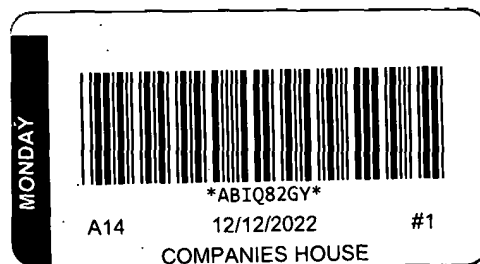


Registration number: SC303682

SSE Heat Networks Limited
Directors' report and Financial Statements
for the Year Ended 31 March 2022



SSE Heat Networks Limited

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SSE Heat Networks Limited

Company Information

Directors

Nathan Sanders

Scott Anderson

Company secretary

M.S Khalid

Registered office

Inveralmond House
200 Dunkeld Road
Perth
Perthshire
PH1 3AQ

Auditors

Ernst & Young LLP
R+
2 Blagrove Street
Reading
Berkshire
RG1 1AZ

Registered number

SC303682

SSE Heat Networks 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 Heat Networks Limited.

The Strategic and Financial Review sets out the main trends and factors underlying the development and performance of SSE Heat Networks 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.

Fair review of the business

The demand for new solutions outside traditional energy provision is being driven by national carbon reduction targets and policies, planning requirements, corporate ESG (Environmental, Social & Governance) policy and by customers demanding more environmentally and socially sustainable sources of energy at more predictable and financially attractive rates. Increasingly, the business will develop projects that harness low carbon waste and recoverable heat sources such as EfW (Energy from Waste), data centres, sewer and transformer heat; and distribute this to nearby customers.

The Company uses Combined Heat and Power (CHP), gas boiler and, increasingly, electric heat pumps using waste and recoverable heat sources to provide hot water and space heating and cooling to high density residential and commercial developments on district heating schemes. There are now 18 heat networks in operation, including two hospitals and two schemes where the company is the preferred bidder; Hayes Village (Barratt Homes) and Kings Road Park (Berkeley Homes). In total the business serves over 11,700 customers across residential and commercial developments.

Exacting standards of performance are set to ensure the quality of connections work and service to customers are maintained.

Internal Control

The Directors acknowledge that they have responsibility for the Company's systems of internal control and risk management and for monitoring their effectiveness. The purposes of these systems are to manage, rather than eliminate, the risk of failure to achieve business objectives, to provide reasonable assurance as to the quality of management information and to maintain proper control over the income, expenditure, assets and liabilities of the Company.

No system of control can, however, provide absolute assurance against material misstatement or loss. Accordingly, the Directors have regard to what controls, in their judgement, are appropriate to the Company's business and to the relative costs and benefits of implementing specific controls.

The Company transacts with other companies within the SSE plc Group and is a key part of the Group's business and strategies.

SSE Heat Networks Limited

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

Financial Performance

The profit and loss account for the year ended 31 March 2022 states the loss for the year after taxation amounted to £1,088k (2021: profit of £1,872k). The balance sheet at 31 March 2022 indicates net liabilities of £2,916k (2021: net liabilities of £1,828k). Revenue and gross profit have increased year on year, but an unfavourable movement in onerous provision has resulted in a loss before tax.

During the year a detailed review of cashflows, including assumptions around build out rates, price movements and future maintenance requirements and an assessment of the assets and contracts in the company's Heat network portfolio. Following the review, a number of impairment and onerous provision releases and charges were booked during the 2022 financial year. As a result, there were net impairment reversals amounting to £1,079k (2021: £1,735k), made up of a release of £1,202k and a charge of £123k. The onerous provision increased to £3,446k (2021: £1,227k), resulting from a £2,219k charge in the current year. The remaining provision is expected to unwind over the remaining years of operation of each network, ranging from 15-25 years across the portfolio and will continue to be reassessed on an annual basis.

The company's key financial and other performance indicators during the year were as follows:

	31 March 2022 £ 000	31 March 2021 £ 000
Revenue	18,575	17,331
Gross profit	9,121	7,284
Operating (loss)/profit	(1,474)	2,661
(Loss)/profit before tax	(1,585)	2,371
(Loss)/profit after tax	(1,088)	1,872
Net liabilities	(2,916)	(1,828)

Revenue has increased due to higher tariffs and additional customers. However, a loss was made due to a significant increase in the onerous provision.

