

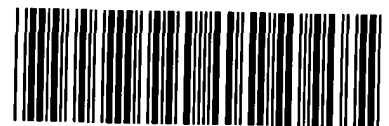
SSE Energy Supply Limited

Directors report and financial statements

Year ended 31 March 2018

Registered No.: 03757502

THURSDAY



A7AIQØFS

A11

19/07/2018

#152

COMPANIES HOUSE

SSE Energy Supply Limited

Contents

	Page No.
Directors and other information	1
Strategic Report	2
Directors' Report	8
Statement of directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements	9
Independent auditor's report to the members	10
Profit and loss account	12
Statement of other comprehensive income	13
Balance sheet	14
Statement of changes in equity	15
Notes on the financial statements	16

SSE Energy Supply Limited

Directors and Other Information

Directors

Finlay McCutcheon (appointed 12th May 2017)
Rhys Stanwix (appointed 1st April 2018)
Iwan Morgan (appointed 1st April 2018)
William Morris (resigned 29th September 2017)
Stephen Forbes (resigned 1st April 2018)
Anthony Keeling (resigned 1st April 2018)

Registered office

No. 1 Forbury Place,
43 Forbury Road,
Reading,
RG1 3JH
England

Secretary

Peter Lawns

Auditor

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

Banker

National Westminster Bank
13 Market Place
Reading
RG1 2EG

Registered number

03757502

SSE Energy Supply Limited

Strategic Report

The directors submit their report and audited financial statements of the company for the year ended 31 March 2018.

This Strategic Report has been prepared in accordance with the requirements of Section 414 of the Companies Act 2006. Its purpose is to inform shareholders and help them assess how the directors have performed their duty to promote the success of SSE 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 2018, as well as those matters which are likely to affect its future development and performance.

1 Business review

The profit and loss account for the year ended 31 March 2018 is set out on page 12. The profit for the year after taxation amounted to £536.5m (2017: profit of £127.9m). The balance sheet at 31 March 2018 is set out on page 14 and presents net assets of £400.8m (2017: net assets of £412.4m).

Restructure of the Company

In its full-year results statement for 2016/17, the Company's parent, SSE plc ('SSE'), stated that the rapidly evolving and increasingly competitive market for the supply of 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.

On 8 November 2017, SSE announced that following discussions with Innogy SE ('Innogy'), it had identified an opportunity – subject to the necessary regulatory and shareholder approvals – to combine its household energy and services business in GB with that of Innogy's subsidiary, npower, to create a new, independent company to be listed on the London Stock Exchange. Both SSE and Innogy believe the planned transaction has potential to drive real benefits for customers, employees, shareholders and the wider energy market by combining the expertise and resources of two established providers with the focus and agility of an independent supplier in what would be a unique model in the market. With its own dedicated Board and expert management team, the new company would be well positioned to respond to changing customer and stakeholder expectations by becoming more efficient, agile and innovative.

As part of the preparation for the planned transaction, the SSE Group has established a new legal entity, SSE Energy Services Limited ('SSE Energy Services'), to consolidate the entities that will be separated from SSE. This separation exercise has involved the establishment of new legal entities within the SSE Group including new companies, SSE Electricity Limited and SSE Retail Telecom Limited, which will prospectively carry out the domestic electricity supply and household telecoms and broadband service businesses previously part of the principal activities of the Company. The transfer of those business activities, which was transacted at book value, from the Company was completed on 1st April 2018. On the same date, the Company acquired the Business Energy business, also at book value, conducted by its wholly owned subsidiary Southern Electric Gas Limited. These material post balance sheet events necessitate that the domestic electricity supply and household telecom services activities are treated as discontinued activities in these financial statements and that the associated assets and liabilities are treated as 'held for sale'. Additional commentary is provided on the discontinued activities throughout the Strategic Report due to their importance to both the continuing SSE Group, SSE Electricity Limited and the proposed new merged entity.

The planned SSE Energy Services transaction remains subject to approval by the Competition and Markets Authority (CMA) and is subject to approval by SSE's shareholders at a vote at a General Meeting to take place immediately after the SSE Annual General Meeting on 19 July 2018. Until such time as approval is given and the transaction is completed, SSE Energy Supply, its fellow SSE subsidiaries and npower remain entirely separate and compete with one another as normal.

SSE Energy Supply Limited

Strategic Report (continued)

1 Business review (continued)

EPM trust

On 1 April 2015, the company transferred its energy portfolio management ('EPM') activities including all external commodity transactions and licence and trading arrangements to a newly established entity in the SSE Group, SSE EPM Limited. As part of that transaction, 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. As the Company remains the counterparty to the contracts covered by the Trust, 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 Limited under the Trust arrangement, through an intercompany balance with SSE EPM Limited.

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 items¹ and certain re-measurements arising on commodity contracts. Exceptional items are those charges or credits that are considered unusual by nature and or 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 as defined by IAS 39 which are held for the Group's own use requirements which are not recorded until the underlying commodity is delivered.

