

Registration number: SC303682

SSE Heat Networks Limited
Directors report and Financial Statements
for the Year Ended 31 March 2020



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
Apex Plaza
Forbury Road
Reading
Berkshire
RG1 1YE

Registered number

SC303682

SSE Heat Networks Limited

Strategic Report for the Year Ended 31 March 2020

The Directors present their report for the year ended 31 March 2020.

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 2020, 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 planning requirements on developers to achieve carbon reductions and by customers demanding more environmentally and socially sustainable sources of energy at more predictable and financially attractive rates.

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 1 scheme where the company is the preferred bidder; Hayes Village (Barratt Homes). In total the business serves over 10,000 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.

Financial Performance

The profit and loss account for the year ended 31 March 2020 states the loss for the year after taxation amounted to £1.4m (2019: loss of £1.7m). The balance sheet at 31 March 2020 indicates net liabilities of £3.7m (2019: net liabilities of £2.3m).

A provision made during the 2019 financial year has been adjusted following a detailed review and assessment of the assets and contracts in the company's heat network portfolio to £3,428k (2019: £3,843k). The remaining onerous 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.

SSE Heat Networks Limited

Strategic Report for the Year Ended 31 March 2020 (continued)

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

	Unit	2020	2019
Gross Profit	£'000	7,329	6,829
Turnover	£'000	17,695	16,637
Operating loss before exceptional items	£'000	(3,652)	(1,346)
Net Liabilities	£'000	(3,700)	(2,310)

Principal risks and uncertainties

Financial and Political Risk

The principal risks and uncertainties concern uncertainty in the property development sector, the reliance on new technology, major service failure due to fire or other damage to energy centres or damage to the upstream gas connection, and significant policy change, which disproportionately favours alternative energy provisions (such as micro generation). The board reviews and agrees policies for addressing each of these risks.

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 prospects of the Company. Due to the timing of the outbreak relative to the Company's year end date, the impact on the results for the year ended 31 March 2020 is limited. Due to the operations of the Company, the impact of the virus 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 year ended 30 March 2020 and year ended 31 March 2021.

Approved by the Board on 12 August 2021 and signed on its behalf by:


Nathan Sanders (Aug 12, 2021 11:52 GMT+1)

Nathan Sanders
Director

SSE Heat Networks Limited

Directors' Report for the Year Ended 31 March 2020

The directors present their report and the financial statements for the year ended 31 March 2020.

Directors' of the company

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

Nathan Sanders

Craig Benson (ceased 26 October 2020)

John Mullen (ceased 4 November 2020)

The following director was appointed after the year end:

Scott Anderson (appointed 26 October 2020)

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 (2019: £Nil) be made in respect of the financial year ended 31 March 2020.

Business review

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 it will provide support for a period of 12 months from the date of signing of these accounts 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 committed bank facilities of £1.5bn maintained by the Group, the current commercial paper market conditions, the recent success of the Group in refinancing maturing debt, as well as sensitivities on future cashflow projections that reflect the impact of the coronavirus pandemic and the Group's credit rating. The directors also considered the progress of the Group's disposal programme since 31 March 2020 and mitigating actions available to the Group under downside scenarios including non-essential capex postponement and refinancing of mature debt. In considering these factors, the directors satisfied themselves that the SSE plc group has sufficient headroom to continue as a going concern and could provide support to the business as required.

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

Assessing the impact of coronavirus

The Directors have considered the impact of coronavirus on the future prospects of the Company. Due to the timing of the outbreak relative to the Company's year end date, the impact on the results for the year ended 31 March 2020 is limited. Due to the operations of the Company, the impact of the virus 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 above.

SSE Heat Networks Limited

Directors' Report for the Year Ended 31 March 2020 (continued)


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.

Appointment of auditors

The Directors have appointed Ernst & Young LLP as auditors of the company in accordance with section 485 of the Companies Act 2006.

