

Registration number: 03757502

SSE Energy Supply Limited

Directors report and Financial Statements

for the Year Ended 31 March 2022



SSE Energy Supply Limited

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SSE Energy Supply Limited

Company Information

Directors	Aled Humphreys Klair Neenan Nicola Flanders Finlay McCutcheon
Company secretary	Peter Lawns
Registered office	No. 1 Forbury Place 43 Forbury Road Reading RG1 3JH
Bankers	National Westminster Bank 13 Market Place Reading RG1 2EG
Auditors	Ernst & Young LLP G1 Building 5 George Square Glasgow G2 1DY
Registered number	03757502

SSE Energy Supply Limited

Strategic Report for the Year Ended 31 March 2022

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

This Strategic Report has been prepared in accordance with the requirements of Section 414 of the Companies Act 2006. Its purpose is to inform shareholders and help them assess how the directors have performed their duty to promote the success of SSE 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 2022, as well as those matters which are likely to affect its future development and performance. The Company consists of two components, SSE Business Energy which is the trading arm of the Company and EPM Trust which holds the energy portfolio management activities.

1. Fair review of the business

The profit and loss account for the year ended 31 March 2022 is set out on page 18. The profit for the year after taxation amounted to £605.2m (2021: £145.7m). This is driven by the point in time market valuation operating derivatives year on year. That is, market prices had risen relative to the prior 12 months as at 31 March 2022. The balance sheet at 31 March 2022 is set out on page 19 and shows net assets of £888.2m (2021: £282.3m). Adjusted operating profit (as defined in the Financial Performance section on page 3) fell from £16.4m loss to £28.6m loss, due to the impact of the energy price crisis which has seen record highs predominantly in commodity costs.

Transitional Services Agreements

SSE plc entered into an agreement to sell SSE Energy Services Group Limited to OVO Energy Limited, a wholly owned subsidiary of OVO Group Limited in 2019. The transaction completed in January 2020.

SSE Business Energy, part of SSE Energy Supply Limited, relies on shared IT systems, infrastructure and services with SSE Energy Services Group Limited. To support the sale process, Transitional Services Agreements (TSA) were put in place with the acquiring party to ensure continuity of business operations and allow each business time to separate and migrate to new IT systems and software post-sale. The Company has established Programmes teams to stand-up new systems and capability to enable the termination of the TSA services within the required timescales.

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.

SSE Energy Supply Limited

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

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. The adjusted operating profit fell from £16.4m loss to £28.6m loss year on year due to the impact of the energy price crisis which has seen record highs predominantly in commodity costs. 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 or scale and of such significance that separate disclosure is required for the financial statements to be properly understood. In the prior year, a provision for unrecoverable customer debts related to the coronavirus pandemic had been released of £8.3m due to better than expected debt recovery in the period, which is largely due to government support schemes which were not in place at 31 March 2020. Under IFRS 9 the re-measurement of the derivatives resulted in a gain of £744.9m recognised through the profit and loss account for this financial year.

The following table reconciles the continuing operating profit to the adjusted operating profit

	2022 £ m	2021 £ m
Reported operating pre-tax (loss)/profit from continuing operations	716.3	172.7
Add back: Exceptional items (note 4)	-	(8.3)
Add back: Derivative re-measurements (note 18)	(744.9)	(180.8)
Adjusted operating profit/ (loss)	(28.6)	(16.4)

Strategic priorities - Business electricity and gas supply

The supply of energy to business and public sector customers throughout Great Britain is the principal activity of the Company from 1 April 2021. For electricity, this involves supply to a market which consumes a total of around 160TWh of electricity annually, and for gas, this involves supply to a market which consumes a total of around 7 billion therms of gas annually. The market is deeply segmented, covering customers from single site microbusinesses to large national multi-site groups and large industrial users. SSE Energy Supply Limited has a strong position in each of those segments. 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 the Company, whilst others are leveraged across the wider SSE Group, for example deep knowledge of wholesale energy and non-commodity costs that enable the Company to develop and price products that navigate the increasing complexity of the GB energy market. The Company also provides a route to market for other SSE Group companies' electricity output through standard contracts and power purchase agreements and has also broadened into regulated services such as energy optimisation and demand side response where there is an opportunity to use data and technology to improve outcomes.

As previously explained on page 2, SSE sold the domestic retail business in January 2020. SSE Energy Supply Limited maintains a strong and focused capability to deliver on its strategic priorities, focussed on business customers, through:

Maintaining the core: with a particular focus on maintaining sales performance whilst increasing commercial rigour and serving the needs of our customers. As the business further expands into energy solutions in line with the SSE Group's net zero commitments, this will provide additional revenue opportunities.

SSE Energy Supply Limited

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

Delivering Business Energy's strategic 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. In 2021/22 Business Energy continued to progress its key strategic delivery, the Core Platform Replacement (CPR) Programme; expand its digital customer facing capability; and prepare for industry-wide Faster Switching. The business has completed design and development of the Core Platform Replacement and moves into testing, business readiness and customer migrations in 2022/23. In addition, through 2021/22 the Company developed SSE Energy Solutions' website, and new digital customer capability for taking meter readings, online payments and account management functions. In 2022/23 we will enable an enhanced online quotation service for micro business customers.

Delivering regulatory obligations in a way that meets the needs of business customers:

- In 2021/22 Business Energy continued to deliver the requirements of Ofgem Smart Meter obligations through the roll out of SMETS2 meters.
- In July 2022, SSE successfully launched faster switching services in accordance with the industry wide go-live.
- We commenced preparations for Mandatory Half Hourly Switching (MHHS), this industry wide programme is set to run to 2024/25 and fundamentally changes industry settlement of energy, enabling more dynamic and flexible tariffs and services for customers.

