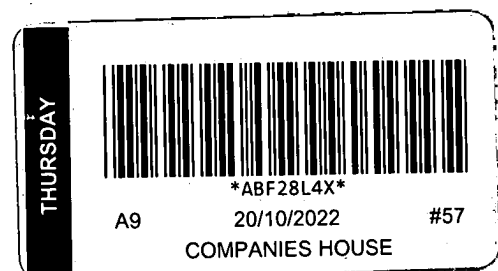


Registration number: 09442646

SSE EPM Ltd
Directors report and Financial Statements
for the Year Ended 31 March 2022



SSE EPM Ltd

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SSE EPM Ltd

Company Information

Directors

Pauline Babb
Gordon Bell
Duncan Bruce
David Graham
Louise Innes
Angus MacRae

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 2022

The directors present their report for the year ended 31 March 2022.

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 2022, 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 and foreign exchange derivatives, 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 2022 is set out on page 15. The loss for the year after taxation amounted to £37.1m (2021: profit of £20.9m). The balance sheet at 31 March 2022 is set out on page 16 and indicates net liabilities of £152.4m (2021: net liabilities of £115.3m).

The adjusted operating loss in the year is set out on page 3 and amounted to £16.8m (2021: adjusted operating loss of £24.1m). EPM was expected to earn an adjusted operating profit in 2021/22 through service provision to those SSE businesses requiring access to the energy markets. However, tight system margins and volatile market conditions resulted in losses of £73m on shape trade exposures held as a legacy from the Retail disposal transaction with Ovo Energy. This shape trade expired 31 March 2022.

Business Separation transactions

The Group has 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 2022 as originally designed with management considering options to simplify these arrangements.

SSE EPM Ltd

Strategic Report for the Year Ended 31 March 2022 (continued)

Key performance indicators

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

	Unit	2022	2021
Adjusted operating loss	£m	(16.8)	(24.1)
Operating profit	£m	15.1	85.5
Net liabilities	£m	(152.4)	(115.3)

Reported to Adjusted Operating Profit Reconciliation

	2022	2021
	£m	£m
Operating profit per Profit and Loss account	15.1	85.5
IFRS9 mark to market remeasurement of EPM Ltd derivatives	(165.4)	143.6
IFRS9 mark to market remeasurement of trust derivatives	142.6	(237.4)
Sale of EU carbon emissions allowance	2.1	(7.1)
Renewable Obligation Certificates - Statutory Accounts Adjustment	(11.2)	(8.7)
Adjusted operating loss	<u>(16.8)</u>	<u>(24.1)</u>

Sale of EU carbon emissions allowance:

Post Brexit, SSE EPM Ltd is no longer able to access an EU carbon emissions registry account. In order to maintain access to physical EU carbon emission tickets for the group, all physical EU allowances transacted by EPM Ltd are transferred to a remaining EU registry account owned by SSE Generation Ireland Ltd (SSEGIL). These transfers are purely for operational reasons and the group is neutral to the transfer, therefore the decision was taken to transfer these allowances at cost in the management accounts. At a statutory accounts level it is therefore necessary to recognise an exceptional gain or loss on sale of these allowances from EPM Ltd to SSEGIL. The above adjustment is therefore required to reconcile from the 'Reported' to the 'Adjusted' operating profit/loss.

Renewable Obligation Certificates - Statutory Accounts Adjustment:

Under the SSE group's Renewable Obligation Certificates (ROCs) accounting policy, where ROCs are self-generated or purchased to fulfil the Group's liability under the renewables obligation, they are recorded at market value at the point of generation or purchase within intangible assets. At a group level, and in the management accounts, the value of a proportion of ROCs purchased by SSE EPM Ltd is therefore uplifted to market value in the accounts. As SSE EPM Ltd has no ROC obligation of its own an exceptional statutory accounts adjustment is therefore required in order to re-categorise all ROCs held by SSE EPM Ltd as inventories at the lower of cost or fair value. This adjustment reverses any uplift on ROCs purchased in the year and recognised profit margin on ROC sales only when the trades to sell the ROCs have been settled.

