

SSE EPM Limited

Annual report and financial statements

Year ended 31 March 2019

Registered No.: 09442646



SSE EPM Limited

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SSE EPM Limited

Directors and Other Information

Directors

Pauline Babb
David Fernie
Rhys Stanwix (resigned 31 December 2018)
Mandy Mackay
Calum Kennedy
Duncan Bruce (appointed 20 September 2019)
Gavin Brydon (appointed 20 September 2019)

Registered office

No1 Forbury Place
43 Forbury Road
Reading
RG1 3JH
England

Secretary

Sally Fairbairn

Auditor

KPMG LLP
Chartered Accountants
319 St Vincent Street
Glasgow
G2 5AS

Banker

National Westminster Bank
13 Market Place
Reading
RG1 2EG

Registered number

09442646

SSE EPM Limited

Strategic Report

The directors submit their report and audited financial statements of SSE EPM Limited ("the Company") for the year ended 31 March 2019.

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 the Company.

The Strategic and Financial Review sets out the main trends and factors underlying the development and performance of the Company during the year ended 31 March 2019, as well as those matters which are likely to affect its future development and performance.

1 Business review

Results & performance

The profit and loss account for the year ended 31 March 2019 is set out on page 9. The loss for the year after taxation amounted to £375.3m (2018: loss of £10.2m). The balance sheet at 31 March 2019 is set out on page 11 and indicates net liabilities of £124.1m (2018: net assets of £50.2m).

The directors focus on the adjusted operating profit or loss when assessing the financial performance of the Company. Adjusted operating profit is defined as the operating profit less any exceptional items and less any movement on derivatives. Exceptional items are, by definition, exceptional and are not representative of the underlying operational performance of the activities the Company undertakes. The movement of financial derivatives represent the re-measurement of the company's future commodity and foreign currency contracts.

The adjusted operating loss in the year is set out on page 3 and amounted to £285.1m (2018: adjusted operating profit of £46.1m). The loss in 2019 was primarily attributed to Gas trading losses. These losses followed the decision, approved by the SSE Board, that EPM should maintain a "short" gas position for the group. During the early months of 18/19, wholesale gas prices moved significantly higher for a longer period than expected (prices rose by around 50% over the first 6 months of 18/19) resulting in an SSE Board decision to mitigate further potential losses by closing the short gas position. This action triggered the SSE Group Trading Statement in September 2018.

Following these losses, in November 2018 the SSE Group published a new hedging strategy approach to managing energy commodity price exposures with the stated objective to take a more systematic approach to managing SSE's exposure to volatility in the volume and price of five principal commodities (power, gas, coal, oil and carbon emissions allowances).

This means SSE will now generally seek to hedge its broad exposure to commodity price variation 12 months in advance of delivery, and will transition to this approach by the start of the 2020/21 financial year, ensuring that trading positions cannot have a material impact on SSE Group earnings. As part of the new hedging policy EPM's Value At Risk (VAR) limits have also been significantly reduced.

Central to this new approach was the establishment of a new board sub-committee – the Energy Markets Risk Committee – whose principle purpose is to oversee the implementation of the new approach.

The Company has adopted IFRS 15 'Revenue from contracts with customers' during the year, and this has resulted in a significant proportion of trading revenue being netted and reported in cost of sales for the year ended 31 March 2019. Revenue has therefore decreased to £0.8bn from £25.3bn in the prior year, and there has also been a corresponding decrease in cost of sales to £1.2bn from £25.4bn in the prior year. Further information on this change can be found in note 2 to the accounts, on page 16.

During the year ended 31 March 2019 the Company's parent, SSE plc, waived £200.0m of long-term intercompany funding provided to the Company, which has been treated as a capital contribution.

SSE EPM Limited

Strategic Report (continued)

1 Business review (continued)

Business Separation transactions

From 1 April 2015, SSE Energy Supply Limited entered into a trust agreement to transfer the beneficial interest (and obligations) in relation to the contracts and other assets identified as belonging to its EPM business to the Company. This arrangement remains in operation at 31 March 2019.

Principal risks and uncertainties

These are noted within the Directors' Report on page 4.

2 Key performance indicators

The Directors believe that the following indicators will provide shareholders with sufficient information to assess how effectively the company is performing.

Financial		2019	2018
	Note	£m	£m
Adjusted operating (loss) / profit		(285.1)	46.1
Gross loss		(399.0)	(35.8)
Turnover	2	752.4	25,320.5
Operating (loss) / profit		(412.1)	7.9
Net (liabilities) / assets		(124.1)	50.2

Reported to Adjusted Operating Profit Reconciliation

	2019	2018
	£m	£m
Operating (loss) / profit	(412.1)	7.9
IFRS 9 - mark-to-market remeasurement of EPM Ltd derivatives	(131.6)	(29.5)
IFRS 9 - mark-to-market remeasurement of trust derivatives	258.6	67.7
Adjusted operating (loss) / profit	(285.1)	46.1

On behalf of the Board:

David Fernie
Director

13 December 2019

SSE EPM Limited

Directors' Report

The directors present their report together with the audited financial statements for the year ended 31 March 2019.

