

Registration number: 09442646

SSE EPM Ltd

Directors report and Financial Statements

for the Year Ended 31 March 2020

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SSE EPM Ltd

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SSE EPM Ltd

Company Information

Directors

Pauline Babb
David Fernie
Mandy Mackay
Calum Kennedy
Duncan Bruce
Gordon Bell
Finlay McCutcheon

Company secretary

Kathryn Gill

Registered office

No1 Forbury Place
43 Forbury Road
Reading
RG1 3JH

Bankers

National Westminster Bank
13 Market Place
Reading
RG1 2EG

Auditors

Ernst & Young LLP
G1 Building
5 George Square
Glasgow
G2 1DY

Registered number

09442646

SSE EPM Ltd

Strategic Report for the Year Ended 31 March 2020

The directors present their report for the year ended 31 March 2020.

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 EPM Ltd.

The Strategic and Financial Review sets out the main trends and factors underlying the development and performance of SSE EPM Ltd (the "Company") during the year ended 31 March 2020, as well as those matters which are likely to affect its future development and performance.

Fair review of the business

Financial performance

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. The Directors focus on adjusted operating profit because exceptional items are those charges or credits that are considered unusual by nature and are not representative of the underlying operational performance of the activities the company undertakes. 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.

The profit and loss account for the year ended 31 March 2020 is set out on page 14. The profit for the year after taxation amounted to £24.6m (2019 restated: loss of £376.4m). The balance sheet at 31 March 2020 is set out on page 15 and indicates net liabilities of £136.6m (2019 restated: net liabilities of £162.6m).

The adjusted operating loss in the year is set out on page 3 and amounted to £130.6m (2019 restated: adjusted operating loss of £286.5m). The loss in 2020 was primarily attributed to Gas trading losses which stemmed from the legacy impact of a decision approved by the SSE Board, during 18/19, 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. While the mark-to-market exposure to the "short" gas position strategy was closed by "crystalising" the position, financial losses continued to be recognized in the financial statements of 2019 and to a lesser extent 2020 in line with the delivery dates associated with the contracts affected.

Following these losses, in November 2018 the Group published a new hedging strategy to manage 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).

SSE, through the Company, therefore now generally seeks to hedge its broad exposure to commodity price variation 12 months in advance of delivery, and SSE completed the transition to this new hedging approach in line with the company's stated intention to do so by April 2020 for the start of the 2020/21 financial year. This systematic hedging approach is key in ensuring that trading positions cannot have a material unexpected 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.

SSE EPM Ltd

Strategic Report for the Year Ended 31 March 2020 (continued)

Business Separation transactions

From 1 April 2015, the Group established a trust arrangement, which transferred the beneficial interests of commodity trading activities undertaken under the licence of SSE Energy Supply Limited ('SSE ESL') to the Company. Since the establishment of the trust agreement, the third party derivative assets and liabilities arising from this trading activity continue to be included within the financial statements of 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 SSE ESL. This arrangement remains in operation at 31 March 2020 with management actively considering options to simplify these arrangements.

Key performance indicators

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

		(As restated)	
	Unit	2020	2019
Adjusted operating loss	£m	(130.6)	(286.5)
Operating profit / (loss)	£m	99.1	(413.5)
Net liabilities	£m	(136.6)	(162.6)

Reported to Adjusted Operating Profit Reconciliation

	(As restated)	
	2020	2019
	£m	£m
Operating profit/(loss) per Profit and Loss account	99.1	(413.5)
IFRS9 mark to market remeasurement of EPM Ltd derivatives	29.1	(131.6)
IFRS9 mark to market remeasurement of trust derivatives	(258.8)	258.6
Adjusted operating loss	<u>(130.6)</u>	<u>(286.5)</u>

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Strategic Report for the Year Ended 31 March 2020 (continued)

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. The key issue of exposure to energy prices and volume is addressed by board sub-committee – the Energy Markets Risk Committee – which was established consisting of five SSE Group Directors in addition to the Group Chief Executive and Managing Director of Energy Portfolio Management, who also routinely attend meetings. The Director of Risk and Audit also served as a member until 30th April 2019, at which point he took up an interim position as Director of Energy Portfolio Management and continued to routinely attend meetings in that capacity.

EPM provides a route to market service on behalf of the Group generation and supply businesses. Internal contracts are in place between EPM and other group businesses under which the business pay EPM to provide route to market and energy risk management services for the businesses. The risks are managed in line with Group policies through the delegation of Board controls including Value at Risk, Profit at Risk; Trading and Credit limits, with corresponding breach escalation processes. Monitoring and reporting are undertaken on a daily and monthly basis to ensure the correct level of oversight and scrutiny.