SSE EPM Ltd

Strategic Report for the Year Ended 31 March 2022 (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 a Board sub-Committee – the Energy Markets Risk Committee – whose membership comprises six SSE Group Directors, with the Group Chief Executive and Managing Director of Energy Portfolio Management invited to routinely attend meetings.

To enhance the internal control and risk management approach in relation to energy markets, a Group Energy Markets Exposure Committee was established in 2021/22. This forum reports to SSE's Group Executive Committee and provides a forum for senior management to consider the energy market risks and exposures monthly.

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 pays EPM to provide it with route to market and energy risk management services. 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 in place. 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 2022 (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 the Company's purpose, vision and values, together with its strategic priorities, and through 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, environmental, social and governance (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 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

Energy Portfolio Management (EPM) is the energy markets heart of the SSE Group, securing value for SSE's asset portfolios in wholesale energy markets and managing volatility through risk-managed trading of energy-related commodities for SSE's market-based business units. To fulfil the above role, the Business Unit Executive Committee sets its long term strategic priorities in consideration of the external operating context including energy market trends, opportunities and risks, in conjunction with the objectives of the business unit customers it serves. To support the SSE Group's strategic ambitions, EPM is increasingly focused on building its capability to trade within international markets. The Business Unit Executive Committee also continues to consider the key role played by data and analytics in the optimisation of performance and has again focussed on the commercial opportunities presented by net zero, complementary to its energy market expertise and in support of the strategy of the SSE Group.

SSE EPM Ltd

Strategic Report for the Year Ended 31 March 2022 (continued)

Budget

Each year, financial allocation and expenditure is discussed and approved by the Business Unit Executive Committee through the agreed budget. This is supported by regular review of performance and consideration of agreed longer term strategic objectives. The 2021/22 review process sought to ensure the budget proposed was appropriately stretching and achievable to support both business growth and capability. This included for example, the identified role of data, IT and systems to support sustainable and reliable business operations and the investment in people required to support the business' strategic ambitions.

Counterparty Credit Risk

In line with agreed policy, counterparty credit limits and associated risk were subject to Business Unit 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 31.

People

An iterative programme of activity to support the Company's wider people strategy was subject to discussion and agreement by the Business Unit Executive Committee. This was informed, in part, by the output of the annual all-employee survey results and pulse survey on ways of working. Inclusion and diversity priorities were also agreed, with additional focus provided to enhance opportunities for people development. Recovery from the Covid-19 pandemic continued throughout the financial year, with the overriding focus of the Business Unit Executive Committee being to provide adequate support to employees, ensuring their wellbeing and considering what working policies and practices should be like going forward.

SSE EPM Ltd

Strategic Report for the Year Ended 31 March 2022 (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 may be affected by them. For the SSE Group this includes: employees; shareholders and debt providers; energy customers; government and regulators; NGOs, communities and civil society; and suppliers, contractors and partners. 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 32 to 39 of the SSE plc Annual Report 2022. Details of those specific to the Company are set out below.

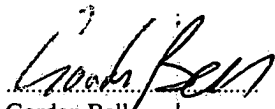
The views of Company employees are gathered at Business Unit level, where mechanisms include monthly KPIs, an annual employee engagement survey and tailored business unit led engagement. This is supplemented by SSE plc's dedicated non-Executive Director for Employee Engagement who reports directly to the SSE plc Board and provides feedback to the Managing Director of each Business Unit following relevant engagements. 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 from relevant corporate and customer 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.

To enhance understanding of the views of EPM's customers within the SSE Group, two customer-led business partners were appointed to the Business Unit Executive Committee in the year. These roles provide a mechanism by which the needs of customers directly influence the services EPM provides and helps inform strategic priorities and business objectives in the longer term. It also enhances the rate, frequency and depth of feedback that the Business Unit Executive Committee receives on material issues and customer satisfaction.