1 Principal activities

The Company is the route to market for SSE's supply and wholesale businesses via the procurement and sale of electricity and gas. The company will enter into commodity contracts around the sales and purchases of wholesale energy market commodities. The Company has been formed in order to comply with the transparency agenda set out by the SSE Group with the aim of separating its supply and generation activity.

2 Principal risks and uncertainties

The achievement of the Company's goals necessarily involves taking risks. Energy markets are both complex and volatile, and the Company follows the SSE Group Risk Management Framework and Hedging Policy. The principal risks and uncertainties affecting the business include the following:

- exposure to volatility in wholesale energy prices;
- payment default from trade debtors;
- interest rates, inflation and liquidity; and
- economic and Government regulation.

The SSE Board reviews and agrees policies for addressing each of these risks. Until December 2018, the key issue of exposure to energy prices and volume was addressed by the Risk and Trading Committee which met once a month and consists of one SSE Group Director and relevant senior managers. Following the new approach to managing energy commodity price exposures (published in November 2018) a new board sub-committee – the Energy Markets Risk Committee – was established consisting of 5 SSE Group Directors in addition to the Director of Risk, Audit & Assurance. The new committee met for the first time in January 2019 and on one more occasion before the year end.

If fuel is contracted in foreign currency, it is the Group's policy to hedge all material purchases through the use of foreign currency swaps and forward rate contracts. There is always a risk of payment default from trade debtors and comprehensive credit vetting and effective payment terms are exercised for all significant financial statements. Good payment discipline is achieved in the domestic market by use of direct debit budget schemes. There is also the risk of mechanical or process failure in the Company's operations.

There are management structures in place to mitigate, influence and respond to such developments, and to engage with the Industry Regulator, government ministers and officials, and other key bodies.

There are established procedures in place for regular budgeting and reporting of financial information. The Company's performance is reviewed by the Group Board and the Group Executive Committee. Reports include variance analysis and projected forecasts of the year compared to approved budgets and non-financial performance indicators. There are Company policies in place covering a wide range of issues and risks such as financial authorisations, IT procedures, health, safety and environmental risks, crisis management, and a policy on ethical principles. The effectiveness of the Company's systems of internal control is monitored by the SSE Group internal audit department which distributes reports and, where appropriate, action plans to senior managers, Directors and the external auditor.

3 Results and dividends

The loss for the financial year amounted to £375.3m (2018: loss £10.2m).

The balance sheet at 31 March 2019 is set out on page 11 and indicates net liabilities of £124.1m (2018: net assets £50.2m).

The directors do not recommend the payment of a dividend (2018: nil).

SSE EPM Limited

Directors' Report (continued)

4 Directors

The directors and secretary 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.

5 Political and charitable donations

The company did not make any political or charitable donations during the current year or prior period.

6 Post balance sheet events

There have been no significant events since the balance sheet date.

7 Disclosure of information to auditor

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

8 Going concern

The directors have assessed that the company will prepare its financial statements on a going concern basis; see note 1 for details.

9 Auditor

In accordance with Section 489 of the Companies Act 2006, Ernst and Young LLP were appointed as SSE Group's External Auditor for the year ending 31 March 2020 at the Annual General Meeting held on 18 July 2019. Following their appointment as External Auditor of the Group, it is the intention of the directors to appoint Ernst & Young LLP as External Auditor of the Company.

10 Brexit

The Directors are aware of the political uncertainty as a result of Brexit. This is being closely monitored by the Directors but, given the activities of the Company, is not expected to have a significant impact on the financial statements for the year ending 31 March 2020.

On behalf of the Board:



David Fernie
Director

13 December 2019

SSE EPM Limited

Statement of directors' responsibilities in respect of the Strategic report, the Directors' report and the financial statements

The Directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice) (including FRS101 Reduced Disclosure Framework).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the 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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

SSE EPM Limited

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

Opinion

We have audited the financial statements of SSE EPM Limited ("the company") for the year ended 31 March 2019 which comprise the Profit and loss Account, Statement of Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations; and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

SSE EPM Limited

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

Directors' responsibilities

As explained more fully in their statement set out on page 6, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

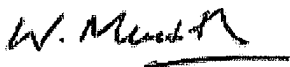
Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.