If fuel is contracted in foreign currency, it is the Group's policy to hedge all material purchases through the use of foreign currency 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 transactions. 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.

SSE EPM Ltd

Strategic Report for the Year Ended 31 March 2020 (continued)

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. Those factors, for example, include the Company's applicable regulatory and legal obligations.

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

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 page 7 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 on pages 6 to 7 are examples 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.

Strategy

The Executive Committee routinely reviews the Company's agreed strategic priorities against its established purpose. During 2019/20, this review considered amongst other matters: the external market context; customer needs; data and analytics; people; and culture. One example of a specific and evolving strategic opportunity subject to Executive Committee discussion, was the role of, and ability to bid on, large offshore wind power purchase agreements (PPAs). In reaching the decision to participate in the associated tender processes, the Committee considered the relevant risk profile, bid-levels, strategic fit with existing knowledge and expertise and the central role of renewable energy to both the strategy of the SSE Group and the UK's committed transition to net zero.

SSE EPM Ltd

Strategic Report for the Year Ended 31 March 2020 (continued)

Budget

Each year financial allocation and expenditure is discussed and approved by the Executive Committee through the agreed budget. This is supported by regular review of performance and consideration of agreed longer term strategic objectives. The 2019/20 review process sought to ensure the budgets proposed were appropriately stretching and achievable to support both business growth and capability, and included for example, the identified role of data, IT and systems to support sustainable and reliable business operations.

Counterparty Credit Risk

In line with agreed policy, counterparty credit limits and associated risk were subject to Executive Committee review at agreed periods, with proposed revisions receiving endorsement and sign off. In line with SSE Group internal governance, additional authority is sought from the Group Executive Committee or SSE plc Board where required. In order to safeguard the Company and interests of stakeholders the risk profile of counterparties was considered both individually and collectively.

A full description of the Company's approach to risk management is set out on page 33 and the identified impact of Brexit is disclosed on page 9.

People

An iterative programme of activity to support the Company's wider people strategy was subject to discussion and agreement by the Executive Committee. This was informed, in part, by the output of the annual all-employee survey results. A key development was the introduction of quarterly communication sessions, which has enhanced delivery of key messages to employees and understanding of their views. Inclusion and diversity priorities were also agreed, with additional focus further provided to enhance opportunities for people development. As the Covid-19 pandemic was declared towards the end of the financial year, the overriding focus of the Executive Committee was providing adequate support to employees and ensuring their wellbeing.

SSE EPM Ltd

Strategic Report for the Year Ended 31 March 2020 (continued)

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. For the SSE Group this includes: shareholders and debt providers; employees; government and regulators; NGOs, communities and civil society; suppliers, contractors and partners; and customers. The perspectives, insights and opinions of the Company's 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.

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 12 to 15 of the SSE plc Annual Report 2020. Details of those specific to the Company are set out below.

The views of Company employees are gathered at business unit level, where mechanisms include monthly KPIs, an annual employee engagement survey and tailored business unit led engagement. This is supplemented by SSE plc's dedicated non-Executive Director for Employee Engagement who reports directly to the SSE plc Board and provides feedback to the Managing Director of each business unit. People strategies and action plans to address employee views are developed and overseen by the business unit Executive Committee in response to feedback received.

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 the Directors take representations as necessary from relevant corporate business partners in order to ensure they are informed as to 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 29 March 2021 and signed on its behalf by:



.....
David Fernie
Director

SSE EPM Ltd

Directors' Report for the Year Ended 31 March 2020

The directors present their report and the financial statements for the year ended 31 March 2020.

Directors' of the company

The directors, who held office during the year, were as follows:

Pauline Babb

David Fernie

Mandy Mackay

Calum Kennedy

Duncan Bruce

Gavin Brydon (ceased 30 September 2020)

The following directors were appointed after the year end:

Gordon Bell (appointed 11 May 2020)

Finlay McCutcheon (appointed 25 January 2021)

Principal activity

The principal activity of 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.

Dividends

The directors recommend a final dividend payment of £Nil (2019: £Nil) be made in respect of the financial year ended 31 March 2020.

Prior year adjustment

Following the sale of SSE Energy Services to Ovo in January 2020, the Group's Renewable Obligation volume has decreased significantly for the 19/20 obligation period and this therefore triggered a review of the accounting policy relating to ROCs. See note 3 for details.

Political and charitable donations

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

Going concern

The directors have assessed that the company will prepare its financial statements on a going concern basis, see note 2 for details.

