# SSE Energy Supply Limited

Revised directors report and revised financial statements

**Year ended 31 March 2017**

*Registered No.: 03757502*

AMENDING

# SSE Energy Supply Limited

## Contents

# SSE Energy Supply Limited

## Directors and Other Information

| | |
|---|---|
| **Directors** | William Morris<br>Anthony Keeling<br>Stephen Forbes (appointed 30th November 2016)<br>Finlay McCutcheon (appointed 12th May 2017) |
| **Registered office** | No. 1 Forbury Place,<br>43 Forbury Road,<br>Reading<br>Berkshire<br>RG1 3JH |
| **Secretary** | Peter Lawns |
| **Auditor** | KPMG LLP<br>Chartered Accountants<br>319 St Vincent Street<br>Glasgow<br>G2 5AS |
| **Banker** | National Westminster Bank<br>13 Market Place<br>Reading<br>RG1 2EG |
| **Registered number** | 03757502 |

# SSE Energy Supply Limited

## Revised Strategic Report

The directors submit their revised report and audited financial statements of the company for the year ended 31 March 2017.

This revised Strategic Report for the year ended 31 March 2017 replaces the original Strategic Report for that year, which had been approved on 6 September 2017.

The revised Strategic Report has been prepared as at the date on which the original Strategic Report was approved by the board of directors and not as at the date of the revision and accordingly does not deal with events between those dates. The revision to this Strategic Report has occurred due to a revision of the financial statements to correct an identified error. Further information on this error is provided in Note 1 to the financial statements.

This revised 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 Energy Supply Limited.

The Strategic and Financial Review sets out the main trends and factors underlying the development and performance of SSE Energy Supply Limited (the "Company") during the year ended 31 March 2017, as well as those matters which are likely to affect its future development and performance.

### 1 Business review

The revised profit and loss account for the year ended 31 March 2017 is set out on page 12. The revised profit for the year after taxation amounted to £127.9m *(2016 (restated): loss of £1.3m)*. The revised balance sheet at 31 March 2017 is set out on page 14 and indicates net assets of £412.4m *(2016 (restated): £374.6m)*.

**Business Separation**
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 to enhance the transparency of the measurement and reporting of the performance of these activities. Until 31 March 2015, the 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 company SSE EPM Limited, wholly owned by the Company's parent, was established to conduct those activities. On 1 April 2015, the Company 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 this new legal entity. 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 Company remains the counterparty and licence holder in relation to its contractual obligations and market requirements.

The transfer was conducted based on the fair value of the contracts, assets and liabilities held by the Company at 1 April 2015 and in receipt of cash which meant that no gain or loss was recorded on the establishment of the Trust. As the Company remains the counterparty to the contracts covered by the Trust arrangement, the Company's balance sheet reflects both its legal rights and obligations in respect of those contracts as well as the corresponding obligations and rights it has with SSE EPM under the Trust arrangement.

The revisions to this Strategic Report, the Directors' Report and the financial statements are due to the entries processed to account for the Trust relationship. The mark-to-market gain on the derivatives placed in Trust had previously been recognised in the profit and loss account of SSE Energy Supply Limited in error in its financial statements dated 31 March 2017 and 31 March 2016.

**1 Business review *(continued)***

As a consequence of the Business Separation transactions (explained above), the Directors believe it is necessary to present the Company's operating profit in the following table to explain the underlying financial performance of the business.

| | *Revised* 2017 | | | *Restated* 2016 | | |
|---|---|---|---|---|---|---|
| | **Profit and loss account** | **Less: Exceptional items and certain re-measurements** | **Adjusted profit** | Profit and loss account | Less: Exceptional items and certain re-measurements | Adjusted profit |
| | **£m** | **£m** | **£m** | £m | £m | £m |
| Turnover | **4,674.6** | **-** | **4,674.6** | 5,001.0 | - | 5,001.0 |
| Cost of sales | **(4,290.8)** | **(4.8)** | **(4,295.6)** | (4,382.5) | 20.1 | (4,362.4) |
| Gross profit | **383.8** | **(4.8)** | **379.0** | 618.5 | 20.1 | 638.6 |
| Administrative costs | **(264.6)** | **-** | **(264.6)** | (472.3) | 1.1 | (471.2) |
| Exceptional charges | **(88.2)** | **88.2** | **-** | (135.6) | 135.6 | - |
| Operating (loss)/profit | **31.0** | **83.4** | **114.4** | 10.6 | 156.8 | 167.4 |

As used in the consolidated financial statements of the Company's parent, SSE plc, the Directors assess the performance of the Company based on 'adjusted operating profit'. This measure is used for internal performance management and is believed to be appropriate for explaining underlying performance to users of the accounts. Adjusted operating profit is derived after excluding exceptional items and certain re-measurements arising on commodity contracts. Exceptional items are those charges or credits that are considered unusual by nature and scale and of such significance that separate disclosure is required for the financial statements to be properly understood. Certain re-measurements are re-measurements arising on certain commodity contracts, which are accounted for as held for trading in accordance with the Company's policy for such financial instruments. This excludes commodity contracts not treated as financial instruments under IAS 39 where held for the Group's own use requirements which are not recorded until the underlying commodity is delivered. The adjusted operating profit metric has been calculated consistently year on year. In the current year, £88.2m of intangible assets were written off relating to the development of a new customer billing system, which was ceased in the year. The prior year exceptional charge relates to Marchwood power plant (£124.4m) following a review of its carrying value, and a write down of development assets (£11.2m). Adjustments to cost of sales of a loss of £4.8m (2016: gain of £20.1m) relate to the fair value adjustments applied to internal commodity contracts with SSE EPM Limited under the principles of IAS39.

In July 2017, the Company's parent, SSE plc, published an audited document, the 'Consolidated Segmental Statement (CSS)' that provides analysis of the Group's profitability in the regulated businesses of Energy Supply and Generation in Great Britain. The CSS for the year ended 31 March 2017 showed an adjusted profit before interest and tax of £111.9m for Domestic and Non-Domestic Electricity Supply. This can be reconciled to the revised adjusted operating profit noted in the table above of £114.4m by excluding a net profit of £2.5m (*2016: net loss of £2.2m*) relating to non-regulated activity carried out by the Company.

**Progress in Energy Supply and Energy-related Services**

SSE has a long-standing strategy to respond to these and other risks by becoming a market-leading retailer of energy and essential services, by digitalising, diversifying and aiming for high levels of customer service. This approach will enable SSE to build stronger, more enduring customer relationships based on engagement, service and value.

Owing to ongoing competitive pressures, in the 12 months to 31 March 2017, SSE's domestic electricity customer accounts in Great Britain fell from 4.16 million to 4.06 million. While any loss of customers is disappointing, this represents the smallest decline in SSE's customer numbers since 2013, due to the impact of efforts to improve retention and attract more new customers to SSE.

