

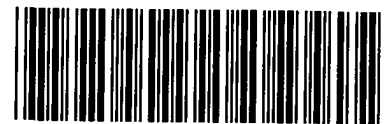
SSE CONTRACTING LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2014

Company Registration No 2317133

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SSE CONTRACTING LIMITED

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SSE CONTRACTING LIMITED

STRATEGIC REPORT

The Directors of SSE Contracting Limited (Company Registration Number 2317133) present their Annual report and financial statements for the year ended 31 March 2014.

Principal Activities

The principal activities of the Company are as mechanical and electrical contractors, undertaking work within Domestic, Industrial/Commercial, Public Lighting, Electrical Instrumentation, Datacoms, Distribution Services, High Voltage, Utility Contracting and Overhead Lines markets.

Principal Risks and Uncertainties

The Board of Directors are responsible for assessing and monitoring business risk. This is achieved through regular board meetings to review potential risks and areas of uncertainty, ensuring the company is appropriately addressing both Operational and Financial risks as and when they arise.

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 Directors continually assess the main risks that the Company could face, and believe that the principal risks and uncertainties faced by the businesses are:

Risk and uncertainties relating to revenue and profit

Growth opportunities in the UK market are limited and risks exist due to strong competition, local authority budget cuts and a fragile economy, restricting demand for our products and services. These risks will be mitigated through a continued focus on the core business, exploiting cross selling opportunities, and winning repeat business with existing customers.

Financial Risk and Uncertainties

The financial risks the business is exposed to are limited by the financial strength of our ultimate parent company, SSE Plc. The key risk faced by the business is the risk of bad debts, particularly as a result of the increased levels of corporate failures due to the current economic climate. This risk is mitigated through careful credit checking of major customers, having a diverse customer base and robust debt management processes.

The board of Directors has long experience in managing all these risks, while delivering profitable growth.

SSE CONTRACTING LIMITED

STRATEGIC REPORT (continued)

Review of Development and Performance

In the SSE Plc Annual Report for the year ended 31 March 2014, a value programme was announced which featured the planned disposal of various group businesses and a re-focus on operational efficiencies across the group. The programme of disposals includes the planned divestment of the equity invested in the Company's lighting services PFI subsidiaries. SSE Contracting Ltd will retain the related construction and maintenance works sub-contracts with the respective PFI entities. As a result of this planned divestment and the expected impact of restructuring arising from the value programme, the Company has recognised exceptional charges of £25.5m. Further detail on these charges is included at Note 9 to the Financial Statements.

SSE Contracting delivered an operating profit before exceptional items of £27.6m during the year, which was higher than previous years (2013: £19.1m). This strong result is built around a policy of providing high quality service, whilst carefully managing the associated costs.

SSE Contracting is encouraged by the increasing number of enquiries from the private sector. It is also focusing on post-sales control, particularly in terms of costs, and maintaining strong customer relationships, with careful analysis of the markets and areas of work it should prioritise. SSE Contracting's order book ended the year at £121.5m, which was £6.6m higher than the year before. This has been achieved through focussing on a smaller number of high value contracts. SSE's important position in the Electrical and Mechanical sector has been recognised by the Electrical Times' 'Top 50 Electrical Contractor Report 2013' – a comprehensive annual industry measure of the best performing electrical contractors in Great Britain.

SSE Contracting Limited is now part of the newly formed Enterprise division within the wider SSE group, which brings together all of SSE's business to business entities including Contracting Businesses, Lighting Services, Telecoms and Utility Solutions. As part of Enterprise a number of opportunities have been identified which will support the growth of SSE Contracting in the forthcoming year and beyond.

Key Performance Indicators

This year's performance has produced a turnover of £490.1m (an increase of £0.5m) and an increase in operating profit (before exceptional items) of £8.5m.

	2014 £000's	2013 £000's
Turnover	<u>490,138</u>	<u>489,667</u>
Operating Profit (before exceptional items)	<u>27,591</u>	<u>19,071</u>

SSE Contracting's turnover has remained consistent with 2013, demonstrating a robust performance in spite of a challenging trading environment. The key driver for the increased operating profit (before exceptional items) has been a focus on reducing direct costs from £423.8m to £407.6m. Careful job management has helped to keep costs down and increase the margins on many jobs.

SSE CONTRACTING LIMITED

STRATEGIC REPORT (continued)

Safety

Safety remains the top priority within the business but unfortunately this year has witnessed 4 serious safety incidents (compared to only 2 in 2013).

Order Book

The successful focus on clients is demonstrated by the level of order book held within the Company of £121.5 million (2013: £114.9 million).

Debtors

At 31 March 2014 the level of external debtors over 60 days was £3.1m (2013: £4.1m). The overall debtor level within the Company was 19.7% (2013: 18.4%) of turnover. A review of all debtors has been conducted by management, and where appropriate provisions have been made.

Safety, Health & Environment

Safety continued as the top priority for the Company during 2013/14 with a great deal of focus on further reducing our incident rate. The company works closely with all employees through the 'safety family, and also works closely with its contractors to increase their safety standards.

There were a total of 4 Reportable, zero Lost Time and 4 Medical Treatment Injuries in the year (2012/13 saw 2 Reportable, zero Lost Time and zero Medical Treatment).