William Meredith (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
319 St Vincent Street
Glasgow
G2 5AS

13 December 2019

SSE EPM Limited

Profit and Loss Account for the year ended 31 March 2019

	Note	2019 £m	2018 £m
Turnover	2	752.4	25,320.5
Cost of sales	2	(1,151.4)	(25,356.3)
Gross loss		(399.0)	(35.8)
Administrative costs		(13.1)	(15.8)
Other operating income	4	-	59.5
Operating (loss) / profit		(412.1)	7.9
Interest payable and similar charges	6	(47.2)	(19.6)
Loss before taxation		(459.3)	(11.7)
Tax credit on loss	7	84.0	1.5
Loss for the financial year		(375.3)	(10.2)

Continuing operations

The above results are derived from continuing activities.

The accompanying notes are an integral part of these financial statements.

SSE EPM Limited

Statement of Other Comprehensive Income for the year ended 31 March 2019

	2019 £m	2018 £m
Loss for the financial year	(375.3)	(10.2)
Ineffective cash flow hedge recognised in income statement	-	(3.3)
Total other comprehensive expense relating to the financial year	(375.3)	(13.5)

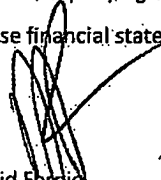
SSE EPM Limited

Balance Sheet as at 31 March 2019

	Note	2019 £m	2018 £m
Fixed assets			
Derivative financial assets	16	18.2	30.6
		<u>18.2</u>	<u>30.6</u>
Current assets			
Intangible assets	8	794.5	706.9
Derivative financial assets	16	128.0	0.5
Stock	9	11.4	9.8
Debtors: amounts falling due within one year	10	477.2	860.9
Total current assets		<u>1,411.1</u>	<u>1,578.1</u>
Current liabilities			
Derivative financial liabilities	16	(4.6)	(14.5)
Creditors: amounts falling due within one year	11	(762.1)	(1,508.8)
		<u>(766.7)</u>	<u>(1,523.3)</u>
Net current assets		<u>644.4</u>	<u>54.8</u>
Total assets less current liabilities		<u>662.6</u>	<u>85.4</u>
Creditors:			
Amounts falling due after more than one year	11	(774.2)	-
Deferred taxation	13	(12.5)	(35.2)
		<u>(786.7)</u>	<u>(35.2)</u>
Net (liabilities)/assets		<u>(124.1)</u>	<u>50.2</u>
Capital and reserves			
Called up share capital	14	-	-
Profit and loss account		(324.1)	50.2
Capital contribution		200.0	-
Equity Shareholders' funds		<u>(124.1)</u>	<u>50.2</u>

The accompanying notes form an integral part of this balance sheet.

These financial statements were approved by the Directors on 13 December 2019 and signed on their behalf by:


David Ferrie
Director

Company registered number: 09442646

SSE EPM Limited

Statement of Changes in Equity for the year ended 31 March 2019

	Hedge reserve £m	Capital contribution £m	Profit and loss account £m	Total equity £m
Balance at 1 April 2017	3.3	-	59.1	62.4
Loss for the financial year	-	-	(10.2)	(10.2)
Other comprehensive expense	(3.3)	-	-	(3.3)
Credit in respect of employee share awards	-	-	1.3	1.3
Balance at 31 March 2018	-	-	50.2	50.2
Balance at 1 April 2018	-	-	50.2	50.2
Loss for the financial year	-	-	(375.3)	(375.3)
Capital contribution	-	200.0	-	200.0
Credit in respect of employee share awards	-	-	1.0	1.0
Balance at 31 March 2019	-	200.0	(324.1)	(124.1)

During the year ended 31 March 2019 the Company's parent, SSE plc, waived £200.0m of long-term intercompany funding provided to the Company, which has been treated as a capital contribution.

SSE EPM Limited

Notes on the Financial statements for the year ended 31 March 2019

1 Significant accounting policies

SSE EPM Limited is a private company incorporated, domiciled and registered in England in the UK. The registered number is 09442646 and the registered address is No1 Forbury Place, 43 Forbury Road, Reading, RG1 3JH, England.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101"). The principle accounting policies are summarised below and have been applied consistently.

The company's ultimate parent undertaking, SSE plc, includes the company in its consolidated financial statements. The consolidated financial statements of SSE plc are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from the Company Secretary, SSE plc, Inverlmond house, 200 Dunkeld Road, Perth, PH1 3AQ or by accessing the Company's website at www.sse.com.

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 ('Adopted IFRS'), 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.

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;
- The effect of new, but not yet effective, IFRSs;
- Disclosures in respect of the compensation of key management personnel;
- Disclosures in respect of capital management; and
- Related party disclosures.

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

- Certain disclosures, required by IAS 36 *Impairment of assets*, in respect of the impairment of goodwill and indefinite life intangible assets.

Going concern

Notwithstanding net liabilities of £124.1m as at 31 March 2019 and a loss for the year then ended of £375.3m, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the company will have sufficient funds, through funding from its immediate parent company, SSE plc, to meet its liabilities as they fall due for that period.