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 11 October 2022 and signed on its behalf by:



Gordon Bell
Director

SSE EPM Ltd

Directors' Report for the Year Ended 31 March 2022

The directors present their report and the financial statements for the year ended 31 March 2022.

Directors' of the company

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

Pauline Babb

Gordon Bell

Duncan Bruce

David Fernie (ceased 18 August 2021)

David Graham (appointed 12 April 2021)

Louise Innes (appointed 26 August 2021)

Calum Kennedy (ceased 25 June 2021)

Mandy Mackay (ceased 25 April 2022)

Finlay McCutcheon (ceased 1 April 2022)

Angus MacRae (appointed 12 April 2021)

Andrew Sinclair (appointed 26 August 2021 and ceased 1 April 2022)

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 do not recommend payment of a dividend (2021: £Nil) be made in respect of the financial year ended 31 March 2022.

Political and charitable donations

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

Environmental matters

The Company is exempt from making disclosures in line with the Streamlined Energy and Carbon Reporting ('SECR') requirements as it is a wholly owned subsidiary of SSE plc. The consolidated disclosures of the Group are available on pages 40 - 57 of the Group's 2022 annual report

Going concern

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

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.

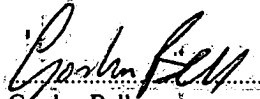
SSE EPM Ltd

Directors' Report for the Year Ended 31 March 2022 (continued)

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 11 October 2022 and signed on its behalf by:


Gordon Bell
Director

SSE EPM Ltd

Statement of Directors' Responsibilities

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

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

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

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

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

Approved by the Board on 11 October 2022 and signed on its behalf by:



Gordon Bell
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 for the year ended 31 March 2022, which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Changes in Equity and the related 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 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period until 31 December 2023.

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

Other information

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

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

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

We have nothing to report in this regard.

SSE EPM Ltd

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

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

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

Matters on which we are required to report by exception

In the light of our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Directors' Report.

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

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

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 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.

SSE EPM Ltd

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

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

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that relate to the reporting framework (FRS 101) and the relevant direct and indirect tax compliance regulation in the United Kingdom. In addition, the Company has to comply with laws and regulations relating to its operations, including health and safety, employees, GDPR and anti-bribery and corruption. During our procedures no non-compliance with regulatory requirements was identified.
- We understood how the Company is complying with those frameworks by making enquiries of management and those charged with governance to understand how the Company maintains and communicates its policies and procedures in these areas and corroborated this by reviewing supporting documentation, such as reviewing the company's accounting policies to ensure they are in line with FRS 101, review of board minutes, regulatory correspondence and papers provided to the SSE plc Audit Committee.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by meeting with management to understand where they considered there was susceptibility to fraud. We also considered performance targets and their propensity to influence on efforts made by management to manage earnings. We considered the programmes and controls that the company has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls at a group level. Where the risk was considered to be higher, we performed audit procedures to address the identified fraud risk, management override of controls, specifically around revenue recognition.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved: journal entry testing, with a focus on manual journals and journals indicating large or unusual transactions based on our understanding of the business and enquiries of legal counsel and management. In addition, we completed procedures to conclude on the compliance of the disclosures in the financial statements and accounts with all applicable requirements. We also performed detailed testing of the tax computations to review for any non-compliance with tax legislation.

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

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.

E/nt & 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: 13 October 2022

SSE EPM Ltd

Profit and Loss Account for the Year Ended 31 March 2022

	Note	2022 £ m	2021 £ m
Turnover	3	510.0	809.5
Cost of sales		<u>(470.0)</u>	<u>(700.9)</u>
Gross profit		40.0	108.6
Administrative expenses		<u>(24.9)</u>	<u>(23.1)</u>
Operating profit		15.1	85.5
Interest payable and similar expenses	6	<u>(28.2)</u>	<u>(49.8)</u>
(Loss)/profit before tax		(13.1)	35.7
Tax on (loss)/profit	8	<u>(24.0)</u>	<u>(14.8)</u>
(Loss)/profit for the year		<u>(37.1)</u>	<u>20.9</u>

The above results were derived from continuing operations.