SSE Heat Networks Limited

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

Principal risks and uncertainties

Financial and Political Risk

The principal risks and uncertainties concern, in the short term at least, volatility in the energy markets which manifests in margin risk to the business together with increased heat and cooling charges to customers and hence the risk of payment default. More widely principal risks are the effectiveness of the policy environment supporting the widescale deployment of heat networks, the ability of local authorities to develop and procure on the scale expected of them, the property development sector, major service failure due to fire/damage to energy centre or damage to upstream gas connection.

The board reviews and agrees policies for addressing each of these risks and is highly engaged with policy makers and wider stakeholders in the sector to advocate for supportive and effective policy.

The Directors acknowledge that they have responsibility for the company's systems of internal control and risk management and for monitoring their effectiveness. The purposes of these systems are to manage, rather than eliminate, the risk of failure to achieve business objectives, to provide reasonable assurance as to the quality of management information and to maintain proper control over the income, expenditure, assets and liabilities of the Company. No system of control can, however, provide absolute assurance against material misstatement or loss. Accordingly, the Directors have regard to what controls, in their judgement, are appropriate to the Company's business and to the relative costs and benefits of implementing specific controls.

Control is maintained through an organisational structure with clearly defined responsibilities, authority levels and lines of reporting; the appointment of suitably qualified staff in specialised business areas; and continuing investment in quality information systems. These methods of control are subject to periodic review as to their implementation and continued suitability.


Assessing the impact of coronavirus

The Directors have considered the impact of coronavirus on the future prospects of the Company. Due to the operations of the Company, the impact of the virus on the current year has been limited and the impact on future periods is also expected to be limited. The Directors have considered the expected impact of coronavirus in reaching their assessment of the Company's ability to continue as a going concern.

Brexit

The Directors are aware of the political uncertainty as the UK transitions out of the European Union. Due to the nature of operations of the Company, the impact of Brexit was minimal for the year ended 31 March 2022 and is expected to still be minimal for the year ended 31 March 2023.

Approved by the Board on 30 November 2022 and signed on its behalf by:


Scott Anderson (Nov. 30, 2022 11:04 GMT)
Scott Anderson
Director

SSE Heat Networks Limited

Directors' Report for the Year Ended 31 March 2022

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

The directors present their report and financial statement for SSE Heat Networks 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:

Nathan Sanders

Scott Anderson

Principal activity

The principal activity of the Company is the development, operation and maintenance of district heating schemes, delivering electricity, heat and cooling. The technologies utilised include combined heat and power plant, biomass boilers and heat pumps.

SSE Heat Networks Limited ("the Company") is a wholly owned subsidiary of SSE plc and part of the SSE Group ("the Group").

Dividends

The directors do not recommend payment of a dividend (2021: £Nil) be made in respect of the financial year ended 31 March 2022.

SSE Heat Networks Limited

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

Environmental matters

The Company is exempt from making disclosures in line with the Streamlined Energy and Carbon Reporting ('SECR') requirements as it is a wholly owned subsidiary of SSE plc. The consolidated disclosures of the Group are available on pages 40 - 57 of SSE plc's 2022 Annual Report.

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 Group letter of support confirms that the Group will provide support to 31 December 2023 where required. The Directors are satisfied that the 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 £289.3m at 30 September 2022, the committed bank facilities of £2.5bn maintained by the Group (including the £1.0bn facility entered into in November 2022), and the current commercial paper market conditions including the Group's success in refinancing maturing debt with the issuance of £2.1bn of long and short term debt since 31 March 2022 and the issuance of £831.4m of hybrid equity in April 2022, 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. The directors are not aware of any subsequent events that would have a material impact on the going concern assessment. 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 and positive sensitivities on operating cash flows and uncommitted capex and other adjustments.

Having reviewed the financial strength of the 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.


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.

Reappointment of auditors

The auditors Ernst & Young LLP are deemed to be reappointed under section 487(2) of the Companies Act 2006.

Approved by the Board on 30 November 2022 and signed on its behalf by:


Scott Anderson (Nov.30, 2022 11:04 GMT)
Scott Anderson
Director

SSE Heat Networks Limited

Statement of Directors' Responsibilities for the Year Ended 31 March 2021


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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 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 and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether FRS 101 has 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 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.