Class 1 Blameworthy Road Traffic Collisions increased to 5 for the year (zero in 2012/13). SSE Contracting is continuing to run a number of campaigns to raise driver awareness.

SSE Plc's Health and Well-Being Action Plan provides the basis for workplace health programmes and initiatives, all designed to help employees be in good shape for work.

The Company continued its commitment to robust environmental management during the year with increased focus on recycling, energy saving and reducing waste.

Priorities for 2014/15

The priorities are:

- develop and deploy safely the right portfolio of products and services;
- efficiency and customer services; and
- technological change and innovation.



Chris Hillman
Finance Director
24th September 2014

SSE CONTRACTING LIMITED

DIRECTORS' REPORT

Proposed dividend

The directors have proposed a final ordinary dividend in respect of the current financial year of £10 per share (2013: Nil) this equates to £40.0m in total.

Directors

The Directors of the Company who served during the year are :-

Mr S J Chapman
Mr K D A Greenhorn
Mr C M Hillman
Mr M W Mathieson
Mr D Mullineaux
Mrs E A Tanner (resigned 08/08/2013)
Mr P S Yates (resigned 01/01/2014)
Mr B D Sharma (secretary – appointed 08/08/2013)
Mr M C Rough (appointed 01/01/2014)

Employee Rights

SSE Contracting has in place a comprehensive range of policies to safeguard the interests of employees and potential employees. Like all responsible organisations it has in place an actively-managed equal opportunities policy, in keeping with the spirit as well as the letter of the law in the UK and elsewhere, designed to ensure fair and equal treatment of employees and potential employees across the seven protected characteristics, as defined in the Equality Act 2010 – sex, race, religion or belief, disability, pregnancy and maternity, sexual orientation and gender reassignment. The Employment Equality (Age) Regulations 2006 have now been incorporated into the Equality Act 2010. There were no occasions during 2013/14 when SSE Contracting was found to have failed to comply with legislation on equality.

Employee Participation

Within SSE Contracting, employee participation is encouraged through adherence to the Company's Teamwork value. The appraisal process for employees, including the senior management team, specifically evaluates their performance in Teamwork, along with performance in respect of SSE Contracting's other core values: Safety, Service, Efficiency, Sustainability and Excellence. In addition to a wide range of internal communication media and events, employee participation in SSE Contracting is also encouraged through the Chief Executive's Blog, inter-active online forums, division- and subject-specific employee surveys, Director-led regional road shows and the Licence to Innovate scheme, which enables employees to research, review and test-trial new ideas.

Political Donations

No political donations were made during the financial year (zero in 2012/13).

SSE CONTRACTING LIMITED
DIRECTORS' REPORT (continued)

Disclosure of Information to Auditor

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

During the year KPMG Audit Plc resigned as auditor. KPMG LLP were then appointed auditor of the company.

By order of the Board



Chris Hillman
Finance Director
24th September 2014

SSE CONTRACTING LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SSE CONTRACTING LIMITED

We have audited the financial statements of SSE Contracting Limited for the year ended 31 March 2014 set out on pages 10 to 31. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2014 and of its profit for the year then ended
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

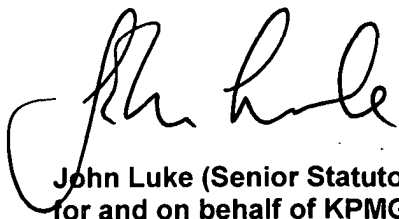
Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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



John Luke (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
191 West George Street
Glasgow
G2 2LJ
United Kingdom

24 September 2014

SSE CONTRACTING LIMITED

PROFIT AND LOSS ACCOUNT

For the year ended 31 March 2014

	Note	2014 £000's	2013 £000's
Turnover	2	490,138	489,667
Cost of sales		(416,926)	(423,833)
Gross profit		73,212	65,834
Administrative expenses		(45,621)	(46,763)
Operating Profit (before exceptional items)		27,591	19,071
Exceptional Items	9	(25,455)	-
Operating profit	3	2,136	19,071
Income from shares in group undertakings		750	750
Interest receivable	6	1,042	1,020
Profit on ordinary activities before taxation		3,928	20,841
Tax on profit on ordinary activities	7	(2,539)	(5,294)
Profit for the Financial Year		1,389	15,547

The above results derive from continuing operations.

There are no recognised gains or losses for the year other than the retained profit as shown in note 20.

The accompanying notes form part of these financial statements.

SSE CONTRACTING LIMITED**(Company Registration No 237133)****BALANCE SHEET**

At 31 March 2014

	Note	2014 £000's	2013 £000's
Fixed assets			
Intangible assets – goodwill	10	358	510
Tangible assets	11	1,022	1,215
Investments	12	7,644	8,315
		<u>9,024</u>	<u>10,040</u>
Current assets			
Stocks	13	41,810	44,483
Debtors	14	228,592	219,086
Cash at bank and in hand		18	454
		<u>270,420</u>	<u>264,023</u>
Creditors - amounts falling due within one year	15	<u>(152,457)</u>	<u>(131,937)</u>
Net current assets		<u>117,963</u>	<u>132,086</u>
Total assets less current liabilities		<u>126,987</u>	<u>142,126</u>
Creditors – amounts falling due after one year	16	<u>(5,829)</u>	<u>-</u>
Provisions for liabilities and charges	18	<u>(44,618)</u>	<u>(29,310)</u>
Net assets		<u><u>76,540</u></u>	<u><u>112,816</u></u>
Capital and reserves			
Called up share capital	19	4,000	4,000
Profit and loss account	20	<u>72,540</u>	<u>108,816</u>
Equity shareholders' funds	21	<u><u>76,540</u></u>	<u><u>112,816</u></u>

The financial statements on pages 9 to 30 were approved by the Board on 24/09/2014.