Those forecasts are dependent on SSE plc not seeking repayment of the amounts currently due to the group, which at 31 March 2019 amounted to £774.2m, and providing additional financial support during that period. SSE plc has indicated its intention to continue to make available such funds as are needed by the company, and that it does not intend to seek repayment of the amounts due at the balance sheet date, for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

SSE EPM Limited

Notes on the Financial statements *(continued)* for the year ended 31 March 2019

1 Significant accounting policies *(continued)*

Turnover

The Company adopted IFRS15 on 1 April 2018 and Turnover now consists of Managed Service fee income, ancillary service income, sales of renewable certificates and sales of gas from store. For each of these revenue streams, revenue is recognised at the point in time when the service obligation is fulfilled.

Prior to IFRS 15 adoption, the gross value of all sale trades entered into were considered "revenue". The impact of this change is shown in note 2, page 16.

Estimates and Judgements

In preparing these financial statements, the Directors' consider that there are no material estimates or judgements that have been required to be made.

Taxation

The charge for taxation is based on the profit or loss for the year and takes into account deferred taxation.

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted, or substantially enacted, by the balance sheet date.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not there will be suitable profits from which future reversals of the underlying temporary differences can be deducted.

Intangible assets

(i) Allowances and emissions

Carbon allowances purchased are recorded at cost within intangible assets. No amortisation is booked on the basis that assets will be purchased and sold over a short time period, but an impairment charge may be recognised should the carrying value exceed market value.

The Renewable Obligations Certificates (ROCs) scheme is administered and accounted for in a similar but not identical manner to the European Emissions trading scheme. Purchased ROCs are recognised at cost within intangible assets.

Interest

Interest incurred on intercompany borrowings is charged to the Profit and Loss Account in the year in which it accrues.

Interest income is recognised as income in the year in which it is earned. Interest expense is recognised as an expense in the year in which it is incurred.

Stocks

Stocks relate to gas in storage and are valued at the lower of cost and net realisable value.

SSE EPM Limited

Notes on the Financial statements *(continued)* for the year ended 31 March 2019

1 Significant accounting policies *(continued)*

Foreign currency

The financial statements are presented in pounds sterling, which is the functional currency of the Company.

Transactions denominated in foreign currencies are recorded in sterling at actual exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated using the rates of exchange prevailing at the balance sheet date or, where appropriate, the rates of exchange in related forward exchange contracts.

Gains and losses arising from changes in exchange rates subsequent to the dates of transactions are included in the profit and loss account.

Provisions and contingencies

The assessments undertaken in recognising provisions and contingencies have been made in accordance with IAS 37. The provisions are calculated based on estimations. The evaluation of the likelihood of the contingent events has required best judgement by management regarding the probability of exposure to potential loss. Should circumstances change following unforeseeable developments, this likelihood could alter.

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to these financial statements.

Financial Instruments

The adoption of IFRS 9 had no impact on the presentation of the financial statements for the year ended 31 March 2019.

i) Derivatives

Within its regular course of business, the Company routinely enters into sale and purchase derivative contracts for commodities such as electricity, gas, coal, carbon allowances and oil. Derivative commodity contracts which are not designated as own use contracts are accounted for as trading derivatives and are recognised in the balance sheet at fair value. Where a hedge accounting relationship is designated and is proven to be effective, the changes in fair value will be recognised as gains and losses from re-measurement in the statement of comprehensive income. There are currently no designated hedge relationships in relation to commodity contracts.

Other commodity contracts, where own use is not established and a hedge accounting relationship is not designated, are measured at fair value with gains and losses on re-measurement being recognised in the income statement in cost of sales.

ii) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

iii) Debtors

Debtors do not carry any interest and are measured at cost (less an appropriate allowance for irrecoverable balances).

iv) Share capital

Ordinary shares are accounted for as equity. Costs associated with the issue of new shares are deducted from the proceeds of issue.

v) Creditors

Creditors are measured at cost.

SSE EPM Limited

Notes on the Financial statements *(continued)* for the year ended 31 March 2019

2 New accounting policies and reporting changes

IFRS 15 'Revenue from contracts with customers'

The standard replaces IAS 18 'Revenue' and IFRIC 18 'Transfers of Assets from Customers' as previously adopted by the Company. The core principle of IFRS 15 is that an entity recognises revenue that reflects the expected consideration for goods or services provided to a customer under contract, over the performance obligations they are being provided. The standard has introduced a five-step model as the framework for applying that core principle.

Transition approach

The Company has applied the 'Modified Retrospective' transition approach as adopted by the Group, whereby prior periods are not restated to reflect the above changes in accounting policies, with the cumulative effect of initially applying IFRS 15 recognised from 1 April 2018 instead. The Company has also elected to take advantage of the practical expedient whereby contracts that have been completed under the previous accounting policies at the beginning of the earliest period are not restated.