Approved by the Board on 30 November 2022 and signed on its behalf by:


Scott Andersonn (Nov 30, 2022 11:04 GMT)
Scott Anderson
Director

Independent Auditor's Report to the Members of SSE Heat Networks Limited

Opinion

We have audited the financial statements of SSE Heat Networks Limited for the year ended 31 March 2022 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of changes in equity and the related notes 1 to 17, 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 loss 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.

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 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.

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.

Independent Auditor's Report to the Members of SSE Heat Networks Limited (continued)

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 the 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 or 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 directors' responsibilities statement set out on page 7, 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.

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.

Independent Auditor's Report to the Members of SSE Heat Networks Limited (continued)

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.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that relate to the reporting framework (FRS 101 and Companies Act 2006) and relevant tax compliance regulations in the UK and the General Data Protection Regulation (GDPR).
- We understood how SSE Heat Networks Limited is complying with those frameworks by making enquiries of management and those charged with governance to understand how the Company maintains and communicated its policies and procedures in these areas and corroborated this by reviewing supporting documentation. We corroborated our enquiries through our review of the board minutes, and we noted no such contradictory evidence.
- 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 consider there was susceptibility to fraud. We considered the programmes and controls that the company has established to address risks identified, or that 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.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved journal entry testing, with a focus on manual journals and journals indicating large or unusual transactions based on our understanding of the business and enquiries of management and those charged with governance. In addition, we completed procedures to conclude on the compliance of the disclosures in the financial statements and accounts with all applicable requirements.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur, by considering there to be a potential for management override to achieve revenue targets via topside manual journal entries posted to revenue, further identifying revenue, accrued income and deferred income to be a fraud risk area. We performed walkthroughs of significant classes of revenue transactions to understand significant processes and identify and assess the design effectiveness of key controls. We used data analytics tools to perform a correlation analysis to identify those revenue journals for which the corresponding entry was not to trade receivables and cash. The identified entries included postings to VAT, accrued income and deferred income, for which we obtained corroborating evidence. We verified the recognition and measurement of revenue by tracing a sample of transactions, selected at random throughout the year, to cash banked to verify the accuracy of reported revenue. These procedures also included the testing of a random sample at year end to verify the appropriate cut-off of revenue.
- In addition, an area of focus was impairment and onerous provisions, due the level of management judgement required in the assumptions impacting the assessment. We analysed managements' long-term forecasts underlying the impairment and onerous provision review. We reperformed calculations in the models to check mathematical accuracy and critically challenged management's ability to forecast accurately through comparing prior year actual performance against forecast performance and corroborating the reasons for deviations.


**Independent Auditor's Report to the Members of SSE Heat Networks Limited
(continued)**

- We also performed sensitivity analysis on growth rates applied to cash flows to determine the parameters that - should they arise - may give a different conclusion as to the carrying values of assets assessed. The sensitivities performed were based on reasonable possible changes to key assumptions determined by management being revenue and costs growth rates, discount rate and long-term growth rate. Further, we assessed the headroom on the recoverable amount between the calculated value in use and carrying value of the assets.

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.



Emily Butler (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor

Date: 30 November 2022

SSE Heat Networks Limited

Profit and Loss Account for the Year Ended 31 March 2022

	Note	2022 £ 000	2021 £ 000
Turnover	3	18,575	17,331
Cost of sales		<u>(9,454)</u>	<u>(10,047)</u>
Gross profit		9,121	7,284
Administrative expenses		(9,455)	(8,559)
Exceptional items		<u>(1,140)</u>	<u>3,936</u>
Operating (loss)/profit	4	(1,474)	2,661
Interest payable and similar expenses	7	<u>(111)</u>	<u>(290)</u>
(Loss)/profit before tax		(1,585)	2,371
Tax on (loss)/profit	9	<u>497</u>	<u>(499)</u>
(Loss)/profit for the year		<u>(1,088)</u>	<u>1,872</u>


The above results were derived from continuing operations.

