

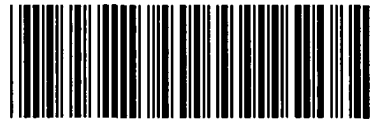
SSE EPM Limited

Annual report and financial statements

Year ended 31 March 2018

Registered No.: 09442646

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SSE EPM Limited

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SSE EPM Limited

Directors and Other Information

Directors

Pauline Babb (appointed 31 May 2017)
David Fernie
Rhys Stanwix
Mandy MacKay (appointed 31 May 2017)
Calum Kennedy (appointed 31 May 2017)

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 the company for the year ended 31 March 2018.

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 Limited.

The Strategic and Financial Review sets out the main trends and factors underlying the development and performance of SSE EPM Limited (the "Company") during the year ended 31 March 2018, 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 2018 is set out on page 10. The loss for the year after taxation amounted to £10.2m (2017 - Restated: loss of £131.0m). The balance sheet at 31 March 2018 is set out on page 12 and indicates net assets of £50.2m (2017 - Restated: net assets of £62.4m).

The directors focus on the adjusted operating profit/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 profit in the year is set out on page 3 and amounted to £46.1m (2017 - Restated: adjusted operating loss of £9.6m). The increased profitability in 2018 was attributed to various factors as the trading conditions are naturally different in each financial year. The key drivers of the year on year improvement in profitability include improved returns from trading gas storage stocks (due to significant gas price volatility in the year), improved performance in power trading and higher Service Agreements income due to the implementation of an Ireland management fee and increase shape trade fee income. Carbon trading was also more profitable than in the previous year as rising market prices allowed us to successfully close out trades at in the money positions.

Business Separation transactions

In March 2014, the Group accounts of the Company's parent, SSE plc, announced the Group's intention to reorganise its activities so that there are separately auditable legal entities responsible for its Energy Supply, Energy Portfolio Management (EPM) and Electricity Generation activities. This restructuring was intended to enhance the transparency of the measurement and reporting of the performance of these activities and is referred to throughout these accounts as 'Business Separation'.

Until 31 March 2015, the SSE Energy Supply company had conducted the activities of EPM as well as servicing the Group's Great Britain based domestic, commercial and industrial electricity customers.

In order to create the framework for the required enhanced reporting transparency, a new wholly owned group company SSE EPM Limited, was established to conduct those activities. On 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 was established due to the complexity of carrying out a full legal novation of all its EPM contracts and to recognise that, in lieu of doing so, the SSE Energy Supply remains the counterparty and licence holder in relation to its contractual obligations and market requirements. As soon as is practicable it remains SSE Energy Supply's intention to complete a full legal novation of those contracts and licences to the company.

Principal risks and uncertainties

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

SSE EPM Limited

Strategic Report (continued)

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 / Operational	(Restated)	
	2018	2017
	£m	£m
Adjusted operating profit /(loss)	46.1	(9.6)
Gross loss	(35.8)	(186.6)
Turnover	25,320.5	23,228.9
Operating profit/(loss)	7.9	(154.7)
Net assets	50.2	62.4

Reported to Adjusted Operating Profit Reconciliation	(Restated)	
	2018	2017
	£m	£m
Operating profit/(loss)	7.9	(154.7)
IAS 39 - internal derivatives	(29.5)	423.8
IAS 39 - trust derivatives	67.7	(278.7)
Adjusted operating profit/(loss)	46.1	(9.6)

On behalf of the Board:



Rhys Stanwix
Director
19 July 2018

SSE EPM Limited

Directors' Report

The directors present their report together with the audited financial statements for the year ended 31 March 2018.

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 in order to mitigate the risk around the sales and purchases. The company has been formed in order to comply with the transparency agenda set out by the 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 believes that the process of identifying and controlling risk needs to be flexible, effective and dynamic. The risk management process is therefore designed to ensure that:

- risks are taken knowingly and with a full understanding of their implications;
- risks taken are proportionate and in keeping with achieving the company's goals;
- risk is managed on both a "top down" and "bottom up" basis; and
- the wider control environment is strong and fully integrated.