In June 2018 the Company's parent, SSE plc, will publish an audited document, the 'Consolidated Segmental Statement (CSS)' that provides analysis, on an adjusted basis, of the Group's profitability in the regulated businesses of Energy Supply and Generation in Great Britain. This includes profitability analysis of the continuing activity of the Company of supply of electricity to business customers, the discontinuing activity of supply of electricity to domestic customers and the acquired (from 1 April 2018) activity of supply of gas to business customers. The following table reconciles the operating profit, continuing and discontinuing, in these financial statements to the adjusted electricity supply operating profit reported in the CSS.

	2018 Continuing £m	Discontinued £m	Total £m	2017 Continuing £m	Discontinued £m	Total £m
Operating Profit/(Loss) reported	62.4	87.5	149.9	67.4	(36.4)	31.0
Exceptional items	0.5	29.3	29.8	-	88.2	88.2
Derivative re-measurements	6.1	(1.4)	4.7	3.5	(8.3)	(4.8)
Retail Telecom ¹	-	(8.2)	(8.2)	-	(2.5)	(2.5)
Domestic Gas Adjustment ²	-	15.0	15.0	-	-	-
Adjusted Operating Profit (CSS)	69.0	122.2	191.2	70.9	41.0	111.9

¹ Excluded from CSS profit measure

² The regulatory profit reported for domestic electricity includes an adjustment to allocate depreciation and amortisation charges incurred by the Company with its subsidiary Southern Electricity Gas in relation to that company's use of the Company's customer management and billing apparatus.

SSE Energy Supply Limited

Strategic Report (continued)

1 Business review (*continued*)

Strategic Priorities – Business electricity supply (Continuing Activity)

The supply of energy to business and public sector customers throughout Great Britain is the principal activity of the Company from 1 April 2018. For electricity, this involves supply to a market which consumes a total of around 180TWh of electricity annually. The market is deeply segmented, covering customers from single site microbusinesses to large national multi-site groups and large industrial users. Business Energy has a strong position in each of those segments and has continued to perform robustly. This strong position is built on solid core competencies in meeting business customers' energy needs. Competencies such as excellent customer service and sales channels exist within Business Energy, whilst others are leveraged across the wider SSE Group, for example deep knowledge of wholesale energy and non-commodity costs that enable Business Energy to develop and price products that navigate the increasing complexity of the GB energy market.

Moving forward the separation from SSE's domestic retail business provides Business Energy with a strong platform to deliver on its strategic priorities:

- **Maintaining the core:** with a particular focus on maintaining sales performance whilst increasing commercial rigour and re-shaping our customer service organisation to meet the core needs of each segment
- **Delivering Smart in a way that meets the need of business customers:** with distinct rollout programmes shaped around the needs of Group and SME customers
- **Delivering Business Energy's transformation:** ensuring Business Energy is fit for the 2020s, fully standalone from the domestic retail business and with the capabilities required to maintain and grow the business

Strategic Priorities – Domestic electricity supply (Discontinued activity)

Energy supply businesses in Great Britain face a number of headwinds due to the rapidly evolving and increasingly competitive nature of the market. These headwinds can be characterised as four 'core' challenges to which SSE's domestic electricity supply business, conducted by SSE Electricity Limited from 1 April 2018, must respond in order to stay relevant and sustainable:

Competition: the energy supply market continues to intensify with more than 70 suppliers now competing to win and retain customers, the arrival of new entrants from start-ups to major multi-nationals such as Shell, Vattenfall and Engie, and record levels of customer switching, according to Energy UK data. As a result, despite ongoing efforts to attract and retain customers, in 2017/18 SSE GB domestic electricity customer accounts numbers fell to 3.82m compared with 4.06m at 31 March 2017.

Overheads: in this environment, ensuring controllable costs are as low as possible is key to staying competitive and offering customers value while delivering for shareholders; however, the cost of supplying energy is increasing and there is upward pressure from a number of areas principally the many and varied impacts of the smart meter roll-out, falling underlying energy consumption and lower customer numbers from whom to recover fixed costs.

Regulatory intervention: there will always be intense political interest in the energy market and this has major implications for the regulatory environment in which SSE Energy Supply operates. The Domestic Gas and Electricity (Tariff Cap) Bill 2017-19 is expected to receive royal assent in Summer 2018 and Ofgem is already consulting on how to implement this market-wide cap on standard household energy prices. Although SSE has warned against the unintended consequences of such a significant intervention in a rapidly evolving and highly competitive market, it is engaging constructively with Ofgem to help ensure the methodology used to set and update the cap is robust, fair and takes account of the real costs and risks of supplying energy to large and diverse range of customers. At the same time, transformational regulatory projects are being undertaken in the form of the smart meter roll-out and the faster switching programme. As well as introducing an unprecedented amount of change, implementing these projects requires a significant commitment of resources.