Assessing the impact of coronavirus

The Directors have considered the impact of coronavirus on the future prospects of the Company. Due to the timing of the outbreak relative to the Company's year end date, the impact on the results for the year ended 31 March 2020 is limited. Due to the operations of the Company, the impact of the virus on future periods is also expected to be limited. The Directors have considered the expected impact of coronavirus in reaching their assessment of the Company's ability to continue as a going concern above.

Brexit

The directors are aware of the political uncertainty as the UK transitions out of the European Union. Due to the nature of operations of the Company, the impact of Brexit has been and is expected to be low but will result in changes to operations within the business.

SSE EPM Ltd

Directors' Report for the Year Ended 31 March 2020 (continued)

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

The auditors Ernst & Young LLP are deemed to be reappointed under section 487(2) of the Companies Act 2006.

Approved by the Board on 29 March 2021 and signed on its behalf by:



.....
David Fernie
Director

SSE EPM Ltd

Statement of Directors' Responsibilities

The directors acknowledge their responsibilities for preparing 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 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 and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether FRS 101 has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will 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.

Approved by the Board on 29 March 2021 and signed on its behalf by:



.....
David Fernie
Director

SSE EPM Ltd

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

Opinion

We have audited the financial statements of SSE EPM Ltd (the 'Company') for the year ended 31 March 2020, 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 2020 and of its profit 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.

Emphasis of matter

For the effects of COVID-19 we draw your attention to note 2 of the accounts, which describes the consequences the Company is facing as a result of COVID-19. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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.

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.

SSE EPM Ltd

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

In connection with our audit of the financial statements, 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 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 or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

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 where 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 10], 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.

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

SSE EPM Ltd

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

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.

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 March 2021

SSE EPM Ltd

Profit and Loss Account for the Year Ended 31 March 2020

		(As restated)	
		Note 3	
	Note	2020 £ m	2019 £ m
Turnover	4	772.6	752.4
Cost of sales		<u>(658.4)</u>	<u>(1,152.8)</u>
Gross profit/(loss)		114.2	(400.4)
Administrative expenses		<u>(15.1)</u>	<u>(13.1)</u>
Operating profit/(loss)		99.1	(413.5)
Interest payable and similar expenses	7	<u>(37.0)</u>	<u>(47.2)</u>
Profit/(loss) before tax		62.1	(460.7)
Tax on profit/(loss)	9	<u>(37.5)</u>	<u>84.3</u>
Profit/(loss) for the year		<u>24.6</u>	<u>(376.4)</u>

The above results were derived from continuing operations.

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

SSE EPM Ltd

**(Registration number: 09442646)
Balance Sheet as at 31 March 2020**

			(As restated) (note 3)	(As restated) (note 3)
		31 March 2020	31 March 2019	31 March 2018
	Note	£ m	£ m	£ m
Fixed assets				
Derivative financial assets	10	14.4	18.2	30.6
Current assets				
Stocks	11	544.8	758.4	670.5
Debtors	12	637.4	477.2	860.9
Derivative financial assets	10	102.7	128.0	0.5
		<u>1,284.9</u>	<u>1,363.6</u>	<u>1,531.9</u>
Current liabilities				
Creditors: amounts falling due within one year	13	(200.6)	(762.1)	(1,508.8)
Derivative financial liabilities	18	-	(4.6)	(14.5)
		<u>(200.6)</u>	<u>(766.7)</u>	<u>(1,523.3)</u>
Net current assets		<u>1,084.3</u>	<u>596.9</u>	<u>8.6</u>
Total assets less current liabilities		<u>1,098.7</u>	<u>615.1</u>	<u>39.2</u>
Creditors: Amounts falling due after more than one year				
Amounts due to related parties	13	(1,176.3)	(774.2)	-
Derivative financial liabilities	18	(0.6)	-	-
Deferred tax liabilities	9	(58.4)	(3.5)	(26.4)
		<u>(1,235.3)</u>	<u>(777.7)</u>	<u>(26.4)</u>
Net (liabilities)/assets		<u>(136.6)</u>	<u>(162.6)</u>	<u>12.8</u>
Capital and reserves				
Called up share capital	16	-	-	-
Capital Contribution		200.0	200.0	-
Profit and loss account		<u>(336.6)</u>	<u>(362.6)</u>	<u>12.8</u>
Shareholders' (deficit)/funds		<u>(136.6)</u>	<u>(162.6)</u>	<u>12.8</u>

Approved by the Board on 29 March 2021 and signed on its behalf by:



