.4
Corporation tax payable	9.9	9.8
Accruals and deferred income	1.5	1.7
	18.2	15.6

Amounts falling due after more than one year

	31 March 2021 £ m	31 March 2020 £ m
Amounts due to Group undertakings	47.8	45.0

The amounts disclosed in the balance sheet as owed to related parties and falling due after more than one year are in respect of amounts advanced to the company by its ultimate parent SSE plc. Interest is charged at 5.01% (2020: 5.06%).

15 Other provisions

	Decommissioning £ m	Total £ m
At 1 April 2020	(134.3)	(134.3)
Decrease in existing provisions	5.5	5.5
Provisions used	0.4	0.4
Increase due to passage of time or unwinding of discount	(1.1)	(1.1)
At 31 March 2021	(129.5)	(129.5)

Decommissioning provision

In accordance with the company's accounting policy a provision has been made for the estimated net present cost of decommissioning the coastal shaft at the Hornsea storage facility and the Aldbrough storage facility when they reach the end of their economic lives in 2032 and 2050 respectively. A discount rate of 0.8% at Hornsea and 1.3% at Aldbrough (2020: 0.8%) has been applied to discount the decommissioning cost provision to present values (appropriate rates are used at each facility due to the differing economic lives). The unwinding of discount rate in relation to decommissioning costs is charged to interest payable in the profit and loss account.

A decrease of £5.5m was recognised in the year following an independent assessment of the estimated timing and quantum of costs associated with the company's tangible asset portfolio.

Sensitivity analysis

The key assumptions made when calculating the decommissioning provision centre around cost estimate and discount rate applied:

An increase of 1% in the discount rate would result in a decrease to the provision of £17.0m

A decrease of 1% in the discount rate would result in an increase to the provision of £20.2m

An increase of 10% in the cost estimate for decommissioning would result in an increase to the provision of £13.5m and a corresponding adjustment to the decommissioning assets.

A decrease of 10% in the cost estimate for decommissioning would result in a decrease to the provision of £13.5m and a corresponding adjustment to the decommissioning assets.

16 Derivatives and financial instruments

Summary fair values

The fair values of the primary financial assets and liabilities together with their carrying values are as follows:

	2021 Carrying value £ m	2021 Fair value £ m	2020 Carrying value £ m	2020 Fair value £ m
Financial assets				
Trade debtors	1.4	1.4	4.0	4.0
Short-term intercompany	24.0	24.0	24.1	24.1
Derivative financial assets	2.5	2.5	6.4	6.4
Financial liabilities				
Trade creditors	0.1	0.1	0.7	0.7
Short-term intercompany	6.7	6.7	3.0	3.0
Long-term intercompany	47.8	47.8	45.0	45.0

Basis of determining fair value

All derivatives are classified as Level 2 within the fair value hierarchy. The fair value measurements are those derived from inputs, other than quoted prices, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). Fair values have been determined with reference to closing market prices.

17 Share capital

	31 March 2021 £ m	31 March 2020 £ m
Allotted, called up and fully paid:		
126,942,309 ordinary shares of £1.00 each	126.9	126.9

18 Commitments

Capital commitments

The total amount contracted for but not provided in the financial statements was £0.6m (2020: £5.3m).

19 Ultimate parent undertaking

The Company's immediate parent is SSE plc. The largest and smallest group in which these financial statements are consolidated is headed by SSE plc, incorporated in the United Kingdom. The consolidated financial statements of the Group (which include those of the Company) are available from the Company Secretary, SSE plc, Inveralmond House, 200 Dunkeld Road, Perth, PH1 3AQ, or by accessing the Group's website at www.sse.com. No other company's financial statements include the results of the Company.