REGISTERED NO.
SC303682

SSE Heat Networks Limited

Financial statements for the year ended 31 March 2014

CONTENTS

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 ('Group').

The Company's principal activity during the year was 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.

2. Business Review

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.

SSE uses Combined Heat and Power (CHP) generation on District Heating schemes to provide hot water and space heating mainly to high density residential developments. There are now ten heat networks in operation and six further schemes where SSE is the preferred bidder. Over 500 new heat customers have been connected in the last 12 months, including the delivery of one of Scotland's largest district heating schemes at Wyndford, Glasgow. SSE's total heat customers now stands at almost 4,000 with a further 6,000 contracted but not yet completed.

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 organisation 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.

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 uncertainty in the property development sector, the reliance on new technology, major service failure, due to fire/damage to energy centre or damage to 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.

3. Results and Dividends

The loss after tax for the year to 31 March 2014 amounted to £1,215,000 (2013 - loss of £685,000). The Directors do not recommend the payment of a dividend (2013 – £nil).

4. Directors

The Directors who served during the period were as follows:

Mark Mathieson	(resigned 3 June 2014)
Nathan Sanders	
Jim McPhillimy	(appointed 3 June 2014)
Jody Pittaway	(appointed 3 June 2014)

Report of the Directors (continued)

5. Auditor

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

KPMG Audit Plc resigned as auditor during the year pursuant to section 516 of the Companies Act 2006. The Directors subsequently appointed KPMG LLP as auditor of the company to fill the casual vacancy as auditor under section 485(3) of the Companies Act 2006. KPMG LLP has indicated its willingness to continue in office and a resolution to reappoint it as auditor will be proposed at the next annual general meeting

ON BEHALF OF THE BOARD

Jim McPhillimy
Director
15 December 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.

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

We have audited the Financial Statements of SSE Heat Networks Limited for the year ended 31 March 2014 as 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 from the requirement 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

15 DECEMBER 2014

Profit and Loss Account
for the year ended 31 March 2014

	Note	2014 £000	2013 £000
Turnover		**2,887**	1,540
Cost of Sales		**(1,358)**	(786)
Gross profit		**1,529**	754
Administrative expenses		**(1,890)**	(1,165)
Operating loss	2	**(361)**	(411)
Net Interest Payable	5	**(711)**	(529)
Loss on ordinary activities before taxation		**(1,072)**	(940)
Tax on loss on ordinary activities	6	**(143)**	255
Loss for the year	13	**(1,215)**	(685)

There were no other recognised gains and losses for the financial year, other than the loss for the year.

The results for the year are derived from continuing activities.

The accompanying notes form part of these Financial Statements.

Balance Sheet as at 31 March 2014

	Note	2014 £000	2013 £000
Fixed assets			
Tangible fixed assets	7	**17,998**	17,286
		17,998	17,286
Current assets			
Debtors	8	**9,796**	14,166
Creditors: amounts falling due within one year	9	**(2,504)**	(7,367)
Net current assets		**7,292**	6,799
Total assets less current liabilities		**25,290**	24,085
Creditors: amounts falling due after one year	10	**(32,974)**	(29,977)
Deferred tax	11	**(3)**	(580)
Net liabilities		**(7,687)**	(6,472)
Capital and reserves			
Called up share capital	12	**-**	-
Profit and loss account	13	**(7,687)**	(6,472)
Shareholders' deficit		**(7,687)**	(6,472)

These Financial Statements were approved by the Director on 15 December 2014 and signed on their behalf by

Jim McPhillimy, Director

Company Registered No. SC303682

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

	2014 £000	2013 £000
Loss for the year	**(1,215)**	(685)
Net increase in shareholders' deficit	**(1,215)**	(685)
Opening shareholders' deficit	**(6,472)**	(5,787)
Closing shareholders' deficit	**(7,687)**	(6,472)

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 £1,215,000 (2013: £685,000) and net liabilities of £7,687,000 (2013: £6,472,000), 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.

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:

Network Assets	20 years

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
Operating loss is arrived at after charging / (crediting):		
Depreciation on tangible fixed assets	**780**	355
Release of deferred income in relation to capital grants	**(634)**	(394)

The Company incurred an audit fee of £949 (2013 - £930) in the year. The audit fee for these Financial Statements was borne by the ultimate parent in both the current and previous years.

3. Staff Costs and numbers

In the current year there are no employees directly employed by the Company (2013 - nil).

4. Directors' remuneration

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

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

5. Net interest payable

	2014 £000	2013 £000
Interest payable to group undertakings	**711**	529
Net interest payable	**711**	529

6. Taxation

	2014 £000	2013 £000
Current tax:		
Current year movement	**(67)**	(428)
Prior year adjustment	**787**	(7)
	720	(435)
Deferred tax:		
Origination and reversal of timing differences	**(1)**	203
Change in applicable tax rate	**-**	(25)
Adjustment in respect of prior years	**(576)**	2
Total Deferred Tax	**(577)**	180
Total tax charge/(credit) on loss on ordinary activities	**143**	(255)

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 on ordinary activities before taxation	**(1,072)**	(940)
Tax on loss on ordinary activities at standard UK corporation tax rate of 23% (2013 – 24%)	**(247)**	(225)
Effects of:		
Expenses not deductible for tax purposes	**179**	-
Capital allowances in excess of depreciation	**6**	(205)
Other timing differences	**(5)**	2
Adjustments in respect of prior periods	**787**	(7)
Current tax charge/(credit) for the year	**720**	(435)

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 asset/liability at 31 March 2014 has therefore been calculated having regard to the rate of 20% substantively enacted at the balance sheet date.

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

7. Tangible fixed assets

	Network Assets £000	Assets Under Construction £000	Total £000
Cost:			
At 1 April 2013	7,614	10,713	18,327
Additions	-	1,492	1,492
Transfer from Assets Under Construction	11,807	(11,807)	-
At 31 March 2014	**19,421**	**398**	**19,819**
Depreciation:			
At 1 April 2013	1,041	-	1,041
Charge for the year	780	-	780
At 31 March 2014	**1,821**	-	**1,821**
Net book value			
At 31 March 2014	**17,599**	**398**	**17,998**
At 31 March 2013	6,573	10,713	17,286

8. Debtors

	2014 £000	2013 £000
Trade debtors	**2,425**	1,453
Amounts owed by group undertakings	**1,612**	7,998
Group relief recoverable	-	428
Other debtors	**5,759**	4,287
	9,796	14,166

9. Creditors: amounts falling due within one year

	2014 £000	2013 £000
Trade creditors	**4**	19
Bank overdraft	-	22
Amounts owed to group undertakings	-	5,264
Accruals and deferred income	**2,228**	1,914
Other creditors	-	148
Corporation tax	**272**	-
	2,504	7,367

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

	2014 £000	2013 £000
Accruals and deferred income	**17,466**	15,843
Amounts owed to group undertakings	**15,508**	14,134
	32,974	29,977

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

11. Deferred tax

	2014 £000	2013 £000
Accelerated capital allowances	13	596
Other Timing Differences	(10)	(16)
Deferred tax liability	**3**	580

	£000
Liability at 1 April 2013	(580)
Credited to the profit and loss account	577
Liability at 31 March 2014	**(3)**

12. Share capital

	Number	£
Allotted and called up:		
At 1 April 2013 and 31 March 2014	1	1

13. Profit and loss account

	£000
Balance at start of the year	(6,472)
Loss for the year	(1,215)
Balance at end of the year	**(7,687)**

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.