The requirement for good risk governance and its responsibility for clear and effective risk management is accepted and endorsed by the Directors. The Directors of the Company acknowledge that they have responsibility for the systems of internal control and risk management and for monitoring their effectiveness. The purposes of these systems are to manage, rather than eliminate, the risk of failure to achieve business objectives, to provide reasonable assurance as to the quality of management information and to maintain proper control over the income, expenditure, assets and liabilities of the Company. No system of control can, however, provide absolute assurance against material misstatement or loss. Accordingly, the Directors have regard to what controls, in their judgement, are appropriate to the Company's businesses, to the materiality of the risks inherent in these businesses, and to the relative costs and benefits of implementing specific controls. Control is maintained through an organisation structure with clearly defined responsibilities, authority levels and lines of reporting; the appointment of suitably qualified staff in specialised business areas; and continuing investment in high quality information systems. These methods of control are subject to periodic review as to their implementation and continued suitability.

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 Board reviews and agrees policies for addressing each of these risks. The key issue of exposure to energy prices and volume is addressed by the Risk and Trading Committee which meets twelve times a year and consists of one SSE Group Director and relevant senior managers. 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.

SSE EPM Limited

Directors' Report *(continued)*

2 Principal risks and uncertainties (continued)

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 £10.2m (2017 - Restated: loss £131.0m).

The balance sheet at 31 March 2018 is set out on page 12 and indicates net assets of £50.2m (2017 - Restated: net assets £62.4m).

The directors do not recommend the payment of a dividend (2017: nil).

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.

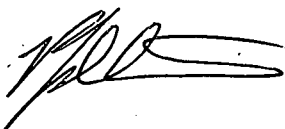
SSE EPM Limited

Directors' Report *(continued)*

9 Auditor

KPMG LLP have been appointed auditor to the company under section 485 of the Companies Act 2006. Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will, therefore, continue in office.

On behalf of the Board:



Rhys Stanwix
Director
19 July 2018

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 FRS 101 *Reduced Disclosure Framework*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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 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 2018 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 2018 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

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 twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

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 7, 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.

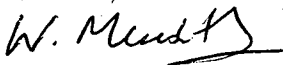
Auditor's responsibilities

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

23 July 2018

SSE EPM Limited

Profit and Loss Account for the year ended 31 March 2018

		(Restated - See Note 2)	
	Note	2018 £m	2017 £m
Turnover		25,320.5	23,228.9
Cost of sales		(25,356.3)	(23,415.5)
Gross loss		(35.8)	(186.6)
Administrative costs		(15.8)	(15.1)
Other operating income	4	59.5	47.0
Operating profit/(loss)		7.9	(154.7)
Interest payable and similar charges	6	(19.6)	(7.9)
Loss before taxation		(11.7)	(162.6)
Tax credit on loss	7	1.5	31.6
Loss for the financial year		(10.2)	(131.0)

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 2018

	(Restated - See Note 2)	
	2018	2017
	£m	£m
Loss for the financial year	(10.2)	(131.0)
Gain on effective portion of cash flow hedges (net of tax)	-	3.3
Ineffective cash flow hedge recognised in income statement	(3.3)	-
Total other comprehensive expense relating to the financial year	(13.5)	(127.7)

SSE EPM Limited

Balance Sheet as at 31 March 2018

		(Restated - See Note 2)	
	Note	2018 £m	2017 £m
Fixed assets			
Derivative financial assets	16	30.6	4.1
		<u>30.6</u>	<u>4.1</u>
Current assets			
Intangible assets	8	706.9	572.4
Derivative financial assets	16	0.5	-
Stock	9	9.8	19.3
Debtors:			
amounts falling due within one year	10	860.9	612.2
Total current assets		<u>1,578.1</u>	<u>1,203.9</u>
Current liabilities			
Derivative financial liabilities	16	(14.5)	-
Creditors: amounts falling due within one year	11	(1,508.8)	(1,088.6)
		<u>(1,523.3)</u>	<u>(1,088.6)</u>
Net current assets		<u>54.8</u>	<u>115.3</u>
Total assets less current liabilities		<u>85.4</u>	<u>119.4</u>
Derivative financial liabilities	16	-	(14.9)
Deferred taxation	13	(35.2)	(42.1)
		<u>(35.2)</u>	<u>(57.0)</u>
Net assets		<u>50.2</u>	<u>62.4</u>
Capital and reserves			
Called up share capital	14	-	-
Profit and loss account		50.2	59.1
Hedge reserve		-	3.3
Equity Shareholders' funds		<u>50.2</u>	<u>62.4</u>