Chris Hillman
Director

SSE CONTRACTING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2014

1. Accounting Policies

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

a. Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

The company has considerable financial resources together with long term contracts with a number of customers and suppliers across the geographic areas and industries. As a consequence, the directors believe that the company is well placed to manage its business risks successfully despite the current uncertain economic outlook. The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

b. Group accounts

At the end of the year the Company was a wholly owned subsidiary of SSE Plc (the ultimate parent) incorporated in the United Kingdom. Accordingly, the preparation of group accounts is not required under Section 400 of the Companies Act 2006. These financial statements present information about the Company as an individual undertaking and not about its group.

c. Turnover

Turnover comprises the value of work completed and agreed with the client during the year, exclusive of value added tax.

d. Recognition of profits on contracts

With the exception of contracts under £5,000 in value (for which profit is recognised on completion), profit is taken on contracts whilst the contract is in progress, having regard to a prudent estimate of profit based on costs incurred and valuations agreed with clients. Provision is made for any losses as soon as they are foreseen.

e. Pension costs

Contributions to money purchase pension schemes on behalf of the employees of the Company are charged to the profit and loss account equal to the contributions charged for the accounting period. For the final salary scheme, the Company's share of the underlying assets and liabilities of the scheme cannot be identified on a consistent and reasonable basis, so the Company accounts for the scheme as if it were a defined contribution scheme.

f. Leased assets

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

SSE CONTRACTING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2014

1. Accounting Policies (continued)

g. Equity and equity-related compensation benefits

SSE Plc, the ultimate parent of the Company, operates a number of All Employee Share Schemes as described in the Remuneration Report of the Group. These schemes enable Group employees to acquire shares of the ultimate parent company. The employees of the Company are entitled, where applicable, to participate in these schemes. The Company has not been charged with the cash cost of acquiring shares on behalf of its employees and this cost has been borne by the ultimate parent company. Where the fair value of the options granted has been measured, the Company has recognised the expense as if the share-based payments related to the Company's own shares.

Under its transitional provisions, the requirements of FRS 20 have been applied to all grants of equity instruments after 7 November 2002 that had not vested as at 1 January 2005.

The exercise prices of the sharesave scheme are set at a discount to market price at the date of the grant. The fair value of the sharesave scheme option granted is measured at the grant date by use of an option pricing model. The fair value of the options granted is recognised as an expense on a straight-line basis over the period that the scheme vests. Estimates are updated at each balance sheet date with any adjustment in respect of the current and prior years being recognised in the profit and loss account.

The costs associated with the other main employee schemes, the share incentive plan, the deferred bonus scheme and the performance share plan, are recognised over the period to which they relate.

h. Taxation

Corporation tax payable is provided on taxable profits at the current rate. Deferred taxation arises in respect of items where there is a timing difference between their treatment for accounting purposes and their treatment for taxation purposes. In accordance with FRS 19, full provision without discounting is made for deferred taxation.

i. Dividends

In accordance with FRS 21, proposed final dividends which have not yet been approved at the balance sheet date are not included as a liability in the financial statements.

j. Goodwill and amortisation

Purchased goodwill arising on the acquisition of unincorporated businesses, being the excess of the purchase price over the fair value of the assets acquired is amortised in relation to the expected benefits that are received from the acquired businesses.

SSE CONTRACTING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2014

1. **Accounting Policies (continued)**

k. **Tangible fixed assets and depreciation**

Tangible fixed assets are stated at cost less depreciation. The charge for depreciation is calculated to write off these assets on a straight line basis over their estimated useful lives to their estimated residual value. The lives of each major class of depreciable asset are as follows:

Vehicles and mobile plant	5-7 years
Fixtures, equipment and other plant and machinery	4-5 years

l. **Investments**

Fixed asset investments are capitalised and amortised on a straight line basis over their estimated useful lives. The Directors believe that this treatment is most appropriate in order to reflect the carrying value of the investments.

m. **Stocks and work in progress**

Stocks are valued at the lower of cost and net realisable value. The valuation of work in progress is based on the cost of direct labour and material plus attributable overheads.

n. **Cash flow statement**

The Company's ultimate parent company produces a cash flow statement in accordance with Financial Reporting Standard 1 (Revised 1996). Accordingly the Company, which is a wholly owned subsidiary, is not required to produce a cash flow statement.

o. **Related party transactions**

As a subsidiary undertaking of SSE Plc, the Company has taken advantage of the exemption in Financial Reporting Standard 8 "Related party disclosures" not to disclose transactions with other members of the group headed by SSE Plc.

p. **Foreign Currencies**

The financial statements are presented in pounds sterling, which is the functional currency of the Company. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Any gain or loss arising on the restatement of such items is taken to the income statement.

q. **Provisions and Contingencies**

The assessments undertaken in recognising provisions and contingencies have been made in accordance with FRS12. The provisions are calculated based on estimations. The evaluation of the likelihood of the contingent events has required best judgement by management regarding the probability of exposure to potential loss. Should circumstances change following unforeseeable developments, this likelihood could alter.