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 energy market encountered unprecedented commodity price changes from summer 2021 through the remainder of the financial year. The Company has been able to successfully navigate the market volatility in this period, which led to the failure of over 29 domestic suppliers, although substantial Renewables Obligation (RO) mutualisation cost was incurred as a result of failed suppliers and the business experienced higher than anticipated costs from National Grid balancing the energy system (BSUoS). The turbulent energy market is continuing in 2022 and both the Government and Ofgem are reviewing changes to future Energy policy and regulatory measures as a result of the crisis.

Covid-19

In 2021/22, the UK emerged from the restrictions and lockdowns of the previous year. As the economy improved customer energy demand improved, although still approximately 5% below a 2019 pre-covid baseline. The Company continued to operate with a largely remote working culture, and Flexible First approach. Customer debt continued to present as an issue, as customers held onto payments for longer as they recovered business operations and faced into higher energy market costs in the second half of the year.

Principal risks and uncertainties

The achievement of the Company's strategic priorities 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 strategic priorities;
- 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.

SSE Energy Supply Limited

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

The main risks which the Company faces are as follows:

- Exposure to volatility in wholesale energy prices
- Payment default from trade debtors
- Interest rates, inflation and liquidity
- Economic risk and Government regulation
- Competition impacting on volumes sold
- Delivery of key transformation programmes

The Company is exposed to economic regulation, industry mutualisation and government policy.

The directors, with support from senior leadership teams, agree policies for addressing each of these risks. Throughout 2021/22, the key exposure to energy prices and volume was addressed by the Commercial function in the Company working with the EPM (trading and markets) Group capability. The Energy Customer Solutions Executive Committee oversees the strategic direction, performance and risk management of SSE Energy Supply Limited. Risks are reported to the Committee on a monthly basis and to the SSE plc Board when certain trigger levels are exceeded. 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. 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 Directors through the Energy Customer Solutions Executive Committee, the SSE PLC Board and the SSE 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 Directors are aware of the political uncertainty as a result of Brexit. This is being closely monitored by the Directors but, given the activities of the Company, is not expected to have a significant impact on the financial statements for the year ended 31 March 2022.

SSE Energy Supply Limited

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

2. Key performance indicators

The Directors believe that the following indicators will provide shareholders with sufficient information to assess how effectively the Company is performing. Adjusted operating profit as mentioned above is due to the impact of energy price crisis. Commodity prices and prior year supplier failures have led to higher than forecast commodity costs.

	2022	2021
Business Energy electricity sold - GWh	12,645.0	13,070.0
Business Energy gas sold - mtherms	218.0	216.6
Business Energy customers' accounts - millions	0.47	0.48
Adjusted operating profit/(loss) on continuing operations - £m	(28.6)	(16.4)
Net assets - £m	888.2	282.3
	31 March	31 March
	2022	2021
	£ m	£ m
Revenue	2,323.6	1,961.5
Gross profit	810.0	259.4
Operating profit/(loss)	716.3	172.7
Profit/(loss) before tax	717.1	179.4
Profit/(loss) after tax	605.2	145.7
Net assets	888.2	282.3
Total assets	3,404.2	2,233.1

3. Section 172 Statement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the Company for the benefit of its members as a whole. In furtherance of this, section 172 requires a director to have regard amongst other matters, to the:

- likely consequences of any decisions in the long term;
- interests of the Company's employees;
- need to foster the Company's business relationships with suppliers, customers and others;
- impact of the Company's operations on the community and environment;
- desirability of the Company maintaining a reputation for high standards of business conduct; and
- need to act fairly as between members of the Company.

In discharging their section 172 duties, the Directors of the Company, have regard to the factors set out above. They also have regard to other factors which they consider relevant to the decision being made. Those factors, for example, include the Company's applicable regulatory and legal obligations which are set out in various licences, codes, and EU and UK legislation, including The Gas Act 1986 and The Electricity Act 1989.

The Directors acknowledge that every decision taken will not necessarily result in a positive outcome for all of the Company's stakeholders. However, by considering the SSE Group's, and therefore Company's, purpose, vision and values, together with its strategic priorities, and having agreed processes in place for decision-making, they do aim to ensure that decisions are consistent and appropriate in all circumstances.

As is normal for large companies, authority for day-to-day management of the Company is delegated to senior management, with the setting and oversight of business strategy and related policies, the responsibility of the Directors.

SSE Energy Supply Limited

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

The Company is represented by the three Directors on the Energy Customer Solutions (the Executive Committee) which reviews health and safety, financial and operational performance and legal and regulatory compliance at every meeting, in addition to other pertinent areas over the course of the financial year, including: the Company's business strategy; key risks; stakeholder-related matters; diversity and inclusion; environmental matters; corporate responsibility and governance, compliance and legal matters. This is done through the consideration and discussion of reports which are sent in advance of each meeting and through presentations to the Executive Committee.

SSE Energy Supply Limited has a trust arrangement with SSE EPM Limited whereby SSE Energy Supply Limited enters into trades on behalf of EPM but the economic impact of these trades is borne by SSE EPM Limited.

The views of the Company's stakeholders are always considered where appropriate in decision making across the SSE Group. The mechanisms which are in place to assist the Director's in understanding relevant views are set out on page 8. Information is generally provided in a range of different formats including specific reports and presentations on financial and operational performance, non-financial KPIs, risk, ESG matters and the outcomes of specific pieces of engagement, with the intended outcome being a rounded understanding of stakeholder issues and concerns.

Set out below are examples of how the Directors have had regard to the matters set out in section 172 (1) (a)-(f) when discharging their section 172 duty and the effect of that on principal decisions taken.