SSE Energy Supply Limited

Strategic Report (continued)

1 Business review (*continued*)

Strategic Priorities – Domestic electricity supply (Discontinued activity) (*continued*)

Evolving customer expectations: the energy market does not exist in a vacuum and customers' expectations continue to increase, informed by their experiences of other companies and markets. Demand is growing for more tailored, personalised services underpinned by data (used responsibly), seamless customer experiences across channels and devices, and an enhanced ability to 'self-serve' via user-friendly, intuitive digital platforms. In the longer term, the development of disruptive technologies from smart meters to domestic micro-generation, storage and electric vehicles could change fundamentally the nature of the services customers require.

Delivering the strategic priorities

In the longer term, SSE believes the planned SSE Energy Services transaction, of which the discontinued activities for the Company are a significant part, is the right strategic response to these issues, creating an independent business with singularity of focus and the ability to be more agile and responsive to changing market and customer dynamics.

However, this is subject to regulatory and shareholder approvals and in the interim the management responsible for domestic supply activities in SSE remain focused on that business' strategic priorities for addressing these challenges:

Attracting and retaining more customers: in a fiercely competitive market, winning and keeping customers is challenging and a key area of focus. In 2017/18, SSE continued to leverage its investment in entertainment sponsorship to offer additional rewards to customers in order to engage and retain them and more than 2.5m people visited SSE-sponsored venues during this 12-month period alone. To help engage customers in new ways, SSE is developing partnerships with leading retail brands such as Nectar and Argos. It will also soon launch a 'renew 1-year fix' tariff through which it will automatically sign up customers whose fixed-term deal is ending to a new fixed-term tariff with no exit fees – giving them price protection and, critically, introducing a new prompt to engage with their tariff choices on renewal each year.

Reducing cost to serve: given the competitive environment, upward pressure on costs and the need to keep energy as affordable as possible for customers, efforts to drive efficiency improvements are vitally important. In addition, further progress has been made to digitalise its front and back-office systems, rolling out further process automation to reduce administrative costs and helping more customers to self-serve online

Delivering smart in a safe, cost-effective and customer-centric way: the smart meter roll-out represents an opportunity to transform the relationship between customers, their energy supplier and the energy they consume. SSE remains committed to delivering on its obligations under the roll-out in a way that is safe, minimises where possible costs to customers, and maximises the net benefits to customers by engaging them with their energy use. To that end, as of 31 March 2018, SSE had almost 500,000 electricity smart meters on supply in customers' homes. Despite ongoing challenges associated with the availability of key enabling technology, generating demand from customers and timing the ramp-up of its workforce, SSE was pleased to deliver against its binding targets agreed with Ofgem for 2017 and is now preparing to make the transition to the enduring SMETS2 solution, once available. Given the degree of complexity and up-front investment costs involved, SSE has consistently argued that the roll-out and associated targets should be kept under review so that pragmatic, informed decisions can be made that lead to the highest possible net benefits to customers from the programme as a whole.

Building on SSE's customer-centric culture: despite the high volume of change being delivered, service remains a core SSE value and management is committed to retaining and building on its customer-centric culture. It continues to put customers at the heart of its decision-making and made improvements in its performance in the Citizens Advice Supplier Performance league table, after signing up to the Energy Switch Guarantee and achieving improvements in its call abandon rate. Fundamentally, it is recognised that no two customers are the same and that any customer can experience a form of vulnerability at some point; it was therefore delighted to deliver on its long-standing commitment to attaining the British Standard for Inclusive Service Provision, the 'gold standard' in recognising and adapting service to customer vulnerability in all its forms, awarded in March 2018 for the key areas of Complaints, Credit Management and Sales.

SSE Energy Supply Limited

Strategic Report (continued)

1 Business review (*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 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
- we are able to assess and react to weather conditions varying significantly from normal seasonal trends.

The main risks which the Company, for its continuing and discontinued activities, faces are as follows

- Competition impacting on volumes sold
- Exposure to volatility in wholesale electricity prices
- Payment default from trade debtors
- Interest rates, inflation and liquidity
- Economic and Government regulation
- Weather conditions varying significantly from normal seasonal trends

The Board reviews and agrees policies for addressing each of these risks. The key issue of exposure to energy prices and volume is addressed by the Retail Risk and Trading Committee which meets monthly and consists of three SSE Group Directors and relevant senior managers. As described, all market exposure to commodity positions held with third parties is transferred by trust to SSE EPM Limited; all residual exposures relate to the Company's own procurement and hedging activities. There is relatively little exposure to foreign currency risk as the United Kingdom is the Group's main area of operation. If wholesale electricity is contracted in foreign currency or indexed to foreign currency, it is policy to hedge all material purchases through the use of foreign currency swaps and forward rate contracts. There is always a risk of payment default from trade debtors and comprehensive credit vetting and effective payment terms are exercised for all significant financial statements. Good payment discipline is achieved in the domestic market by use of direct debit budget schemes. There is also the risk of mechanical or process failure in the Company's operations. Any material failure in the Group's licensed operations in electricity supply is particularly significant. Operating risk is addressed through the Company's focus on seeking operational excellence and on maintaining the highest standards of safety and quality. The Company is exposed to economic regulation and government policy. 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.