David Fernie
Director

SSE EPM Ltd

Statement of Changes in Equity for the Year Ended 31 March 2020

	Share capital (note 16) £ m	Capital Contribution £ m	Retained earnings £ m	Total £ m
At 1 April 2018	-	-	50.2	50.2
Prior period adjustment (note 3)	-	-	(37.4)	(37.4)
At 1 April 2018 (As restated) (note 3)	-	-	12.8	12.8
Loss for the year	-	-	(376.4)	(376.4)
Total comprehensive income	-	-	(376.4)	(376.4)
Credit in respect of employee share awards	-	-	1.0	1.0
Capital contribution	-	200.0	-	200.0
At 31 March 2019	-	200.0	(362.6)	(162.6)
	Share capital £ m	Capital Contribution £ m	Retained earnings £ m	Total £ m
At 1 April 2019 (As restated) (note3)	-	200.0	(362.6)	(162.6)
Profit for the year	-	-	24.6	24.6
Total comprehensive income	-	-	24.6	24.6
Credit in respect of employee share awards	-	-	1.4	1.4
At 31 March 2020	-	200.0	(336.6)	(136.6)

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 Ltd

Notes to the Financial Statements for the Year Ended 31 March 2020

1 General information

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

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.

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 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.

SSE EPM Ltd

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

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 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 progress of the Group's disposal programme since 31 March 2020 and mitigating actions available to the Group under downside scenarios including non-essential capex postponement and refinancing of mature 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.

Type text he

Changes in accounting policy

Other than ROCs, details of which can be found in note 3, the accounting policies are consistent with those of the prior year.

No new standards, interpretations and amendment effective for the first time from 1 April 2019 have had a material effect on the financial statements.

Revenue recognition

Commodity optimisation and other services

Income from sales commodity optimisation trading occurring in any business unit is presented net in cost of sales alongside purchase commodity optimisation trades.

Revenue arising on commodities purchased in excess of the Group's requirements and recorded as inventory assets, such as Renewables Obligation Certificates, is recognised "point in time" on disposal of these inventory assets to third parties.

Revenue from other ancillary services is recognised "over time" consistent with the customer receiving and consuming the benefits of those services across the expected contractual service period, and at the contracted consideration.

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.

SSE EPM Ltd

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

2 Accounting policies (continued)

Foreign currency transactions and balances

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.

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.

SSE EPM Ltd

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

2 Accounting policies (continued)

Allowances and certificates

Allowances and certificates consist of purchased carbon emissions allowances and obligations certificates. These allowances and certificates are held for sale.

The EU Emissions Trading Scheme (EU ETS) has been in operation since 1 January 2005. Carbon allowances purchased are recorded at cost within inventories. Forward carbon contracts are measured at fair value with gains or losses arising on re-measurement being recognised in the income statement. A liability is recognised based on the level of emissions recorded. Up to the level of allowances held, including forward carbon contracts, the liability is measured at the cost of purchase. When the carbon emission liability exceeds the carbon allowances held, the difference is measured at market value selling price. Subsequent movements in market value are recognised in operating profit.

The carbon allowance inventory asset is sold to our generation businesses and subsequently surrendered at the end of the compliance period to the extent requested reflecting the consumption of the economic benefit and is recorded as being utilised. As a result, no amortisation is booked but an impairment charge may be recognised should the carrying value of allowances exceed market or fair value.

Under the Renewable Obligations Certificates (ROCs) scheme, certificates obtained by generators from Ofgem based on qualifying renewable production can be traded with third parties and are ultimately used by suppliers to demonstrate to Ofgem that they have met their obligation to source a set proportion of the electricity they supply from renewable sources. The value of a ROC to a supplier comprises two elements: the “buy-out” price which is set annually in advance of the compliance period by Ofgem; and the “recycle” price which is determined after the compliance period by Ofgem. The recycle price element is estimated at the balance sheet date based on assumptions at that point in time around likely levels of renewable generation and supply over the remaining compliance period and is therefore subject to possible future variation.

SSE EPM Limited does not hold a renewables obligation of its own and holds ROCs for the purpose of selling to other companies, likewise, the company does not own any generation assets in order to generate ROCs internally. All ROC certificates are therefore purchased from third parties and are recorded at the lower of cost or net realisable value at the point of purchase within inventories for the purpose of selling to other companies. Sales are also recorded in line with the delivery date of the transaction. Similarly, the fair value of any forward contracts entered into at the balance sheet date for the purchase or sale of ROCs in future periods are not recognised, as there is insufficient liquidity for net settlement.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

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 fixed 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.