The Executive Committee took decisions throughout the year in the following broad areas:

Strategy

The Executive Committee reviews the Company's agreed strategic priorities against its established purpose (see page 3). During 2021/22, this review considered amongst other matters: customer needs; customers engagement on debt; Marketing/Brand; IT Systems and digital development; data and analytics; people; and culture. Decisions were made to create and launch a new Website and new products (such as Corporate PPAs) and deliver digital investment to improve customer service.

Budget

Each year financial allocation and expenditure is discussed and approved by the ECS Executive Committee through the agreed budget. This is supported by regular review of performance and consideration of agreed longer term strategic objectives. The review of budget this year gave consideration to improving IT systems, resourcing, data and analytics. Decisions were assessed based on benefits to the business, cost and impact on customers and staff.

Risk

A full description of the Company's approach to risk management and the identified impact of Brexit is disclosed on page 5. Areas of focus in 2021/22 included changes to Out of Contract tariffs, commodity hedging, non-commodity price forecasts, IT system transformations, Sales Performance, debt, and regulatory compliance.

People

A programme of activity to support the Company's wider people strategy was subject to discussion and agreement by the Executive Committee. This was informed, in part, by the output of the annual all-employee great place to work survey results. The Executive Committee has supported and led the direction of the Group's Flexible First working arrangements, delivered upon a new Pay Progression structure for Jointly Negotiated Contract staff, and implemented reward, recognition and incentive schemes to drive performance and behaviours.

SSE Energy Supply Limited

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

Customers

The Customer Executive Committee considered how best to support customers throughout the year in respect to the launch of new products and services, satisfaction levels and improvements to customer service, and the financial impact of high and volatile energy prices. The Company undertook a number of actions to improve and expand capability in each of these areas including launching new corporate power purchase agreements, improving our digital customer channel - making it easy and simple for customers to complete core account management activities online, and supporting customers with payment plans and debt advice.

Stakeholder engagement

The Company's stakeholders are people, communities and organisations with an interest or concern in its purpose, strategy, operations and actions, and who in turn, may be affected by them. This includes: shareholders and debt providers; employees; government and regulators; NGOs, communities and civil society; suppliers, contractors and partners; and energy customers. The perspectives, insights and opinions of stakeholders are recognised as a key factor in the relevant operational, investment and business decisions taken by the Company and its Directors, to ensure that as a whole they are more robust and sustainable.

While there are cases where the Directors may judge it appropriate to engage directly with certain stakeholder groups, the size and spread of both the Company's stakeholders and those of the SSE Group, of which the Company sits within, means that stakeholder engagement takes place at many different levels. This includes at SSE Group level, business unit level, company level and operational level. This holistic approach allows a broader representation and deeper understanding of all stakeholder views and contributes towards a greater outcome for business, environmental, social and governance matters than by working in isolation.

Details of the mechanisms which are used to engage with stakeholders across the SSE Group, in order to gain understanding of the issues which they deem material are set out on pages 32 to 39 of the SSE plc Annual Report 2022. Details of those specific to the Company are set out below:

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

Similarly, in order to ensure that there has been adequate engagement in fostering the Company's business relationships with supplier, customers and other relevant parties, representations are made on a monthly basis at business unit level by business partners which represent the areas of Procurement, Corporate Affairs and Legal within SSE Energy Customer Solutions. Such representations are designed to inform the Directors of the current nature of the relationship, the strategic significance that the relationship offers to support the objectives of the business, and the prospects or issues associated with the continued fostering of the relationship.

For further details of the effect that the regard of such engagement has had on the principal decisions of the Company, please see the examples set out in the Directors Section 172 statement.

Approved by the Board on 2 November 2022 and signed on its behalf by:



Aled Humphreys
Director

SSE Energy Supply Limited

Directors' Report for the Year Ended 31 March 2022

The Directors present their report and financial statement for SSE Energy Supply Limited (the "Company") for the year ended 31 March 2022.

Directors' of the company

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

Aled Humphreys

Klair Neenan

Nicola Flanders

Finlay McCutcheon

The following Director resigned after the year end:

Finlay McCutcheon (resigned 01 April 2022)

The following Director was appointed after the year end:

Gordon Bell (appointed 01 April 2022)

Principal activity

The principal activity of the Company is the supply of electricity and gas to business and public sector customers in Great Britain. 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.

Results and dividends

The profit for the financial year amounted to £605.2m (2021: £145.7m).

The balance sheet at 31 March 2022 is set out on page 19 and indicates net assets of £888.2m (2021: net assets of £282.3m).

No dividend was declared, approved and paid in the year (2021: nil).

Political and charitable donations

The Company did not make any political or charitable donations during the year (2021: £nil).

SSE Energy Supply Limited

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

Going concern

The financial statements are prepared on a Going Concern basis which has been supported by the provision of a parental letter of support from SSE plc. The SSE Group letter of support confirms it will provide support for a period through to 31 December 2023 where required. The Directors are satisfied that the SSE Group has the ability to provide this support, should it be required.

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

Having reviewed the financial strength of the SSE Group, the Directors are satisfied that the Group, and the Company itself, will remain funded for the foreseeable future. The Directors have therefore concluded it is appropriate for the financial statements to be prepared on a going concern basis.

Corporate governance statement

As a subsidiary company of the SSE Group, the corporate governance arrangements which apply to the Company are defined by SSE's Group Governance Framework. This is set out on pages 124 and 125 of the SSE plc Annual Report 2022.