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

SSE Heat Networks Limited
(Registration number: SC303682)
Balance Sheet as at 31 March 2022

	Note	31 March 2022 £ 000	Restated 31 March 2021 £ 000
Non-current assets			
Intangible assets	10	-	177
Tangible assets	11	20,276	18,639
Deferred tax assets	9	768	858
		<u>21,044</u>	<u>19,674</u>
Current assets			
Stocks		68	77
Debtors: amounts falling due after one year	13	4,738	3,909
Debtors: amounts falling due within one year	13	8,407	5,412
		<u>13,213</u>	<u>9,398</u>
Current liabilities			
Creditors: amounts falling due within one year	14	<u>(18,175)</u>	<u>(9,189)</u>
Net current (liabilities)/assets		<u>(4,962)</u>	<u>209</u>
Total assets less current liabilities		<u>16,082</u>	<u>19,883</u>
Creditors: Amounts falling due after more than one year			
Deferred income	14	(15,552)	(14,703)
Amounts due to Group undertakings	14	-	(5,781)
		<u>(15,552)</u>	<u>(20,484)</u>
Provisions for liabilities	15	<u>(3,446)</u>	<u>(1,227)</u>
Net liabilities		<u>(2,916)</u>	<u>(1,828)</u>
Capital and reserves			
Called up share capital	16	-	-
Capital Contribution		24,397	24,397
Profit and loss account		<u>(27,313)</u>	<u>(26,225)</u>
Shareholders' deficit		<u>(2,916)</u>	<u>(1,828)</u>

Approved by the Board on 30 November 2022 and signed on its behalf by:


Scott Anderson (Nov 30, 2022, 11:04:50 AM)
Scott Anderson
Director

SSE Heat Networks Limited

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

	Share capital £ 000	Capital contribution £ 000	Retained earnings £ 000	Total £ 000
At 1 April 2021	-	24,397	(26,225)	(1,828)
Loss for the year	-	-	(1,088)	(1,088)
At 31 March 2022	-	24,397	(27,313)	(2,916)
	Share capital £ 000	Capital contribution £ 000	Retained earnings £ 000	Total £ 000
At 1 April 2020	-	24,397	(28,097)	(3,700)
Profit for the year	-	-	1,872	1,872
At 31 March 2021	-	24,397	(26,225)	(1,828)

The notes on pages 15 to 28 form an integral part of these financial statements.

SSE Heat Networks 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 United Kingdom.

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including 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 UK adopted International Financial Reporting Standards, 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.

Correction of an error

As further described in Note 13, Debtors: amounts falling due within one year and due after more than one year have been presented as separate line items due to the profile of the debtors. The error has been corrected by restating the affected financial statement lines in the prior period.

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 of 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 Heat Networks 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 Group letter of support confirms that the Group will provide support to 31 December 2023 where required. The Directors are satisfied that the 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 £289.3m at 30 September 2022, the committed bank facilities of £2.5bn maintained by the Group (including the £1.0bn facility entered into in November 2022), and the current commercial paper market conditions including the Group's success in refinancing maturing debt with the issuance of £2.1bn of long and short term debt since 31 March 2022 and the issuance of £831.4m of hybrid equity in April 2022, 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. The directors are not aware of any subsequent events that would have a material impact on the going concern assessment. 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 and positive sensitivities on operating cash flows and uncommitted capex and other adjustments.

Having reviewed the financial strength of the 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.

Changes in accounting policy

None of the standards, interpretations and amendments effective for the first time from 1 April 2021 have had a material effect on the financial statements.

Revenue recognition

Revenue, stated net of value added tax, represents invoiced amounts for the sale of heat, cooling and electricity in the United Kingdom. Turnover includes an estimate of the value of heat supplied to customers between the date of the last meter reading and the year end.

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.

SSE Heat Networks Limited

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

2 Accounting policies (continued)

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.

Tangible assets

Owned assets

Property, plant and equipment is stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

Assets under construction that are commissioned and enter operation in the financial year are transferred from this category 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.

Impairment

Impairment reviews are carried out every year to assess the viability of the network assets and any adjustments are then carried through the financial statements, under IAS 36 an asset must not be carried in the financial statements at more than the highest amount to be recovered through its use or sale. If the carrying amount exceeds the recoverable amount, the asset is described as impaired. The carrying amount of the asset must be reduced to its recoverable amount and recognised as an impairment loss.