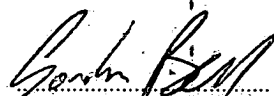
The company had no other comprehensive income in the current or prior financial years

SSE EPM Ltd

(Registration number: 09442646)
Balance Sheet as at 31 March 2022

	Note	31 March 2022 £ m	31 March 2021 £ m
Fixed assets			
Intangible assets	9	58.4	67.4
Derivative financial assets	10	201.0	2.1
		<u>259.4</u>	<u>69.5</u>
Current assets			
Stocks	11	600.9	456.1
Debtors	12	509.6	627.0
Derivative financial assets	10	0.2	-
		<u>1,110.7</u>	<u>1,083.1</u>
Current liabilities			
Creditors: amounts falling due within one year	13	(617.7)	(311.0)
Derivative financial liabilities	17	(62.2)	(32.7)
		<u>(679.9)</u>	<u>(343.7)</u>
Net current assets		<u>430.8</u>	<u>739.4</u>
Total assets less current liabilities		<u>690.2</u>	<u>808.9</u>
Creditors: Amounts falling due after more than one year			
Amounts due to Group undertakings	13	(732.9)	(846.8)
Deferred tax liabilities	8	(109.7)	(77.4)
		<u>(842.6)</u>	<u>(924.2)</u>
Net liabilities		<u>(152.4)</u>	<u>(115.3)</u>
Capital and reserves			
Called up share capital	16	-	-
Capital Contribution		200.0	200.0
Profit and loss account		<u>(352.4)</u>	<u>(315.3)</u>
Shareholders' deficit		<u>(152.4)</u>	<u>(115.3)</u>

Approved by the Board on 11 October 2022 and signed on its behalf by:


Gordon Bell
Director

SSE EPM Ltd

Statement of Changes in Equity for the Year Ended 31 March 2022

	Share capital (note 16) £ m	Capital Contribution £ m	Profit and loss account £ m	Total £ m
At 1 April 2020	-	200.0	(336.6)	(136.6)
Profit for the year	-	-	20.9	20.9
Total comprehensive income	-	-	20.9	20.9
Credit in respect of employee share awards	-	-	0.4	0.4
At 31 March 2021	-	200.0	(315.3)	(115.3)

	Share capital £ m	Capital Contribution £ m	Profit and loss account £ m	Total £ m
At 1 April 2021	-	200.0	(315.3)	(115.3)
Loss for the year	-	-	(37.1)	(37.1)
Total comprehensive loss	-	-	(37.1)	(37.1)
At 31 March 2022	-	200.0	(352.4)	(152.4)

The notes on pages 18 to 34 form an integral part of these financial statements.

SSE EPM Ltd

Notes to the Financial Statements for the Year Ended 31 March 2022

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including 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 UK adopted International Financial Reporting Standards, 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.

The functional currency of the Company and the presentational currency of these financial statements is pounds sterling. The financial statements have been presented in round millions.

Summary of disclosure exemptions

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

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

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

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

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

SSE EPM Ltd

Notes to the Financial Statements for the Year Ended 31 March 2022 (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 that the Group will provide support to 31 December 2023 where required. The Directors are satisfied that the Group has the ability to provide this support, should it be required.