SSE EPM Ltd

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

2 Accounting policies (continued)

Stock

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

Gas in storage is valued at the lower of cost and net realisable value.

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.

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.

Defined contribution pension obligation

SSE Group operates a number of defined contribution pension schemes to which the Company's employees may be members of. The assets and liabilities of the schemes are held separately from those of the Group in independently administered funds. The amounts charged represent the contributions payable to the schemes in the year and are charged directly to the income statement.

Share based payments

SSE plc, the ultimate parent of the Company, operates a number of All Employee Share Schemes as described in the Remuneration Report of the Group. These schemes enable Group employees to acquire shares of the ultimate parent company. The employees of the Company are entitled, where applicable, to participate in these schemes. The Company has not been charged with the cash cost of acquiring shares on behalf of its employees, this cost is borne by the Ultimate Parent Company. Where the fair value of the options granted has been measured, the Company has recognised the expense as if the share based payments related to the Company's own shares.

The exercise prices of the sharesave scheme are set at a discount to market price at the date of the grant. The fair value of the sharesave scheme option granted is measured at the grant date by use of an option pricing model. The fair value of the options granted is recognised as an expense on a straight-line basis over the period that the scheme vests. Estimates are updated at each balance sheet date with any adjustment in respect of the current and prior years being recognised in the profit and loss financial statements.

The costs associated with the other main employee schemes, the share incentive plan and the deferred bonus scheme, are recognised over the period to which they relate.

SSE EPM Ltd

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

2 Accounting policies (continued)

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 futures, forwards, swaps and options in the interest rate, foreign exchange, equity and credit markets.

Derivative financial instruments are recognised in the statement of financial position at fair value. Fair values are derived from prevailing market prices, discounted cash flow models or option pricing models as appropriate.

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 trading income.

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.

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

Fair value of financial assets and liabilities

Where the fair value of financial assets and liabilities cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is derived from observable markets where available, but where this is not feasible, a degree of judgement is required in determining assumptions used in the models. Changes in assumptions used in the models could affect the reported fair value of financial assets and liabilities.

SSE EPM Ltd

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

3 Changes to ROCs Presentation & Reassessment of Accounting Treatment

Prior Period Adjustment

SSE Group has typically been a net buyer of Renewable Obligation Certificates ('ROCs') in order to meet the Renewable Obligations ('RO') of its UK supply businesses. The role of EPM within the Group has previously been to source ROCs for the supply businesses either from buying ROCs internally from the Group's Renewables business, from external purchases as part of third party PPA agreements or via bi-lateral ROC trades. EPM has then typically held the ROCs until the certificates were required to be submitted to regulators, at which point EPM would sell the ROCs to the Group's supply businesses to be forfeited to meet their obligation.

Following the Group's disposal of SSE Energy Services to Ovo in January 2020, the Group's RO volume has decreased significantly for the 19/20 obligation period, which triggered a Group and Company review of the accounting policy relating to ROCs.

The accounting treatment for EPM Limited has mirrored the Group treatment which was to hold self-generated ROC certificates as intangible assets at market value at the point of Generation (equal to surrender value). It has been identified however that this was incorrect in the Company's accounts, as none of the certificates were 'self-generated' by the Company.

As the Company is not a supply business, it was concluded that all ROCs should be classified as 'traded ROCs'. As a result, ROCs self-generated by the Group (but not the Company), which were previously valued at their surrender value should have been recognised on the balance sheet at cost, then subsequently measured at cost less any impairment. This is in line with the March 2020 group accounting policy and profits from the ROC certificates are only recognized when the certificates are sold. The Company has therefore reassessed its treatment of the certificates in the prior year, and has corrected the value they were recorded at to ensure these certificates purchased from related parties are recognised at the lower of cost or fair value in line with the prior year accounting policy. The Company has also elected to hold these assets in inventory rather than intangible assets (see below).

The 31 March 2019 financial statements have been restated to reduce the ROCs trading profit within cost of sales by £1.4m and increase Tax on loss by £0.3m. The balance sheet net assets are reduced by £38.5m. Opening retained earnings at 1 April 2018 are reduced by £37.4m from £50.2m to £12.8m.

Voluntary change in accounting policy

Following the review and correction of ROC accounting policy noted above, the Company has also elected to reclassify its ROC assets as inventory rather than intangible assets. This voluntary change in accounting policy has been made to more accurately reflect the fact that the ROCs are 'traded ROCs' and that the Company itself has no Renewable Obligation. This change also aligns with the Group policy of classifying excess ROCs that are held for sale as inventories.