Approved by the Board on 12 August 2021 and signed on its behalf by:


Nathan Sanders (Aug 12, 2021 11:52 GMT+1)

Nathan Sanders
Director

SSE Heat Networks Limited

Statement of Directors' Responsibilities


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 12 August 2021 and signed on its behalf by:


Nathan Sanders (Aug 12, 2021 11:52 GMT+1)
Nathan Sanders
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 2020 which comprise of the Profit and Loss Account, the Balance Sheet, the Statement of changes in equity and the related notes 1 to 15, 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 company's affairs as at 31 March 2020 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 below. 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

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of twelve months from the date when the financial statements are authorised for issue.

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.

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.

In connection with our audit of the financial statements, 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 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 or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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

Opinions on other matters 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 the 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 6 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.

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.

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

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
Reading
Date 13 August 2021

SSE Heat Networks Limited

Profit and Loss Account for the Year Ended 31 March 2020

	Note	2020 £ 000	2019 £ 000
Turnover	3	17,695	16,637
Cost of sales		<u>(10,366)</u>	<u>(9,808)</u>
Gross profit		7,329	6,829
Administrative expenses		(10,981)	(8,175)
Exceptional items	4	<u>1,924</u>	<u>836</u>
Operating loss	4	(1,728)	(510)
Interest payable and similar expenses	6	<u>(147)</u>	<u>(1,285)</u>
Loss before tax		(1,875)	(1,795)
Tax on loss	8	<u>485</u>	<u>73</u>
Loss for the year		<u>(1,390)</u>	<u>(1,722)</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 2020

	Note	31 March 2020 £ 000	31 March 2019 £ 000
Fixed assets			
Tangible assets	9	17,459	15,411
Investments	10	-	-
Deferred tax assets	8	1,173	1,069
		<u>18,632</u>	<u>16,480</u>
Current assets			
Stocks		77	95
Debtors	11	8,582	7,735
		<u>8,659</u>	<u>7,830</u>
Current liabilities			
Creditors: amounts falling due within one year	12	(12,485)	(8,585)
Net current liabilities		<u>(3,826)</u>	<u>(755)</u>
Total assets less current liabilities		14,806	15,725
Creditors: Amounts falling due after more than one year			
Deferred income	12	(15,078)	(14,192)
Provisions for liabilities	13	(3,428)	(3,843)
Net liabilities		<u>(3,700)</u>	<u>(2,310)</u>
Capital and reserves			
Called up share capital	14	-	-
Capital Contribution		24,397	24,397
Profit and loss account		<u>(28,097)</u>	<u>(26,707)</u>
Shareholders' deficit		<u>(3,700)</u>	<u>(2,310)</u>

Approved by the Board on 12 August 2021 and signed on its behalf by:


Nathan Sanders (Aug 12, 2021 11:52 GMT+1)
Nathan Sanders
Director

SSE Heat Networks Limited

Statement of Changes in Equity for the Year Ended 31 March 2020

	Share capital £ 000	Capital contribution £ 000	Retained earnings £ 000	Total £ 000
At 1 April 2019	-	24,397	(26,707)	(2,310)
Loss for the year	-	-	(1,390)	(1,390)
At 31 March 2020	-	24,397	(28,097)	(3,700)

	Share capital £ 000	Capital contribution £ 000	Retained earnings £ 000	Total £ 000
At 1 April 2018	-	-	(24,985)	(24,985)
Loss for the year	-	-	(1,722)	(1,722)
Capital contribution	-	24,397	-	24,397
At 31 March 2019	-	24,397	(26,707)	(2,310)

The notes on pages 13 to 22 form an integral part of these financial statements.

SSE Heat Networks Limited

Notes to the Financial Statements for the Year Ended 31 March 2020

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 with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

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

Summary of disclosure exemptions

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

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

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

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

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.

