

REGISTERED NO.
6021063

SSE Water Limited

Financial statements for the year ended 31 March 2014

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SSE Water Limited

Report of the Directors

The Directors present their report together with the audited financial statements for the year ended 31 March 2014.

1. Principal Activities

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

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

2. Business Review

Through the Company, SSE is able to install, own, operate and supply water and sewerage services alongside its existing electricity and gas services. The Company offers both water and sewerage services in England and Wales. This followed the granting of an 'inset' appointment to SSE Water Limited on 1 October 2007. An 'inset' appointment is the route by which one company replaces another as the appointed water and / or sewerage company for a specified area. The Company now has 23 such appointments and provides, or has secured contracts to provide, water and sewerage services to approximately 23,500 properties in England and Wales, more than any other new appointment company.

The Group is already experienced in designing, installing and operating multi-utility infrastructures. This activity is controlled and operated through the related company SSE Utility Solutions Limited. The Company operates in conjunction with SSE Utility Solutions and the Group's existing electricity and gas services to provide a more comprehensive multi-utility solution to customers in the property development and house-building sectors. The granting of 'inset' appointments enables it to provide a more comprehensive multi-utility solution to customers in the property development and house-building sectors, through being able to install, own, operate and supply water and sewerage services alongside the Group's existing electricity and gas services.

Construction work has begun or been completed at 23 developments during the course of the year, with customer occupations on 20. Early evidence suggests that the 'one-stop' approach to infrastructure installation on larger sites is a very good way forward for developers. Once the water infrastructure is completed, the Company will own and operate the network, having the same responsibilities as any other water company: issuing bills; reading meters; testing water quality and cleaning blocked sewers. By the end of March 2014, 5,419 domestic & commercial customers had been connected.

During 2014/15 the Company's main priority is to build upon the existing insets, with selective acquisition of new insets associated with extensions to our existing networks.

Exacting standards of performance are set to ensure the quality of connections work and service to customers are maintained. The principal risks and uncertainties concern securing future 'inset' appointments, the development of the market to better promote competition and maintaining the quality of service delivery.

3. Share Capital

The Company's authorised ordinary share capital is £1,000 divided into 1,000 shares of £1.00 each.

SSE Water Limited

Report of the Directors (continued)

4. Results and Dividends

The loss for the year amounted to £676,000 (2013: loss of £625,000). The Directors do not recommend the payment of a dividend (2013: nil).

5. Directors

The Directors who served during the year were as follows:

Gregor Alexander
Nathan Sanders

Jim McPhillimy was appointed as a Director on 9 July 2014.

6. Employment Policies

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

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

7. 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 ought to have been taken as a Director to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Pursuant to Section 485 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

ON BEHALF OF THE BOARD



Gregor Alexander
Director
9 July 2014

Statement of Directors' responsibilities in respect of the Directors' Report and the Financial statements

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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

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

SSE Water Limited

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

We have audited the financial statements of SSE Water Limited for the year ended 31 March 2014 set out on pages 5 to 12. 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

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

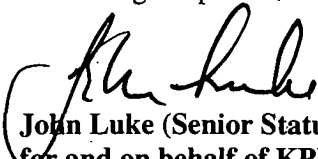
Opinion on other matter prescribed by the Companies Act 2006

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

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; or
- the Directors were not entitled to take advantage of the small companies exemption to prepare a strategic report.



John Luke (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
191 West George Street
Glasgow
G2 2LJ

9 July 2014

SSE Water Limited

Profit and Loss Account for the year ended 31 March 2014

	Note	2014 £000	2013 £000
Turnover		1,678	833
Cost of Sales		(1,308)	(681)
Gross profit		370	152
Distribution costs		(774)	(600)
Administrative expenses		(275)	(215)
Operating loss		(679)	(663)
Net interest payable	5	(167)	(166)
Loss on ordinary activities before taxation		(846)	(829)
Tax on loss on ordinary activities	6	170	204
Loss for the year	13	(676)	(625)

The above results are derived from continuing operations.

The Company has no recognised gains or losses other than its loss for the year.

The accompanying notes form part of these financial statements.

SSE Water Limited

Balance Sheet as at 31 March 2014

	Note	2014 £000	2013 £000
Fixed assets	7	6,458	4,720
Current assets			
Debtors	8	973	1,875
Creditors: amounts falling due within one year	9	(7,013)	(5,596)
Net current liabilities		(6,040)	(3,721)
Total assets less current liabilities		418	999
Creditors: amounts falling due after more than one year	10	(3,125)	(3,024)
Provisions for liabilities and charges			
Deferred taxation	11	(115)	(121)
Net liabilities		(2,822)	(2,146)
Capital and reserves			
Called up share capital	12	-	-
Profit and loss account	13	(2,822)	(2,146)
Equity shareholders' deficit		(2,822)	(2,146)

These financial statements were approved by the Directors on 9 July 2014 and signed on their behalf by



Gregor Alexander, Director
Company Registered No. 6021063

SSE Water Limited

Reconciliation of Movements in Shareholders' Deficit for the year ended 31 March 2014

	2014 £000	2013 £000
Loss for the year	(676)	(625)
Opening shareholders' deficit	<u>(2,146)</u>	<u>(1,521)</u>
Closing shareholders' deficit	<u>(2,822)</u>	<u>(2,146)</u>

SSE Water Limited

Notes on the Financial Statements for the year ended 31 March 2014

1. Principal accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards. The principal accounting policies are summarised below and have been applied consistently.