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 2018.

SSE Energy Supply Limited

Strategic Report (continued)

1 Business review (*continued*)

Retail – Conclusion and Priorities

After a solid performance in the 12 months to 31 March 2018, 2018/19 will be a year of fundamental change as the Company integrates the supply of electricity and gas to business customers as its principal activity and no longer conducts the discontinued activities transferred to newly created SSE Energy Services companies. As a Group, SSE will continue to adapt to the rapidly evolving competitive markets in which it operates. At the same time, it must retain a keen focus on its core operations and delivering on its strategic priorities to ensure it is well positioned for the future, regardless of the outcome from the proposed merger.

- In the UK domestic market, the new Company responsible for the domestic supply of electricity activity, SSE Electricity Limited, will be focused on:
 - attracting and retaining more customers;
 - reducing its operating costs;
 - delivering smart in a safe, cost-effective and customer-centric way; and
 - building on its customer-centric culture.
- In Business Energy, the Company's priorities are to:
 - further strengthen SSE's strong position in meeting the core energy needs of business and public sector customers
 - leverage internal capabilities with other SSE group companies to broaden the customer offering to include smarter products such as energy optimisation and demand side response.

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	2018	2017
Electricity supplied to average household kWh	3,775	3,793
Electricity supply domestic customers - millions (as at 31 March)	3.8	4.1
Electricity business supply volume - GWh	20,089	21,635
Operating profit on continuing operations- £m	62.4	67.4
Operating profit/(loss) on discontinued operations- £m	87.5	(36.4)
Net assets - £m	400.8	412.4

On behalf of the board



Finlay McCutcheon
Director
18 June 2018

SSE Energy Supply Limited

Directors' Report

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

1 Principal activities

SSE Energy Supply Limited is a private company limited by shares and is one of the largest energy suppliers operating in the competitive energy markets in Great Britain. The principal activity of the Company from 1 April 2018 is the supply of electricity and gas to business and public sector customers in Great Britain. The Company's activities of supply of electricity and provision of telecom and broadband services to household customers in Great Britain was disposed of to a related company in the SSE group on 1 April 2018. Further information is noted at 6, below.

2 Results and dividends

The profit for the financial year amounted to £536.5m (2017: profit of £127.9m).

The balance sheet at 31 March 2018 is set out on page 14 and presents net assets of £400.8m (2017: net assets of £412.4m).

A final dividend of £550.0m was declared, approved and paid in the year (2017: £80.0m).

3 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.

4 Political and charitable donations

The company did not make any political or charitable donations during the year (2017: £nil).

5 Disclosure of information to auditor

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

6 Post Balance Sheet Events

In preparation for the planned de-merger of the Domestic Retail businesses of SSE, on 1 April 2018, the domestic electricity and telecoms activities of the Company were migrated to two newly established entities within the SSE Group. At the same time the Business Energy Gas activities that have historically been contained within Southern Electric Gas Limited were transferred to the Company. This transfer means that with effect from 1 April 2018, the Company's principal activity is the supply of electricity and gas to business and public sector customers in Great Britain.

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 financial statements on a going concern basis, see note 1 for details.

On behalf of the Board:



Finlay McCutcheon

Director

18 June 2018

SSE Energy Supply Limited

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

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

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

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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

Opinion

We have audited the financial statements of SSE Energy Supply Limited ("the company") for the year ended 31 March 2018 which comprise the Profit and loss account, Statement of other comprehensive income, Balance sheet and Statement of changes in equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and directors' report

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

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

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

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 9, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

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

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



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

19 June 2018

SSE Energy Supply Limited

Profit and Loss Account for the year ended 31 March 2018

	Note	2018 £m	2017 £m
Turnover		2,279.1	2,299.4
Cost of sales		(2,154.7)	(2,187.0)
Gross profit		124.4	112.4
Administrative costs		(61.5)	(45.0)
Exceptional items	2	(0.5)	-
Operating profit from continuing operations		62.4	67.4
Interest receivable and similar income	7	18.3	21.8
Interest payable and similar charges	8	(1.5)	(0.4)
Profit before taxation		79.2	88.8
Tax on profit	9	(15.7)	(12.3)
Profit from continuing operations		63.5	76.5
Profit from discontinued operations, net of tax	4	473.0	51.4
Profit for the year		536.5	127.9

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

SSE Energy Supply Limited

Statement of Other Comprehensive Income for the year ended 31 March 2018

	2018 £m	2017 £m
Profit for the financial year	536.5	127.9
Loss on effective portion of cash flow hedges (net of tax)	-	(12.0)
Total other comprehensive income relating to the financial year	536.5	115.9