SSE's Group Governance Framework is reflective of the Principles and Provisions of the UK Corporate Governance Code (the Code), which apply to the parent company, SSE plc. It defines the delegation of authority and accountability within the Group; enables review and challenge of management performance; is a pillar of SSE's System of Internal Control; and supports the processes by which principal and emerging risks are identified and managed. The Directors of the Company discharge their duties in line with the governance standards and processes agreed at Group level.

The Company itself does not have listed shares and therefore is not subject to the Code. It has not voluntarily applied the Code nor another publicly available corporate governance code and has instead operated within the Group Governance Framework described above and below.

The Group's approach to corporate governance and compliance with the Code can be found in the Directors' Report within the SSE plc Annual Report and Accounts 2022 at www.sse.com/reportsandresults.

SSE plc Group ("the Group")

The Group's purpose is to provide energy needed today, while building a better world of energy for tomorrow. Its vision is to be a leading energy company in a net zero world and its strategy is to create value for shareholders and society in a sustainable way by developing, building, operating and investing in the electricity infrastructure and businesses needed in the transition to net zero. All of which are underpinned by SSE's core values: Safety, Service, Efficiency, Sustainability, Excellence and Teamwork; that are designed to guide decisions and actions within SSE and contribute to the overall culture.

SSE Energy Supply Limited

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

The Group's purpose is to provide energy needed today, while building a better world of energy for tomorrow. Its vision is to be a leading energy company in a net zero world and its strategy is to create value for shareholders and society in a sustainable way by developing, building, operating and investing in the electricity infrastructure and businesses needed in the transition to net zero. All of which are underpinned by SSE's core values: Safety, Service, Efficiency, Sustainability, Excellence and Teamwork; that are designed to guide decisions and actions within SSE and contribute to the overall culture.

More on the Company's strategy and business objectives can be found from page 2 of the Strategic Report.

More on the Group's strategy can be found from page 2 to 5 of the SSE plc Annual Report 2022 and more on culture can be found on page 140 to 141.

There are five principal SSE plc Board committees: a Nomination Committee; an Audit Committee; a Safety, Sustainability, Health and Environment Advisory Committee; an Energy Markets Risk Committee; and a Remuneration Committee. Full details of the role of each Committee, membership and work undertaken during 2021/22 is set out in the published SSE plc Annual Report and Accounts 2022.

SSE Energy Supply ("the Company")

Board of Directors

The composition of the Board is set out on page 9. All Directors are experienced senior business leaders and are deemed to possess the appropriate breadth of knowledge and expertise to discharge their role effectively. As the Company is a wholly owned operating subsidiary within the SSE Group, the Directors believe that the Board is of an appropriate size in the context of the overall SSE Group Governance Framework. Agreed procedures are in place to manage and mitigate actual or potential conflicts of interest with Board or Company business.

The Board does not have a supporting Nomination, Remuneration or Audit Committee. These functions are dealt with, where required, in conjunction with the relevant committee of the SSE Group Board.

SSE has a Group-wide inclusion and diversity strategy including self-led gender ambitions, details of which can be found on pages 64 and 65 of the SSE plc Annual Report. Any changes and appointments to the Board consider both SSE's approach to inclusion and diversity and the desire to have a Board which is balanced overall and supports the Company's needs.

Board leadership

The strategic leadership the Board provides to the Company is described across the Strategic Report.

Board effectiveness

On appointment all Directors receive induction and briefings on areas pertinent to their role such as a Director's legal duties. The ongoing effectiveness of the Board is supported by performance evaluation across SSE's business units and a commitment to personal development and training by each Director.

Opportunity, Risk, and Internal Control

The long-term sustainable success of the Company, including the opportunities and risks to this, are explicitly considered by the Directors and within strategic decision making. Further details can be found throughout the Strategic Report.

Remuneration

The Remuneration of the Director's is set in line with overall SSE Group policy and further information can be found in note 7.

Stakeholder relationships and engagement

Details of the Company's stakeholders and the associated engagement which takes place can be found throughout the Strategic Report and within the section 172 statement.

SSE Energy Supply Limited

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

Post balance sheet events

There have been no significant events since the balance sheet date.

Disclosure of information to the auditors

Each Director has taken steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

The Directors confirm that items required in the Directors statement are shown in the Strategic Report.

Reappointment of auditors

In accordance with section 485 of the Companies Act 2006, a resolution for the re-appointment of Ernst & Young LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Streamlined Energy and Carbon Reporting (SECR)

The Company meets the qualifying criteria for compliance with Streamlined Energy and Carbon Reporting (SECR). The Company has chosen to disclose their electricity, gas and transport energy consumption within the consolidated financial statements of SSE plc.

Approved by the Board on 2 November 2022 and signed on its behalf by:



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Aled Humphreys
Director

SSE Energy Supply Limited

Statement of Directors' Responsibilities

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


Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, and in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

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

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

Approved by the Board on 2 November 2022 and signed on its behalf by:



Aled Humphreys
Director

SSE Energy Supply Limited

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 2022 which comprise the Profit and Loss Account, Balance Sheet, Statement of Changes in Equity and the related notes 1 to 24, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included;

- We obtained copy of the support letter issued by the parent entity of the Company to provide support to the Company throughout the assessment period to 31 December 2023.
- We have considered the Parent entity's ability to provide support to the Company by obtaining financial information and forecast of the Parent entity which cover the going concern period of the Company.
- We obtained workpapers from the Parent company auditor, who performed procedures on our behalf to assess the reliability of the Parent company forecasts, including stress testing the forecasts.
- We reviewed the Company's going concern disclosures included in the financial statements in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

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

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

SSE Energy Supply Limited

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

Other information

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

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

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

We have nothing to report in this regard.