**Energy Supply business review**

The rapidly evolving and increasingly competitive market for energy and related services presents a number of challenges for traditional energy supply business models and they must evolve and adapt in order to be sustainable in the medium to longer term. SSE has already made significant progress in its transformation from commodity provider towards becoming a retailer of energy and essential services, by digitalising and diversifying its business, and consistently leading the sector in customer service. This strategy is designed to help improve SSE's ability to retain its valued customers, offset the impact of the continued reduction in household energy demand and ensure it is well positioned to capitalise on market developments in energy and related services in the short, medium and long term.

### 1 Business review *(continued)*

**Helping vulnerable customers through inclusive provision**

SSE recognises that, as an essential service provider, it must be both sensitive and flexible in how it deals with customers. With that goal in mind, in August 2016 SSE became the first energy supplier in Great Britain to commit to achieving the British Standard for Inclusive Service Provision. This represents the gold standard in recognising and catering for vulnerability in all its forms and SSE is currently working towards achieving this accreditation in the early part of 2018.

This builds on the additional training SSE has provided to customer-facing staff in areas like mental health and, specifically, dementia, to ensure its advisers are equipped to provide the best possible support.

In addition to the £3 million fund set up to provide extra financial assistance to vulnerable customers following SSE's household energy price increase from 28 April 2017, SSE helps vulnerable customers manage their energy costs in a number of enduring ways:

- Through the Warm Home Discount scheme, as of 31 March 2017, SSE had allocated over 275,000 £140 rebates; by the end of the scheme year on 31 May 2017, SSE expects to spend around £46.4m, helping over 300,000 customers in total – of this total around 60% relates to domestic electricity customers with the balance being to domestic gas accounts.

- SSE's customer service advisers proactively identified and referred over 5,000 customers for benefit entitlement checks during the year, with more than 2,700 customers successfully completing the check, resulting in an average increase in income of more than £3,200 a year per customer.

- SSE's Priority Assistance Fund provides additional support to low income and vulnerable customers, including debt relief, free energy efficiency advice, and help with bespoke payment arrangements.

- It also offers a free Careline priority service, dedicated to helping customers who are elderly, disabled or have special medical needs.

- In line with its licence, between the start of October and the end of March (or longer if the weather is unseasonably cold), SSE has a no-disconnection policy covering all household customers. In addition, SSE is a member of Safety Net, which is an additional voluntary commitment overseen by Energy UK. This commits signatory suppliers to never knowingly disconnect vulnerable customers at any time.

Particularly in the context of rising prices, SSE aims to engage constructively and understandingly with customers in arrears as early as possible, making sure support is provided for those struggling with their energy costs and that payment plans are manageable.

**Maintaining high standards in customer service**

As outlined in its Treating Customers Fairly Statement, published in August 2016, SSE works hard to maintain the standards and quality of service that customers expect: listening to customers, making it easy for customers to deal with them, looking after customers when they need extra help and putting things right if there's a problem. SSE maintained a strong position in the Citizens Advice Energy Supplier Performance Report through the course of 2016/17, setting a new record in June with a complaints score of just 22.5 per 100,000 customers for the quarter, down from 47.7 at the same point in 2015/16. SSE ended the year with an even better score of 20.5 and aims to maintain high standards in 2017/18 in the new, more holistic energy supplier customer service comparison tool, which has superseded the Supplier Performance Report.

**1 Business review *(continued)***

**Doing more for customers**

SSE is clear that its business is built on its customers and that, for its business to be sustainable in the long term, it must have active, informed and engaged relationships with them. In February 2017, SSE published a report, 'Doing more for our customers', setting out what it is doing to build and sustain those customer relationships.

As well as providing fair prices and high-quality customer service, SSE believes in rewarding its customers' loyalty – recognising that they have chosen SSE from the 50-plus other suppliers competing for their custom. During 2016 SSE introduced a range of offers targeted exclusively at loyal SSE customers including a free 'boiler rescue' potentially worth over £300 where customers subsequently sign up to boiler cover and an innovative 'no-ties' broadband offer.

SSE also aims to engage and reward its customers through the things that they enjoy most, so the SSE Reward programme engages customers by offering early access to tickets and money-can't-buy experiences at some of Britain's biggest entertainment venues.

**Meeting the needs of business customers**

Business Energy performed strongly during 2016/17, driven by a continued focus on meeting business customers' core energy needs, ongoing efforts to control operating costs and an enhanced proactive approach to its key customers and partners.

Over the year, SSE Business Energy has adapted the way in which it engages with customers, offering a customer service commitment which was recognised by Citizens Advice as the best performing non-domestic energy provider at handling complaints from small business customers. Business Energy continued to build its offering in the commercial sector and launched a new 100% renewable energy proposition known as 'SSE Green'.

For micro business customers, SSE continued its emphasis on Treating Customers Fairly (TCF) by relaunching its TCF Statement and establishing a performance team to focus on operational excellence by driving continuous improvement. Third Party Intermediaries (TPIs) remain an important channel for Business Energy growth and SSE continues to provide ongoing support to its TPIs by providing access to its industry experts via sales channels, engagement sessions and regular industry updates.

**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** | ***Revised*** **2017** | *Restated* 2016 |
|---|---|---|
| Electricity supplied to average household kWh | **3,793** | 3,763 |
| Electricity supply domestic customers - millions | **4.1** | 4.2 |
| Electricity business supply volume - GWh | **21,635** | 22,371 |
| Operating profit - £m | **31.0** | 10.6 |
| Net assets - £m | **412.4** | 374.6 |

On behalf of the board

Finlay McCutcheon
Director
18 June 2018

# SSE Energy Supply Limited

## Revised Directors' Report

The directors present their report together with the audited financial statements for the year ended 31 March 2017.

This revised directors' report for the year ended 31 March 2017 replaces the original directors' report for that year, which had been approved on 6 September 2017.

The directors' report has been prepared as at the date on which the original directors' report was approved by the board of directors and not as at the date of the revision and accordingly does not deal with events between those dates.

The revision to this Directors' Report has occurred due to a revision of the financial statements to correct an identified error. Further information on this error is provided in Note 1 to the financial statements.

**1 Principal activities**

SSE Energy Supply Limited is one of the largest energy suppliers operating in the competitive energy markets in Great Britain. The Company principally trades under the SSE, Southern Electric, Scottish Hydro and Swalec brands across the United Kingdom.

**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;
- the wider control environment is strong and fully integrated; and
- weather conditions varying significantly from normal seasonal trends.

The requirement for good risk governance and its responsibility for clear and effective risk management is accepted and endorsed by the Directors.

**Managing political, compliance and regulatory risk**

SSE recognises that energy is an essential service and that customers rely on its core products of electricity and gas to power and heat their homes in order to live safely and comfortably. SSE is mindful that there remains considerable, and legitimate, political interest in energy supply markets, exemplified by the UK general election campaign. The sector will continue to be subject to scrutiny and possible intervention by the new UK government. As ever, SSE's approach will be to engage actively and constructively with that government as it develops and takes forward its policies, as well as continuing its own efforts to engage and reward SSE customers; however, SSE would caution against potential unintended consequences of any proposed intervention in what is a rapidly changing and increasingly competitive market.