The same reclassification has also been consistently applied to other certificate assets held by the Company for the purposes of trading with third parties.

Under IAS8, the voluntary change in accounting policy necessitates the restatement of the Company's balance sheet for prior periods presented. As a result, the intangible asset balance of £747.0m at 31 March 2019, following the prior period adjustment described above, has been reduced to nil and reclassified as an inventory balance of £747.0m. Similarly, the intangible asset balance of £544.8m at 31 March 2020 has been reduced to nil and reclassified as an inventory balance of £544.8m.

SSE EPM Ltd

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

3 Changes to ROCs Presentation & Reassessment of Accounting Treatment (continued)

The effect of these adjustments on the 31 March 2019 income statement and balance sheet is shown in the following tables:

Profit and loss account	Reported	PYA	Voluntary	Restated
	£m	£m	£m	£m
Turnover	752.4	-	-	752.4
Cost of sales	(1,151.4)	(1.4)	-	(1,152.8)
Gross loss	(399.0)	(1.4)	-	(400.4)
Other items	(60.3)	-	-	(60.3)
Loss before tax	(459.3)	(1.4)	-	(460.7)
Tax on loss	84.0	0.3	-	84.3
Loss for the financial year	(375.3)	(1.1)	-	(376.4)

Balance Sheet	Reported	PYA	Voluntary	Restated
	£m	£m	£m	£m
Fixed Assets				
Derivative financial assets	18.2	-	-	18.2
Current assets				
Intangible assets	794.5	(47.5)	(747.0)	-
Derivative financial assets	128.0	-	-	128.0
Stock	11.4	-	747.0	758.4
Debtors: amounts falling due within one year	477.2	-	-	477.2
Total current assets	1,411.1	(47.5)	-	1,363.6
Current liabilities				
Derivative financial liabilities	(4.6)	-	-	(4.6)
Creditors: amounts due after more than one year	(762.1)	-	-	(762.1)
Net current assets	644.4	(47.5)	-	596.9
Total assets less current liabilities	662.6	(47.5)	-	615.1
Creditors: amounts due after more than one year	(774.2)	-	-	(774.2)
Deferred taxation	(12.5)	9.0	-	(3.5)
Net liabilities	(124.1)	(38.5)	-	(162.6)
Capital and reserves				
Called up share capital	-	-	-	-
Profit and loss account	(324.1)	(38.5)	-	(362.6)
Capital contribution	200.0	-	-	200.0
Equity shareholder' funds	(124.1)	(38.5)	-	(162.6)

SSE EPM Ltd

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

4 Revenue

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

	2020 £ m	2019 £ m
Sale of goods	772.6	752.4

Sale of goods mainly comprises ROCs, MSA fees and Sales of gas from stores.

5 Staff costs

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

	2020 £ m	2019 £ m
Wages and salaries	8.8	8.0
Social security costs	1.0	0.9
Pension costs	2.2	1.7
Share-based payment expenses	1.4	1.0
	<u>13.4</u>	<u>11.6</u>

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

	2020 No.	2019 No.
EPM	152.0	151.0

The total number employed at 31 March 2020 was 150 (2019: 157)

6 Directors' remuneration

The total remuneration received by the directors for qualifying and non-qualifying services during the year was £0.8m (2019: £0.8m). The above value is for six directors (2019: 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 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 £0.2m (2019: £0.2m) including company pension contributions of £nil (2019: £nil) which were made to a money purchase scheme on their behalf.

SSE EPM Ltd

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

7 Interest payable and similar expenses

	2020	2019
	£ m	£ m
Interest paid to group undertakings	40.6	40.4
Movement in Finance Derivatives	(4.2)	6.6
Other finance costs	0.6	0.2
	<u>37.0</u>	<u>47.2</u>

8 Auditors' remuneration

The company incurred an audit fee of £66k in the year (2019: £36k). The fee in both the current and previous year was borne by another group company.

9 Income tax

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

	2020	(As restated) 2019
	£ m	£ m
Current taxation		
UK corporation tax	(27.0)	(61.9)
UK corporation tax adjustment to prior periods	9.6	0.6
	<u>(17.4)</u>	<u>(61.3)</u>

The prior period adjustment arises in respect of group relief surrendered for no consideration

Deferred taxation

Arising from origination and reversal of temporary differences	53.4	(25.6)
Arising from changes in tax rates and laws	1.5	2.6
Total deferred taxation	<u>54.9</u>	<u>(23.0)</u>
Tax expense/(receipt) in the profit and loss account	<u>37.5</u>	<u>(84.3)</u>

The tax on profit before tax for the year is the same as the standard rate of corporation tax in the UK (2019 - the same as the standard rate of corporation tax in the UK) of 19% (2019 - 19%).