Opinion on other matter prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

SSE Energy Supply Limited

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

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

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

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are Companies Act 2006 and FRS 101 as well as the relevant direct and indirect tax compliance regulation in the United Kingdom. In addition, the Company has to comply with laws and regulations relating to its operations, including health and safety, employees, data protection and anti-bribery and corruption.
- We understood how the Company is complying with those frameworks by making enquiries of management and those responsible for legal compliance procedures. We corroborated our enquiries through our review of minutes of board meeting and consideration of the results of our audit procedures for the company.
- Based on our understanding of the frameworks and risks we designed our audit procedures to identify non-compliance with these laws and regulations and to respond to the assessed risks. Our procedures included verifying that material transactions are recorded in compliance with FRS 101 and where appropriate Companies Act 2006. Compliance with other operational laws and regulations was covered through inquiry with management and the Directors, reading board minutes and correspondence with relevant authorities with no indication of non-compliance identified. If we identify instances of non-compliance, we understand how management and those charged with governance have responded to them, including understanding the remediation actions taken, through enquiry of management and inspection of relevant documentation and correspondence. We also consider the appropriateness of the accounting for the impacts of any such non-compliance, and the adequacy of the financial statement disclosures.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by meeting with management to understand where they considered there was susceptibility to fraud. We also considered performance targets and their propensity to influence on efforts made by management to manage earnings. We considered the programmes and controls that the company has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls at a group level. Where the risk was considered to be higher, we performed audit procedures to address the identified fraud risk, management override of controls, specifically around revenue recognition.

SSE Energy Supply Limited


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

- For the identified fraud risks, we have performed a walkthrough of the unbilled revenue calculation process and sources of information and performed audit procedures specifically designed to address the fraud risk identified. We checked the unbilled revenue calculation data sources to underlying industry systems, recalculated managements calculation including review of the key assumption on pricing and recoverability of the unbilled estimate against corroborative benchmarks and subsequent billing. For the review of topside manual journals, we utilised analytics procedures over the full revenue balance to identify unusual revenue journal and manual journals processed at the year end. For journals identified we inquired of management of the purpose of the journal and corroborated this to underlying source documentation to confirm appropriate revenue was recognised in the year.
- We also, as part of the overall response to the risk of fraud, performed journal entry testing.

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

Use of our report

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

K/Asht & Young LLP.


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Annie Graham (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor

G1 Building
5 George Square
Glasgow
G2 1DY

4 November 2022

SSE Energy Supply Limited

Profit and Loss Account for the Year Ended 31 March 2022

	Note	2022 £ m	2021 £ m
Revenue	3	2,323.6	1,961.5
Cost of sales		<u>(1,513.6)</u>	<u>(1,702.1)</u>
Gross profit		810.0	259.4
Administrative expenses		(93.7)	(95.0)
Exceptional items	4	<u>-</u>	<u>8.3</u>
Operating profit	5	716.3	172.7
Finance income	9	1.5	7.1
Finance costs	10	<u>(0.7)</u>	<u>(0.4)</u>
Profit before tax		717.1	179.4
Tax charge	12	<u>(111.9)</u>	<u>(33.7)</u>
Profit for the financial year		<u><u>605.2</u></u>	<u><u>145.7</u></u>

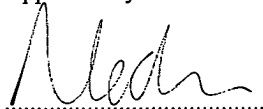
The notes on pages 21 to 37 form an integral part of these financial statements.

SSE Energy Supply Limited

(Registration number: 03757502)
Balance Sheet as at 31 March 2022

	Note	31 March 2022 £ m	31 March 2021 £ m
Fixed assets			
Intangible assets	24	20.2	21.7
Current assets			
Debtors	14	2,630.1	2,008.6
Cash at bank and in hand	15	26.7	16.8
Deferred tax asset	12	-	61.1
Derivative financial asset	18	727.2	124.9
		<u>3,384.0</u>	<u>2,211.4</u>
Current liabilities			
Creditors: amounts falling due within one year	16	(2,436.7)	(1,940.7)
Net current assets		<u>947.3</u>	<u>270.7</u>
Total assets less current liabilities		967.5	292.4
Creditors: Amounts falling due after more than one year			
Deferred tax liabilities	12	(55.1)	-
Provisions for liabilities	17	(24.2)	(10.1)
Net assets		<u>888.2</u>	<u>282.3</u>
Capital and reserves			
Called up share capital	19	147.5	147.5
Profit and loss account		<u>740.7</u>	<u>134.8</u>
Shareholders' funds		<u>888.2</u>	<u>282.3</u>

Approved by the Board on 2 November 2022 and signed on its behalf by:



Aled Humphreys
Director

SSE Energy Supply Limited

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

	Share capital £ m	Profit and loss account £ m	Total £ m
At 1 April 2020	147.5	(11.6)	135.9
Profit for the year	-	145.7	145.7
Credit in respect of employee share awards	-	0.7	0.7
At 31 March 2021	<u>147.5</u>	<u>134.8</u>	<u>282.3</u>
	Share capital £ m	Profit and loss account £ m	Total £ m
At 1 April 2021	147.5	134.8	282.3
Profit for the year	-	605.2	605.2
Credit in respect of employee share awards	-	0.7	0.7
At 31 March 2022	<u>147.5</u>	<u>740.7</u>	<u>888.2</u>

The notes on pages 21 to 37 form an integral part of these financial statements.