The financial statements have been prepared on the going concern basis, notwithstanding the loss for the year of £676,000 (2013: £625,000) and net liabilities of £2,822,000 (2013: £2,146,000), which the Directors believe to be appropriate for the following reasons. The Company is dependent for its working capital on funds provided to it by SSE plc, the Company's ultimate parent Company. SSE plc has indicated that for at least 12 months, and for the foreseeable future, from the date of approval of these financial statements, it will continue to make available such funds as are needed by the company and in particular will not seek repayment of the amounts currently made available. The Directors consider that this should enable the Company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment.

Based on this undertaking the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments that would result from this basis of preparation being inappropriate.

Under Financial Reporting Standard 1, the Company is exempt from the requirement to prepare a cash flow statement on the grounds that the ultimate parent undertaking includes the Company in its own published consolidated financial statements.

As the Company is a wholly owned subsidiary of SSE plc, it has taken advantage of the exemption contained in Financial Reporting Standard 8 and has therefore not disclosed transactions or balances with entities which form part of the SSE Group.

Turnover

Turnover, stated exclusive of Value Added Tax, relates to income associated with operating and maintaining a water distribution network in the UK.

Taxation

The charge for taxation is based on the profit for the period and takes into account deferred taxation.

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

Deferred taxation arises in respect of items where there are timing differences between their treatment for accounting and taxation purposes. This is recognised where an obligation to pay more tax in the future has originated but not reversed at the balance sheet date. A deferred tax asset is recognised only when it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

SSE Water Limited

Notes on the Financial Statements for the year ended 31 March 2014

1. Principal accounting policies (continued)

Property, Plant and Equipment

The presentation of property, plant and equipment at Note 7 includes the net book value of assets under construction as a separate column in the main tabular disclosure. Assets under construction that are commissioned and enter operation in the financial year are transferred from relevant column to the appropriate category of assets in the table. Capital additions in the year comprise additions to assets still in construction, additions to commissioned operational assets and other directly incurred capital costs.

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairments. The cost of self constructed assets includes the cost of materials, direct labour and an appropriate proportion of other directly attributable costs.

Where an item of property, plant and equipment comprises major components having different useful lives, the components are accounted for as separate items of property, plant and equipment and depreciated accordingly.

Depreciation

Depreciation is charged to the income statement to write off cost, less residual values, on a straight line basis over their estimated useful lives. Depreciation policy, useful lives and residual values are reviewed at least annually, for all asset classes to ensure that the current method is the most appropriate. The estimated useful lives are as follows:

Water distribution networks	40 years
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Customer contributions

Customer contributions and capital grants are recorded as deferred income and released to the profit and loss account over the estimated useful life of the related fixed asset.

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

	2014	2013
	£000	£000
Depreciation	123	86
Release of deferred income in relation to customer contributions and capital grants	(53)	(36)
Net management fee in respect of services provided by group companies	61	55

The Company's audit fee for the year of £1,000 (2013 - £1,000) was borne by the Parent Company.

3. Staff Costs and numbers

The staff previously employed by SSE Water Limited were transferred to SSE Utility Solutions Limited on 1 April 2010. A monthly charge for the work done on behalf of SSE Water is made by SSE Utility Solutions to the Company.

4. Directors' remuneration

No Director received remuneration in respect of their service to the Company (2013 - £nil).

SSE Water Limited

Notes on the Financial Statements for the year ended 31 March 2014

5. Net interest payable

	2014 £000	2013 £000
Interest receivable from group undertakings	3	-
Interest payable to group undertakings	(170)	(166)
Net interest payable	<u>(167)</u>	<u>(166)</u>

6. Taxation

	2014 £000	2013 £000
Current tax:		
United Kingdom corporation tax on loss for the year	(233)	(230)
Adjustments in respect of previous years	69	-
	<u>(164)</u>	<u>(230)</u>
Deferred tax:		
Origination and reversal of timing differences	38	31
Adjustments in respect of previous years	(27)	-
Effect of change in UK corporation tax	(17)	(5)
	<u>(6)</u>	<u>26</u>
Total tax on loss on ordinary activities	<u>(170)</u>	<u>(204)</u>

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

	2014 £000	2013 £000
Loss before tax	(846)	(829)
Tax on loss on ordinary activities at standard UK corporation tax rate of 23% (2013 – 24%)	(195)	(199)
Capital allowances in excess of depreciation	(38)	(31)
Adjustment in respect of previous periods	69	-
Current tax credit for year	<u>(164)</u>	<u>(230)</u>

The 2013 Finance Act announced that the U.K. corporation tax rate will reduce to 20% by 2015. A reduction in the rate from 23% to 21% (effective from 1 April 2014) was substantively enacted on 3 July 2013 and substantive enactment of the rate of 20% with effect from 1 April 2015 also took place on 3 July 2013.