SSE EPM Ltd

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

9 Income tax (continued)

The differences are reconciled below:

	2020 £ m	(As restated) 2019 £ m
Profit/(loss) before tax	62.1	(460.7)
Corporation tax at standard rate	11.8	(87.5)
Increase in current tax from adjustment for prior periods	9.6	0.6
Group relief surrendered for nil payment	14.6	-
Deferred tax expense relating to changes in tax rates or laws	1.5	2.6
Total tax charge/(credit)	37.5	(84.3)

The Finance (No.2) Act 2015 reduced the main rate of UK corporation tax to 19%, effective from 1 April 2017. A further reduction in the UK corporation tax rate to 17% was expected to come into effect from 1 April 2020 (as enacted by Finance Act 2016 on 15 September 2016). However, legislation introduced in the Finance Act 2020 (enacted on 22 July 2020) repealed the reduction of the corporation tax, thereby maintaining the current rate of 19%. Deferred taxes on the balance sheet have been measured at 19% (2019 – 19%) which represents the future corporation tax rate that was enacted at the balance sheet date.

The UK Budget 2021 announcements on 3 March 2021 included measures to support economic recovery as a result of the ongoing COVID-19 pandemic. These included an increase to the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023. These changes were not substantively enacted at the balance sheet date and hence have not been reflected in the measurement of deferred tax balances at the period end. It is not anticipated that these changes will have a material impact on the company's/group's deferred tax balances.

Deferred tax

Deferred tax movement during the year:

	At 1 April 2019 £ m	Recognised in income £ m	At 31 March 2020 £ m
Fair value movements on financial instruments	(12.5)	(45.9)	(58.4)
Effect of accounting policy restatement	9.0	(9.0)	-
Net tax assets/(liabilities)	(3.5)	(54.9)	(58.4)

Deferred tax movement during the prior year:

	At 1 April 2018 £ m	Recognised in income £ m	At 31 March 2019 £ m
Fair value movements on financial instruments	(35.2)	22.7	(12.5)
Effect of accounting policy restatement	8.7	0.3	9.0
Net tax assets/(liabilities)	(26.5)	23.0	(3.5)

SSE EPM Ltd

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

10 Other financial assets

	31 March 2020 £ m	31 March 2019 £ m
Non-current financial assets		
Derivative assets held for risk management	14.4	18.2

	31 March 2020 £ m	31 March 2019 £ m
Current financial assets		
Derivative assets held for risk management	102.7	128.0

11 Stock

	31 March 2020 £ m	(As restated) 31 March 2019 £ m
Gas in store	-	11.4
Other inventories	544.8	747.0
	544.8	758.4

Other inventories comprises ROCs, Carbon and other tradeable certificates and allowances.

12 Trade and other debtors

	31 March 2020 £ m	31 March 2019 £ m
Debtors from related parties	609.8	414.9
Corporation Tax	27.2	61.9
Other debtors	0.4	0.4
	637.4	477.2

SSE EPM Ltd

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

13 Creditors

Amounts falling due within one year

	31 March 2020 £ m	31 March 2019 £ m
Trade creditors	0.1	-
Amounts due to related parties	185.7	103.9
Amounts owed to Trust	14.8	658.2
	<u>200.6</u>	<u>762.1</u>

Amounts falling due after more than one year

	31 March 2020 £ m	31 March 2019 £ m
Amounts due to related parties	<u>1,176.3</u>	<u>774.2</u>

The amounts 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 4.43% (2019: 4.42%).

SSE EPM Ltd

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

14 Business separation transactions

From 1 April 2015, the Group established a trust arrangement, which transferred the beneficial interests of commodity trading activities undertaken under the licence of SSE Energy Supply Limited ('SSE ESL') to the Company. Since the establishment of the trust agreement, the third party derivative assets and liabilities arising from this trading activity continue to be included within the financial statements of 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 SSE ESL.

Movement in Trust:

	2020	2019
	£m	£m
Opening balance at 1 April	(658.2)	(660.4)
Add: decrease/(increase) in intercompany creditor in relation to trust assets and liabilities	643.4	2.2
At 31 March	(14.8)	(658.2)

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

	2020	2019
	£m	£m
Cash and cash equivalents	0.3	0.4
Net trade debtors / (creditors)	187.9	(257.4)
Accruals and prepayments	(48.1)	(27.7)
Operating derivatives	(191.2)	(450.0)
Deferred tax	36.3	76.5
Net trust liability	(14.8)	(658.2)

15 Pension and other schemes

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 £1.9m (2019: £1.7m).