Depreciation

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives, as follows:

	Years
Network Assets	25 - 30

Intangible assets

Software assets

Expenditure on software assets and application software licences includes contractors' fees and directly attributable labour and overheads. Amortisation is charged to the income statement on a straight-line basis over the estimated useful life of these assets, which ranges from 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 Heat Networks Limited

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

2 Accounting policies (continued)

Trade debtors

Trade debtors are amounts due from customers for merchandise sold or services 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.

Deposit debtors

Deposit debtors relate to amounts collected from customers by the company on behalf of developers for the sole purpose of carrying out capital replacement activities on the company's heat networks. These amounts are held in separate bank accounts opened for this specific purpose. The average length of contracts with developers is 27 years. An assessment has been carried out in the current year by analysing capital replacement expenditure over a period of the past 5 financial periods in order to determine the average historical spend over this period. This average of 8% has been used in setting the policy of splitting the deposit debtor balances into current balances and non-current balances. This assessment will be performed on an annual basis to ensure that it is still reflective of the average annual spend and therefore relevant for the financial period being reviewed.

Stock

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method.

The Inventory is Oil held at our Thatcham site and as Oil is used, it is expensed into the P&L at an average PPU based on calculation of average cost of historic purchases.

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.

SSE Heat Networks Limited

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

2 Accounting policies (continued)

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.

Key Judgements and Estimates:

Impairment of network assets and Onerous provision testing - estimation uncertainty

The Company reviews the carrying amounts of its network assets to determine whether any impairment of the carrying value of those assets requires to be recorded. The Company also reviews the performance of customer contracts in place to assess whether any such contracts are onerous. In conducting its reviews, the Company makes judgements and estimates in considering the estimates and assumptions behind the calculation of recoverable amount of the respective assets. Changes to the estimates and assumptions on factors such as, power, gas and other commodity prices, volatility of gas prices, discount rates and other inputs could impact the assessed recoverable value of assets and consequently impact the Company's income statement and balance sheet. The above-mentioned inputs are also used in the onerous provision calculation and thus the onerous provision is also sensitive to changes in these judgements and assumptions.

Further detail of the resulting impairment charges and onerous provision is disclosed at Notes 11 and 15. Detail on the accounting policies applied is included in the accounting policy above.

3 Revenue

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

	2022 £ 000	2021 £ 000
Sale of heat, cooling, and electricity	18,575	17,331

4 Operating (loss)/profit

Arrived at after charging/(crediting)

	2022 £ 000	2021 £ 000
Depreciation expense	1,387	1,159
Release of deferred income in relation to customer contributions and capital grants	(922)	(651)
Exceptional items	1,140	(3,936)

SSE Heat Networks Limited

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

4 Operating (loss)/profit (continued)

Exceptional item relates to the impairment of Network assets and an onerous contract provision to account for future losses. This provision continues to be assessed on an annual basis with any adjustments flowing through the profit and loss account in the relevant year. The reversal of prior year impairments was £(1,203k) and new impairments in the period were £124k, resulting in an overall impairment reversal of £(1,079k). In addition, this includes £2,219k relating to the onerous contract provision increase. Refer to notes 11 & 15 for further information.

5 Staff costs

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

	2022 £ 000	2021 £ 000
Wages and salaries	3,037	2,437
Social security costs	71	30
Pension costs	72	19
Share-based payment expenses	1	-
	3,181	2,486

The average number of persons employed by the company (including directors) during the year, analysed by category was as follows:

	2022 No.	2021 No.
Administration and support	12	-

6 Directors' remuneration

The total remuneration received by the directors for qualifying and non-qualifying services during the year was £597k (2021: £582k). The above value is for 2 directors (2021: 4), who were remunerated via another Group company 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 £472k (2021: £394k) including company pension contributions of £Nil (2021: £51k) which were made to a money purchase scheme on their behalf.

7 Interest payable and similar expenses

	2022 £ 000	2021 £ 000
Interest payable to Group companies	111	290

SSE Heat Networks Limited

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

8 Auditors' remuneration

The company incurred an audit fee of £18,804 in the year (2021: £8,492). The fee in the current year was borne by another group company.

