

SSE Water Limited

Directors' report and financial statements

Year ended 31 March 2018

Registered No.: 06021063

THURSDAY



A12

A7AØV9WY

12/07/2018

#303

COMPANIES HOUSE

SSE Water Limited

Contents

	Page No.
Directors and other information	1
Directors' report	2
Statement of directors' responsibilities in respect of the directors' report and the financial statements	4
Independent auditor's report to the members	5
Profit and loss account	7
Balance sheet	8
Statement of changes in equity	9
Notes on the financial statements	10

SSE Water Limited

Directors and Other Information

Directors

Gregor Alexander
Nathan Sanders

Registered office

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

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 2018.

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

SSE Water Limited (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 Principal risks and uncertainties

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 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 Limited via Utility Solutions Limited 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 30 developments during the course of the year, with customer occupations on 29. 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 2018, 16,795 domestic & commercial connections had been made, representing an estimated residential population of 39,830.

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 (2017: *£nil*).

4 Results and dividends

The loss for the financial year amounted to £668,000 (2017: *loss of £983,000*).

The balance sheet at 31 March 2018 is set out on page 8 and indicates net liabilities of £5,218,000 (2017: *net liabilities of £4,550,000*).

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 (2017: *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
9 July 2018

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 Disclosure Framework.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the 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;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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

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

Opinion

We have audited the financial statements of SSE Water Limited ("the Company") for the year ended 31st March 2018 which comprise the Profit and Loss Account, Balance Sheet and Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

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

Basis for opinion

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

Going concern

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

Directors' report

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

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

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept; or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

We have nothing to report in these respects.

Directors' responsibilities

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

Auditor's responsibilities

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

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

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

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



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

9 July 2018

SSE Water Limited

Profit and Loss Account for the year ended 31 March 2018

	Note	2018 £000	2017 £000
Turnover		8,283	8,146
Cost of sales		(3,506)	(3,474)
Gross profit		4,777	4,672
Distribution costs		(2,152)	(1,136)
Administrative costs	2	(2,966)	(4,199)
Operating loss	2	(341)	(663)
Interest payable and similar charges	4	(403)	(472)
Loss before taxation		(744)	(1,135)
Tax credit	5	76	152
Loss for the financial year		(668)	(983)

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.

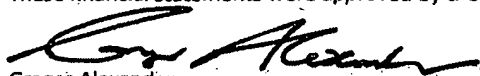
SSE Water Limited

Balance Sheet
as at 31 March 2018

	Note	2018 £000	2017 £000
Fixed assets			
Tangible assets	6	8,951	9,174
		<u>8,951</u>	<u>9,174</u>
Current assets			
Debtors:			
amounts falling due within one year	7	3,866	3,211
Total current assets		<u>3,866</u>	<u>3,211</u>
Current liabilities			
Creditors: amounts falling due within one year	8	(5,043)	(9,342)
Net current liabilities		<u>(1,177)</u>	<u>(6,131)</u>
Total assets less current liabilities		<u>7,774</u>	<u>3,043</u>
Creditor: amounts falling due after more than one year	9	(12,717)	(7,368)
Deferred taxation	10	(275)	(225)
Net liabilities		<u>(5,218)</u>	<u>(4,550)</u>
Capital and reserves			
Called up share capital	11	-	-
Profit and loss account		(5,218)	(4,550)
Equity Shareholders' deficit		<u>(5,218)</u>	<u>(4,550)</u>

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

These financial statements were approved by the Directors on 9 July 2018 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 2018**

	Retained earnings £000	Total equity £000
Balance at 1 April 2016	(3,567)	(3,567)
Profit for the financial year	(983)	(983)
Balance at 31 March 2017	<u>(4,550)</u>	<u>(4,550)</u>
Balance at 1 April 2017	(4,550)	(4,550)
Loss for the financial year	(668)	(668)
Balance at 31 March 2018	<u>(5,218)</u>	<u>(5,218)</u>

SSE Water Limited

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

1 Significant accounting policies

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

Basis of preparation

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 tangible fixed assets;
- The effect of new, but not yet effective, IFRSs;
- Disclosures in respect of the compensation of key management personnel;
- Disclosures in respect of capital management; and
- Related party disclosures.

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

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

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. Revenue is recognised as the provision of service, water, is delivered to the Company's customers.

Going concern

The Company has net current liabilities and is dependent on ongoing financial support from a fellow group company, SSE plc. 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.

Estimates and judgement in accounting policies

There have been no significant estimates or judgements in accounting policies.

SSE Water Limited

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

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 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

Customer Contributions

Customer contributions towards construction or acquisition of Water networks received pre 1 April 2014, are recorded as deferred income and released to the profit and loss account over the estimated life used in calculating contributions. Where there is no ongoing service obligation, customer contributions received post 1 April 2014 are taken to income in the period, in line with IFRIC 18 *Transfers of assets from customers*.