SSE Energy Supply Limited

Balance Sheet as at 31 March 2018

	Note	2018 £m	2017 £m
Fixed assets			
Tangible assets	10	-	2.0
Intangible assets	11	2.6	339.8
Investments	12	-	1.7
Biological assets	13	-	1.8
		<u>2.6</u>	<u>345.3</u>
Current assets			
Debtors:			
amounts falling due within one year	14	3,149.4	3,324.1
amounts falling due after more than one year	14	1,143.4	1,464.6
Cash at bank and in hand		57.9	119.3
Assets held for sale	15	<u>1,062.5</u>	<u>-</u>
Total current assets		<u>5,413.2</u>	<u>4,908.0</u>
Current liabilities			
Creditors: amounts falling due within one year	16	(3,923.3)	(4,694.4)
Derivative financial liabilities	17	(209.4)	(139.0)
Liabilities held for sale	15	<u>(875.9)</u>	<u>-</u>
Net current assets		<u>404.6</u>	<u>74.6</u>
Total assets less current liabilities		<u>407.2</u>	<u>419.9</u>
Creditors: amounts falling due after more than one year			
Provisions for liabilities and charges	18	(6.4)	(7.5)
Net assets		<u>400.8</u>	<u>412.4</u>
Capital and reserves			
Called up share capital	20	147.5	147.5
Profit and loss account		253.3	264.9
Equity Shareholders' funds		<u>400.8</u>	<u>412.4</u>

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

These 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

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

	Hedge reserve £m	Share capital £m	Profit and loss account £m	Total equity £m
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)
Balance at 31 March 2017	-	147.5	264.9	412.4
Balance at 1 April 2017	-	147.5	264.9	412.4
Profit for the financial year	-	-	536.5	536.5
Credit in respect of employee share awards	-	-	1.9	1.9
Dividends paid	-	-	(550.0)	(550.0)
Balance at 31 March 2018	-	147.5	253.3	400.8

SSE Energy Supply Limited

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

1 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 financial statements.

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101"). The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 have been applied.

In preparing these financial statements, the Company has applied the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ('Adopted IFRS'), but has made amendments, where necessary, in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company's parent undertaking, SSE Plc includes the Company in its consolidated financial statements. The consolidated financial statements of SSE Plc are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Inveralmond House, 200 Dunkeld Road, Perth, Perthshire, PH1 3AQ.

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;
- 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 IFRS 13 Fair value measurement and the disclosures required by IFRS 7 Financial instrument Disclosures

The Company is exempt by virtue of s400 Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its Group.

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

Going concern

The 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)
- 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.

SSE Energy Supply Limited

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

1 Significant accounting policies *(continued)*

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.

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.

Continued improvement in confidence from the resolution of long-standing electricity issues with the quality of grid supply point metering and national settlements data, coupled with unmetered volume generation from feed in tariff customers and other impacts not metered by the industry, allows for additional revenue of c.£42m (2017: £60.0m) (0.9% of income) to be recognised in the year. This is allocated evenly between customers in the continuing and discontinuing activities of the Company.

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.

Provisions

A provision is recognised on the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Finance income and costs

Finance income is recognised as it is accrued in profit or loss using the effective rate method. Finance costs comprise interest expenses on borrowings and other charges.

Trade Receivables

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. The analysis of the ageing of trade receivables is used as the basis for the movement in the provision for bad and doubtful debts, and the net trade receivables is expected to be recoverable.

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.

SSE Energy Supply Limited

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

1 Significant accounting policies *(continued)*

Intangible assets

(i) Accounting for costs of the smart meter infrastructure programme – Accounting Judgement

Through its participation in the UK smart metering programme, the Company is required to make payments to the Data Communications Company (“DCC”) as it develops infrastructure to support the UK smart meter roll-out. The Company has assessed the DCC costs incurred will provide future economic benefit and the Company has the power to control certain assets through the terms of the Smart Meter Code. These assets relate to the centralised infrastructure costs of the UK’s smart meter programme. At 31 March 2018, the costs capitalised to date total £86.6m (2017: £54.4m). The Company is aware that other market participants have elected to expense these costs as incurred, however, given that it has been assessed that control exists over these assets, they have been capitalised.

(ii) Other intangible assets

Other intangible assets that have been acquired by the Company are stated at cost less accumulated amortisation and impairment losses. The brand value was assessed to have an economic life of 10 years and was amortised on a straight-line basis over this period. The brand is now fully amortised. Expenditure on internally generated brands is expensed as incurred.

(iii) Development assets and Software

Development expenditure relates to costs incurred on developing new software for the Retail Transformation Programme. The programme is the key delivery vehicle for the Company to deliver the infrastructure and technology required to meet its Smart Meter obligations. Responsibility for these activities is part of the activities transferred to SSE Electricity Limited on 1 April 2018. 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	3 - 15

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.