The deferred tax liability at 31 March 2014 has therefore been calculated having regard to the rate of 20% substantively enacted at the balance sheet date. This change reduced the Company's current tax charge at 31 March 2014 by £17,000.

SSE Water Limited

Notes on the Financial Statements for the year ended 31 March 2014

7. Tangible fixed assets

	Network Assets Under Assets Construction		Total
	£000	£000	£000
Cost:			
At 31 March 2013	3,420	1,465	4,885
Additions	-	1,861	1,861
Transfer from Assets Under Construction	2,420	(2,420)	-
At 31 March 2014	5,840	906	6,746
Depreciation:			
At 31 March 2013	165	-	165
Charge for the year	123	-	123
At 31 March 2014	288	-	288
Net book value			
At 31 March 2014	5,552	906	6,458
At 31 March 2013	3,255	1,465	4,720

8. Debtors

	2014 £000	2013 £000
Trade debtors	688	1,129
Group relief receivable	214	228
Amounts owed from group undertakings	18	493
Other receivables	53	25
	973	1,875

9. Creditors: amounts falling due within one year

	2014 £000	2013 £000
Trade creditors	1,426	1,226
Amounts owed to group undertakings	4,449	3,861
Accruals and deferred income	1,138	509
	7,013	5,596

10. Creditors: amounts falling due after more than one year

	2014 £000	2013 £000
Accruals and deferred income	3,125	3,024

SSE Water Limited

Notes on the Financial Statements for the year ended 31 March 2014

11. Deferred taxation

Deferred taxation is provided as follows:

	2014 £000	2013 £000
Accelerated capital allowances	<u>115</u>	<u>121</u>
	2014 £000	2013 £000
Provision at start of the year	121	95
(Credited) / Charged to profit and loss account	<u>(6)</u>	<u>26</u>
Provision at end of year	<u>115</u>	<u>121</u>

12. Share capital

	Number	£
Allotted and called up: At 1 April 2013 and 31 March 2014	<u>1</u>	<u>1</u>

13. Profit and loss account

	£000
Balance at start of the year	(2,146)
Loss for the year	<u>(676)</u>
Balance at end of the year	<u>(2,822)</u>

14. Ultimate holding company

The Company is a subsidiary of SSE plc, which is the ultimate parent company and is registered in England and Wales. The largest and smallest group in which the results of the Company are consolidated is that headed by SSE plc, a company registered in Scotland. The consolidated financial statements of the Group (which include those of the Company) are available from the Company Secretary, SSE plc, Inveralmond House, 200 Dunkeld Road, Perth PH1 3AQ or by accessing the Group's website at www.sse.com.

SSE Water Limited

Notes on the Financial Statements for the year ended 31 March 2014

15. Additional Regulatory Statements - Unaudited

Risk and Compliance Statement

The Directors confirm that

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

Statement on Reliability of Information

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

Statement on Compliance with Condition K

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

Statement on Directors' Remuneration and Service Standards

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

In the financial year ending March 2014 and for the financial year ending March 2015, where appropriate the main directors of SSE Water Limited are remunerated under arrangements which fall under paragraph (3) of section 35A of the Act, i.e. the arrangements link the remuneration of the Directors to standards of performance in connection with the carrying out by the Company of the functions of a relevant undertaker.

SSE plc must ensure that it has remuneration policies in place that are competitive within the utilities sector. The main Directors' remuneration packages are based on their overall Group responsibilities and include a basic salary, annual incentive plan, pension arrangements, benefits and, where appropriate, a Long Term Performance Share Plan. Under the annual incentive plan scheme, up to 40% of a Director's maximum bonus depends on the achievement of personal targets, which may include performance in relation to the Water Supply & Sewerage Services (Customer Service Standards) Regulations 2008.

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

16. Governance

The Company is a subsidiary of SSE plc which is listed on the Main Market of the London Stock Exchange. With the exception of provision C.3.7, which requires FTSE 350 companies to put the external audit contract out to tender at least every ten years, SSE plc has complied with all principles and provisions of the current version of the UK Corporate Governance Code for the period to 31 March 2014. The full explanation relating to this aspect of non-compliance with the UK Corporate Governance Code is set out in the SSE plc Annual Report 2014, available online at www.sse.com.