SSE Water Limited

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

2 Expenses and auditor's remuneration

Operating loss is arrived at after charging:

	2018 £000	2017 £000
Depreciation of tangible fixed assets - excluding IFRIC 18 adjustment of £2.5m (2017: £3.1m)	578	458
Net management fees in respect of services provided by group companies	62	299

	2018 £000	2017 £000
<i>Amounts receivable by the company's auditor and its associates in respect of:</i>		
Audit related assurance services	1	1

The audit fee in the year and the previous year was borne by the Parent company, £1,000 of this was in relation to the audit of SSE Water Limited (2017: £1,000).

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 is made by SSE Utility Solutions to the Company, including staff costs which are specifically dedicated to SSE Water only, £0.4m.

The directors of the Company did not receive remuneration for qualifying services. (2017: £nil).

4 Interest payable and similar charges

	2018 £000	2017 £000
Interest payable to group companies	403	472
	<u>403</u>	<u>472</u>

SSE Water Limited

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

5 Taxation

	2018 £000	2017 £000
UK corporation tax		
Current tax on income for the period	(120)	(184)
Adjustment in respect of prior periods	(6)	(1)
Total current tax charge	(126)	(185)
Deferred tax (see note 11):		
Origination and reversal of timing differences	56	51
Change in applicable tax rate	-	(13)
Adjustment in respect of prior periods	(6)	(5)
Total deferred tax	50	33
Total tax on loss on ordinary activities	(76)	(152)

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:

	2018 £000	2017 £000
Loss before taxation	(744)	(1,135)
Tax on loss on ordinary activities at standard UK corporation tax rate of 19% (2017: 20%)	(141)	(227)
Effects of:		
Transfer pricing adjustment	77	94
Effect of rate change	-	(13)
Corporation tax adjustment in respect of previous periods	(6)	(5)
Deferred tax adjustment in respect of previous periods	(6)	-
Other items	-	(1)
Total tax charge for year	(76)	(152)

The rate of corporation tax applied to reported loss on ordinary activities is 19% (2017: 20%). 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. Legislation was substantively enacted on 15 September 2016 to further reduce the corporation tax rate to 17% from 1 April 2020. As these changes were substantively enacted at 31 March 2018 deferred tax at that date was calculated accordingly. This has had the effect of reducing the Company's deferred tax liability at 31 March 2018 by nil (2017: £13.2k).

SSE Water Limited

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

6 Tangible fixed assets

	Assets under the course of construction	Network Assets	Total
At 31 March 2017	(AUC) 1,793	12,566	14,359
Additions	2,812	-	2,812
Transfers from AUC	(2,690)	2,690	-
At 31 March 2018	<u>1,915</u>	<u>15,256</u>	<u>17,171</u>
Accumulated depreciation:			
At 1 April 2017	-	5,185	5,185
Charge for the year	-	3,035	3,035
At 31 March 2018	-	<u>8,220</u>	<u>8,220</u>
Net book value:			
At 31 March 2018	<u>1,915</u>	<u>7,036</u>	<u>8,951</u>
At 31 March 2017	<u>1,793</u>	<u>7,381</u>	<u>9,174</u>

7 Debtors

	2018 £000	2017 £000
Amounts falling due within one year:		
Trade debtors	1,038	1,845
Prepayments and accrued income	1,280	1,082
Amounts owed by group undertakings	1,239	8
Corporation tax - group relief receivable	120	184
Other debtors	189	92
	<u>3,866</u>	<u>3,211</u>

8 Creditors: amounts falling due within one year

	2018 £000	2017 £000
Bank loans and overdrafts	69	13
Trade creditors	1,371	5,527
Amounts owed to group undertakings	516	702
Other creditors	8	143
Accruals and deferred income	3,079	2,957
	<u>5,043</u>	<u>9,342</u>

SSE Water Limited

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

9 Creditors: amounts falling due after more than one year

	2018 £000	2017 £000
Amounts owed to group undertakings	12,717	7,171
Accruals and other deferred income	-	197
	12,717	7,368

The intercompany borrowings interest rate applied is 5.52%.

10 Deferred taxation

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2018 £000	2017 £000	2018 £000	2017 £000	2018 £000	2017 £000
Tangible fixed assets	-	-	(275)	(225)	(275)	(225)
Net tax liabilities	-	-	(275)	(225)	(275)	(225)

Movement in deferred tax during the year

	1 April 2017 £000	Recognised in income £000	Recognised in equity £000	31 March 2018 £000
Tangible fixed assets	(225)	(50)	-	(275)
	(225)	(50)	-	(275)

Movement in deferred tax during prior year

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

SSE Water Limited

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

11 Share capital

	2018 £	2017 £
Equity:		
Allotted, called up and fully paid:		
1 ordinary shares of £1 each	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 which is listed on the Main Market of the London Stock Exchange. With the exception of provision C.3.7 which requires FTSE 350 companies to put the external audit contract out to tender at least every ten years, SSE plc has complied with all principles and provisions of the 2012 version of the UK Corporate Governance Code for the year to 31 March 2018. The full explanation relating to this aspect of non-compliance with the UK Corporate Governance Code is set out in the SSE plc Annual Report 2018, available online at www.sse.com.

SSE Water Limited

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

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 2018 and for the financial year ending March 2019, 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 Director's 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.