In assessing the financial strength of the letter of support provided, the directors considered the cash balance of £1.0bn at 31 March 2022, the undrawn committed bank facilities of £1.5bn maintained by the Group, and the current commercial paper market conditions including the Group's success in refinancing maturing debt with the issuance of £1.2bn of long term debt and hybrid equity in March and April 2022 (being £350m dual tranche 10 and 15 year private placement and £1bn (£830m) NC6 equity accounted Hybrid) and the Group's credit rating. The Group's period of going concern assessment is performed to 31 December 2023, 21 months from the balance sheet date, which is at least 12 months from the filing deadline of its subsidiary companies. As well as taking account of the factors noted, the going concern conclusion is arrived at after applying stress testing sensitivities to the Group's cash flow and funding projections including removal of proceeds from unconfirmed future divestments, negative and positive sensitivities on operating cash flows and uncommitted capex and other adjustments.

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.

Changes in accounting policy

None of the standards, interpretations and amendments effective for the first time from 1 April 2021 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 profit and loss account as they accrue, on an effective interest method.

SSE EPM Ltd

Notes to the Financial Statements for the Year Ended 31 March 2022 (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 2022 (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. The UK Emissions Trading Scheme (UK ETS) entered operation in May 2021 and replaced the UK's participation in the EU ETS when the UK left the EU.

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.

Developed software assets

Expenditure on internally developed software assets and application software licences includes contractors' fees and directly attributable labour and overheads. Amortisation is charged to the profit and loss account on a straight-line basis over the estimated useful life of these assets, which ranges from 3 to 15 years.

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.

SSE EPM Ltd

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

2 Accounting policies (continued)

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.

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 profit and loss account.

SSE EPM Ltd

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

2 Accounting policies (continued)

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 account.

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.

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 balance sheet 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 2022 (continued)

3 Revenue

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

	2022 £ m	2021 £ m
Sale of goods	510.0	809.5

Sale of goods mainly comprises ROCs and Managed Service Agreement fees.

4 Staff costs

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

	2022 £ m	2021 £ m
Wages and salaries	9.7	9.6
Social security costs	1.3	1.1
Pension costs	3.1	2.1
Share-based payment expenses	-	0.4
	<u>14.1</u>	<u>13.2</u>

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

	2022 No.	2021 No.
Average employees	193	177

The total number employed at 31 March 2022 was 209 (2021: 199)

5 Directors' remuneration

The total remuneration received by the directors for qualifying and non-qualifying services during the year was £2.0m (2021: £1.1m). The above value is for eleven directors (2021: eight), 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 £0.7m (2021: £0.3m) including company pension contributions of £nil (2021: £nil) which were made to a money purchase scheme on their behalf.

6 Interest payable and similar expenses

	2022 £ m	2021 £ m
Interest paid to group undertakings	29.4	46.2
Movement in Finance Derivatives	(4.2)	3.5
Other finance costs	3.0	0.1
	<u>28.2</u>	<u>49.8</u>

SSE EPM Ltd

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

7 Auditors' remuneration

The company incurred an audit fee of £83k in the year (2021: £37k). The fee in both the current and previous year was borne by another group company.

8 Income tax

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

	2022 £ m	2021 £ m
Current taxation		
UK corporation tax	(8.5)	(4.1)
UK corporation tax adjustment to prior periods	-	(0.1)
	<u>(8.5)</u>	<u>(4.2)</u>
Deferred taxation		
Arising from origination and reversal of temporary differences	6.1	19.0
Arising from changes in tax rates and laws	26.4	-
Total deferred taxation	<u>32.5</u>	<u>19.0</u>
Tax expense in the profit and loss account	<u>24.0</u>	<u>14.8</u>

The tax on (loss)/profit before tax for the year is higher than the standard rate of corporation tax in the UK (2021 – higher than the standard rate of corporation tax in the UK) of 19% (2021 - 19%).