SSE EPM Ltd

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

16 Share capital

	31 March 2020 £	31 March 2019 £
Allotted, called up and fully paid:		
1 ordinary share of £1 each	1.0	1.0

17 Dividends

The directors are recommending a final dividend of £Nil (2019 - £Nil) per share totalling £Nil (2019 - £Nil).

18 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:

	2020 Carrying value £ m	2020 Fair value £ m	2019 Carrying value £ m	2019 Fair value £ m
Financial assets				
Trade and other debtors	637.2	637.2	477.2	477.2
Derivative financial assets	117.1	117.1	146.2	146.2
Financial liabilities				
Trade and other creditors	1,376.8	1,376.8	1,536.3	1,536.3
Derivative financial liabilities	0.6	0.6	4.6	4.6

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.

Recognised in profit and loss account

The amount of derivative re-measurement that has been recognised through profit and loss is as follows:

	2020 £ m	2019 £m
Fair value gains/(losses) on operating derivatives	229.7	(127.1)
Fair value gains/(losses) on financing derivatives	4.1	(6.6)
	233.8	(133.7)

SSE EPM Ltd

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

19 Financial risk review

(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 SSE plc Board has overall responsibility for the establishment and oversight of the Group's risk management framework, including those specific to the Company. The Energy Markets Risk Committee, which is an SSE plc board sub-committee, comprises five SSE Group Directors. 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 Company's trading activity, 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 consistent to those 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.

(ii) Derivative categories

For disclosure purposes, derivative financial instruments are classified into two categories, operating derivatives and financing derivatives. Financing derivatives include 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.

SSE EPM Ltd

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

19 Financial risk review (continued)

Liquidity risk

Liquidity risk arises from the risk the Company will not be able to meet its financial obligations as they become due. The company is reliant upon its 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.

Maturity analysis for financial liabilities and financial assets

The following tables set out the remaining contractual maturities of the company's financial assets and financial liabilities by type.

2020						
	Carrying value	Contractual cash flow	1 year or less	1 to <2 years	2 to <5 years	Over 5 year
	£m	£m	£m	£m	£m	£m
Derivative financial assets						
Energy derivatives	117.0	258.6	165.3	(2.2)	95.5	-
Finance derivatives	0.1	(71.1)	(71.1)	-	-	-
	117.1	187.5	94.2	(2.2)	95.5	-
Derivative financial liabilities						
Finance derivatives	(0.6)	5.0	-	5.0	-	-
	(0.6)	5.0	-	5.0	-	-
2019						
	Carrying value	Contractual cashflow	1 year or less	1 to <2 years	2 to <5 years	>5 years
	£m	£m	£m	£m	£m	£m
Derivative financial assets						
Energy derivatives	146.2	(291.8)	31.5	(251.8)	(71.5)	-
	146.2	(291.8)	31.5	(251.8)	(71.5)	-
Derivative financial liabilities						
Finance derivatives	(4.6)	(107.1)	(107.1)	-	-	-
	(4.6)	(107.1)	(107.1)	-	-	-

SSE EPM Ltd

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

19 Financial risk review (continued)

Market risk

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 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.

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.

	2020	2020	2019	2019
	Base price (i)	Reasonably possible increase/ decrease in variable	Base price (i)	Reasonably possible increase/ decrease in variable
Commodity prices				
UK gas (p/therm)	35	+/-8	47	+/-19
UK power (£/MWh)	39	+/-9	48	+/-19
UK emissions (£/tonne)	18	+/-6	22	+/-7
UK oil (\$/bbl)	42	+/-8	63	+/-13

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19 Financial risk review (continued)

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

	2020	2019
	Base price	Base price
Incremental profit/(loss)	£m	£m
Commodity prices combined - increase	29.8	178.3
Commodity prices combined - decrease	(29.8)	(178.3)

Foreign exchange 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.

20 Parent and ultimate parent undertaking

Relationship between entity and parents

The parent of the largest group in which these financial statements are consolidated is SSE plc, incorporated in Scotland. The consolidated financial statements of the Group (which include the Company) are available from the Company Secretary, SSE plc, Inveralmond House, 200 Dunkeld Road, Perth, PH1 3AQ or by accessing the parent company's website at www.sse.com.

The address of SSE plc is:

Inveralmond House, 200 Dunkeld Road, Perth, PH1 3AQ