It therefore believes that further energy supply market reforms should be subject to substantive consultation to ensure that any such reforms are well-founded, supported by objective analysis and introduced in a way that benefits all customers and supports the functioning of an effective and sustainable energy supply market. SSE will participate fully and constructively in any such consultation process that takes place after the general election.

One issue that has been extensively debated in the course of the UK general election campaign is the possible introduction of a 'cap' on the energy prices paid by customers on standard variable tariffs (SVTs). As at 31 March 2017, around 70% of its 4.06 million GB domestic electricity customer accounts could be impacted by this. Following the outcome of the general election it appears likely that a price cap will be set by Ofgem. The key features of any price cap are its core objective, the expected role of competition in the market featuring a cap, the methodology used for setting the cap, the frequency with which it is reviewed, the extent of any regional variations, its implications for other administered features of energy supply and its duration. The impact of a price cap on any energy supplier can only be fully determined once all of those features are clear and once that supplier has considered its strategy in response, covering the products and services it wishes to offer in a market featuring a price cap, and the cost base it is willing to sustain in order to do so.

**2 Principal risks and uncertainties *(continued)***

Until the facts are known, the uncertainty around a possible price cap would clearly add to the risk for SSE and other energy suppliers and add to the volume of regulatory changes that need to be addressed and implemented and the significant consequences for finances.

The company is aware of the political uncertainty following the announcement of Brexit. This is being closely monitored by the company but is not considered to have a significant impact on the accounts for the year ended 31 March 2017.

The markets for energy supply in GB and Ireland both continue to be intensely competitive. In GB, for example, political, regulatory and market factors are all contributing to the rapid growth of new market entrants and increasing levels of customer engagement in the market, and there are now more than 50 suppliers operating in the GB market alone. In addition, efforts to simplify the switching process for customers mean that, according to Energy UK data, more than 500,000 customers switched electricity supplier in March 2017, an increase of 13% on the March 2016 number. SSE is responding to this competition by investing in retention, taking additional steps to engage and reward its customers, and redoubling efforts to digitalise and diversify its business.

**Focusing on energy affordability**

Affordability of energy is vitally important but must be balanced against the need to decarbonise and ensure the reliability of Britain's energy system. The cost of vital government programmes designed to achieve these aims by upgrading Britain's ageing energy infrastructure are predominantly levied against electricity customers; as a result, SSE regrettably had to take the difficult decision to increase electricity prices by an average of 14.9% from 28 April. However, this was SSE's first price increase for three and a half years and, with gas prices held at previous levels, the typical dual fuel bill remains cheaper than in November 2013. Without this increase, SSE would have been supplying electricity at a financial loss.

However, SSE recognises the impact higher energy costs can have on customers, particularly the most vulnerable. With that in mind it is continuing work to deliver efficiencies across its business to mitigate the impact of rising costs and launched a new £5 million fund providing additional financial support for those who need it most, of which £3 million is specifically for electricity customers, particularly those who rely on electricity for their heating. An update on progress in administering this fund will be provided in SSE's interim results statement for 2017/18.

**Development and change: moving towards a smarter market**

The energy sector in Great Britain is undergoing a radical transformation, in particular through the digitalisation of key infrastructure and services. Customer expectations and behaviours continue to evolve and this will mean energy suppliers must meet their needs differently if they are to be sustainable. This risk also presents an opportunity to enhance service levels, drive further engagement and reduce costs, and SSE has continued to invest in enhancing and digitalising its front-end, customer-facing systems to manage this risk and realise these benefits.

However, these investments need to be balanced against SSE's other key risks, particularly affordability; with this in mind SSE confirmed in January 2017 that it would not be replacing its billing system at this point in time, focusing instead on improvements to customer-facing systems and channels.

The underlying infrastructure is also being digitalised through the smart meter roll-out and SSE views this is a unique opportunity to transform the relationship between customers, their energy supplier and the energy they use. However, in order to take this opportunity SSE is focused on delivering its obligations in a way that is cost-effective and customer-centric, to maximise the net benefits for customers. As of 31 March 2017, it had installed over half a million smart meters with just over half of these being to electricity customers.

Delays to delivery of critical central infrastructure including the Data Communications Company (DCC) have, however, impacted on the industry's ability to make progress and compressed the timetable for delivery. As with any infrastructure programme with dependencies and of this complexity and scale, there continue to be challenges associated with SSE's obligations under the smart meter roll out but SSE is working hard to mitigate the risks to delivery. SSE continues to maintain a constructive dialogue with its key partners and stakeholders including BEIS, Ofgem, Citizens Advice and Smart Energy GB, in order to raise concerns and share learnings as the roll-out progresses.

### 3 Results and dividends

The revised profit for the financial year amounted to £127.9m *(2016 (restated): loss of £1.3m).*

The revised balance sheet at 31 March 2017 is set out on page 14 and indicates net assets of £412.4m *(2016 (restated): £374.6m).* A final dividend of £80.0m was declared, approved and paid in the year *(2016: £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 year *(2016: £nil).*

### 6 Disclosure of information to auditor

The directors who held office at the date of approval of this revised 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.

### 7 Auditor

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.

### 8 Going concern

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

On behalf of the Board:

Finlay McCutcheon
Director
18 June 2018

# SSE Energy Supply Limited

## Revised statement of directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They 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.

Under section 454 of the Companies Act 2006 the directors have the authority to revise the financial statements if they do not comply with the Act. The revised financial statements must be amended in accordance with the Companies (Revision of Defective Accounts and Reports) Regulations 2008. These require that the revised financial statements show a true and fair view as if they were prepared and approved by the directors as at the date of the original financial statements and accordingly do not take account of events which have taken place after the date on which the original financial statements were approved.

# Independent Auditor's Report to the Members of SSE Energy Supply Limited

We have audited the revised financial statements (the "revised financial statements") of SSE Energy Supply Limited for the year ended 31 March 2017 as set out on pages 12 to 30. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) including FRS101 *Reduced Disclosure Framework*. These revised financial statements replace the original financial statements approved by the directors on 6 September 2017.

The revised financial statements have been prepared under the Companies (Revision of Defective Accounts and Reports) Regulations 2008 ("the Regulations") and accordingly do not take account of events which have taken place after the date on which the original financial statements were approved.

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 and as required by paragraph 7 of the Regulations. 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.

**Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 9, the directors are responsible for the preparation of the revised financial statements and for being satisfied that the revised financial statements give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

**Scope of the audit of the revised financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the revised financial statements sufficient to give reasonable assurance that the revised financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the revised financial statements.

In addition we read all the financial and non-financial information in the Strategic report, Directors' report and financial statements to identify material inconsistencies with the audited revised financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

The audit of revised financial statements includes the performance of procedures to assess whether the revisions made by the directors are appropriate and have been properly made.