The differences are reconciled below:

	2022 £ m	2021 £ m
(Loss)/profit before tax	<u>(13.1)</u>	<u>35.7</u>
Corporation tax at standard rate	(2.5)	6.8
Decrease in current tax from adjustment for prior periods	-	(0.1)
Group relief surrendered for nil payment	-	8.1
Deferred tax expense relating to changes in tax rates or laws	26.4	-
Other tax effects for reconciliation between accounting loss and tax expense	<u>0.1</u>	<u>-</u>
Total tax charge	<u>24.0</u>	<u>14.8</u>

The Finance Act 2021 enacted on 10 June 2021 increased the main rate of UK corporation tax from 19% to 25%, effective from 1 April 2023. Deferred taxes on the balance sheet have been measured at 25% which represents the future corporation tax rate that was enacted at the balance sheet date. This resulted a deferred tax charge of £26.4m.

The UK fiscal statement on 23 September 2022 included the cancellation of the planned increase in the corporation tax rate to 25%. The cancellation was not substantively enacted at the balance sheet date and hence has not been reflected in the measurement of deferred tax balances at the year end. If the company's deferred tax balances at the year end were remeasured at 19% this would result in a deferred tax credit of £26.4m.

SSE EPM Ltd

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

8 Income tax (continued)

Deferred tax

Deferred tax movement during the year:

	At 1 April 2021 £ m	Recognised in income 31 March 2022 £ m	At 31 March 2022 £ m
Fair value movements on financial instruments	(75.6)	(30.6)	(106.2)
Intangible Fixed Assets	(1.8)	(1.9)	(3.7)
Net tax assets/(liabilities)	(77.4)	(32.5)	(109.9)

Deferred tax movement during the prior year:

	At 1 April 2020 £ m	Recognised in income 31 March 2021 £ m	At 31 March 2021 £ m
Fair value movements on financial instruments	(58.4)	(17.2)	(75.6)
Intangible Fixed Assets	-	(1.8)	(1.8)
Net tax assets/(liabilities)	(58.4)	(19.0)	(77.4)

9 Intangible assets

	Internally generated software development costs £ m	Total £ m
Cost or valuation		
At 1 April 2021	70.5	70.5
Additions	2.1	2.1
Disposals	(6.2)	(6.2)
At 31 March 2022	66.4	66.4
Amortisation		
At 1 April 2021	3.1	3.1
Amortisation charge	4.6	4.6
Impairment – Write off	0.3	0.3
At 31 March 2022	8.0	8.0
Carrying amount		
At 31 March 2022	58.4	58.4
At 31 March 2021	67.4	67.4

SSE EPM Ltd

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

10 Other financial assets

	31 March 2022 £ m	31 March 2021 £ m
Non-current financial assets		
Derivative assets held for risk management	201.0	2.1

	31 March 2022 £ m	31 March 2021 £ m
Current financial assets		
Derivative assets held for risk management	0.2	-

11 Stock

	31 March 2022 £ m	31 March 2021 £ m
Other inventories	600.9	456.1

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

12 Trade and other debtors

	31 March 2022 £ m	31 March 2021 £ m
Debtors from Group undertakings	500.3	626.1
Income Tax	8.7	-
Other debtors	0.6	0.9
	<u>509.6</u>	<u>627.0</u>

SSE EPM Ltd

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

13 Creditors

Amounts falling due within one year

	31 March 2022 £ m	31 March 2021 £ m
Trade creditors	0.8	0.1
Accrued expenses	0.1	-
Amounts due to Group undertakings	440.9	140.9
Other Creditors	1.3	-
Income tax liability	-	0.3
Intercompany Creditor - SEESL - EPM Trust	174.6	169.7
	<u>617.7</u>	<u>311.0</u>

Amounts falling due after more than one year

	31 March 2022 £ m	31 March 2021 £ m
Amounts due to Group undertakings	<u>732.9</u>	<u>846.8</u>

The amounts owed to Group undertakings 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 4.88% (2021: 4.93%).

