

SSE Water Limited

Directors report and financial statements

Year ended 31 March 2017

Registered No.: 06021063

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SSE Water Limited

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SSE Water Limited

Directors and Other Information

Directors

**Gregor Alexander
Nathan Sanders**

Registered office

**55 Vastern Road
Reading
Berkshire
RG1 8BU**

Secretary

Peter Lawns

Auditor

**KPMG LLP
Chartered Accountants
Arlington Business Park
Reading
RG7 4SD**

Registered number

06021063

SSE Water Limited

Directors' Report

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

The directors have also taken advantage of the exemption from preparing a Strategic report available under section 414b of Companies Act 2006.

1 Principal activities

The Company is a wholly owned subsidiary of SSE plc and part of the SSE Group (the 'Group').

The Company's principal activity during the year was the provision of water and sewerage services including the installation and operation of water network infrastructure within defined geographical areas.

2 Business Review

Through the Company, SSE is able to install, own and operate water and sewerage services alongside its existing electricity and gas services. The Company offers water and sewerage services in England and Wales. An 'inset' appointment, otherwise known as a New Appointment or Variation (NAV) is the route by which one company replaces another as the appointed water and / or sewerage company for a specified area. The Company now has 27 such appointments and provides, or has secured contracts to provide, water and sewerage services to approximately 33,000 properties in England and Wales.

The Group is already experienced in designing, installing and operating multi-utility infrastructures. This activity is controlled and operated through the related company SSE Utility Solutions Limited. The Company operates in conjunction with SSE Enterprise via Utility Solutions and the Group's existing electricity and gas services to provide a comprehensive multi-utility solution to customers in the property development and house-building sectors.

Construction work has begun, is on-going or has been completed at 27 developments during the course of the year, with customer occupations on all 27. Once the water and sewerage infrastructure is completed, the Company owns and operates the networks, having the same responsibilities as any other water company. By the end of March 2017, 13,970 domestic & commercial connections had been made, representing an estimated residential population of 32,000.

During 2016/17 the Company is actively seeking new business, in particular high density developments representing lower capital costs per customer.

The principal risks and uncertainties concern securing future NAVs, the development of the market to better promote competition and to maintain the quality of service delivery. The Water Act 2014 brings with it a substantial change, providing for competition in the complete non-household market for the first time in England, from April 2017. The Company is acting to ensure compliance with the new rules and to explore opportunities and risks.

3 Proposed dividend

The directors do not recommend the payment of a dividend (2016: £nil).

4 Results and dividends

The loss for the financial year amounted to £1.0m (2016: £0.3m).

The balance sheet at 31 March 2017 is set out on page 9 and indicates net liabilities of £4.6m (2016: net liabilities of £3.6m).

SSE Water Limited

Directors' Report *(continued)*

5 Directors

The directors and secretary who served during the year are as listed on page 3. In accordance with the Articles of Association of the company the directors are not required to retire by rotation.

6 Employment policies

Staff are actively encouraged to be involved in Company affairs in a wide variety of ways. These include monthly team meetings, briefing documents and internal videos. Policies on such matters as Equal Opportunities and Health and Safety are regularly communicated to staff and involvement is supported through local committees. New staff joining the Company receive induction training.

It is Company policy, where possible, to provide employment opportunities for disabled people. Staff who become disabled are supported in continuing employment through identification of suitable jobs and the provision of necessary retraining.

7 Directors' and secretary's interests

The company did not make any political or charitable donations during the year (2016: £nil).

8 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.

9 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.

On behalf of the Board:



Gregor Alexander
Director
7 July 2017

SSE Water Limited

Statement of directors' responsibilities in respect of the Directors' report and the financial statements

The directors are responsible for preparing 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 Disclosures Framework.

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent Auditor's Report to the Members of SSE Water Limited

We have audited the financial statements of SSE Water Limited for the year ended 31 March 2017 as set out on pages 8 to 17. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) including FRS101 Reduced Disclosure Framework.

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

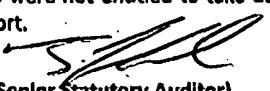
Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Directors' report:

- we have not identified material misstatements in those reports; 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

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.
- the Directors were not entitled to take advantage of the small companies exemption from the requirements to prepare a strategic report.