Adoption impact

Prior to IFRS 15 adoption, the gross value of all sale trades entered into were considered "revenue". These contracts are now treated as a financial instrument within the scope of IFRS 9 and therefore out with the scope of IFRS 15, as specified by para 5 (c) which states, "An entity shall apply this Standard to all contracts with customers except financial instruments and other contractual rights or obligations within the scope of IFRS 9 Financial Instruments".

A net presentation of the gains and losses on these sale contracts, alongside the gains and losses on offsetting purchase contracts, is reported within cost of sales.

Managed Service Agreement fees previously reported as 'Other operating income' are now included within Turnover.

Profit and loss account

	Historic revenue policies 2019 £m	IFRS 15 Adjustments 2019 £m	Reported revenue 2019 £m
Turnover	24,655.3	(23,902.9)	752.4
Cost of sales	(25,104.4)	23,953.0	(1,151.4)
Administrative costs	(13.1)	-	(13.1)
Other operating income	50.1	(50.1)	-
Operating Loss for the financial year	(412.1)	-	(412.1)

3 Expenses and auditor's remuneration

The audit fee in the year and the previous year was borne by the Parent company, £36k (2018: £36k) of this was in relation to the audit of SSE EPM Limited.

SSE EPM Limited

Notes on the Financial statements *(continued)* for the year ended 31 March 2019

4 Other operating income

	2019 £m	2018 £m
Other operating income	-	59.5
	-	59.5

Income relates to amounts received under managed service agreements with other group businesses. Following the adoption of IFRS15 (see note 2) this income from managed service agreements is now recorded in turnover.

5 Staff costs and numbers

	2019 £m	2018 £m
Staff costs:		
Wages and salaries	8.0	8.1
Social security costs	0.9	0.9
Share based remuneration	1.0	1.3
Contributions to defined pension plans	1.7	1.3
	11.6	11.6

The company is not a sponsor of either of the Group's defined benefit pension schemes, therefore in accordance with FRS101, the Company's contributions to the Scottish Hydro Electric Pension Scheme or the Southern Electric Pension Scheme have been treated as contributions to a defined contribution scheme.

Employee numbers

	2019 Number	2018 Number
Numbers employed at 31 March	157	148
	2019 Number	2018 Number
The monthly average number of people employed by the Company during the year	151	148

Directors remuneration

	2019 £m	2018 £m
Directors remuneration	0.8	0.9

The total remuneration received by the directors for qualifying and non-qualifying services during the year was £0.8m (2018: £0.9m). The above value is for five director (2018: five), 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 remuneration 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 £0.2m (2018: £0.3m) including company pension contributions of £nil (2018: £nil) which were made to a money purchase scheme on their behalf.

SSE EPM Limited

Notes on the Financial statements *(continued)* for the year ended 31 March 2019

6 Interest payable and similar charges

	2019 £m	2018 £m
Interest payable to group companies	40.4	20.9
Financing derivative movement	6.6	2.1
Hedge reserve write off	-	(4.1)
Other interest payable	0.2	0.7
	<u>47.2</u>	<u>19.6</u>

7 Taxation

	2019 £m	2018 £m
UK corporation tax		
Current tax on income for the period	61.9	(4.6)
Adjustments in respect of prior periods	(0.6)	-
Total current tax credit/(charge)	<u>61.3</u>	<u>(4.6)</u>
Deferred tax (see note 13):		
Origination and reversal of temporary differences	25.3	6.1
Adjustments in respect of prior periods	(2.6)	-
Total deferred tax	<u>22.7</u>	<u>6.1</u>
Total tax credit for the year	<u>84.0</u>	<u>1.5</u>

The difference between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the loss before tax is as follows:

	2019 £m	2018 £m
Loss before taxation	<u>(459.3)</u>	<u>(11.7)</u>
Tax on loss at standard UK corporation tax rate of 19% (2018: 19%)	87.3	2.2
Effects of:		
Corporation tax adjustment in respect of prior periods	(0.6)	(0.7)
Deferred tax adjustment in respect of prior periods	(2.6)	-
Other items	(0.1)	-
Total tax credit for the year	<u>84.0</u>	<u>1.5</u>

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax liability at 31 March 2019 has been calculated based on rates expected to be effective when the obligations unwind.

SSE EPM Limited

Notes on the Financial statements *(continued)* for the year ended 31 March 2019

8 Intangible assets

	Current Assets Allowances & certificates (i) £m	Total £m
Cost and Net Book Value:		
At 1 April 2018	706.9	706.9
Additions	954.0	954.0
Disposals	(866.4)	(866.4)
At 31 March 2019	794.5	794.5

(i) Allowances and Certificates

Allowances and certificates consist of purchased carbon emissions allowances, purchased Renewable Obligations Certificates (ROCs) and purchased Guarantee Of Origins (GOOs). These have all been classified as current assets.

9 Stocks

	2019 £m	2018 £m
Gas Storage Stock	11.4	9.8
Total	11.4	9.8

Stocks are stated at the lower of cost and net realisable value.