**Opinion on revised financial statements**

In our opinion:

- the revised financial statements give a true and fair view, seen as at the date the original financial statements were approved, of the state of the company's affairs as at 31 March 2017 and of its profit for the year then ended;
- the revised financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice seen as at the date the original financial statements were approved;
- the revised financial statements have been prepared in accordance with the Companies Act 2006 as it has effect under the Regulations; and
- the original financial statements for the year ended 31 March 2017 failed to comply with the requirements of the Companies Act 2006 in the respects identified by the directors in the statement contained in note 1 to these revised financial statements.

## Independent Auditor's Report to the Members of SSE Energy Supply Limited *(continued)*

**Emphasis of matter – revision of cost of sales and intercompany balances**

In forming our opinion on the revised financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 1 to these revised financial statements concerning the need to revise the results in respect of mark to market gains and losses included within this Company in error. The original financial statements were approved on 6 September 2017 and our previous report was signed on that date. We have not performed a subsequent events review for the period from the date of our previous report to the date of this report.

**Opinion on other matters prescribed by the Companies Act 2006**

In our opinion the information given in the revised Strategic Report and the revised Directors' Report for the financial year is consistent with the revised financial statements.

Based solely on the work required to be undertaken in the course of the audit of the revised financial statements and from reading the revised Strategic report and the revised Directors' report:

- we have not identified material misstatements in those revised reports; and
- in our opinion, those revised reports have been prepared in accordance with the Companies Act 2006.

**Matters on which we are required to report by exception**

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the revised 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.

W. Meredith

**William Meredith (Senior Statutory Auditor)**
**for and on behalf of KPMG LLP, Statutory Auditor**
Chartered Accountants
319 St Vincent Street
Glasgow
G2 5AS
19 June 2018

# SSE Energy Supply Limited

## Revised Profit and Loss Account
## for the year ended 31 March 2017

| | Note | *Revised* 2017 £m | *Restated* 2016 £m |
|---|---|---|---|
| **Turnover** | | **4,674.6** | 5,001.0 |
| Cost of sales | | **(4,290.8)** | (4,382.5) |
| **Gross profit** | | **383.8** | 618.5 |
| Administrative costs | | **(264.6)** | (472.3) |
| Exceptional items | 3 | **(88.2)** | (135.6) |
| **Operating profit** | | **31.0** | 10.6 |
| Income from fixed asset investments | 6 | **80.0** | - |
| Interest receivable and similar income | 7 | **21.8** | 14.7 |
| Interest payable and similar charges | 8 | **(0.4)** | (28.1) |
| **Profit/(loss) before taxation** | | **132.4** | (2.8) |
| Tax on profit/(loss) | 9 | **(4.5)** | 1.5 |
| **Profit/(loss) for the financial year** | | **127.9** | (1.3) |

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

# SSE Energy Supply Limited

## Revised Statement of Other Comprehensive Income
## for the year ended 31 March 2017

| | ***Revised* 2017 £m** | *Restated* 2016 £m |
|---|---|---|
| Profit/(loss) for the financial year | **127.9** | (1.3) |
| (Loss)/gain on effective portion of cash flow hedges (net of tax) | **(12.0)** | 7.7 |
| **Total other comprehensive income relating to the financial year** | **115.9** | 6.4 |

# SSE Energy Supply Limited

## Revised Balance Sheet
## as at 31 March 2017

| | Note | *Revised* 2017 £m | *Restated* 2016 £m |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible assets | 10 | **2.0** | 130.0 |
| Intangible assets | 11 | **339.8** | 265.0 |
| Investments | 12 | **1.7** | 1.7 |
| Biological assets | 13 | **1.8** | 1.8 |
| | | **345.3** | 398.5 |
| **Current assets** | | | |
| Debtors: | | | |
| amounts falling due within one year | 14 | **3,324.1** | 3,219.5 |
| amounts falling due after more than one year | 14 | **1,464.6** | 1,048.6 |
| Cash at bank and in hand | | **119.3** | 137.6 |
| **Total current assets** | | **4,908.0** | 4,350.1 |
| **Current liabilities** | | | |
| **Creditors:** amounts falling due within one year | 15 | **(4,694.4)** | (3,739.0) |
| **Net current assets** | | **213.6** | 666.7 |
| **Total assets less current liabilities** | | **558.9** | 1,065.2 |
| **Creditors:** amounts falling due after more than one year | 16 | **-** | (269.0) |
| Derivative financial liabilities | 17 | **(139.0)** | (407.3) |
| Provisions for liabilities and charges | 18 | **(7.5)** | (14.3) |
| **Net assets** | | **412.4** | 374.6 |
| **Capital and reserves** | | | |
| Called up share capital | 20 | **147.5** | 147.5 |
| Profit and loss account | | **264.9** | 215.1 |
| Hedge reserve | | **-** | 12.0 |
| **Equity Shareholders' funds** | | **412.4** | 374.6 |

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

These revised financial statements were approved by the Directors on 18 June 2018 and signed on their behalf by:

Finlay McCutcheon
Director
Company registered number: 03757502

# SSE Energy Supply Limited

## Revised Statement of Changes in Equity
## for the year ended 31 March 2017

| | *Restated* Hedge reserve £m | *Restated* Share capital £m | *Restated* Retained earnings £m | *Restated* Total equity £m |
|---|---|---|---|---|
| **Restated balance at 1 April 2015** | 4.3 | 147.5 | (147.3) | 4.5 |
| Loss for the financial year | - | - | (1.3) | (1.3) |
| Other comprehensive income | 7.7 | - | - | 7.7 |
| Credit in respect of employee share awards | - | - | 2.7 | 2.7 |
| Capital contribution | - | - | 361.0 | 361.0 |
| **Restated balance at 31 March 2016** | 12.0 | 147.5 | 215.1 | 374.6 |

| | *Revised* Hedge reserve £m | *Revised* Share capital £m | *Revised* Retained earnings £m | *Revised* Total equity £m |
|---|---|---|---|---|
| **Restated balance at 1 April 2016** | 12.0 | 147.5 | 215.1 | 374.6 |
| Profit for the financial year | - | - | 127.9 | 127.9 |
| Other comprehensive income | (12.0) | - | - | (12.0) |
| Credit in respect of employee share awards | - | - | 1.9 | 1.9 |
| Dividends paid | - | - | (80.0) | (80.0) |
| **Revised balance at 31 March 2017** | **-** | **147.5** | **264.9** | **412.4** |

# SSE Energy Supply Limited

## Notes on the revised Financial statements
## for the year ended 31 March 2017

### 1 Revision of 31 March 2017 financial statements and restatement of 2016 comparatives

These revised financial statements for the year ended 31 March 2017 replace the original financial statements for that year, which had been approved on 6 September 2017. These revised financial statements are now the statutory financial statements for that year.

The financial statements have been prepared as at the date on which the original financial statements were approved by the board of directors and not as at the date of the revision and accordingly do not deal with events between those dates.

The original financial statements failed to comply with the Companies Act 2006 in as much as the mark-to-market movement on derivatives with external counterparties held in Trust (note 5) was recognised in the profit and loss account in error for the periods ended 31 March 2017 and 31 March 2016 and the opening retained earnings as at 1 April 2015 when the group had no beneficial interest in the transactions covered by the trust.