SSE Energy Supply Limited

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

1 General information

The Company is a private company limited by share capital, incorporated and domiciled in England, United Kingdom. The registered number is 03757502 and the registered office is No.1 Forbury Place, 43 Forbury Road, Reading, RG1 3JH.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

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

Summary of disclosure exemptions

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

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

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

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

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

SSE Energy Supply Limited

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

2 Accounting policies (continued)

Consolidated accounts

The Company is a subsidiary of SSE plc and the financial statements of the Company are consolidated with the consolidated financial statements of that company. Consolidated accounts have not been prepared as the Company is availing itself of the exemption whereby, as a wholly owned subsidiary of an entity which prepares consolidated accounts, it is not required to prepare consolidated accounts under section 400 of the Companies Act 2006.

Going concern

The financial statements are prepared on a Going Concern basis which has been supported by the provision of a parental letter of support from SSE plc. The SSE Group letter of support confirms it will provide support for a period through to 31 December 2023 where required. The Directors are satisfied that the SSE Group has the ability to provide this support, should it be required.

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

Having reviewed the financial strength of the SSE Group, the Directors are satisfied that the Group, and the Company itself, will remain funded for foreseeable future. the Directors have therefore concluded it is appropriate for the financial statements to be prepared on a going concern basis.

SSE Energy Supply Limited

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

2 Accounting policies (continued)

Changes in accounting policy

Revenue recognition

Turnover comprises sales of energy to business end-user customers based on actual energy consumption including an estimate of the value of electricity and gas supplied to customers between the date of the last meter reading and the year end. Turnover is recognised "over time" consistent with the delivery of energy to the customer as it has been assessed the receipt and consumption of the benefits of the energy to be simultaneous. Turnover is measured based on the applicable customer tariff rates after deduction of discounts and is net of VAT and CCL.

The amount of estimated consumption is not considered to be a significant judgement due to the frequency of meter readings from business customers. Any 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 Prepayments and accrued income). The volume of unbilled electricity or gas 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.

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 not be expected to have a material impact on the amount of revenue recognised in any given period.

Commissions in relation to acquisition of energy supply contracts are expensed as incurred. Payments from customers may be received in advance of providing the contracted service and are deferred on the balance sheet. Amounts received from customers in relation to energy management services provided by Third Party Intermediaries ("TPIs") are offset against payments to those TPIs, reflecting the responsibility for providing the energy management service.

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.

Estimates and judgement

Unbilled debtors

The value on unbilled estimate at 31 March 2022 is shown in note 14 under prepayments and accrued income. This represents an estimate of the value of electricity or gas supplied to customers between the date of the last meter reading and the year end. The Company estimates that an adjustment of +/- 1% on unbilled volumes would result in a change in estimated revenue of £3.3m, which would have a corresponding reduction in costs £3.3m. The Company estimates that an adjustment of +/- 1% on unbilled price per unit would result in a change in estimated revenue of £3.3m.

Billed debtors

The value on the bad debt provision at 31 March 2022 is shown in note 14 under trade debtors. This represents an estimate of the value of customer debt which we believe will not be recovered. The Company estimates that an adjustment of +/- 5% on expected credit loss would result in a change in estimated aged bad debt provision of £3.2m, which would have a corresponding reduction or increase in costs £3.2m.

SSE Energy Supply Limited

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

2 Accounting policies (continued)

Finance income and costs policy

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.

Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates taxable income.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the Company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

Intangible assets

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.

Developed software assets

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

Amortisation

Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their expected useful economic life as follows:

Asset class

Software

Amortisation method and rate

Straight-line basis over 3 to 15 years

Cash and cash equivalents

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

SSE Energy Supply Limited

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

2 Accounting policies (continued)

Trade debtors

Trade debtors are invoiced amounts due from customers for sales of energy performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as fixed assets.

Trade debtors are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade debtors is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the debtors.

Trade creditors

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade creditors are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Dividends

Dividend distributions to the Company's shareholders are recognised in the financial statements as they are paid or if they have been approved by shareholders before the end of the financial period. Dividends approved by shareholders but unpaid before the end of the financial period are recognised as a liability in the financial statements. 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.

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.

SSE Energy Supply Limited

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

2 Accounting policies (continued)

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 SSE Group. These schemes enable SSE 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.

Shared based payments

The Company operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the entity. The fair value of the employee services received is measured by reference to the estimated fair value at the grant date of equity instruments granted and is recognised as an expense over the vesting period. The estimated fair value of the option granted is calculated using the Black Scholes option pricing model. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Derivative financial instruments

Derivative financial instruments are contracts, the value of which is derived from one or more underlying financial instruments or indices, and include futures, forwards, swaps and options in the interest rate, foreign exchange, equity and credit markets.

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

In balance sheet, derivative financial instruments with positive fair values (unrealised gains) are included as assets and derivative financial instruments with negative fair values (unrealised losses) are included as liabilities.

The changes in the fair values of derivative financial instruments entered into for trading purposes are included in trading income.

SSE Energy Supply Limited

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

3 Revenue

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

	2022	2021
	£ m	£ m
Sale of goods	<u>2,323.6</u>	<u>1,961.5</u>

4 Exceptional items

	2022	2021
	£ m	£ m
Exceptional credits	-	(8.3)

Prior year an exceptional credit of £8.3m was released in relation to the COVID-19 exceptional charge recognised in the prior year on customer debt.

5 Operating profit

Arrived at after charging/(crediting)

	2022	2021
	£ m	£ m
Amortisation expense	<u>6.1</u>	<u>4.6</u>

SSE Energy Supply Limited

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

6 Staff costs

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

	2022 £ m	2021 £ m
Wages and salaries	27.4	26.4
Social security costs	3.0	2.5
Pension costs	4.6	4.5
Share-based payment expenses	0.7	0.7
	<u>35.7</u>	<u>34.1</u>

The number of persons employed by the Company (including directors) at 31 March, analysed by category was as follows:

	2022 No.	2021 No.
Average number employed at 31 March	<u>851.0</u>	<u>832.0</u>

Pensions

The Company is not a sponsor of either of the Group's defined benefit pension schemes, therefore 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.