SSE CONTRACTING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. Turnover

The Company's turnover arose mainly from the provision of Mechanical and Electrical services in the United Kingdom.

3. Operating Profit

Operating profit is stated after charging:

	2014 £000's	2013 £000's
Depreciation - owned assets	445	503
Auditors' remuneration – Audit of these financial statements	42	40
Operating lease rentals – Plant and Machinery	442	432
– Land and Buildings	3,568	3,591
Amortisation of Intangible Fixed Assets / Investments	822	823
Impairment of investments	-	-

4. Employees

	2014 No.	2013 No.
The average monthly number of employees (including Executive Directors) was:-		
Direct staff	3,289	3,449
Management, engineers, sales and Administration	973	1,013
	4,262	4,462
	2014 £000's	2013 £000's
Total employee costs during the year:		
Wages and salaries	142,377	142,662
Social security costs	13,915	13,374
Share-based remuneration	2,335	2,149
Other pension costs	14,158	10,279
	172,785	168,464

In accordance with Financial Reporting Standard 17 (Retirement Benefits), the Company's contributions to the Electricity Supply Pension Scheme (ESPS) have been treated as contributions to a defined contribution scheme.

SSE CONTRACTING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2014

5. Directors' Remuneration

The Directors' emoluments (paid by SSE Contracting Limited) excluding amounts receivable under long term incentive schemes were £289,203 (2013: £271,016).

Amounts receivable under long term incentive schemes were £77,328 (2013: £85,936).

The number of Directors who were members of money purchase pension schemes was 3 (2013: 3), and the number who were members of defined benefit pension schemes was 4 (2013: 4). One Director in each pension scheme is paid by SSE Contracting Ltd.

Figures attributable to the highest paid Director are as follows:-

	2014 £000's	2013 £000's
Emoluments	163	149
Accrued pension at 31 March	48	41
Accrued lump sum at 31 March	145	124

During the year the highest paid Director exercised deferred bonus grants.

The highest paid Director also received share options under long term incentive schemes during the year.

6. Interest Received

	2014 £000's	2013 £000's
Received from group undertakings	1,042	1,020

SSE CONTRACTING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2014

7. Tax on Profit on Ordinary Activities

	2014 £000's	2013 £000's
UK taxation on profit for the year:		
Corporation tax at 23% (2013: 24%)	2,186	5,039
Adjustments in respect of prior periods	(11)	328
	2,175	5,367
Deferred taxation (Note 17):		
Origination/reversal of timing differences	327	(12)
Adjustments in respect of prior periods	51	(73)
Effect of change in tax rate	(14)	12
Taxation charge for the year	2,539	5,294

Reconciliation of profit before tax to taxation charge for the year:

Factors affecting the tax charge for the period

The current tax charge for the period is lower (2013: higher) than the standard rate of corporation tax in the UK of 23% (2013: 24%). The differences are explained below.

	2014 £000's	2013 £000's
Current tax reconciliation		
Adjusted profit on ordinary activities before tax	13,299	20,841
Taxation charge based on profit before tax at 23% (2013: 24%)	3,059	5,002
Effects of:-		
Adjustments in respect of prior periods	(11)	328
Dividends received not chargeable to tax	(173)	(180)
Pensions charge greater than amounts paid	15	101
Provisions charge greater than amounts deductible	(168)	24
Relief in respect of share schemes	(174)	(106)
Expenses not deductible for tax purposes	171	194
Accelerated Capital Allowances	-	11
Group relief claimed for no consideration	(546)	-
Depreciation for period greater than capital Allowances	2	(7)
Total current tax charge	2,175	5,367

Reductions in the UK Corporation tax rate to 23% were substantively enacted on 3 July 2012. Further reductions to 21% (effective from 1 April 2014) and 20% (effective 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly.

The deferred tax asset at 31 March 2014 has been calculated at the rate of 20% substantively enacted at the balance sheet date.

SSE CONTRACTING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2014

8. Dividends

	2014 £000's	2013 £000's
Paid in year	<u>40,000</u>	<u>-</u>

9. Exceptional Items

	2014 £000's
Write off of historical Lighting Services PFI Costs	(11,583)
Hills Electrical & Mechanical Debt Write Off	(9,372)
Voluntary Early Release Provision	(4,500)
	<u>(25,455)</u>

In the SSE Plc Annual Report for the year ended 31 March 2014, a value programme was announced which featured the planned disposal of various group businesses. This programme of disposals includes the planned divestment of the equity invested in the Company's lighting services PFI subsidiaries. SSE Contracting Ltd will retain the related construction and maintenance works sub-contracts with the respective PFI entities. As a result of this announcement, the Company has undertaken a review of its contractual status with the respective PFI companies and has recognised exceptional charges of £11.6m in relation to the timing of contractual payments under the various sub-contracts.