The correction of the error had the effect of reducing gross profit by £345.6m (2016: increasing gross profit by £123.9m) in the revised financial statements, with a consequential decrease to the deferred tax charge of £59.3m (2016: decrease in deferred tax credit of £22.8m). In 2017 amounts due from related parties have decreased by £208.1m (2016: increased by £11.2m) and derivative financial liabilities have decreased by £1.1m (2016: £68.1m). As a result, net assets and shareholders' equity has been reduced by £207.0m (2016: increase of £79.3m). Opening retained loses at 1 April 2015 were also increased by £21.9m from £125.5m to £147.3m as a result of the same error in on adoption of FRS101 and the recognition of these derivative balances. Consequential amendments in respect of these financial statement captions have been made in the Directors' Report and Strategic Report which are also revised. The table below sets out the financial statement captions which have been restated as a result of this error.

In addition to the adjustments identified above, which had an impact on net assets, the presentation of the intercompany payables and receivables has been adjusted to present these balances net within these financial statements where a right of offset exists. This adjustment had the effect of decreasing intercompany debtors by £4,044.7m (2016: decrease of £2,332.1m) and decreasing intercompany creditors by £4,044.7m (2016: decrease of £2,332.1m). The impact to net assets is nil.

**Profit & loss account**

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | **Reported** | **Adjustments** | **Revised** | Reported | Adjustments | Restated |
| | **£m** | **£m** | **£m** | £m | £m | £m |
| Turnover | **4,674.6** | **-** | **4,674.6** | 5,001.0 | - | 5,001.0 |
| Cost of sales | **(3,945.2)** | **(345.6)** | **(4,290.8)** | (4,506.4) | 123.9 | (4,382.5) |
| **Gross profit** | **729.4** | **(345.6)** | **383.8** | 494.6 | 123.9 | 618.5 |
| Other items | **(251.4)** | **-** | **(251.4)** | (621.3) | - | (621.3) |
| **Profit/(loss) before taxation** | **478.0** | **(345.6)** | **132.4** | (126.7) | 123.9 | (2.8) |
| Tax on profit | **(63.8)** | **59.3** | **(4.5)** | 24.3 | (22.8) | 1.5 |
| **Profit/(loss) for the financial year** | **414.2** | **(286.3)** | **127.9** | (102.4) | 101.1 | (1.3) |

# SSE Energy Supply Limited

## Notes on the revised Financial statements *(continued)*
## for the year ended 31 March 2017

**1 Revision of 31 March 2017 financial statements and restatement of 2016 comparatives *(continued)***

**Balance sheet**

| | **2017** | | | 2016 | | |
|---|---|---|---|---|---|---|
| | **Reported** | **Adjustments** | **Revised** | Reported | Adjustments | Restated |
| | **£m** | **£m** | **£m** | £m | £m | £m |
| Non-current assets | **345.3** | **-** | **345.3** | 398.5 | - | 398.5 |
| Debtors: amounts falling due within one year | **7,576.9** | **(4,252.8)** | **3,324.1** | 5,538.7 | (2,319.2) | 3,219.5 |
| Debtors: amounts falling due after more than one year | **1,464.6** | **-** | **1,464.6** | 1,050.3 | (1.7) | 1,048.6 |
| Cash at bank and in hand | **119.3** | **-** | **119.3** | 137.6 | - | 137.6 |
| Total current assets | **9,160.8** | **(4,252.8)** | **4,908.0** | 6,726.6 | (2,320.9) | 4,405.7 |
| Current liabilities: amounts falling due within one year | **(4,274.1)** | **(420.3)** | **(4,694.4)** | (6,071.1) | 2,332.1 | (3,739.0) |
| **Net current assets** | **4,886.7** | **(4,673.1)** | **213.6** | 655.5 | 11.2 | 666.7 |
| **Total assets less current liabilities** | **5,232.0** | **(4,673.1)** | **558.9** | 1,054.0 | 11.2 | 1,065.2 |
| Creditors: amounts falling due after more than one year | **(4,465.0)** | **4,465.0** | **-** | (269.0) | - | (269.0) |
| Derivative financial liabilities | **(140.1)** | **1.1** | **(139.0)** | (475.4) | 68.1 | (407.3) |
| Provisions for liabilities and charges | **(7.5)** | **-** | **(7.5)** | (14.3) | - | (14.3) |
| **Net assets** | **619.4** | **(207.0)** | **412.4** | 295.3 | 79.3 | 374.6 |

| | **2017** | | | 2016 | | |
|---|---|---|---|---|---|---|
| | **Reported** | **Adjustments** | **Revised** | Reported | Adjustments | Restated |
| | **£m** | **£m** | **£m** | £m | £m | £m |
| **Capital and reserves** | | | | | | |
| Other reserves | **147.5** | **-** | **147.5** | 159.5 | - | 159.5 |
| Profit and loss account | **471.9** | **(207.0)** | **264.9** | 135.8 | 79.3 | 215.1 |
| **Equity shareholders' funds** | **619.4** | **(207.0)** | **412.4** | 295.3 | 79.3 | 374.6 |

**2 Significant accounting policies**

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

**Basis of preparation**

The revised financial statements have been prepared in accordance with all applicable United Kingdom accounting standards. The principal accounting policies are summarised below and have been applied consistently.

In preparing these revised 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.

**2 Significant accounting policies *(continued)***

In these revised 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;
- Comparative period reconciliations for tangible fixed assets and intangible assets;
- 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 life intangible assets, and
- Certain disclosures required by *IFRS 13 Fair value measurement* and the disclosures required by *IFRS 7 Financial instrument* disclosures.

During the year, the Group and Company reviewed the presentation of information in the financial statements in order to improve the clarity, relevance and understandability of the statements. This review resulted in the removal of employee share based payments disclosures on the basis of materiality.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these revised financial statements.

**Going concern**

The revised financial statements have been prepared on a going concern basis which assumes adequate finance will be available for the foreseeable future.

**Use of estimates and judgements**

The preparation of financial statements conforming with adopted IFRS requires the use of certain accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies.

**Turnover**

Turnover includes an estimate of the value of electricity supplied to customers between the date of the last meter reading and the year end. This estimation will comprise of values as follows:

- billed revenue in relation to consumption from unread meters based on estimated consumption taking account of various factors including usage patterns and weather trends (disclosed as trade receivables); and
- unbilled revenue (disclosed as accrued income). The volume of unbilled electricity is calculated by assessing a number of factors such as externally notified aggregated volumes supplied to customers from national settlements bodies, amounts billed to customers and other adjustments.

Unbilled revenue is therefore calculated by applying the tariffs associated with estimated customers to the calculated volume of electricity consumed. This estimation methodology is subject to an internal corroboration process that provides support for the judgements made by management. This process requires the comparison of calculated unbilled volumes to a 'benchmark' measure of unbilled volumes which is derived using independently verified data and by assessing historical weather-adjusted consumption patterns and actual meter data that is used in industry reconciliation processes for total consumption by supplier. This aspect of the corroboration process, which requires a comparison of the estimated supplied quantity of electricity that is deemed to have been delivered to customers and the aggregate supplied quantity of electricity applicable to the Company's customers that is measured by industry system operators, is a key judgement.