9 Income tax

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

	2022 £ 000	2021 £ 000
Current taxation		
UK corporation tax	(587)	184
UK corporation tax adjustment to prior periods	-	-
Total current income tax	<u>(587)</u>	<u>184</u>
Deferred taxation		
Arising from origination and reversal of temporary differences	274	315
Arising from changes in tax rates and laws	(184)	-
Total deferred taxation	<u>90</u>	<u>315</u>
Tax (receipt)/expense in the profit and loss account	<u>(497)</u>	<u>499</u>

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2021 - higher than the standard rate of corporation tax in the UK) of 19% (2021 - 19%).

The differences are reconciled below:

	2022 £ 000	2021 £ 000
(Loss)/profit before tax	<u>(1,585)</u>	<u>2,371</u>
Corporation tax at standard rate of 19% (2021: 19%)	(301)	451
Increase from effect of expenses not deductible in determining taxable profit (tax loss)	21	54
Decrease from transfer pricing adjustments	(33)	(6)
Deferred tax credit relating to changes in tax rates or laws	<u>(184)</u>	<u>-</u>
Total tax (credit)/charge	<u>(497)</u>	<u>499</u>

SSE Heat Networks Limited

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

9 Income tax (continued)

Deferred tax

Deferred tax assets

	Asset £ 000	Liability £ 000	Net deferred tax £ 000
2022			
Provisions	788	-	788
Revaluation of property, plant and equipment	-	(20)	(20)
	<u>788</u>	<u>(20)</u>	<u>768</u>
2021			Asset £ 000
Provisions			400
Revaluation of property, plant and equipment			<u>458</u>
			<u>858</u>

Deferred tax movement during the year:

	At 1 April 2021 £ 000	Recognised in income £ 000	At 31 March 2022 £ 000
Provisions	400	388	788
Revaluation of property, plant and equipment	458	(478)	(20)
Net tax assets	<u>858</u>	<u>(90)</u>	<u>768</u>

Deferred tax movement during the prior year:

	At 1 April 2020 £ 000	Recognised in income £ 000	At 31 March 2021 £ 000
Provisions	334	66	400
Revaluation of property, plant and equipment	839	(381)	458
Net tax assets	<u>1,173</u>	<u>(315)</u>	<u>858</u>

SSE Heat Networks Limited

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

Increase in Corporation Tax rate

The Government announced in the Budget on 3 March 2021 that the main rate of corporation tax will increase to 25% for the financial year beginning 1 April 2023. Prior to this date, the rate of corporation tax will remain at 19%. The increase to 25% was substantively enacted on 24 May 2021 and therefore the deferred tax balances have been re-measured at 31 March 2022. The rate change resulted in an increase to the Company's deferred tax asset of £184k.

Finance Bill 2021 also included draft legislation in respect of Capital Allowance 'Super-deductions' of 130% in respect of General Pool plant and machinery, alongside First Year Allowances of 50% for Special Rate Pool plant and machinery for the two years commencing 1 April 2021. The Company expects these changes to significantly increase the deduction for Capital Allowances in the financial years ending 31 March 2022 and 31 March 2023. An estimate of the super-deduction has been taken into account when calculating the effective tax for the current year.

10 Intangible assets

	Internally generated software development costs £ 000	Total £ 000
Cost or valuation		
At 1 April 2021	267	267
Disposals	(267)	(267)
At 31 March 2022	-	-
Amortisation		
At 1 April 2021	90	90
Amortisation eliminated on disposals	(90)	(90)
At 31 March 2022	-	-
Carrying amount		
At 31 March 2022	-	-
At 31 March 2021	177	177

Disposals during the year related to transfers of software to SSE Utility Solutions Limited.

SSE Heat Networks Limited

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

11 Tangible assets

	Assets under construction £ 000	Network assets £ 000	Total £ 000
Cost or valuation			
At 1 April 2021	2,492	36,608	39,100
Additions	1,945	-	1,945
Transfers	(1,859)	1,859	-
At 31 March 2022	2,578	38,467	41,045
Depreciation and impairment			
At 1 April 2021	2,146	18,315	20,461
Charge for the year	-	1,387	1,387
Impairment reversal	-	(1,202)	(1,202)
Impairment charge	-	123	123
At 31 March 2022	2,146	18,623	20,769
Carrying amount			
At 31 March 2022	432	19,844	20,276
At 31 March 2021	346	18,293	18,639

There was a reversal of prior year impairments of £(1,202k) and new impairments of £123k in the current year, which resulted in an overall net impairment reversal of £(1,079k).