James Ledward (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Arlington Business Park
Reading
RG7 4SD

12 July 2017

SSE Water Limited

Profit and Loss Account for the year ended 31 March 2017

| | Note | 2017 £000 | 2016 £000 |
|---|------|--------------|--------------|
| Turnover | | 8,146 | 4,337 |
| Cost of sales | | (3,474) | (2,634) |
| Gross profit | | 4,672 | 1,703 |
| Distribution costs | | (1,136) | (1,320) |
| Administrative costs | 2 | (4,199) | (335) |
| Operating (loss)/profit | 2 | (563) | 48 |
| Interest payable and similar charges | 4 | (472) | (332) |
| Loss on ordinary activities before taxation | | (1,135) | (284) |
| Tax on loss on ordinary activities | 5 | 152 | 12 |
| (Loss)/profit for the financial year | | (983) | (272) |

Continuing operations

The above results are derived from continuing activities.

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

Total other comprehensive income

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

SSE Water Limited

Balance Sheet as at 31 March 2017

| | Note | 2017 £000 | 2016 £000 |
|--|------|----------------|----------------|
| Fixed assets | | | |
| Tangible assets | 6 | 9,174 | 9,340 |
| Current assets | | | |
| Debtors: | | | |
| amounts falling due within one year | 7 | 3,211 | 1,818 |
| Current liabilities | | | |
| Creditors: amounts falling due within one year | 8 | (9,342) | (4,655) |
| Total assets less current liabilities | | <u>3,043</u> | <u>6,503</u> |
| Creditor: amounts falling due after more than one year | 9 | (7,368) | (9,877) |
| Deferred taxation | 10 | (225) | (193) |
| Net liabilities | | <u>(4,550)</u> | <u>(3,567)</u> |
| Capital and reserves | | | |
| Profit and loss account | | (4,550) | (3,567) |
| Equity Shareholders' deficit | | <u>(4,550)</u> | <u>(3,567)</u> |

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

These financial statements were approved by the Directors on 7 July 2017 and signed on their behalf by:



Gregor Alexander

Director

Company registered number: 06021063

SSE Water Limited

Statement of Changes in Equity as at 31 March 2017

| | Share capital £000 | Profit and loss account £000 | Total equity £000 |
|-------------------------------|--------------------------|------------------------------------|----------------------|
| Balance at 1 April 2015 | - | (3,295) | (3,295) |
| Profit for the financial year | - | (272) | (272) |
| Balance at 31 March 2016 | - | (3,567) | (3,567) |
| Balance at 1 April 2016 | - | (3,567) | (3,567) |
| Loss for the financial year | - | (983) | (983) |
| Balance at 31 March 2017 | - | (4,550) | (4,550) |

SSE Water Limited

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

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

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

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

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

- A cash flow statement and related notes;
- Comparative period reconciliations for share capital, 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:

- The disclosures required by IFRS 7.

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

Turnover

Turnover, stated net of value added tax, represents income associated with operating and maintaining a water distribution network within the UK.

Going concern

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

SSE Water Limited

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

1 Significant accounting policies *(continued)*

Taxation

The charge for taxation is based on the loss for the year and takes into account deferred taxation.

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted, or substantially enacted, by the balance sheet date.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Property, plant and equipment

The presentation of property, plant and equipment at Note 6 includes the net book value of assets under construction as a separate column in the main tabular disclosure. Assets under construction that are commissioned and enter operation in the financial year are transferred from the relevant column to the appropriate category of assets in the table. Capital additions in the year comprise additions to assets still in construction, additions to commissioned operational assets and other directly incurred capital costs.

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairments. The cost of self constructed assets includes the cost of materials, direct labour and an appropriate proportion of other directly attributable costs. Where an item of property, plant and equipment comprises major components having different useful lives, the components are accounted for as separate items of property, plant and equipment and depreciated accordingly.

(ii) Depreciation

Heritable and freehold land is not depreciated.

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

| | Years |
|----------------|-------|
| Network assets | 40 |

For developer contributions activity the revenue recognition rules of IFRIC 18 have been applied. Income is recognised on completion of the associated capital works. In line with IFRIC 18, costs are capitalised as the asset is developed, as there is no future service obligation beyond the initial agreement all assets are fully written down as the obligation is completed and the revenue is recognised.