SSE Contracting Ltd has further restructured the business through dissolving Hills Electrical and Mechanical Ltd in the year. At the date of the dissolution, an intercompany balance of £9.4m was held in SSE Contracting. This has been deemed irrecoverable and written off as an exceptional item, although it should be noted that there was a corresponding credit in the Hills Electrical and Mechanical Ltd subsidiary accounts and therefore there was a nil effect for the group.

During March 2014, SSE Plc announced that a "Voluntary Early Release" scheme was available to employees seeking to leave the company. As a result of this process an exceptional charge has been recorded to account for the cost of releasing employees. Employees successful in their application will leave the company over the course of 2014.

SSE CONTRACTING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2014

10. Intangible Fixed Assets

	Goodwill £000's
Cost	
At 1 April 2013	1,515
At 31 March 2014	1,515
Amortisation	
At 1 April 2013	1,005
Charge for the year	152
At 31 March 2014	1,157
Net Book Value	
At 31 March 2014	358
At 31 March 2013	510

11. Tangible Fixed Assets

	Fixtures and Equipment £000's
Cost	
At 1 April 2013	2,636
Additions	252
Disposals	(149)
At 31 March 2014	2,739
Depreciation	
At 1 April 2013	1,421
Charge for the year	445
Disposals	(149)
At 31 March 2014	1,717
Net book value	
At 31 March 2014	1,022
At 31 March 2013	1,215

SSE CONTRACTING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2014

12. Investments

	Shares in Group Undertakings £000's
Cost	
At 1 April 2013	16,674
At 31 March 2014	16,674
Amortisation	
At 1 April 2013	8,359
Charge for the year	671
At 31 March 2014	9,030
Net Book Value	
At 31 March 2014	7,644
At 31 March 2013	8,315

Details of shareholdings in subsidiary undertakings, all of which are incorporated in the United Kingdom are as follows:-

	Country	Principal Activity	Percentage of shares held
SEC Lighting Services Trading Limited	UK	Holding Company	100%
Dorset Lighting (Finance) Limited	UK	Street Lighting PFI	100% (*)
Dorset Lighting Limited	UK	Street Lighting PFI	100% (*)
Ealing Lighting (Finance) Limited	UK	Street Lighting PFI	100% (*)
Ealing Lighting Limited	UK	Street Lighting PFI	100% (*)
Islington Lighting (Finance) Limited	UK	Street Lighting PFI	100% (*)
Islington Lighting Limited	UK	Street Lighting PFI	100% (*)
SEC Highway Lighting (No.2) Limited	UK	Holding Company	100% (*)
SEC Highway Lighting (No.3) Limited	UK	Holding Company	100% (*)
SEC Highway Lighting (No.4) Limited	UK	Holding Company	100% (*)
Tay Valley Lighting (Hampshire) Holding Limited	UK	Holding Company	100% (*)
Tay Valley Lighting (Hampshire) Limited	UK	Street Lighting PFI	100% (*)
Tay Valley Lighting (Knowsley) Holding Limited	UK	Holding Company	100% (*)
Tay Valley Lighting (Knowsley) Limited	UK	Street Lighting PFI	100% (*)
Tay Valley Lighting (Nottingham) Holding Limited	UK	Holding Company	100% (*)
Tay Valley Lighting (Nottingham) Limited	UK	Street Lighting PFI	100% (*)
Tay Valley Lighting (Southampton) Holding Limited	UK	Holding Company	100% (*)
Tay Valley Lighting (Southampton) Limited	UK	Street Lighting PFI	100% (*)
Tay Valley Lighting (West Sussex) Holding Limited	UK	Holding Company	100% (*)
Tay Valley Lighting (West Sussex) Limited	UK	Street Lighting PFI	100% (*)
PriDE (SERP) Limited	UK	Facilities Management for MOD	50%

* = Indirectly held

SSE CONTRACTING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2014

13. Stocks

	2014	2013
	£000's	£000's
Work in progress	31,244	30,510
Raw materials	10,566	13,973
	41,810	44,483

There is no material difference between the balance sheet value of stocks and their replacement cost.

14. Debtors

	2014	2013
	£000's	£000's
Amounts falling due within one year:		
Trade debtors	98,250	108,320
Amounts owed by group undertakings	129,875	99,353
Deferred tax (note 17)	-	269
Other debtors	467	351
	228,592	208,293
Amounts falling due after one year:		
Amounts owed by group undertakings	-	10,788
Other debtors	-	5
	228,592	219,086

15. Creditors (amounts falling due within one year)

	2014	2013
	£000's	£000's
Payments received on account	28,996	34,782
Trade creditors	23,932	24,694
Amounts owed to group undertakings	53,905	17,113
Corporation tax	14,686	12,435
Other taxes and social security	14,979	17,748
Other creditors	11,039	20,641
Accruals and deferred income	4,824	4,524
Deferred Tax Creditor	96	-
	152,457	131,937

SSE CONTRACTING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2014

16. Creditors (amounts falling due after one year)

	2014	2013
	£000's	£000's
Amounts owed to group undertakings	5,829	-
	<u>5,829</u>	<u>-</u>

17. Deferred taxation

The movement in the year was:-

	2014	2013
	£000's	£000's
At start of year	269	196
Credited to profit and loss account	(367)	73
At end of year	<u>(96)</u>	<u>269</u>
Comprising:		
Accelerated capital allowances	227	261
Other timing differences	(321)	8
	<u>(96)</u>	<u>269</u>

18. Provisions for Liabilities and Charges

	At 1 April 2013	Utilised	Movement in Provisions	At 31 March 2014
	£000's	£000's	£000's	£000's
Contract provisions	8,978	(3,165)	4,718	10,531
Risk provisions	19,036	(123)	9,595	28,508
Other Provisions	1,296	(753)	536	1,079
Restructuring	-	-	4,500	4,500
	<u>29,310</u>	<u>(4,041)</u>	<u>19,349</u>	<u>44,618</u>

Contract provisions refer to expected liabilities from potential contract disputes arising in the normal course of business.