SSE Energy Supply Limited

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

1 Significant accounting policies *(continued)*

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.

Assets held for sale

Non-current assets are classified as held for sale if their recoverable value is likely to be recovered via a sale opposed to continued use by the Company. In order to be classified as non-current assets held for sale, assets must meet all of the following conditions; the sale is highly probable, it is available for immediate sale, it is being actively marketed and the sale is likely to occur within one year.

Non-current assets determined as held for sale are measured at the lower of carrying value and fair value less costs to sell, no depreciation is charged in respect of these assets after classification as held for sale.

2 Expenses and auditor's remuneration

Included in profit/loss are the following:

	2018 £m	2017 £m
Amortisation of Intangible assets	37.8	8.6
Exceptional items	29.8	88.2

The audit fee in the year and the previous year was borne by the Parent company, £38.0k of this was in relation to the audit of SSE Energy Supply Limited (2017: £18.5k).

During the year the Group decided to discontinue the development of its Connected Homes and In-House Experience programmes, along with projects relating to Metering Reporting and Smart Enhancements. As there was no enduring value to spend incurred this has been recognised as an exceptional impairment of £28.7m in respect of intangible assets (note 11) and £1.1m of related charges. Of the £29.8m total charge, £0.5m relates to continuing operations and £29.3m to discontinued operations.

During the prior 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. All of this charge relates to discontinued operations.

3 Staff costs and numbers

	2018 £m	2017 £m
Staff costs:		
Wages and salaries	46.6	38.1
Social security costs	4.5	3.7
Share based remuneration	2.8	1.9
Contributions to defined contributions plans	6.5	5.4
	60.4	49.1

SSE Energy Supply Limited

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

3 Staff costs and numbers *(continued)*

Employee numbers

	2018 Number	2017 Number
Numbers employed at 31 March	1,546	1,386
	2018 Number	2017 Number
The monthly average number of people employed by the Company during the year	1,486	1,217

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.

	2018 £000	2017 £000
Directors remuneration	2,059.7	1,198.9
Amounts receivable under long term incentive schemes	252.0	363.1

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid director was £667k (2017: £662k), and company pension contributions of £nil (2017: £nil) were made to a money purchase scheme on his behalf.

4 Discontinued operations

	2018 £m	2017 £m
Turnover	2,482.5	2,375.2
Cost of sales	(2,106.7)	(2,103.8)
Gross profit	375.8	271.4
Administrative costs	(259.0)	(219.6)
Exceptional items	(29.3)	(88.2)
Operating profit/(loss) from discontinued operations	87.5	(36.4)
Dividend income from fixed asset investments	400.0	80.0
Profit from discontinued operations	487.5	43.6
Tax on profit from discontinued operations	(14.5)	7.8
Profit from discontinued operation, net of tax	473.0	51.4

The discontinued operations represent the domestic electricity supply and retail telecom and broadband service operations which were transferred to newly established companies in the SSE Energy Services Group at 1 April 2018 (note 23).

SSE Energy Supply Limited

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

5 EPM trust transactions

Since the establishment of the EPM trust agreement, as explained in the Strategic Report, the assets and liabilities held on behalf of SSE EPM Limited are included within the financial statements of the company.

Movement in Trust:

	2018 £m	2017 £m
Opening balances at 1 April	557.0	693.2
Add: Increase/(decrease) in intercompany debtor in relation to trust assets and liabilities	103.4	(136.2)
At 31 March	660.4	557.0

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

	2018 £m	2017 £m
Trade debtors	(1,913.2)	(1,861.5)
Cash and cash equivalents	(0.1)	(0.1)
Trade creditors	2,395.0	2,302.0
Accruals and prepayments	19.8	13.9
Operating derivatives	191.4	123.7
Deferred tax	(32.5)	(21.0)
Net trust asset- intercompany debtor in relation to trust assets and liabilities	660.4	557.0

6 Income from other fixed asset investments

	2018 £m	2017 £m
Dividend income	400.0	80.0

7 Interest receivable and similar income

	2018 £m	2017 £m
Net interest receivable from group undertakings	18.2	20.9
Other interest receivable	0.1	-
Foreign exchange translation of monetary assets and liabilities	-	0.9
	18.3	21.8

SSE Energy Supply Limited

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

8 Interest payable and similar charges

	2018 £m	2017 £m
Net interest payable to group companies	9.5	7.6
Interest capitalised	(8.0)	(7.2)
	<u>1.5</u>	<u>0.4</u>

9 Taxation

	2018 £m	2017 £m
UK corporation tax		
Current tax on income for the period	15.6	18.7
Total current tax charge	<u>15.6</u>	<u>18.7</u>
Deferred tax (see note 19):		
Origination and reversal of temporary differences	(0.5)	(0.8)
Change in applicable tax rate	-	5.3
ACA's arising on intercompany transfer	-	(11.2)
Adjustment in respect of prior periods	0.6	0.3
Total deferred tax	<u>0.1</u>	<u>(6.4)</u>
Total tax on profit on continuing operations	<u>15.7</u>	<u>12.3</u>