**2 Significant accounting policies *(continued)***

The Company's policy is to recognise unbilled revenue only where the economic benefits are expected to flow to the Company. As a result, the judgements applied, and the assumptions underpinning the judgements, are considered to be appropriate. Change in these assumptions would have an impact on the amount of revenue recognised in any given period.

In the year, in relation to electricity, the Group has been able to resolve a number of long-standing issues relating to the quality of grid supply point metering and national settlements data. As a result, while significant estimation uncertainty remains, the aggregate level of non-half-hourly and half-hourly volume associated with such factors has reduced in the year. This improvement in confidence in estimation has enabled an additional revenue amount of c. £60m (1.1% of unbilled energy income) to be recognised in the year.

The Company's exposure to credit risk, and therefore the basis of determining the provisions for bad and doubtful debts, is based on assumptions derived from experience and industry knowledge. While the provisions are considered to be appropriate, changes in estimation basis or in economic conditions could lead to a change in the level of provisions recorded and consequently on the charge or credit to the income statement.

**Taxation**

The charge/credit for taxation is based on the profit/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. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. 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.

**Tangible fixed assets**

**(i) Depreciation**

Depreciation is provided on tangible and intangible fixed assets to write off cost, less residual values, on a straight-line basis over their estimated operational lives. The estimated operational lives are as follows:

| | **Years** |
|---|---|
| Generation assets | 15 to 20 |
| Non-operational assets: | |
| Leasehold improvements | Over the life of the lease |

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

**(ii) Subsequent expenditure**

Expenditure incurred to replace a component of a tangible fixed asset that is accounted for separately is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits of the tangible fixed asset to which it relates.

**Intangible assets**

**(i) Other intangible assets**

Other intangible assets that have been acquired by the Company are stated at cost less accumulated amortisation and impairment losses. Expenditure on internally generated brands is expensed as incurred. Amortisation is charged to the profit and loss account on a straight-line basis over the estimated useful life of these other intangible assets. The amortisation policy is as follows:

| | **Years** |
|---|---|
| Customer contracts | over the contract term |

**2 Significant accounting policies *(continued)***

**(ii) Development assets and Software**

Development expenditure relates to costs incurred on developing new software for the Supply Transformation Programme. Software assets include the costs of developing and installing products for use within the business. Software is amortised once the development of the software is complete and has been implemented. The useful life of the asset is assessed on the basis of the nature of the asset and an expected useful life is applied accordingly. The amortisation period is as follows:

| | **Years** |
|---|---|
| Software | 4 - 25 |

**Employee benefit obligations**

**Pensions**

Contributions to pension schemes on behalf of the employees of the Company are charged to the profit and loss account in accordance with the contributions incurred in the year.

Some of the Company's employees are members of a group wide defined benefit pension plan. 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 plan is recognised fully by the sponsoring employer, which is another member of the group. The Company recognises a cost equal to its contribution payable for the period. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

**Equity and equity-related compensation benefits**

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

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

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

**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

# SSE Energy Supply Limited

## Notes on the revised Financial statements *(continued)*
## for the year ended 31 March 2017

### 3 Expenses and auditor's remuneration

Revised operating profit is arrived at after charging:

| | 2017 £m | 2016 £m |
|---|---|---|
| Depreciation of tangible fixed assets | - | 18.7 |
| Amortisation of Intangible Fixed Assets | 8.6 | 8.9 |
| Exceptional impairment of intangible assets (note 11) | 88.2 | 11.2 |
| Other exceptional charges | - | 124.4 |

The audit fee in the year and the previous year was borne by the Parent company, £18.5k of this was in relation to the audit of SSE Energy Supply Limited *(2016: £18.5k)*.

During the year the Group decided to cease the development of its replacement customer service and billing system. As a result of this strategic decision, all amounts capitalised in relation to the development of the system and related software and hardware have been impaired and with the resulting impact being recognised as an exceptional charge. At the same time, the Group conducted a detailed review of related technology development projects and identified further projects in the course of development which would be discontinued. Due to the significant nature of this assessment, a combined charge of £88.2m has been recognised.

The prior year exceptional charge relates to Marchwood power plant (£124.4m) following a review of its carrying value, and a write down of development assets (£11.2m).

### 4 Staff costs and numbers

| | 2017 £m | 2016 £m |
|---|---|---|
| Staff costs: | | |
| Wages and salaries | 38.1 | 32.8 |
| Social security costs | 3.7 | 3.2 |
| Share based remuneration | 1.9 | 2.7 |
| Contributions to defined contributions plans | 5.4 | 7.6 |
| | 49.1 | 46.3 |

Employee numbers

| | 2017 Number | 2016 Number |
|---|---|---|
| Numbers employed at 31 March | 1,386 | 1,051 |

| | 2017 Number | 2016 Number |
|---|---|---|
| The monthly average number of people employed by the Company during the year | 1,217 | 942 |

## 4 Staff costs and numbers *(continued)*

In accordance with FRS101, the Company's contributions to the Electricity Supply Pension Scheme (ESPS) have been treated as contributions to a defined contribution scheme.

| | **2017** | 2016 |
|---|---|---|
| | **£000** | £000 |
| Directors remuneration | **1,198.9** | 979.2 |
| Amounts receivable under long term incentive schemes | **363.1** | 238.6 |
| Company contributions to money purchase pension plans | **-** | 4.4 |

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid director was £662k *(2016: £593k)*, and company pension contributions of £nil *(2016: £4k)* were made to a money purchase scheme on his behalf.

## 5 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 the company as legal title to the assets and liabilities remains with Company. The Trust relationship has the effect of transferring the economic benefit of these contracts to SSE EPM Limited, therefore the movement on balances held in trust is recognised through an intercompany balance with SSE EPM Limited outside the profit and loss account. The movement on balances held in Trust in the year is:

**Movement in Trust:**

| | ***Revised*** | *Restated* |
|---|---|---|
| | **2017** | 2016 |
| | **£m** | £m |
| Restated opening balances at 1 April | **693.2** | (53.5) |
| Add: (Decrease)/increase in intercompany debtor in relation to trust assets and liabilities | **(136.2)** | 746.7 |
| **At 31 March** | **557.0** | 693.2 |

**Balances in relation to Trust properties owed to/(from) the Company from/(to) related parties represent:**

| | ***Revised*** | *Restated* |
|---|---|---|
| | **2017** | 2016 |
| | **£m** | £m |
| Trade debtors | **(1,861.5)** | (1,297.8) |
| Cash and cash equivalents | **(0.1)** | (1.9) |
| Trade creditors | **2,302.0** | 1,646.0 |
| Accruals and prepayments | **13.9** | 16.9 |
| Operating derivatives | **123.7** | 402.4 |
| Deferred tax | **(21.0)** | (72.4) |
| Net trust asset/(liability) | **557.0** | 693.2 |