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

These financial statements were approved by the Directors on 19 July 2018 and signed on their behalf by:



Rhys Stanwix
Director

Company registered number: 09442646

SSE EPM Limited

Statement of Changes in Equity for the year ended 31 March 2018

			(Restated - See Note 2)	(Restated - See Note 2)
	Hedge reserve £m	Share capital £m	Profit and loss account £m	Total equity £m
Balance at 1 April 2016 (original)	-	-	156.3	156.3
Prior year adjustment (note 2)	-	-	33.8	33.8
Balance at 1 April 2016 (restated)	-	-	190.1	190.1
Loss for the financial year	-	-	(131.0)	(131.0)
Other comprehensive income	3.3	-	-	3.3
Balance at 31 March 2017	3.3	-	59.1	62.4
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

SSE EPM Limited

Notes on the Financial statements for the year ended 31 March 2018

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 amendments to FRS 101 (2014/15 Cycle) issued in July 2015 have been applied. 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, Inveralmond 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

The financial statements have been prepared on a going concern basis which assumes adequate finance will be available for the foreseeable future. A fellow group company has given an undertaking not to demand repayment of monies advanced for the foreseeable future.

Turnover

Turnover from sales and optimisation trades in physical and financial energy and commodity contracts is recognised gross in the income statement.

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.

SSE EPM Limited

Notes on the Financial statements *(continued)* for the year ended 31 March 2018

1 Significant accounting policies *(continued)*

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.

Dividends

Proposed final dividends payable which have not yet been approved at the balance sheet date are not included as a liability in the financial statements. Similarly, proposed final dividends receivable from subsidiaries which have not yet been approved at the balance sheet date are not included as an asset in the financial statements.

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.

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.

SSE EPM Limited

Notes on the Financial statements *(continued)* for the year ended 31 March 2018

1 Significant accounting policies *(continued)*

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

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 2018

2 Prior period adjustment

As noted in the strategic report on page 2, SSE Group undertook a business separation exercise on 1 April 2015 to transfer the economic benefit of certain derivative contracts held within the Group to SSE EPM Limited. The derivative contracts continue to be held on the balance sheets of the respective subsidiaries within the Group, as the contractual obligations remain with those entities, however the trading result of those contracts is recognised within these financial statements. During the preparation of these financial statements, it has been identified that an issue arose in the accounting for the appropriate separation between group companies of these contracts in the 31 March 2017 and 31 March 2016 financial statements of the Company. The impact of this is to increase cost of sales in the year ended 31 March 2017 by £66.8m and increase the deferred tax credit in the year by £11.4m, reducing profit for the year by £55.4m. As a result, amounts due from related parties is decreased by £66.8m and deferred tax liabilities are decreased by £11.4m.

Opening retained earnings at 1 April 2016 are increased by £33.8m from £156.3m to £190.1m, with amounts due from related parties increased by £42.1m, offset by an increase in deferred tax liabilities of £8.3m.

In addition, amounts held within the Trust were previously presented gross within these financial statements. The balance sheet as at 31 March 2017 has been restated to present the net amount owed to the Trust as the assets and liabilities of the trust are owned by SSE Energy Supply Limited. This adjustment had the effect of decreasing trade debtors by £1,861.5m, decreasing cash and cash equivalents by £0.1m, decreasing restated amounts due from related parties by a further £70.3m and decreasing amounts due to related parties by £1,931.9m. The impact to net assets of this presentation adjustment is nil.