SSE Water Limited

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

2 Expenses and auditor's remuneration

Operating (loss)/profit is arrived at after charging/(crediting):

| | 2017 £000 | 2016 £000 |
|--|--------------|--------------|
| Depreciation of tangible fixed assets | 3,587 | 795 |
| Net management fees in respect of services provided by group companies | 299 | 59 |

| | 2017 £000 | 2016 £000 |
|--|--------------|--------------|
| Audit of these financial statements | 1 | 1 |
| Amounts receivable by the company's auditor and its associates in respect of: | | |
| Audit related assurance services | 1 | 1 |
| The audit fee in the year and the previous year was borne by the Parent company. | | |

3 Staff costs and numbers

No staff are directly employed by the Company. A monthly charge for the work done on behalf of SSE Water Limited is made by SSE Utility Solutions to the Company.

All directors of the company were remunerated via another group company during the year (2016: £nil).

4 Interest payable and similar charges

| | 2017 £000 | 2016 £000 |
|-------------------------------------|--------------|--------------|
| Interest payable to group companies | 472 | 332 |
| | <u>472</u> | <u>332</u> |

SSE Water Limited

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

5 Taxation

| | 2017 £000 | 2016 £000 |
|---|--------------|--------------|
| UK corporation tax | | |
| Current tax on income for the period | (184) | (45) |
| Adjustment in respect of prior periods | (1) | - |
| Total current tax credit | (185) | (45) |
| Deferred tax (see note 10): | | |
| Origination and reversal of temporary differences | 51 | 53 |
| Change in applicable tax rate | (13) | (20) |
| Adjustment in respect of prior periods | (5) | - |
| Total deferred tax | 33 | 33 |
| Total tax on loss on ordinary activities | (152) | (12) |

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

| | 2017 £000 | 2016 £000 |
|---|--------------|--------------|
| Loss before taxation | (1,135) | (284) |
| Tax on loss on ordinary activities at standard UK corporation tax rate of 20% (2016: 20%) | (227) | (57) |
| Effects of: | | |
| Transfer pricing adjustment | 94 | 66 |
| Corporation tax adjustment in respect of previous periods | (5) | - |
| Effect of tax rate change | (13) | - |
| Other items | (1) | (21) |
| Total tax credit for year | (152) | (12) |

Legislation to reduce the corporation tax rate from 20% to 19% from 1 April 2017 and to 18% from 1 April 2020 was substantively enacted on 26 October 2015. As these changes were substantively enacted at 31 March 2016, deferred tax at that date was calculated accordingly. Legislation was substantively enacted on 15 September 2016 to further reduce the corporation tax rate to 17% from 1 April 2020. As this change has been substantively enacted at the balance sheet date deferred tax has been calculated accordingly and has had the effect of reducing the company's deferred tax liability at 31 March 2017 by £13.2k.

SSE Water Limited

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

6 Tangible fixed assets

| | Assets under the course of construction (AUC) £000 | Network Assets £000 | Total £000 |
|----------------------------------|--|---------------------------|---------------|
| Cost: | | | |
| At 1 April 2016 | 1,209 | 9,729 | 10,938 |
| Additions | 3,421 | - | 3,421 |
| Transfers | (2,837) | 2,837 | - |
| At 31 March 2017 | 1,793 | 12,566 | 14,359 |
| Accumulated depreciation: | | | |
| At 1 April 2016 | - | 1,598 | 1,598 |
| Charge for the year | - | 3,587 | 3,587 |
| At 31 March 2017 | - | 5,185 | 5,185 |
| Net book value: | | | |
| At 31 March 2017 | 1,793 | 7,381 | 9,174 |
| At 31 March 2016 | 1,209 | 8,131 | 9,340 |

7 Debtors

| | 2017 £000 | 2016 £000 |
|--|--------------|--------------|
| Amounts falling due within one year: | | |
| Trade debtors | 1,845 | 509 |
| Prepayments and accrued income | 1,082 | 1,074 |
| Amounts owed by group undertakings (unsecured, interest free and receivable on demand) | 8 | 110 |
| Corporation tax - group relief receivable | 184 | 43 |
| Other debtors | 92 | 82 |
| | 3,211 | 1,818 |

8 Creditors: amounts falling due within one year

| | 2017 £000 | 2016 £000 |
|------------------------------------|--------------|--------------|
| Bank loans and overdrafts | 13 | - |
| Trade creditors | 5,527 | 2,146 |
| Amounts owed to group undertakings | 702 | 778 |
| Other creditors | 143 | - |
| Accruals and deferred income | 2,957 | 1,731 |
| | 9,342 | 4,655 |