## 6 Income from other fixed asset investment

| | 2017 £m | 2016 £m |
|---|---|---|
| Dividend income | **80.0** | - |

## 7 Interest receivable and similar income

| | 2017 £m | 2016 £m |
|---|---|---|
| Net interest receivable from group undertakings | **20.9** | 12.7 |
| Foreign exchange translation of monetary assets and liabilities | **0.9** | 2.0 |
| | **21.8** | 14.7 |

## 8 Interest payable and similar charges

| | 2017 £m | 2016 £m |
|---|---|---|
| Net interest payable to group companies | **7.6** | 0.4 |
| Finance lease interest | **-** | 32.4 |
| Interest capitalised | **(7.2)** | (4.7) |
| | **0.4** | 28.1 |

## 9 Taxation

| | *Revised* 2017 £m | *Restated* 2016 £m |
|---|---|---|
| UK corporation tax | | |
| Current tax on income for the period | **9.2** | 27.5 |
| Adjustment in respect of prior periods | **(0.5)** | (13.4) |
| **Total current tax charge** | **8.7** | 14.1 |
| Deferred tax (see note 19): | | |
| Origination and reversal of temporary differences | **1.8** | (28.0) |
| Change in applicable tax rate | **4.9** | 7.9 |
| ACA's arising on intercompany transfer | **(11.2)** | - |
| Adjustment in respect of prior periods | **0.3** | 4.5 |
| **Total deferred tax** | **(4.2)** | (15.6) |
| **Total tax on profit/(loss)** | **4.5** | (1.5) |

## 9 Taxation *(continued)*

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

| | ***Revised* 2017 £m** | *Restated* 2016 £m |
|---|---|---|
| Revised (2016: Restated) profit/(loss) before taxation | **132.4** | (2.8) |
| Tax on profit/(loss) at standard UK corporation tax rate of 20% *(2016: 20%)* | **26.5** | (0.6) |
| Effects of: | | |
| Expenses not deductible for tax purposes | **1.0** | - |
| Non-taxable dividend income | **(16.0)** | - |
| Transfer pricing adjustment | **(0.5)** | - |
| Effect of rate change | **4.9** | 7.9 |
| Corporation tax adjustment in respect of previous periods | **(0.5)** | (13.3) |
| Deferred tax adjustment in respect of previous periods | **0.3** | 4.5 |
| ACA's arising on intercompany transfer | **(11.2)** | - |
| **Total tax charge for year** | **4.5** | (1.5) |

Legislation to reduce the corporation tax rate from 20% to 19% from 1 April 2017 and to 18% from 1 April 2020 was substantively enacted on 26 October 2015. As these changes were substantively enacted at 31 March 2016, deferred tax at that date was calculated accordingly. Legislation was substantively enacted on 15 September 2016 to further reduce the corporation tax rate to 17% from 1 April 2020. As this change has been substantively enacted at the balance sheet date, deferred tax has been calculated accordingly and has had the effect of reducing the company's deferred tax asset at 31 March 2017 by £4.9m.

**10 Tangible fixed assets**

| | Generation Assets £m | Land & buildings £m | Total £m |
|---|---|---|---|
| **Cost:** | | | |
| At 1 April 2016 | 369.6 | 2.0 | 371.6 |
| Intercompany transfer | (369.6) | - | (369.6) |
| **At 31 March 2017** | **-** | **2.0** | **2.0** |
| **Accumulated depreciation:** | | | |
| At 1 April 2016 | 241.6 | - | 241.6 |
| Intercompany transfer | (241.6) | - | (241.6) |
| **At 31 March 2017** | **-** | **-** | **-** |
| **Net book value:** | | | |
| **At 31 March 2017** | **-** | **2.0** | **2.0** |
| At 31 March 2016 | 128.0 | 2.0 | 130.0 |

Generation assets relate to the lease of a 840MW Gas powered CCGT Electricity Generating Plant from Marchwood Power Limited. The lease of this asset was novated to another group company, SSE Generation on 8 June 2016 resulting in the transfer of all related assets to that company.

**11 Intangible assets**

| | Fixed Assets Brand Value £m | Development assets £m | Software £m | Total £m |
|---|---|---|---|---|
| **Cost:** | | | | |
| At 1 April 2016 | 9.0 | 190.4 | 137.8 | 337.2 |
| Additions | - | 171.6 | - | 171.6 |
| Transfers | - | 11.9 | (11.9) | - |
| **At 31 March 2017** | **9.0** | **373.9** | **125.9** | **508.8** |
| **Amortisation and impairment:** | | | | |
| At 1 April 2016 | 9.0 | 36.5 | 26.7 | 72.2 |
| Amortised in the year | - | - | 8.6 | 8.6 |
| Transfers | | 10.1 | (10.1) | - |
| Impairment charge for the year | - | 86.1 | 2.1 | 88.2 |
| **At 31 March 2017** | **9.0** | **132.7** | **27.3** | **169.0** |
| **Net Book Value:** | | | | |
| **At 31 March 2017** | **-** | **241.2** | **98.6** | **339.8** |
| At 31 March 2016 | - | 153.9 | 111.1 | 265.0 |

The impairment in the year relates to the Groups decision to cease the development of its replacement customer service and billing system (see note 3) and other projects.

### 11 Intangible assets (continued)

(i) Brand value
This represents the Atlantic brand, acquired on the acquisition of Atlantic Electric and Gas Limited during the year ended 31 March 2005. The Company has assessed the economic life, and therefore amortisation period, of the Atlantic brand to be nil years. The brand is now fully amortised.

(ii) Development Assets
Development assets includes costs that have been capitalised in relation to the ongoing supply transformation programme software development

(iii) Software
Represents software developed and currently in use as part of the supply transformation programme. A useful life of between 4 and 25 years has been determined for the assets.

### 12 Fixed asset investments

| | Investment in subsidiary undertakings | Total |
|---|---|---|
| | £m | £m |
| *Cost* | | |
| At 1 April 2016 | 1.7 | 1.7 |
| **At 31 March 2017** | **1.7** | 1.7 |
| Net book value | | |
| **At 31 March 2017** | **1.7** | **1.7** |
| At 31 March 2016 | 1.7 | 1.7 |

Details of the principal subsidiary undertakings, joint ventures and associates are as follows:

| Subsidiary undertakings | Country | Holding | Proportion Held | Prior year proportion held | Nature of Business |
|---|---|---|---|---|---|
| Southern Electric Gas Limited | UK | Ordinary shares | 100% | 100% | Gas |

The registered address of the subsidiary undertaking is No. 1 Forbury Place, 43 Forbury Road, Reading, Berkshire. RG1 3JH

### 13 Biological assets

The company owns approximately 2,394 hectares of forest land including planted trees. The living trees are accounted for as biological assets and are disclosed in the table below:

| | £m |
|---|---|
| At 1 April 2016 | 1.8 |
| **At 31 March 2017** | **1.8** |

No trees were harvested during the year. The fair value assessed for the forest was £1.8m.