The effect of these adjustments on the 31 March 2017 income statement and balance sheet is shown in the following tables:

Profit and loss account	Reported £m	Adjustments £m	Adjusted £m
Turnover	23,228.9	-	23,228.9
Cost of sales	(23,348.7)	(66.8)	(23,415.5)
Gross loss	(119.8)	(66.8)	(186.6)
Other items	24.0	-	24.0
Loss before tax	(95.8)	(66.8)	(162.6)
Tax on loss	20.2	11.4	31.6
Loss for the financial year	(75.6)	(55.4)	(131.0)

SSE EPM Limited

Notes on the Financial statements *(continued)* for the year ended 31 March 2018

2 Prior period adjustment *(continued)*

Balance Sheet	Reported £m	Adjustments £m	Adjusted £m
Fixed assets			
Derivative financial assets	4.1	-	4.1
Current assets			
Intangible assets	572.4	-	572.4
Stock	19.3	-	19.3
Debtors: amounts falling due within one year	2,568.7	(1,956.5)	612.2
Cash at bank and in hand	0.1	(0.1)	-
Total current assets	3,160.5	(1,956.6)	1,203.9
Current liabilities			
Creditors: amounts falling due within one year	(3,020.5)	1,931.9	(1,088.6)
Net current assets	140.0	(24.7)	115.3
Total assets less current liabilities	144.1	(24.7)	119.4
Derivative financial liabilities	(14.9)	-	(14.9)
Deferred taxation	(45.2)	3.1	(42.1)
Net assets	84.0	(21.6)	62.4
Capital and reserves			
Called up share capital	-	-	-
Profit and loss account	80.7	(21.6)	59.1
Hedge reserve	3.3	-	3.3
Equity shareholders' funds	84.0	(21.6)	62.4

3 Expenses and auditor's remuneration

The audit fee in the year and the previous year was borne by the Parent company, £36k (2017: £25k) 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 2018

4 Other operating income

	2018 £m	2017 £m
Other operating income	59.5	47.0
	<u>59.5</u>	<u>47.0</u>

Income relate to amounts received under managed service agreements with other group businesses which don't form part of the group's day to day principal activities.

5 Staff costs and numbers

	2018 £m	2017 £m
Staff costs:		
Wages and salaries	8.1	8.0
Social security costs	0.9	0.8
Share based remuneration	1.3	0.6
Contributions to defined contributions plans	1.3	1.2
	<u>11.6</u>	<u>10.6</u>

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

	2018 Number	2017 Number
Numbers employed at 31 March	<u>148</u>	<u>143</u>

	2018 Number	2017 Number
The monthly average number of people employed by the Company during the year	<u>148</u>	<u>146</u>

Directors remuneration

	2018 £m	2017 £m
Directors remuneration	<u>0.9</u>	<u>0.8</u>

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid director was £0.3m (2017: £0.5m), and company pension contributions of £nil (2017: £nil) were made to a money purchase scheme on his behalf.

SSE EPM Limited

Notes on the Financial statements *(continued)* for the year ended 31 March 2018

6 Interest payable and similar charges

	2018 £m	2017 £m
Interest payable to group companies	19.6	7.9
	<u>19.6</u>	<u>7.9</u>

7 Taxation

	2018 £m	(Restated) 2017 £m
UK corporation tax		
Current tax on income for the period	(4.6)	3.5
Total current tax (charge)/credit	<u>(4.6)</u>	<u>3.5</u>
Deferred tax (see note 13):		
Origination and reversal of temporary differences	6.1	28.6
Change in applicable tax rate	-	(0.5)
Total deferred tax	<u>6.1</u>	<u>28.1</u>
Total tax credit for the year	<u>1.5</u>	<u>31.6</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:

	2018 £m	(Restated) 2017 £m
Loss before taxation	(11.7)	(162.6)
Tax on loss at standard UK corporation tax rate of 19% <i>(2017: 20%)</i>	2.2	32.5
Effects of:		
Effect of rate change	-	(0.5)
Other Items	(0.7)	(0.4)
Total tax credit for the year	<u>1.5</u>	<u>31.6</u>

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 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 2018 has been calculated based on these rates.