7 Directors' remuneration

The total remuneration received by the Directors for qualifying and non-qualifying services during the year was £2.3m (2021: £1.4m). The above value is for 4 directors (2021: 6), 1 of which was remunerated via SSE ESL, with the remaining 3 remunerated via other SSE Group companies in the year. A value of services to the Company for these directors cannot be determined, therefore the above value reflects the remunerations received for services to the SSE Group as a whole.

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid director was £0.8m (2021: £0.5m) including company pension contributions of £20k (2021: £40k) which were made to a money purchase scheme on their behalf.

SSE Energy Supply Limited

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

8 Business separation transactions

Since the establishment of the 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.

	31 March 2022 £ m	31 March 2021 £ m
Movement in Trust		
Opening balance at 1 April	169.7	14.8
Increase/(Decrease) in intercompany debtor in relation to trust assets	4.9	154.9
	<u>174.6</u>	<u>169.7</u>

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

	31 March 2022 £ m	31 March 2021 £ m
Net trade debtors/(creditors)	0.9	144.0
Cash and cash equivalents	(1.7)	(0.1)
Accruals and prepayments	94.0	64.0
Operating derivatives	99.7	(47.0)
Deferred tax	(18.3)	8.8
	<u>174.6</u>	<u>169.7</u>

9 Interest receivable and similar income

	2022 £ m	2021 £ m
Interest receivable from group undertakings	<u>1.5</u>	<u>7.1</u>

10 Interest payable and similar expenses

	2022 £ m	2021 £ m
Other finance costs	<u>0.7</u>	<u>0.4</u>

11 Auditors' remuneration

The company incurred an audit fee of £45.1k in the year (2021: £20.4k) in relation to the audit of SSE Energy Supply Limited.

SSE Energy Supply Limited

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

12 Income tax

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

	2022 £ m	2021 £ m
Current taxation		
UK corporation tax	(4.3)	(3.8)
Adjustment in respect of prior periods	-	(0.1)
	<u>(4.3)</u>	<u>(3.9)</u>
Deferred taxation		
Arising from origination and reversal of temporary differences	116.2	37.8
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	-	(0.2)
Total deferred taxation	<u>116.2</u>	<u>37.6</u>
Tax charge in the profit and loss account	<u>111.9</u>	<u>33.7</u>

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2021 - lower than the standard rate of corporation tax in the UK) of 19% (2021 - 19%). The rate change to 25% in respect of periods commencing after 1 April 2023 included in Finance Bill 2021 has been recognised during the year ended 31 March 2022, as it was substantively enacted on 24 May 2021.

The differences are reconciled below:

	2022 £ m	2021 £ m
Profit before tax	<u>717.1</u>	<u>179.4</u>
Corporation tax at standard rate of 19% (2020: 19%)	136.3	34.1
Decrease in current tax from adjustment for prior periods	-	(0.3)
Decrease from effect of expenses not deductible in determining taxable profit (tax loss)	(0.1)	-
Decrease from transfer pricing adjustments	-	(0.1)
Deferred tax credit relating to changes in tax rates or laws	<u>(24.3)</u>	<u>-</u>
Total tax charge	<u>111.9</u>	<u>33.7</u>

Deferred tax

Deferred tax movement during the year:

SSE Energy Supply Limited

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

12 Income tax (continued)

	At 1 April 2021 £ m	Recognised in income £ m	At 31 March 2022 £ m
Tangible fixed assets	1.7	0.6	2.3
Provisions	1.9	1.9	3.8
Financial assets	57.5	(118.7)	(61.2)
Net tax assets/(liabilities)	<u>61.1</u>	<u>(116.2)</u>	<u>(55.1)</u>

Deferred tax movement during the prior year:

	At 1 April 2020 £ m	Recognised in income £ m	At 31 March 2021 £ m
Tangible fixed assets	1.8	(0.1)	1.7
Provisions	5.0	(3.1)	1.9
Financial assets	91.9	(34.4)	57.5
Net tax assets/(liabilities)	<u>98.7</u>	<u>(37.6)</u>	<u>61.1</u>

13 Investments

Investments	Total £ m
Carrying amount	
At 31 March 2022	-
At 31 March 2021	-

Details of the investments as at 31 March 2022 are as follows:

Name of subsidiary	Principal activity	Registered address (key)	Country of incorporation	Proportion of ownership interest and voting rights held	
				2022	2021
SSE Airtricity Energy Supply (NI) Limited*	Energy supply	A	UK	100%	100%
St Clements Services Limited*	Utilities software	B	UK	25%	25%
Fusion Heating Limited	Energy related services	C	UK	100%	100%
SSE Airtricity Gas Supply (NI) Limited	Energy supply	A	UK	100%	100%

* indicates direct investment of the company

SSE Energy Supply Limited

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

13 Investments (continued)

Registered address key

Reference Registered Office:

A	3rd Floor, Millennium House, 19-25 Great Victoria Street, Belfast, BT2 7AQ
B	4-6 Church Walk, Daventry, Northamptonshire, NN11 4BL
C	Unit 14, Maryland Industrial Estate, Ballygowan Road, Belfast, BT23 6BL

14 Trade and other debtors

	31 March 2022 £ m	31 March 2021 £ m
Trade debtors	1,594.4	750.7
Debtors from related parties	448.1	760.5
Prepayments and accrued income	333.4	237.4
Income tax asset	10.4	9.9
Other debtors	69.2	80.4
Amounts due from trust	174.6	169.7
	<u>2,630.1</u>	<u>2,008.6</u>
Less non-current portion	<u>(377.2)</u>	<u>(717.7)</u>
	<u>2,252.9</u>	<u>1,290.9</u>

Details of non-current trade and other debtors

£377.2m (2021: £717.7m) of amounts due from group undertakings is classified as non current. This is in respect of amounts owed by its parent, SSE plc. Interest is earned at 0.25% (2021: 0.85%). The remaining amount due from group undertakings is receivable on demand and bears no interest.