10 Debtors

	2019 £m	2018 £m
Amounts falling due within one year:		
Trade debtors	-	0.2
Amounts owed by group undertakings	414.9	860.5
Corporation tax receivable	61.9	-
Other debtors	0.4	0.2
	477.2	860.9

SSE EPM Limited

Notes on the Financial statements *(continued)*

for the year ended 31 March 2019

11 Creditors /

	2019 £m	2018 £m
Amounts falling due within one year:		
Amounts owed to group undertakings	103.9	843.5
Corporation tax payable	-	4.6
Accruals and deferred income	-	0.3
Amounts owed to trust (see note 12)	658.2	660.4
	762.1	1,508.8
Amounts falling due after more than one year:		
Amounts owed to group undertakings	774.2	-
	774.2	-

12 Business separation transactions

Since the establishment of the trust agreement, the assets and liabilities held in the SSE EPM Trust are included within the financial statements of SSE Energy Supply Limited ('SSE ESL') as legal title to the assets and liabilities remains with that company. The Trust relationship has the effect of transferring the economic benefit of these contracts to SSE EPM Limited, therefore the movements on the balances held in trust are recognised in the profit and loss account of SSE EPM Limited with a corresponding movement in the inter-company balance with SSEESL.

Movement in Trust:

	2019 £m	2018 £m
Opening balances at 1 April	(660.4)	(557.0)
Add: decrease/(increase) in intercompany creditor in relation to trust assets and liabilities	2.2	(103.4)
At 31 March	(658.2)	(660.4)

Balances in relation to Trust properties owed (to)/from SSE Energy Supply Limited:

	2019 £m	2018 £m
Cash and cash equivalents	0.4	0.1
Net trade creditors	(257.4)	(481.8)
Accruals and prepayments	(27.7)	(19.8)
Operating derivatives	(450.0)	(191.4)
Deferred tax	76.5	32.5
Net trust liability	(658.2)	(660.4)

SSE EPM Limited

Notes on the Financial statements *(continued)* for the year ended 31 March 2019

13 Deferred taxation

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
Financial assets (held in company and in trust)	-	-	(12.5)	(35.2)	(12.5)	(35.2)
Net tax liabilities	-	-	(12.5)	(35.2)	(12.5)	(35.2)

Movement in deferred tax during the year

	1 April 2018 £m	Recognised in income £m	Recognised in equity £m	31 March 2019 £m
Financial assets (held in company and in trust)	(35.2)	22.7	-	(12.5)
	(35.2)	22.7	-	(12.5)

Movement in deferred tax during the prior year

	(Restated) 1 April 2017 £m	Recognised in income £m	Recognised in equity £m	31 March 2018 £m
Financial assets (held in company and in trust)	(42.1)	6.1	0.8	(35.2)
	(42.1)	6.1	0.8	(35.2)

14 Share capital

	2019 £	2018 £
Equity:		
Allotted, called up and fully paid:		
1 ordinary share of £1.00 each	1.0	1.0

SSE EPM Limited

Notes on the Financial statements *(continued)* for the year ended 31 March 2019

15 Pensions

Some of the Company's employees are members of the Scottish Hydro Electric Pension Scheme or Southern Electric Pension Scheme which provides defined benefits based on pensionable pay. As there is no contractual agreement or stated group policy for charging the net defined benefit cost of the plan to participating entities, the net defined benefit cost of the pension plan is recognised fully by the sponsoring employer, which is another member of the group.

New employees can opt to join a personal pension scheme which is a money purchase scheme with the Company matching the members' contributions up to a maximum of 6% of salary. The scheme is managed by Aviva.

The Company's share of the total contribution payable to the pension schemes during the year was £1.7m (2018: £1.3m).

16 Derivatives and financial instruments

(i) Financial risk management

This note presents information about the fair value of the company's financial instruments, the company's exposure to the risks associated with those instruments, the company's objectives, policies and processes for measuring and managing risk. The company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Commodity risk
- Currency risk

The Board has overall responsibility for the establishment and oversight of the company's risk management framework. The Energy Markets Risk Committee, which is a board sub-committee, comprises two Executive Directors and three non-executive directors as well as the Director for Risk Audit & Assurance. Its specific remit is to oversee SSE's energy markets risk exposures. In doing so the committee assists the board in the effective discharge of its responsibilities in relation to risk management and internal control in this area.

The Group's policies for risk management are established to identify the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

The Company is required to disclose information on its financial instruments and has adopted policies identical to that of the Group, where applicable. Separate disclosure is provided where necessary.

Before detailing the relevant qualitative and quantitative disclosures in relation to the potential risks faced by the company, details on the different categories of financial instrument and the carrying and fair values of each of those categories is provided below.