Sensitivity analysis

The key assumptions made when calculating the impairment centre around cost estimates and discount rate applied:

An increase of 1% in the discount rate would result in a net impairment reversal of £919k.

A decrease of 1% in the discount rate would result in a net impairment reversal of £1,737k.

The costs included in the impairment models are linked to energy industry benchmarks as communicated to management by SSE Plc.

Their sensitivities are therefore linked to changes within the industry and to network specific factors existing at each network.

SSE Heat Networks Limited

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

12 Investments

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

Name of subsidiary	Principal activity	Country of incorporation	Holding	Proportion of ownership interest and voting rights held	
				2022	2021
SSE Heat Networks (Battersea) Ltd*	Dormant	United Kingdom	Ordinary Shares	100%	100%

* indicates direct investment of the company

13 Trade and other debtors

Amounts falling due within one year

	31 March 2022 £ 000	Restated 31 March 2021 £ 000
Trade debtors	2,955	2,073
Amounts due from related parties	1,871	834
Accrued income	2,035	2,106
Prepayments	109	18
Other debtors	1,438	381
	<u>8,407</u>	<u>5,412</u>

Amounts falling due after one year

	31 March 2022 £ 000	Restated 31 March 2021 £ 000
Trade debtors	<u>4,738</u>	<u>3,909</u>

In the prior period financial statements 'Debtors' were presented as a single line item of £9.3m. In line with the requirements of FRS 101 'Reduced Disclosure Framework', the FY21 balance sheet has been restated to have 'Debtors: amounts falling due within one year' (£5.4m) and 'Debtors: amounts falling due after more than one year' (£3.9m) presented as separated line items. This reclassification had no impact on the Company's income statement reported in 2021.

SSE Heat Networks Limited

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

14 Creditors

Amounts falling due within one year

	31 March 2022 £ 000	31 March 2021 £ 000
Trade creditors	1,023	765
Accrued expenses	2,008	2,706
Amounts due to Group undertakings	13,816	4,300
Other creditors	455	497
Deferred income	873	922
	<u>18,175</u>	<u>9,189</u>

Amounts falling due after more than one year

	31 March 2022 £ 000	31 March 2021 £ 000
Amounts due to Group undertakings	-	5,781
Deferred income	15,552	14,703
	<u>15,552</u>	<u>20,484</u>

The amounts disclosed in the balance sheet as owed to related parties and falling due after more than one year are in respect of amounts advanced to the company by its ultimate parent SSE plc. Interest is charged at 4.89% (2021: 4.01%). There is no fixed repayment term for the amounts disclosed as owed to related parties. There were no amounts owing to SSE Plc as at 31 March 2022 (2021: £5,781).

15 Provisions

	Onerous contracts £ 000
At 1 April 2021	1,227
Increase in existing provisions	<u>2,219</u>
At 31 March 2022	<u>3,446</u>

SSE Heat Networks Limited

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

15 Provisions (continued)

A provision was made during financial year 2018/19 following a detailed review and assessment of the assets and contracts in the Company's Heat network portfolio including assumptions around build out rates, price movements and future maintenance requirements. The provision has been reassessed following ongoing review and commercial improvement to existing arrangements and the provision is expected to unwind over the remaining years of operation of each network, ranging from 15-25 years across the portfolio and will continue to be reassessed on an annual basis.

Sensitivity analysis

The key assumptions made when calculating the onerous provision centre around cost estimates and discount rate applied:

An increase of 1% in the discount rate would result in a decrease to the provision of £198k.

A decrease of 1% in the discount rate would result in an increase to the provision of £275k.

The costs included in the onerous provision models are linked to energy industry benchmarks as communicated to management by SSE Plc.

Their sensitivities are therefore linked to changes within the industry and to network specific factors existing at each network.

16 Share capital

Allotted, called up and fully paid shares

	31 March 2022		31 March 2021	
	No.	£	No.	£
Ordinary share Capital of £1 each	1	1	1	1

SSE Heat Networks Limited

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

17 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.

The address of SSE plc is:

Inveralmond House, 200 Dunkeld Road, Perth, PH1 3AQ