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

	2018 £m	2017 £m
Profit before taxation (continuing operations)	<u>79.2</u>	<u>88.8</u>
Tax on profit at standard UK corporation tax rate of 19% (2017: 20%)	15.0	17.7
Effects of:		
Expenses not deductible for tax purposes	0.1	0.2
Effect of rate change	-	5.3
ACA's arising on intercompany transfer	-	(11.2)
Deferred tax adjustment in respect of previous periods	0.6	0.3
Total tax charge for year on continuing operations	<u>15.7</u>	<u>12.3</u>

The standard rate of UK corporation tax changed from 20% to 19% with effect from 1 April 2017. An additional reduction to 17% will come into effect from 1 April 2020 which will reduce the company's future current tax charge accordingly.

SSE Energy Supply Limited

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

10 Tangible fixed assets

	Land & buildings £m	Total £m
Cost:		
At 1 April 2017	2.0	2.0
Transfer to held for sale	(2.0)	(2.0)
At 31 March 2018	-	-
Accumulated depreciation:		
At 1 April 2017	-	-
At 31 March 2018	-	-
Net book value:		
At 31 March 2018	-	-
At 31 March 2017	2.0	2.0

The Group has committed to sell these assets over the course of the next financial year and has transferred them to held for sale (note 15).

11 Intangible assets

	Fixed Assets Brand Value (i) £m	Development assets (ii) £m	Software (iii) £m	Total £m
Cost:				
At 1 April 2017	9.0	373.9	125.9	508.8
Additions	-	99.5	-	99.5
Transfers	-	(102.0)	102.0	-
Transfers to held for sale	-	(371.4)	(224.4)	(595.8)
At 31 March 2018	9.0	-	3.5	12.5
Amortisation and impairment:				
At 1 April 2017	9.0	132.7	27.3	169.0
Amortised in the year	-	-	37.8	37.8
Transfer to held for sale	-	(161.4)	(64.2)	(225.6)
Impairment charge for the year	-	28.7	-	28.7
At 31 March 2018	9.0	-	0.9	9.9
Net Book Value:				
At 31 March 2018	-	-	2.6	2.6
At 31 March 2017	-	241.2	98.6	339.8

The impairment in the year relates to the Groups decision to cease the development of its connected homes projects, in-home experience programme and and other projects (see note 2).

The transfer to held for sale relates to the transfer of domestic energy assets out of SSE Energy Supply Ltd (see note 23).

The net book value of £2.6m represents the remaining business energy asset.

SSE Energy Supply Limited

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

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 brand is now fully amortised.

(ii) Development Assets

Development assets includes costs that have been capitalised in relation to the ongoing retail transformation programme software development.

(iii) Software

Represents software developed and currently in use as part of the retail transformation programme. A useful life of between 3 and 15 years has been determined for the assets.

12 Fixed asset investments

	Investment in subsidiary undertakings £m	Total £m
Cost		
At 1 April 2017	1.7	1.7
Disposals	(1.2)	(1.2)
Impairment	(0.5)	(0.5)
At 31 March 2018	-	-
At 31 March 2017	1.7	1.7

During the current financial year the company sold its investments in VantagePoint CleanTech Partners II, L.P and Shackleton Secondaries 3 Limited Partnership Fund to a fellow SSE Plc subsidiary, SSE Venture Capital Limited for £1.2m, recognising nil gain or loss on disposal. In addition, the Company's investment in the ESPS fund was impaired to nil, incurring a charge of £0.5m.

On 1 April 2018, the Company sold its investments in SSE Electricity Limited (formerly South Wales Electricity Limited) for book value consideration of £1 and Southern Electric Gas Limited for book value consideration of £1. The investments were held for sale at 31 March 2018.

Details of the principal subsidiary undertakings, joint ventures and associates as at 31 March 2018 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, RG1 3JH.

13 Biological assets

The company owns 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 2017	1.8
Transfer to held for sale	(1.8)
At 31 March 2018	-

The Group has committed to sell these assets over the course of the next financial year and transferred these to assets held for sale (note 15). These assets are not part of the transfer of activities to companies in the SSE Energy Services group.

SSE Energy Supply Limited

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

14 Debtors

	2018 £m	2017 £m
Amounts falling due within one year:		
Trade debtors	2,050.5	2,140.5
Prepayments and accrued income	249.6	487.9
Amounts owed by group undertakings	56.8	75.9
Deferred tax asset (note 20)	70.2	62.8
Other debtors	61.9	-
Amounts due from trust	660.4	557.0
	3,149.4	3,324.1
Amounts falling due after more than one year:		
Amounts due from group undertakings	1,143.4	1,464.6
	1,143.4	1,464.6

The amounts due from Group undertakings are in respect of amounts owed from its parent, SSE plc. Interest is charged at 5.52% (2017: 5.84%).