SSE EPM Limited

Notes on the Financial statements *(continued)* for the year ended 31 March 2018

8 Intangible assets

	Current Assets Allowances & certificates (i) £m	Total £m
Cost:		
At 1 April 2017	572.4	572.4
Additions	715.4	715.4
Disposals	(580.9)	(580.9)
At 31 March 2018	706.9	706.9
Net Book Value:		
At 31 March 2018	706.9	706.9
At 31 March 2017	572.4	572.4

Intangible assets have been analysed as current and non-current as follows:

	2018 £m	2017 £m
Current	706.9	572.4
	706.9	572.4

(i) Allowances and Certificates

Allowances and certificates consist of purchased carbon emissions allowances and purchased Renewable Obligations Certificates (ROCs).

9 Stocks

	2018 £m	2017 £m
Fuel, spares and consumables	9.8	19.3
Total	9.8	19.3

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

10 Debtors

	2018 £m	(Restated) 2017 £m
Amounts falling due within one year:		
Trade debtors	0.2	-
Amounts owed by group undertakings	860.5	608.5
Corporation tax - group relief receivable	-	3.5
Other debtors	0.2	0.2
	860.9	612.2

SSE EPM Limited

Notes on the Financial statements *(continued)*

for the year ended 31 March 2018

11 Creditors: amounts falling due within one year

	2018	(Restated) 2017
	£m	£m
Amounts owed to group undertakings	843.5	531.5
Corporation tax payable	4.6	-
Accruals and deferred income	0.3	0.1
Amounts owed to trust (see note 12)	660.4	557.0
	<u>1,508.8</u>	<u>1,088.6</u>

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 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:

	2018	(Restated) 2017
	£m	£m
Opening balances at 1 April	(557.0)	(693.2)
Add: (increase)/decrease in intercompany creditor in relation to trust assets and liabilities	(103.4)	136.2
At 31 March	<u>(660.4)</u>	<u>(557.0)</u>

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

	2018	(Restated) 2017
	£m	£m
Trade debtors	1,913.2	1,861.5
Cash and cash equivalents	0.1	0.1
Trade creditors	(2,395.0)	(2,302.0)
Accruals and prepayments	(19.8)	(13.9)
Operating derivatives	(191.4)	(123.7)
Deferred tax	32.5	21.0
Net trust liability	<u>(660.4)</u>	<u>(557.0)</u>

SSE EPM Limited

Notes on the Financial statements *(continued)* for the year ended 31 March 2018

13 Deferred taxation

Deferred tax assets and liabilities are attributable to the following:

	Assets (Restated)		Liabilities (Restated)		Net (Restated)	
	2018	2017	2018	2017	2018	2017
	£m	£m	£m	£m	£m	£m
Financial assets (held in company and in trust)	-	-	(35.2)	(42.1)	(35.2)	(42.1)
Net tax liabilities	-	-	(35.2)	(42.1)	(35.2)	(42.1)

Movement in deferred tax during the year

	(Restated) 1 April 2017	Recognised in income	Recognised in equity	31 March 2018
	£m	£m	£m	£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)

Movement in deferred tax during the prior year

	(Restated) 1 April 2016	(Restated) Recognised in income	(Restated) Recognised in equity	(Restated) 31 March 2017
	£m	£m	£m	£m
Financial assets (held in company and in trust)	(69.4)	28.1	(0.8)	(42.1)
	(69.4)	28.1	(0.8)	(42.1)

14 Share capital

	2018 £	2017 £
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 2018

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 £1.3m (2017: £1.2m).

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 Risk and Trading Committee, which reports to the Executive Committee, comprises the two Executive Directors and senior managers from the Energy Portfolio Management, Generation, Retail, Corporate and Finance functions. Its specific remit is to support the Group's risk management responsibilities by reviewing the strategic, market, credit operational and liquidity risks and exposures that arise from the Group's energy portfolio management, generation, energy supply and treasury operations. The membership and deliberations of the Risk and Trading Committee are designed to ensure strict business separation requirements are maintained.

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. These policies, and the systems used to monitor activities, are reviewed regularly by the Risk and Trading Committee.