SSE EPM Limited

Notes on the Financial statements *(continued)* for the year ended 31 March 2019

16 Derivatives and financial instruments *(continued)*

(ii) Derivative categories

For disclosure purposes, derivative financial instruments are classified into two categories, operating derivatives and financing derivatives. Financing derivatives include all fair value and cash flow interest rate hedges, non-hedge accounted (mark-to-market, noted as MTM) interest rate derivatives, cash flow foreign exchange hedges and non-hedge accounted (MTM) foreign exchange contracts. Non-hedge accounted contracts are treated as held for trading (MTM). The carrying value is the same as the fair value for all instruments. All balances are stated gross of associated deferred taxation. Operating derivatives relate to energy forward purchase contracts which are all fair valued through the profit and loss account.

(iii) Fair values

The fair values of the Company's financial assets and financial liabilities, and the carrying amounts in the balance sheet are analysed below. Balances included in the analysis of primary financial assets and liabilities include cash and cash equivalents, trade and other debtors, trade and other creditors and derivative financial assets and liabilities all of which are disclosed separately.

Summary fair values

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

	2019 Carrying value £m	2019 Fair value £m	2018 Carrying value £m	2018 Fair Value £m
Financial Assets				
Trade and other debtors (note 10)	477.2	477.2	860.9	860.9
Derivative financial assets	146.2	146.2	31.1	31.1
Financial Liabilities				
Trade and other creditors (note 11)	1,536.3	1,536.3	1,508.8	1,508.8
Derivative financial liabilities	4.6	4.6	14.5	14.5

Basis of determining fair value

Certain assets and liabilities designated and carried at amortised cost are receivables. For certain current assets and liabilities their carrying value is equivalent to fair value due to short term maturity.

Assets and liabilities designated at fair value and the fair value of other financial assets and liabilities have been determined by reference to closing rate market values. This basis has been used in valuing interest rate instruments, foreign currency hedge contracts and foreign currency denominated long-term fixed rate debt. Commodity contracts fair values are based on published price quotations.

The fair values are stated at a specific date and may be different from the amounts which will actually be paid or received on settlement of the instruments.

SSE EPM Limited

Notes on the Financial statements *(continued)* for the year ended 31 March 2019

16 Derivatives and financial instruments *(continued)*

Fair value hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from unadjusted quoted market prices for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

	Level 1 £m	2019 Level 2 £m	Level 3 £m	Total £m
Financial assets				
Energy derivatives	-	146.2	-	146.2
	-	146.2	-	146.2

Financial Liabilities				
Finance derivatives	-	(4.6)	-	(4.6)
	-	(4.6)	-	(4.6)

	Level 1 £m	2018 Level 2 £m	Level 3 £m	Total £m
Financial Assets				
Finance derivatives	-	2.0	-	2.0
Energy derivatives	-	29.1	-	29.1
	-	31.1	-	31.1

Financial Liabilities				
Energy derivatives	-	(14.5)	-	(14.5)
	-	(14.5)	-	(14.5)

(iv) Risk

Liquidity risk

Liquidity risk derives from the risk the Company will not be able to meet its financial obligations as they become due. The company is reliant upon the ultimate parent company to assist in meeting those financial obligations. The ultimate parent company can be exposed to significant movement in its liquidity position due to changes in commodity prices, working capital requirements and the impact of the seasonal nature of the business.

The following are the contractual cash flows of financial liabilities, including estimated interest payments and excluding the effects of netting agreements:

SSE EPM Limited

Notes on the Financial statements *(continued)* for the year ended 31 March 2019

16 Derivatives and financial instruments *(continued)*

	2019					
	Carrying value £m	Contractual cash flow £m	1 year or less £m	1 to < 2 years £m	2 to < 5 years £m	5 years and over £m
Derivative financial assets						
Energy derivatives	146.2	(291.8)	31.5	(251.8)	(71.5)	-
	<u>146.2</u>	<u>(291.8)</u>	<u>31.5</u>	<u>(251.8)</u>	<u>(71.5)</u>	<u>-</u>
Derivative financial liabilities						
Finance derivatives	(4.6)	(107.1)	(107.1)			
	<u>(4.6)</u>	<u>(107.1)</u>	<u>(107.1)</u>			
	2018					
	Carrying value £m	Contractual cash flow £m	1 year or less £m	1 to < 2 years £m	2 to < 5 years £m	5 years and over £m
Derivative financial assets						
Finance derivatives	2.0	(83.2)	(94.1)	10.0	0.9	-
Energy derivatives	29.1	(504.3)	-	(437.9)	(66.4)	-
	<u>31.1</u>	<u>(587.5)</u>	<u>(94.1)</u>	<u>(427.9)</u>	<u>(65.5)</u>	<u>-</u>
Derivative financial liabilities						
Energy derivatives	(14.5)	461.0	461.0			
	<u>(14.5)</u>	<u>461.0</u>	<u>461.0</u>			

Commodity risk

The company's exposure to energy commodity price movements and requirement for the delivery of its physical commodity needs is part of its normal course of business. The risk management activity carried out by EPM arises from the Group's requirement to source gas, electricity or other commodities such as renewable obligation certificates for Energy Supply, and to procure fuel and other commodities and provide a route-to-market for Electricity Generation.