Risk provisions refer to expected liabilities arising from replacement and maintenance of council PFI assets.

Other provisions include items such as premises dilapidations, redundancy, other legal claims, and potential employment tax liabilities arising from the company car ownership schemes.

SSE CONTRACTING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2014

19. Share Capital

	2014 £000's	2013 £000's
Authorised: 10,000,000 ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>
Allotted, called up and fully paid: 4,000,002 ordinary shares of £1 each	<u>4,000</u>	<u>4,000</u>

20. Profit and Loss Account

	£000's
At 1 April 2013	108,816
Profit for the year	1,389
Dividends Paid	(40,000)
Adjustment in respect of employee share awards	2,335
At 31 March 2014	<u>72,540</u>

21. Reconciliation of Movements in Equity Shareholders' Funds

	2014 £000's	2013 £000's
Profit for the year	1,389	15,547
Dividends paid	<u>(40,000)</u>	<u>-</u>
	(38,611)	15,547
Adjustment in respect of employee share awards	<u>2,335</u>	<u>2,149</u>
Net addition to equity shareholders' funds	(36,276)	17,696
Opening equity shareholders' funds	<u>112,816</u>	<u>95,120</u>
Closing equity shareholders' funds	<u>76,540</u>	<u>112,816</u>

SSE CONTRACTING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2014

22. Pension Commitments

Some of the Company's employees are members of the Electricity Supply Pension Scheme which provides pension and other related benefits based on final pensionable pay (defined benefit scheme) to employees throughout the Electricity Supply Industry in England and Wales. This scheme is closed to new members.

The Company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis as the scheme is operated as a group wide scheme and is not readily identifiable at individual Company level. Therefore as required by FRS 17 "retirement benefits", accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the current accounting period (i.e. these are not affected by any surplus or deficit in the scheme relating to past service of its employees and any other members of the scheme).

Full details of the Electricity Supply Pension Scheme (defined benefit scheme) can be found in the ultimate parent company's accounts (see note 26).

Employees can opt to join a personal pension scheme which is a money purchase scheme with the Company matching the members' contributions up to a specified limit, in most cases this is set at 6%. The Company may also provide additional contributions of 3% after five years and a further 3% after ten years continuous Company service. That scheme is managed by Friends Provident and administered by Close Brothers.

In addition to the Electricity Supply Pension Scheme, the company has employees belonging to local council pension schemes. These employees were TUPE'd at the time of the contract award.

These employees belong to multi-employer defined benefit schemes; and as a consequence it is not possible to identify the company's share of underlying assets and liabilities on a consistent or reasonable basis. As required by FRS 17 "retirement benefits", the company accounts for these employees as if they are members of defined contribution schemes. The schemes are outlined below.

SSE CONTRACTING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2014

22. Pension Commitments (continued)

Fund	Number of Employees in scheme
Gloucester Pension Fund	1
Tyne & Wear Pension Fund	13
Hampshire County Pension Fund	4
Islington Council Pension Fund	3
Merseyside Pension Fund	14
Nottingham CC Pension Fund	9
West Yorkshire Pension Fund	18
Total	62

There is a deficit of £280k for the Tyne and Wear Pension scheme and a deficit of £200k for the West Yorkshire Pension Fund. These deficits will be eliminated through additional contributions payable over 7 years and 22 years respectively.

The Company's share of the total contribution payable to the pension schemes during the year was £14,158k (2013: £10,279k). Of this balance £10,676k related to the defined contribution scheme (2013: £7,091k).

Outstanding contributions amounting to £1,168k (2013: £1,118k) were payable to the schemes at 31 March 2014 and are included in creditors.

23. Capital Commitments

No capital commitments existed at 31 March 2014 (2013 £0k)

SSE CONTRACTING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2014

24. Operating Lease Commitments

Annual commitments under non-cancellable operating leases are as follows:

	2014		2013	
	Land & Buildings £000's	Other £000's	Land & Buildings £000's	Other £000's
Operating leases which expire :-				
Within one year	1,019	-	476	-
In the second to fifth years inclusive	329	320	1,301	-
In more than five years	134	-	181	246
	<u>1,482</u>	<u>320</u>	<u>1,958</u>	<u>246</u>

25. Employee Share-Based Payments

The majority of the Company's employees are participants in the following Group share schemes:

(i) Savings-Related Share Option Schemes ("Sharesave")

This scheme gives employees the option to purchase shares in the Company at a discounted market price, subject to the employees remaining in employment for the term of the agreement. Employees may opt to save between £5 and £250 (£500 from June 2014) per month for a period of 3 and/or 5 years. At the end of these periods employees have six months to exercise their options by using the cash saved (including any bonus equivalent to interest). If the option is not exercised, the funds may be withdrawn by the employee and the option expires.