14 Business separation transactions

The Group has 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:

	2022 £ m	2021 £ m
Opening balance at 1 April	(169.7)	(14.8)
Add: Increase in intercompany creditor in relation to trust assets and liabilities	(4.9)	(154.9)
At 31 March	<u>(174.6)</u>	<u>(169.7)</u>

SSE EPM Ltd

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

14 Business separation transactions (continued)

Balances in relation to Trust properties owed (to)/from SSE Energy Supply Limited:	2022	2021
	£ m	£ m
Cash and cash equivalents	1.7	0.1
Net trade debtors / (creditors)	(0.9)	(144.0)
Accruals and prepayments	(94.0)	(64.0)
Derivatives	(99.7)	47.0
Deferred tax	18.3	(8.8)
Net trust liability	<u>(174.6)</u>	<u>(169.7)</u>

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 £2.4m (2021: £1.8m).

16 Share capital

	31 March 2022 £	31 March 2021 £
Allotted, called up and fully paid:		
1 ordinary share of £1 each	<u>1.0</u>	<u>1.0</u>

SSE EPM Ltd

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

17 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:

	2022 Carrying value £ m	2022 Fair value £ m	2021 Carrying value £ m	2021 Fair value £ m
Financial assets				
Trade and other debtors	509.6	509.6	627.0	627.0
Derivative financial assets	201.2	201.2	2.1	2.1
Financial liabilities				
Trade and other creditors	1,350.6	1,350.6	1,157.8	1,157.8
Derivative financial liabilities	62.2	62.2	32.7	32.7

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:

	2022 £ m	2021 £m
Fair value gains/(losses) on operating derivatives	22.8	93.8
Fair value gains/(losses) on financing derivatives	4.2	(3.5)
	27.0	90.3

SSE EPM Ltd

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

18 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 2022 (continued)

18 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.

2022						
	Carrying value £m	Contractual cash flow £m	1 year or less £m	1 to <2 years £m	2 to <5 years £m	Over 5 year £m
Derivative financial assets						
Energy derivatives	201.0	(393.2)	-	(287.6)	(105.6)	-
Finance derivatives	0.2	(39.1)	(39.1)	-	-	-
	201.2	(432.3)	(39.1)	(287.6)	(105.6)	-
Derivative financial liabilities						
Energy derivatives	(62.2)	(42.2)	(42.2)	-	-	-
	(62.2)	(42.2)	(42.2)	-	-	-

2021						
	Carrying value £m	Contractual cashflow £m	1 year or less £m	1 to <2 years £m	2 to <5 years £m	>5 years £m
Derivative financial assets						
Energy derivatives	2.1	(36.4)	-	(49.3)	12.9	-
	2.1	(36.4)	-	(49.3)	12.9	-
Derivative financial liabilities						
Energy derivatives	(28.6)	159.7	159.7	-	-	-
Finance derivatives	(4.0)	(79.8)	(79.8)	-	-	-
	(32.6)	79.9	79.9	-	-	-

SSE EPM Ltd

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

18 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 (which was disposed of during the year in Oct 2021) 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 balance sheet 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.

	2022	2022	2021	2021
	Base price (i)	Reasonably possible increase/ decrease in variable	Base price (i)	Reasonably possible increase/ decrease in variable
Commodity prices				
UK gas (p/therm)	313	+/-190	44	+/-20
UK power (£/MWh)	250	+/-119	53	+/-24
UK emissions (£/tonne)	76	+/-73	43	+/-11
UK oil (\$/bbl)	260	+/-145	59	+/-11

(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 volatility assumptions used to determine the reasonably possible increase/decrease in market prices have been determined based on a calculation by SSE EPM and models simulations and calibrates the volatility assumption using a look-back on market prices over the previous five year period.

SSE EPM Ltd

Notes to the Financial Statements for the Year Ended 31 March 2022 (continued)

18 Financial risk review (continued)

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

	2022	2021
	Base price	Base price
Incremental profit/(loss)	£m	£m
Commodity prices combined - increase	(212.8)	(38.4)
Commodity prices combined - decrease	212.8	38.4

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.

19 Parent and ultimate parent undertaking

The company's immediate parent is SSE plc.

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