SSE Heat Networks Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

2 Accounting policies (continued)

Going concern

The financial statements are prepared on a Going Concern basis which has been supported by the provision of a parental letter of support from SSE plc. The Group letter of support confirms it will provide support for a period of 12 months from the date of signing of these accounts 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 committed bank facilities of £1.5bn maintained by the Group, the current commercial paper market conditions, the recent success of the Group in refinancing maturing debt, as well as sensitivities on future cashflow projections that reflect the impact of the coronavirus pandemic and the Group's credit rating. The directors also considered the progress of the Group's disposal programme since 31 March 2020 and mitigating actions available to the Group under downside scenarios including non-essential capex postponement and refinancing of mature debt. In considering these factors, the directors satisfied themselves that the SSE plc group has sufficient headroom to continue as a going concern and could provide support to the business as required.

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

Changes in accounting policy

New standards, interpretations and amendments effective

The accounting policies are consistent with those of the prior year except for the following new standards which became effective for the period beginning on 1 April 2019.

IFRS 16 "Leases"

The adoption of IFRS 16 had no impact on the presentation of the financial statements for the year ended 31 March 2020.

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 2020 (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 reviews are carried out every year to assess the viability of the network assets and any adjustments are then carried through the financial statements.

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:

Asset class	Years
Network Assets	25-30

Trade debtors

Trade debtors are amounts due from customers for energy consumed. 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 non-current receivables.

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.

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.

SSE Heat Networks Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

2 Accounting policies (continued)

Trade creditors

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

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

Provisions

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

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

3 Revenue

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

	2020 £ 000	2019 £ 000
Sale of goods	17,695	16,637

4 Operating loss

Arrived at after charging/(crediting)

	2020 £ 000	2019 £ 000
Depreciation expense (Note 9)	1,461	716
Release of deferred income in relation to customer contributions and capital grants	(986)	(352)
Exceptional items	(1,924)	(836)

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 £(3,560k) and new impairments in the period were £2,052k, resulting in an overall impairment reversal of £(1,508k). In addition, this includes £(415k) relating to the onerous contract provision release. Refer to note 9 and 13 for further information.

SSE Heat Networks Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

5 Directors' remuneration

The total remuneration received by the directors for qualifying and non-qualifying services during the year was £585k (2019: £541k). The above value is for 3 directors (2019: 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 £352k (2019: £320k) including company pension contributions of £15k (2019: £56k) which were made to a money purchase scheme on their behalf.

The Company has no other employees as all remunerated via another Group company in the year and the salaries is a recharge of costs from the other Group company.

6 Interest payable and similar expenses

	2020 £ 000	2019 £ 000
Interest payable to Group companies	147	1,285

7 Auditors' remuneration

The company incurred an audit fee of £15,990 in the year (2019: £949). The fee in the current year was borne by another group company.

8 Income tax

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

	2020 £ 000	2019 £ 000
Current taxation		
UK corporation tax	(362)	210
UK corporation tax adjustment to prior periods	(19)	(16)
	(381)	194
Deferred taxation		
Arising from origination and reversal of temporary differences	21	(307)
Arising from changes in tax rates and laws	(126)	-
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	1	40
Total deferred taxation	(104)	(267)
Tax receipt in the profit and loss account	(485)	(73)

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2019 - lower than standard rate of corporation tax in the UK) of 19% (2019: 19%).

The differences are reconciled below:

SSE Heat Networks Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

8 Income tax (continued)

	2020 £ 000	2019 £ 000
Loss before tax	(1,875)	(1,795)
Corporation tax at standard rate of 19% (2019: 19%)	(356)	(341)
(Decrease)/increase in current tax from adjustment for prior periods	(18)	24
Increase from effect of expenses not deductible in determining taxable loss	28	244
Decrease from transfer pricing adjustments	(13)	-
Deferred tax credit relating to changes in tax rates or laws	(126)	-
Total tax credit	(485)	(73)

Deferred tax

Deferred tax assets and liabilities

2020	Asset £ 000
Provisions	334
Revaluation of property, plant and equipment	839
	<u>1,173</u>
2019	Asset £ 000
Provisions	75
Revaluation of property, plant and equipment	994
	<u>1,069</u>