(ii) Share Incentive Plan (SIP)

This scheme allows employees the opportunity to purchase shares in the Company on a monthly basis. Employees may nominate an amount between £10 and £125 (£150 from June 2014) to be deducted from their gross salary. This is then used to purchase shares ('Partnership' shares) in the market each month. These shares are held in trust and become free of liability to income tax and national insurance on their fifth anniversary. These shares may be withdrawn at any point during the 5 years, but tax and national insurance would become payable on any shares withdrawn.

In addition to the shares purchased on behalf of the employee, the Company will also match the purchase up to a maximum of 6 shares ('Matching' shares) per month. These shares are held in trust and become free of liability to income tax and national insurance on their fifth anniversary. If an employee leaves during the first three years, or removes his/her 'Partnership' shares, these 'Matching' shares are forfeited.

These awards were made to all employees in recognition of their contribution to the success of the Group. Under the arrangements for the awards, the shares are held in trust for five years and become free of liability to income tax and national insurance on their fifth anniversary. These shares may be withdrawn at any point during years four and five, but income tax and national insurance would become payable on any shares withdrawn.

SSE CONTRACTING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2014

25. Employee Share-Based Payments (continued)

(iii) Deferred Annual Incentive Scheme

This scheme (previously called Deferred Bonus Scheme) applies to senior managers and Executive Directors. Under this scheme, 25% of all eligible employees' annual incentive is deferred into shares which only vest after three years, subject to continued service. The number of shares awarded is determined by dividing the relevant pre-tax incentive amount by the share price shortly after the announcement of the results for the financial year to which the incentive relates.

(iv) Performance Share Plan

This scheme applies to executive directors and senior executives. Shares granted under this arrangement vest subject to the attainment of performance conditions over the relevant three year performance period as set out below. Those eligible are awarded a maximum value of share awards of up to 150% of base salary. The award is subject to the following three performance conditions:

- (i) Total Shareholder Return (TSR) target relative to other FTSE 100 companies for the 2009 award and TSR target relative to other FTSE 100 companies and MSCI Europe Utilities (a dedicated peer group of UK and other European utilities) Index for all other awards over the relevant performance period. Full vesting will take place if the Company is above the 75th percentile and 25% vesting if the Company is at the median, with pro rata vesting between the median and 75th percentile. There will be no vesting if the minimum target is not met.
- (ii) Earnings Per Share. Full vesting will take place if adjusted is 8% (2009 – 9%) above RPI per annum and 25% (2009 – 25%) vesting if adjusted EPS is 2% above RPI (2009 – 3%) per annum with pro rata vesting between 2% and 8% (2009 – 3% to 9%) above RPI. There will be no vesting the minimum EPS growth target is not achieved.
- (iii) Dividend per share growth. Full vesting will take place if Dividend per share growth is 6% above RPI per annum and 25% vesting if DPSG is 2% above RPI per annum with pro rata vesting between 2% and 6% above RPI. There will be no vesting if the minimum Dividend per share growth target is not achieved.

As allowed by FRS 20, only options granted since 7 November 2002, which were unvested at 1 January 2005, have been included.

SSE CONTRACTING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2014

25. Employee Share-Based Payments (continued)

Details used in the calculation of these costs are as follows:

(i) Savings-Related Share Option Scheme

As at 31
March
2014

Award Date	Option Price (pence)	Outstanding at start of year	Granted	Forfeited	Exercised	Outstanding at end of year	Exercisable at end of year - Shares
10 July 2007	1,306	-	-	-	-	-	-
17 July 2008	1,274	56,750	-	(982)	(45,224)	10,544	-
30 June 2009	1,042	131,008	-	(8,049)	(3,780)	119,179	-
30 June 2010	871	645,044	-	(19,936)	(139,169)	485,939	-
2 June 2011	1,105	240,756	-	(18,205)	(442)	222,109	-
29 June 2012	1,085	253,601	-	(30,580)	(237)	222,784	-
01 June 2013		-	259,648	(13,512)	(41)	246,095	-
Total		1,327,159	259,648	(91,264)	(188,893)	1,306,650	

As at 31
March
2013

Award Date	Option Price (pence)	Outstanding at start of year	Granted	Forfeited	Exercised	Outstanding at end of year	Exercisable at end of year - Shares
10 July 2007	1,306	63,395	-	(21,457)	(41,938)	-	-
17 July 2008	1,274	79,860	-	(22,671)	(439)	56,750	-
30 June 2009	1,042	206,907	-	(8,245)	(67,654)	131,008	-
30 June 2010	871	686,957	-	(38,778)	(3,135)	645,044	-
2 June 2011	1,105	264,176	-	(22,422)	(998)	240,756	-
29 June 2012	1,065		270,166	(16,565)		253,601	-
Total		1,301,295	270,166	(130,138)	(114,164)	1,327,159	

SSE CONTRACTING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2014

25. Employee Share-Based Payments (continued)

As share options are exercised throughout the period from 1 October to 31 March, the weighted average share price during this period of 1,455p (2013: 1,433p) is considered representative of the weighted average share price at the date of exercise. The weighted average share price of forfeitures is simply the option price to which the forfeit relates.