### 14 Debtors

| | *Revised* **2017** **£m** | *Restated* 2016 £m |
|---|---|---|
| Amounts falling due within one year: | | |
| Trade debtors | **2,628.4** | 2,059.2 |
| Amounts owed by group undertakings | **75.9** | 411.5 |
| Deferred tax asset (note 19) | **62.8** | 55.6 |
| Amounts due from trust | **557.0** | 693.2 |
| | **3,324.1** | 3,219.5 |
| Amounts falling due after more than one year: | | |
| Amounts due from group undertakings | **1,464.6** | 1,048.6 |
| | **1,464.6** | 1,048.6 |

The amounts due from Group undertakings are in respect of amounts owed from its parent, SSE plc. Interest is charged at 5.84% *(2016: 6.01%)*.

### 15 Creditors: amounts falling due within one year

| | **2017** **£m** | 2016 £m |
|---|---|---|
| Trade creditors | **2,436.1** | 1,816.4 |
| Amounts owed to group undertakings | **1,078.1** | 715.5 |
| Other creditors | **45.9** | 73.1 |
| Corporation tax payable | **3.9** | 22.2 |
| Accruals and deferred income | **1,130.4** | 1,096.7 |
| Obligations under finance leases and hire purchase contracts | **-** | 15.1 |
| | **4,694.4** | 3,739.0 |

### 16 Creditors: amounts falling due after more than one year

| | **2017** **£m** | 2016 £m |
|---|---|---|
| Obligations under finance leases and hire purchase contracts | **-** | 269.0 |
| | **-** | 269.0 |

On 8 June 2016 the company novated its finance lease for the Marchwood power plant to another group company, SSE Generation Limited.

### 17 Derivatives and financial instruments

Exposure to interest rate risk arises in the normal course of the Company's business. Derivative financial instruments are entered into to hedge exposure to risk. The objectives and policies for holding or issuing financial instruments and similar contracts, and the strategies for achieving those objectives that have been followed during the year are explained below. The Group's Risk and Trading Committee, a standing committee of the Group's Executive Committee comprising three Executive Directors and senior managers from the Energy Portfolio Management and Finance functions, oversees the control of these activities. This Committee is discussed further in the Annual Report of the Group.

The Group's treasury department is responsible for managing the banking and liquidity requirements of the Company, risk management relating to interest rate and foreign exchange exposures, and for managing the credit risk relating to the banking counterparties with which it transacts. The department's operations are governed by policies determined by the Group's Executive Committee and any breaches of these policies are reported to the Risk and Trading Committee and Group's Audit Committee.

Fair values have been determined with reference to closing market prices.

Unless otherwise stated, carrying value approximates fair value.

**(i) Financial derivative instruments - disclosure**

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.

**(ii) 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, loans and borrowings, trade and other debtors, trade and other creditors and provisions, all of which are disclosed separately. Own use commodity contracts are not considered to be financial instruments.

**Basis of determining fair value**

Closing rate market values have been used to determine the fair values of the commodity contracts, interest rate and foreign currency contracts and denominated long-term fixed rate debt. Estimates applied reflect the management's best estimates of these factors.

**Summary fair values**

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

| | ***Revised* 2017 Carrying value £m** | ***Revised* 2017 Fair Value £m** | *Restated* 2016 Carrying value £m | *Restated* 2016 Fair Value £m |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| Cash and cash equivalents | **119.3** | **119.3** | 137.6 | 137.6 |
| Trade and other debtors | **3,324.1** | **3,324.1** | 3,219.5 | 3,219.5 |
| Long-term intercompany | **1,464.6** | **1,464.6** | 1,048.6 | 1,048.6 |
| **Financial Liabilities** | | | | |
| Trade and other creditors | **4,694.4** | **4,694.4** | 3,739.0 | 3,739.0 |
| Finance lease liability | **-** | **-** | 269.0 | 269.0 |
| Derivative financial liabilities | **139.0** | **139.0** | 407.3 | 407.3 |

# SSE Energy Supply Limited

## Notes on the revised Financial statements *(continued)* for the year ended 31 March 2017

### 18 Provisions for liabilities and charges

| | Total |
|---|---|
| | £m |
| At 1 April 2016 | **14.3** |
| Released during the year | **(0.4)** |
| Utilised during the year | **(6.4)** |
| **At 31 March 2017** | **7.5** |

Provisions includes £7.4m *(2016: £13.5m)* in relation to specific obligations. The remaining balance relates to restructuring and other charges.

### 19 Deferred taxation

Deferred tax assets and liabilities are attributable to the following:

| | **Assets** | | **Liabilities** | | **Net** | |
|---|---|---|---|---|---|---|
| | **Revised 2017 £m** | Restated 2016 £m | **Revised 2017 £m** | Restated 2016 £m | **Revised 2017 £m** | Restated 2016 £m |
| Tangible fixed assets | **-** | - | **(7.9)** | (18.1) | **(7.9)** | (18.1) |
| Provisions | **3.2** | 4.1 | **-** | - | **3.2** | 4.1 |
| Financial assets | **67.5** | 73.3 | **-** | (3.7) | **67.5** | 69.6 |
| **Net tax assets** | **70.7** | 77.4 | **(7.9)** | (21.8) | **62.8** | 55.6 |

*Movement in deferred tax during the year*

| | **Restated 1 April 2016 £m** | **Revised Recognised in income £m** | **Revised Recognised in equity £m** | **Revised 31 March 2017 £m** |
|---|---|---|---|---|
| Tangible fixed assets | (18.1) | 10.2 | - | **(7.9)** |
| Provisions | 4.1 | (0.9) | - | **3.2** |
| Financial assets | 69.6 | (5.1) | 3.0 | **67.5** |
| | 55.6 | 4.2 | 3.0 | **62.8** |

*Movement in deferred tax during prior year*

| | **Restated 1 April 2015 £m** | **Restated Recognised in income £m** | **Restated Recognised in equity £m** | **Restated 31 March 2016 £m** |
|---|---|---|---|---|
| Tangible fixed assets | (42.0) | 23.9 | - | (18.1) |
| Provisions | 8.9 | (4.8) | - | 4.1 |
| Financial assets | 75.1 | (3.5) | (2.0) | 69.6 |
| | 42.0 | 15.6 | (2.0) | 55.6 |

### 20 Share capital

| | 2017 £m | 2016 £m |
|---|---|---|
| Equity: | | |
| Allotted, called up and fully paid: | | |
| 147,500,001 ordinary shares of £1.00 each | **147.5** | 147.5 |
| | **147.5** | 147.5 |

### 21 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 Friends Provident.

The Company's share of the total contribution payable to the pension schemes during the year was £5.4m *(2016: £7.6m).*

### 22 Commitments and contingencies

**Guarantees and indemnities**

The Company has provided guarantees on behalf of other group undertakings as follows:

| | 2017 £m | 2016 £m |
|---|---|---|
| Performance of contracts | **16.0** | 16.0 |
| Upward guarantee to SSE plc | **1,000.0** | 1,000.0 |

### 23 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.