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 2018

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 derivatives, 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:

	2018	2018	(Restated) 2017	(Restated) 2017
	Carrying value	Fair value	Carrying value	Fair Value
	£m	£m	£m	£m
Financial Assets				
Trade and other debtors (note 10)	860.9	860.9	612.2	612.2
Derivative financial assets	31.1	31.1	4.1	4.1
Financial Liabilities				
Trade and other creditors (note 11)	1,508.8	1,508.8	1,088.6	1,088.6
Derivative financial liabilities	14.5	14.5	14.9	14.9

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 2018

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	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)

	Level 1 £m	2017 Level 2 £m	Level 3 £m	Total £m
Financial Assets				
Finance derivatives	-	4.1	-	4.1
	-	4.1	-	4.1

Financial Liabilities				
Energy derivatives	-	(14.9)	-	(14.9)
	-	(14.9)	-	(14.9)

(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 2018

16 Derivatives and financial instruments *(continued)*

		2018				
	Carrying value	Contractual cash flow	1 year or less	1 to < 2 years	2 to < 5 years	5 years and over
	£m	£m	£m	£m	£m	£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)	-
	31.1	(587.5)	(94.1)	(427.9)	(65.5)	-
Derivative financial liabilities						
Energy derivatives	(14.5)	461.0	461.0	-	-	-
	(14.5)	461.0	461.0	-	-	-
		2017				
	Carrying value	Contractual cash flow	1 year or less	1 to < 2 years	2 to < 5 years	5 years and over
	£m	£m	£m	£m	£m	£m
Derivative financial assets						
Finance derivatives	4.1	88.4	74.1	3.4	10.9	-
	4.1	88.4	74.1	3.4	10.9	-
Derivative financial liabilities						
Energy derivatives	(14.9)	113.1	804.5	(175.6)	(515.8)	-
	(14.9)	113.1	804.5	(175.6)	(515.8)	-

Commodity risk *(continued)*

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 Risk and Trading Committee. Exposures are reported to the Committee on a monthly basis and to the Board when certain trigger levels are exceeded. Within this approach, only certain of the Group's energy commodity contracts are deemed to constitute financial instruments under IAS 39. As a result, while the company manages the commodity price risk associated with both financial and non-financial commodity contracts, it is only the fair value of IAS 39 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 IAS 39 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 IAS 39 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 IAS 39.

SSE EPM Limited

Notes on the Financial statements *(continued)* for the year ended 31 March 2018

16 Derivatives and financial instruments *(continued)*

Commodity risk *(continued)*

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 Risk and Trading Committee. Exposures are reported to the Committee on a monthly basis and to the Board when certain trigger levels are exceeded. Within this approach, only certain of the Group's energy commodity contracts are deemed to constitute financial instruments under IAS 39. As a result, while the company manages the commodity price risk associated with both financial and non-financial commodity contracts, it is only the fair value of IAS 39 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 IAS 39 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 IAS 39 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 IAS 39.

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 IAS 39 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 IAS 39 financial instruments remains consistent with those at that point. Excluded from this analysis are all commodity contracts that are not financial instruments under IAS 39.

SSE EPM Limited

Notes on the Financial statements *(continued)*

for the year ended 31 March 2018

16 Derivatives and financial instruments *(continued)*

Commodity risk *(continued)*

	2018	2018	2017	2017
		Reasonably possible increase/decrease in		Reasonably possible increase/decrease in
	Base price (i)	variable	Base price	variable
Commodity prices				
UK gas (p/therm)	45	+/-11	43	+/-11
UK power (£/MWh)	45	+/-11	40	+/- 10
UK coal (US\$/tonne)	74	+/-12	65	+/- 10
UK emissions (€/tonne)	13	+/-5	5	+/- 2
UK oil (US\$/bbl)	61	+/-10	54	+/- 9

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

	2018	2017
	Base price	Base price
	£m	£m
Incremental profit/(loss)		
Commodity prices combined - increase	12.5	50.9
Commodity prices combined - decrease	(12.5)	(50.9)

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 Risk and Trading Committee on an ongoing basis 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.