The fair value of these shares at vesting, calculated using the Black-Scholes model, and the assumptions made in that model are as follows:

	Jul-07		Jul-08		Jun-09		Jun-10		Jun-11		Jun-12		Jun-13	
	3 Year	5 Year	3 Year	5 Year	3 Year	5 Year	5 Year	5 Year	3 Year	5 Year	3 Year	5 Year	5 Year	3 Year
Fair value of option	287p	313p	304p	339p	244p	269p	231p	246p	171p	163p	182p	159p	194p	168p
Expected volatility	25%	25%	28%	28%	35%	35%	19%	19%	18%	18%	18%	18%	15%	15%
Risk free rate	5.80%	5.70%	4.90%	5.00%	2.70%	2.90%	1.40%	2.20%	1.20%	2.10%	0.40%	0.90%	0.70%	1.40%
Expected dividends	5.30%	5.20%	4.10%	4.20%	4.10%	4.20%	1.70%	2.20%	6.10%	6.10%	5.90%	5.80%	5.90%	5.90%
Term of the option	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	5 yrs	3 yrs
Underlying price at grant date	1,460p	1,460p	1,397p	1,397p	1,139p	1,139p	1,089p	1,089p	1,393p	1,393p	1,391p	1,391p	1,579p	1,579p
Strike price	1,306p	1,306p	1,274p	1,274p	1,042p	1,042p	871p	871p	1,105p	1,105p	1,065p	1,065p	1,197p	1,197p

Expected price volatility was obtained by calculating the historical volatility of the Group's share price over the previous 12 months.

(ii) Share Incentive Plan

	2014		2013	
	Shares	Weighted average price (pence)	Shares	Weighted average price (pence)
Outstanding at start of year	513,494	1,185	467,389	1,167
Granted	154,462	1,470	147,742	1,395
Forfeited	(29,526)	1,383	(27,535)	1,263
Exercised	(32,395)	1,239	(28,590)	1,395
Transferred to Pool	(60,485)	1,262	(45,512)	1,506
Outstanding at end of year	545,550	1,243	513,494	1,185
Exercisable at end of year	171,935	1,243	155,589	1,185

The fair value of these shares is not subject to valuation using the Black-Scholes model. However, the fair value of shares granted in the year is equal to the weighted average price paid for the shares at the grant date as shares are acquired out of the market as at that date to satisfy awards made under the scheme.

SSE CONTRACTING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2014

25. Employee Share-Based Payments (continued)

Shares purchased under this scheme prior to 7 November 2002 have not been included as permitted by the transitional rules under FRS 20.

Free Shares

	2014		2013	
		Weighted average price (pence)		Weighted average price (pence)
	Shares		Shares	
Outstanding at start of year	24,846	1,417	72,877	1,197
Forfeited	-	-	-	-
Exercised	(1,725)	1,404	(7,637)	1,395
Transferred to Pool	(23,121)	1,408	(40,394)	1,474
Outstanding at end of year	-	-	24,846	1,417
Exercisable at end of year	-	-	24,846	1,417

The fair value of these shares is not subject to valuation using the Black-Scholes model. However, the fair value of shares granted in the year is equal to the weighted average price paid for the shares at the grant date as shares are acquired out of the market as at that date to satisfy awards made under the scheme.

(ii) Deferred Annual Incentive Scheme

	2014		2013	
		Weighted average price (pence)		Weighted average price (pence)
	Shares		Shares	
Outstanding at start of year	10,365	1,229	11,685	1,167
Granted	3,030	1,496	2,945	1,383
Forfeited	-	-	(2,172)	1,158
Exercised	(2,588)	1,508	(2,093)	1,174
Outstanding at end of year	10,807	1,237	10,365	1,229
Exercisable at end of year	-	-	-	-

The fair value of these shares is not subject to valuation using the Black-Scholes model. However, the fair value of shares granted in the year is equal to the weighted average price paid for the shares at the grant date as shares are acquired in the market as at that date to satisfy awards made under the scheme.

Shares purchased under this scheme prior to 7 November 2002 have not been included as permitted by the transitional rules under FRS 20.

SSE CONTRACTING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2014

25. Employee Share-Based Payments (continued)

(iv) Performance Share Plan

	2014		2013	
	Shares	Weighted average price (pence)	Shares	Weighted average price (pence)
Outstanding at start of year	10,126	1,358	6,099	1,342
Granted	3,835	1,496	4,027	1,383
Exercised	-	-	-	-
Forfeited	-	-	-	-
Outstanding at end of year	13,961	1,395	10,126	1,358

Of the outstanding options at the end of the year, none were exercisable.

The fair value of the performance share plan shares is not subject to valuation using the Black-Scholes model. The fair value of shares granted in the year is equal to the closing market price on the date of grant.

26. Ultimate Parent Company

The ultimate parent company is SSE Plc, a company registered in Scotland. Copies of the group financial statements of SSE Plc may be obtained from:-

SSE Plc
Corporate Affairs
Inveralmond House
200 Dunkeld Road
PERTH
PH1 3AQ