SSE Heat Networks Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

8 Income tax (continued)

Deferred tax movement during the year:

	At 1 April 2019 £ 000	Recognised in income £ 000	At 31 March 2020 £ 000
Provisions	75	259	334
Revaluation of property, plant and equipment	994	(155)	839
Net tax assets	1,069	104	1,173

Deferred tax movement during the prior year:

	At 1 April 2018 £ 000	Recognised in income £ 000	At 31 March 2019 £ 000
Provisions	32	43	75
Revaluation of property, plant and equipment	770	224	994
Net tax assets	802	267	1,069

Factors that affect future tax changes

Finance Bill 2020 has amended the main rate of corporation tax to remain at 19% from 1 April 2020 and 1 April 2021. As these changes have been substantively enacted at the balance sheet date deferred tax has been calculated accordingly and this has had the effect of increasing the company's deferred tax assets at 31 March 2020 by £126k (2019: £nil)

The UK Budget 2021 announcements on 3 March 2021, after the balance sheet date, included measures to support economic recovery as a result of the ongoing COVID-19 pandemic. These included an increase to the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023. These changes were not substantively enacted at the balance sheet date and hence have not been reflected in the measurement of deferred tax balances at the period end. If the company's deferred tax balances at the period end were remeasured at 25% this would result in an increase of the deferred tax asset by £370k.

9 Tangible assets

	Assets under construction £ 000	Network assets £ 000	Total £ 000
Cost or valuation			
At 1 April 2019	4,618	31,877	36,495
Additions	2,001	-	2,000
Transfers	(236)	236	-
At 31 March 2020	6,383	32,113	38,496

SSE Heat Networks Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

9 Tangible assets (Continued)

	Assets under construction £ 000	Network assets £ 000	Total £ 000
Depreciation and impairment			
At 1 April 2019	2,146	18,938	21,084
Charge for the year	-	1,461	1,461
Impairment reversal	-	(3,560)	(3,560)
Impairment charge	-	2,052	2,052
At 31 March 2020	2,146	18,891	21,037
Carrying amount			
At 31 March 2020	4,237	13,222	17,459
At 31 March 2019	2,472	12,939	15,411

10 Investments

Details of the subsidiaries as at 31 March 2020 are as follows:

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest and voting rights held	2020	2019
SSE Heat Networks (Battersea) Ltd*	Production of Electricity	No1 Forbury Place, 43 Forbury Road, Reading, RG13JH United Kingdom	100%	100%	100%

* indicates direct investment of the company

11 Trade and other debtors

	31 March 2020 £ 000	31 March 2019 £ 000
Trade debtors	2,653	3,311
Amounts due from related parties	586	689
Accrued income	2,018	2,709
Prepayments	13	10
Other debtors	3,312	1,016
	8,582	7,735

SSE Heat Networks Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

12 Creditors

Amounts falling due within one year

	31 March 2020 £ 000	31 March 2019 £ 000
Trade creditors	432	17
Accruals and deferred income	3,077	3,734
Amounts due to related parties	8,664	4,614
Other creditors	312	210
Bank loans and overdrafts	-	10
	<u>12,485</u>	<u>8,585</u>

Amounts falling due after more than one year

	31 March 2020 £ 000	31 March 2019 £ 000
Deferred income	<u>15,078</u>	<u>14,192</u>

13 Provisions for liabilities

	Onerous contracts £ 000
At 1 April 2019	3,843
Decrease in existing provision	<u>(415)</u>
At 31 March 2020	<u>3,428</u>

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.

SSE Heat Networks Limited

Notes to the Financial Statements for the Year Ended 31 March 2020 (continued)

14 Share capital

Allotted, called up and fully paid shares

	31 March 2020		31 March 2019	
	No.	£	No.	£
Ordinary share Capital of £1 each	1	1	1	1

15 Parent and ultimate parent undertaking

Relationship between entity and parents

The company's immediate parent is SSE plc.

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