The company's strategy is to manage all exposures to commodity risk through volumetric limits and to measure the exposure by use of Value at Risk (VaR) models. The exposure is subject to financial limits established by the Group's Board and managed by reference to guidance agreed by the Energy Markets Risk Committee. Exposures are reported to the Committee and to the Board when certain trigger levels are exceeded. Within this approach, the company manages the commodity price risk associated with both financial and non-financial commodity contracts. It is only the fair value of IFRS 9 financial instruments which represents the exposure of the company's commodity price risk under IFRS 7. This is a consequence of the company's accounting policy which stipulates that commodity contracts which are designated as financial instruments under IFRS 9 should be accounted for on a fair value basis with changes in fair value reflected in profit or equity. Conversely, commodity contracts that are not designated as financial instruments under IFRS 9 will be accounted for as 'own-use' contracts. As fair value changes in own use contracts are not reflected through profit or equity, these do not represent the IFRS 7 commodity price risk. Therefore, as the overall company VaRs associated with commodity risk will be monitored for internal risk management purposes this is outside the scope of IFRS 9.

SSE EPM Limited

Notes on the Financial statements (continued)

for the year ended 31 March 2019

16 Derivatives and financial instruments (continued)

Commodity risk (continued)

In EPM, the economic volatility that the company is exposed to, and the risk related to this, is managed through a selection of longer and shorter term contracts for commodities such as gas, electricity, coal and carbon allowances, the arm's length arrangements with the Group's gas production business and through flexibility from the Group's fleet of generation assets including assets such as pumped storage generating plant, flexible hydro generating plant, standby oil plant and contracts with the gas storage business.

The company's exposure to commodity price risk according to IFRS 7 is measured by reference to the company's IFRS 9 commodity contracts. IFRS 7 requires disclosure of a sensitivity analysis for market risks that is intended to illustrate the sensitivity of the company's financial position and performance to changes in market variables impacting upon the fair value or cash flows associated with the company's financial instruments.

Therefore, the sensitivity analysis provided discloses the effect on profit or loss and equity at the balance sheet date assuming that a reasonably possible change in the relevant commodity price had occurred, and had been applied to the risk exposures in existence at that date. The reasonably possible changes in commodity prices used in the sensitivity analysis were determined based on calculated or implied volatilities where available, or historical data.

The sensitivity analysis has been calculated on the basis that the proportion of commodity contracts that are IFRS 9 financial instruments remains consistent with those at that point. Excluded from this analysis are all commodity contracts that are not financial instruments under IFRS 9.

	2019	2019	2018	2018
		Reasonably possible increase/decrease in variable		Reasonably possible increase/decrease in variable
	Base price (i)		Base price	
Commodity prices				
UK gas (p/therm)	47	+/-19	45	+/-11
UK power (£/MWh)	48	+/-19	45	+/- 11
UK coal (US\$/tonne)	73	+/-8	74	+/- 12
UK emissions (£/tonne)	22	+/-7	13	+/- 5
UK oil (US\$/bbl)	63	+/-13	61	+/- 10

i. The base price represents the average forward market price over the duration of the active market curve used to calculate the sensitivity analysis.

The impacts of reasonably possible changes in commodity prices on profit after taxation based on the rationale described are as follows

	2019	2018
	Base price	Base price
	£m	£m
Incremental profit/(loss)		
Commodity prices combined - increase	178.3	12.5
Commodity prices combined - decrease	(178.3)	(12.5)

SSE EPM Limited

Notes on the Financial statements *(continued)* for the year ended 31 March 2019

16 Derivatives and financial instruments *(continued)*

Currency risk

The Company publishes its financial statements in Sterling but also conducts business in foreign currencies. The company's policy is to use forward contracts, swaps and options to manage its exposures to foreign exchange risk. All such exposures are transactional in nature, and relate primarily to commodity purchasing, commodity hedging and the purchase and sale of carbon emission certificates. The policy is to seek to hedge 100% of its currency requirements arising under all committed contracts except commodity hedge transactions, the requirements for which are significantly less predictable. The policy for these latter transactions is to assess the Group's requirements on a rolling basis and to enter into cover contracts as appropriate.

Significant exposures are reported to, and discussed by, the Energy Markets Risk Committee and additionally form part of the bi-annual Treasury report to the Audit Committee.

17 Ultimate parent company

The Company is a subsidiary of SSE plc, which is the ultimate parent company and is registered in Scotland. The largest and smallest Group in which the results of the Company are consolidated is that headed by SSE plc. 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 Company's website at www.sse.com.