15 Assets classified as held for sale

	2018 £m	2017 £m
Land and forestry assets held for sale:		
Tangible assets	2.0	-
Biological assets	1.8	-
	3.8	-
Domestic Electricity Supply and Retail Telecom assets:		
Intangible assets	370.2	-
Stock	0.2	-
Debtors: amounts due falling in one year	609.9	-
Cash & Cash equivalents	78.4	-
	1,058.7	-
Total assets classified as held for sale	1,062.5	-
Domestic Electricity Supply and Retail Telecom liabilities:		
Creditors: amounts due falling in one year	(869.0)	-
Derivative financial liabilities	(1.8)	-
Provisions	(5.1)	-
	(875.9)	-
Total liabilities classified as held for sale	(875.9)	-

The tangible and biological assets held for sale relate to forest land and the living trees in Acharossan and are separate from the assets and liabilities transferred to the SSE Energy Services group on 1 April 2018 (see note 23).

16 Creditors: amounts falling due within one year

	2018 £m	2017 £m
Trade creditors	2,429.5	2,436.1
Amounts owed to group undertakings	906.2	1,078.1
Other creditors	96.8	45.9
Corporation tax payable	12.6	3.9
Accruals and deferred income	478.2	1,130.4
	3,923.3	4,694.4

SSE Energy Supply Limited

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

17 Derivatives and financial instruments

The following are the contractual maturities of derivative financial liabilities:

For the year ended 31 March 2018:

	Carrying amount £m
Derivative financial instruments	<u>(209.4)</u>

For the year ended 31 March 2017:

	Carrying amount £m
Derivative financial liabilities	<u>(139.0)</u>

The financial derivative liability has increased following unfavourable changes in Power Prices and SSES taking out new out of the money contracts.

18 Provisions for liabilities and charges

	Total £m
At 1 April 2017	7.5
Arising during the year	10.6
Released during the year	(5.2)
Utilised during the year	(1.4)
Transfer to held for sale	(5.1)
At 31 March 2018	<u>6.4</u>

The provision of £6.4m is attributable to business energy and is in relation to specific obligations (2017: £7.5m).

SSE Energy Supply Limited

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

19 Deferred taxation

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2018	2017	2018	2017	2018	2017
	£m	£m	£m	£m	£m	£m
Tangible fixed assets	-	-	(8.0)	(7.9)	(8.0)	(7.9)
Provisions	3.4	3.2	-	-	3.4	3.2
Financial assets	68.3	67.5	-	-	68.3	67.5
Other	0.4	-	-	-	0.4	-
Net tax assets	72.1	70.7	(8.0)	(7.9)	64.1	62.8
Transfer to held for sale					6.1	-
Total					70.2	62.8

Movement in deferred tax during the year

	1 April 2017	Recognised in income	Recognised in equity	31 March 2018
	£m	£m	£m	£m
Tangible fixed assets	(7.9)	(0.1)	-	(8.0)
Provisions	3.2	0.2	-	3.4
Financial assets	67.5	0.8	-	68.3
Other	-	0.4	-	0.4
Net tax assets	62.8	1.3	-	64.1
Transfer to held for sale				6.1
Total				70.2

Movement in deferred tax during prior year

	1 April 2016	Recognised in income	Recognised in equity	31 March 2017
	£m	£m	£m	£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

SSE Energy Supply Limited

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

20 Share capital

	2018 £m	2017 £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 Aviva.

The Company's share of the total contribution payable to the pension schemes during the year was £6.5m (2017: £5.4m).

22 Commitments and contingencies

Guarantees and indemnities

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

	2018 £m	2017 £m
Performance of contracts	21.0	16.0
Upward guarantee to SSE plc	-	1,000.0

23 Post Balance Sheet Event

On 1 April 2018, the Group undertook a reorganisation of the existing combined domestic and business energy supply businesses to create a new GB domestic energy supply and services sub-group headed by SSE Energy Services Group Limited, in advance of the proposed demerger. Through this reorganisation, various customers, employees, businesses and individual assets or liabilities were transferred between subsidiaries of SSE plc. Initial consideration for the transfers has been set, with final transfer values to be agreed once completion adjustments are finalised.

For SSE Energy Supply Limited, the individual assets and liabilities relating to Domestic electricity supply customers were disposed of and the individual assets and liabilities relating to Business gas supply customers were acquired, both for consideration equal to their book value (see note 15). Two subsidiary companies – Southern Electric Gas Limited and SSE Electricity Limited (formerly South Wales Electricity Limited) were also disposed of, both for consideration equal to their book value. Therefore, no gain or loss is expected as a result of this reorganisation. There was no change to the immediate parent company.

24 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, Inverlmond House, 200 Dunkeld Road, Perth, PH1 3AQ or by accessing the Company's website at www.sse.com.