15 Cash at bank and in hand

	31 March 2022 £ m	31 March 2021 £ m
Cash at bank	<u>26.7</u>	<u>16.8</u>

Amount held in cash related to cash in transit at the year end is £21.3m (2021: £14.2m).

SSE Energy Supply Limited

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

16 Creditors

Amounts falling due within one year

	31 March 2022 £ m	31 March 2021 £ m
Trade creditors	1,435.8	794.8
Accrued expenses	499.1	440.5
Amounts due to Group undertakings	397.0	626.9
Other creditors	104.8	78.5
	<u>2,436.7</u>	<u>1,940.7</u>

£397m (2021: £626.9m) of amounts due to group undertakings is classified as current. This is in respect of amounts owed to its parent, SSE plc, the amount is payable on demand and bears no interest.

17 Other provisions

	TPI Commissions £ m	Industry Mutualisation £ m	Other provisions £ m	Total £ m
At 1 April 2021	(2.3)	(7.0)	(0.8)	(10.1)
Additional provisions	(0.2)	(19.1)	-	(19.3)
Provisions used	<u>1.6</u>	<u>3.6</u>	<u>-</u>	<u>5.2</u>
At 31 March 2022	<u>(0.9)</u>	<u>(22.5)</u>	<u>(0.8)</u>	<u>(24.2)</u>

The provision of £24.2m (2021: £10.1m) is attributable to Business Energy and for specific obligations in relation to non-recoverable commissions - £0.9m (2021: £2.3m); Industry Mutualisation - £22.5m (2021: £7m); and other - £0.8m (2021: £0.8m).

SSE Energy Supply Limited

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

18 Derivatives and financial instruments

Summary fair values

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

	2022 Carrying value £ m	2022 Fair value £ m	2021 Carrying value £ m	2021 Fair value £ m
Financial assets				
Financial liabilities				
Derivative financial instruments	<u>727.2</u>	<u>727.2</u>	<u>124.9</u>	<u>124.9</u>

Basis of determining fair value

All derivatives are classified as Level 2 within the fair value hierarchy. The fair value measurements are those derived from inputs, other than quoted prices, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). Fair values have been determined with reference to closing market prices.

Certain assets and liabilities designated and carried at amortised cost are receivables. For certain current assets and liabilities their carrying value is equivalent to fair value due to short term maturity.

The fair values are stated at a specific date and may be different from the amounts which will actually be paid or received on settlement of the instrument.

Recognised in profit and loss account

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

	2022 £ m
Movement on value of derivative financial instruments in the year	602.3
Movement relating to Trust, not recognised through profit or loss	142.6
	<u>744.9</u>

SSE Energy Supply Limited

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

19 Share capital

Allotted, called up and fully paid shares

	31 March 2022		31 March 2021	
	No.	£	No.	£
Ordinary shares of £1 each	<u>147,500,001</u>	<u>147,500,001</u>	<u>147,500,001</u>	<u>147,500,001</u>

20 Commitments

Capital commitments

Contracted for but not provided capital commitments include the fixed contracted costs of the Company's major capital projects amounted to £4.3m (2021: £19.5m). The decrease in commitments year on year is mostly attributable to the Core Platform Replacement (CPR) Programme completed milestones during the year.

Loan guarantor commitment

SSE Energy Supply Limited is joint guarantor with SSE Generation Ltd on the SSE plc US Private Placement term loans, which at 31 March 2022 totalled £867.9m

SSE Energy Supply Limited is also joint guarantor with SSE Generation Ltd on the SSE plc £1.3bn Revolving Credit Facility and £200m Committed Facility with Bank of China, both of which were undrawn at 31 March 2022.

21 Related party transactions

Summary of transactions with other related parties

During the year SSE Energy Supply Limited sold gas and electricity of £0.1m (2021: £0.1m) to Clyde Windfarm (Scotland), a company in which SSE Group owns 50.1%. The amount from the related party at the year end was £0.5m (2021: £0.4m).

SSE Energy Supply Limited

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

22 Parent and ultimate parent undertaking

Relationship between entity and parents

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

23 Pension and other schemes

Some of the Company's employees are members of the Scottish Hydro Electric Pension Scheme or Southern Electric Pension Scheme which provides defined benefits based on pensionable pay. As there is no contractual agreement or stated group policy for charging the net defined benefit cost of the plan to participating entities, the net defined benefit cost of the pension plan is recognised fully by the sponsoring employer, which is another member of the group.

New employees can opt to join a personal pension scheme which is a money purchase scheme with the Company matching the members' contributions of at least 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 £4.7m (2021: £4.5m).

24 Intangible assets

	Internally generated software development costs £ m	Total £ m
Cost or valuation		
At 1 April 2021	29.1	29.1
Additions	4.6	4.6
At 31 March 2022	33.7	33.7
Amortisation		
At 1 April 2021	7.4	7.4
Amortisation charge*	6.1	6.1
At 31 March 2022	13.5	13.5
Carrying amount		
At 31 March 2022	20.2	20.2
At 31 March 2021	21.7	21.7

SSE Energy Supply Limited

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

24 Intangible assets (continued)

*Amortisation is charged to admin expenses in the Statement of Profit & Loss. Note 5 shows the comparative detail to prior year.