SSE Water Limited

Notes on the Financial statements *(continued)*

for the year ended 31 March 2017

9 Creditors: amounts falling due after more than one year

| | 2017 £000 | 2016 £000 |
|------------------------------------|--------------|--------------|
| Amounts owed to group undertakings | 7,171 | 7,000 |
| Accruals and other deferred income | 197 | 2,877 |
| | <u>7,368</u> | <u>9,877</u> |

10 Deferred taxation

Deferred tax assets and liabilities are attributable to the following:

| | Assets | | Liabilities | | Net | |
|-----------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 2017 £000 | 2016 £000 | 2017 £000 | 2016 £000 | 2017 £000 | 2016 £000 |
| Tangible fixed assets | - | - | (225) | (193) | (225) | (193) |
| Net tax liabilities | - | - | (225) | (193) | (225) | (193) |

Movement in deferred tax during the year

| | 1 April 2016 £000 | Recognised in income £000 | Recognised in equity £000 | 31 March 2017 £000 |
|-----------------------|----------------------|---------------------------------|---------------------------------|-----------------------|
| Tangible fixed assets | (193) | (32) | - | (225) |

Movement in deferred tax during prior year

| | 1 April 2015 £000 | Recognised in income £000 | Recognised in equity £000 | 31 March 2016 £000 |
|-----------------------|----------------------|---------------------------------|---------------------------------|-----------------------|
| Tangible fixed assets | (160) | (33) | - | (193) |

SSE Water Limited

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

11 Share capital

Equity:

Allotted, called up and fully paid:

1 ordinary shares of £1.00 each

| | 2017 £ | 2016 £ |
|--|-----------|-----------|
| | 1 | 1 |
| | <u>1</u> | <u>1</u> |

12 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.

13 Governance

The Company is a subsidiary of SSE plc (SSE) which is listed on the Main Market of the London Stock Exchange. SSE is subject to the 2014 version of The UK Corporate Governance Code. The Code adopts a 'comply or explain' model, which recognises that there are situations where a period of non-compliance may be appropriate, provided good governance can be achieved by other means and the reasons are explained to shareholders. During the reporting year there have been no material departures from the Code which have been detrimental to the standards of governance instilled across the SSE Group. SSE's position in respect of Code provision C.3.7, whereby the external audit contract should be put out to tender at least every 10 years remains unchanged from last year. A detailed explanation of SSE's approach, along with the anticipated timeline for tender of the external audit contract is set out in the Audit Committee Report on page 74 of the 2017 SSE Annual Report. The 2017 SSE Annual Report is available online at www.sse.com.

SSE Water Limited

Notes on the Financial statements *(continued)*

for the year ended 31 March 2017

14 Additional regulatory statements - unaudited

Risk and compliance statement

The Directors confirm that

- the Company considers that it has a full understanding of, and is meeting, all its relevant statutory, licence and regulatory obligations and has taken steps to understand and meet customer expectations;
- has satisfied itself that it has sufficient processes and internal systems of control to fully meet its obligations; and
- has appropriate systems and processes in place to allow it to identify, manage, mitigate and review its risks.

Statement on reliability of information

The Directors confirm that they are satisfied that the information contained in these accounts to be provided to Ofwat is, in so far as is practicable, reliable and complete.

Statement on compliance with condition K

The Directors confirm that, in their opinion, the Company was in compliance with paragraph 1 of Condition K of the licence, relating to the availability of the rights and assets of the financial year.

Statement on directors' remuneration and service standards

This statement is made in accordance with section 35A of the Water Industry Act 1991 on behalf of SSE Water Limited.

In the financial year ending March 2017 and for the financial year ending March 2018, where appropriate the main directors of SSE Water Limited are remunerated under arrangements which fall under paragraph (3) of section 35A of the Act, i.e. the arrangements link the remuneration of the Directors to standards of performance in connection with the carrying out by the Company of the functions of a relevant undertaker.

SSE plc must ensure that it has remuneration policies in place that are competitive within the utilities sector. The main Directors' remuneration packages are based on their overall group responsibilities and include a basic salary, annual incentive plan, pension arrangements, benefits and, where appropriate, a Long Term Performance Share Plan. Under the annual incentive plan scheme, up to 25% of a Directors' maximum bonus depends, on the achievement of personal targets, which may include performance in relation to the Water Supply & Sewerage Services (Customer Service Standards) Regulations 2008.

At year end, annual targets are reviewed against outcomes and the actual award made is in relation to achievement versus target performance. Where relevant the award is reviewed and approved by the Remuneration Committee.