Scottish and Southern Energy
Power Distribution

REGISTERED NO.
SC213461

Scottish Hydro Electric Transmission plc

Regulatory Financial Statements

Year ended 31 March 2014

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Strategic and Financial Report

The Strategic and Financial Review sets out the main trends and factors underlying the development and performance of Scottish Hydro Electric Transmission plc (the "Company") during the year ended 31 March 2014, as well as those matters which are likely to affect its future development and performance.

The business, its objectives and strategy

The Company is a wholly owned subsidiary of SSE plc (the "Group"). The Company owns the Electricity Transmission network in the north of Scotland. Since the introduction of British Electricity Trading and Transmission Arrangements in April 2005, National Grid has been the National Electricity Transmission System Operator, responsible for balancing the supply and demand of electricity across Great Britain. The Company is responsible for maintaining and investing in the transmission network in its area, which comprises around 5,000km of high voltage overhead lines and underground cables covering around 70% of the land mass of Scotland serving remote and, in some cases, island communities. As the licensed transmission company for the area, the Company has to ensure there is sufficient network capacity for those seeking to generate electricity from renewable and other sources.

The Company is the subject of incentive-based regulation by the industry regulator, the Office of Gas and Electricity Markets (Ofgem), which sets the revenue that is allowed to be recovered for use of the network, the capital expenditure and the allowed operating expenditure, within a framework known as the Price Control. The Company has now entered the next price control period, RIIO T1 (Revenue = Incentives + Innovation + Outputs) which runs for eight years from 1 April 2013 until 31 March 2021. In broad terms, Ofgem seeks to strike the right balance between attracting investment in electricity networks, encouraging companies to operate the networks as efficiently as possible and ensuring that prices for customers are no higher than they need to be. The new RIIO price controls, which will become common to all electricity and gas businesses regulated by Ofgem, will see additional emphasis placed on innovation, incentives and outputs, and require regulated businesses to take on additional risk and reward mechanisms, with the possibility of outperformance resulting in additional income.

The Company's strategy and main objectives are to:

- comply fully with all electricity network safety standards and environmental requirements;
- ensure that the electricity network is managed as efficiently as possible, including maintaining tight controls over operational expenditure and the delivery of the capital expenditure programme;
- provide good performance in areas such as reliability of supply, customer service and innovation;
- ensure there is sufficient network capacity for those seeking to generate electricity from renewable and other sources within the licensed network area;
- grow the Regulated Asset Value ("RAV") of the networks business and so secure increased revenue; and
- engage constructively with the regulator, Ofgem, to secure regulatory outcomes that meet the needs of customers and investors.

Business performance overview

The key performance indicators of the Company and the related performance during the year to 31 March 2014 were as follows (comparisons with the same period to 31 March 2013):

a) Operating Profit

Year to March 2014	£133.8m
Year to March 2013	£91.4m
Increase (%)	46.4%

b) Capital Expenditure

Year to March 2014	£349.2m
Year to March 2013	£334.1m
Increase (%)	4.5%

Strategic and Financial Report (continued)

Business performance overview (continued)

c) Number of Transmission System Incidents

Year to March 2014	20
Year to March 2013	23
Decrease (%)	13.0%

d) Average Circuit Unreliability

Year to March 2014	0.27%
Year to March 2013	0.39%
Decrease (%)	30.8%

The Company's operating profit increased by 46.4% to £133.8m. This reflected the continuing growth in its investment in its asset base and resultant increase in allowed revenue. A total of £349.2m was invested by the Company in its network in the year to 31 March 2014, compared with £334.1m in the previous year. This took the total to over £1bn in the last four years. The Company's share of a typical GB electricity bill during the financial year 2014/15 is forecast to be equivalent to £2.26, or less than 0.5%, of the total bill.

The number of Transmission Incidents and Average Circuit Unreliability (a new measure under RIIO-T1) fell in 2013/14 compared to the prior year as a result of the Arran and Kintyre event in 2012/13 with no such event occurring in 2013/14.

Managing the Company through a period of rapid growth

The Company is responsible for maintaining and investing in the transmission network in around 70% of the land mass of Scotland, serving remote and island communities. As the licensed transmission company for an area with a significant amount of generation from renewable sources seeking to connect to the electricity network, the Company is required to ensure that there is sufficient capacity for projects committed to generating electricity.

A major programme of investment is under way in electricity transmission infrastructure in Great Britain to support the transition to lower carbon electricity generation, increase security of supply and promote economic growth. The requirement to connect large volumes of dispersed renewable generation, supported and incentivised by policy-makers at Scottish, UK and EU levels, represents a fundamental change from the historic role of the Company's network.

Over 300MW of new renewable generation has been connected in the past year in the north of Scotland; and over 1,530MW in the preceding decade. A robust and challenging regulatory system, put in place by Ofgem, scrutinises major transmission reinforcements on a case-by-case basis – seeking to deliver the right projects at the right time to minimise constraint on the system without risking excessive costs for electricity consumers across Great Britain. The RIIO Price Control process gives transmission owners clear incentives to deliver savings for customers using innovation and efficiency, while providing a highly reliable network; penalties also apply for poor performance.

The investment undertaken by the Company is a significant contributor to economic growth in the local, regional and national economy. Over the past two years, a study conducted in conjunction with PwC, has found that the Company's Beauly Denny project has generated around £85m in Gross Value Added (GVA) to the Scottish economy and supported around 1,500 jobs. The Company plans to replicate the positive benefits from this project with the other network upgrades that it is progressing as part of a multi-billion pound investment programme which will help increase security of supply, decarbonise electricity supplies and promote sustainable economic growth.

Strategic and Financial Report (continued)

Upgrading Scotland's electricity transmission network

The Company's work to upgrade its network includes four major projects currently under construction with expenditure for 2013/14 totalling over £220m:

- **Beauly-Denny:** Excellent progress is being made on the construction of the Company's part of the replacement line from Beauly to Wharry Burn, with the route running through some of the highest and most challenging terrain in Great Britain. Almost all of the foundations are complete, with anticipated full completion later this year; three quarters of the 539 towers have been erected; and over half of the route wired. As of 31 March 2014, total regulated spend of £508.3m has been invested so far. In line with the conditions associated with the planning consent, good progress is being made with the work to remove over 100km of overhead lines in Highland Scotland. Based on expenditure to date and known issues including the interface with SP Transmission's section of the line, the final cost will be over £675m. Further discussions continue to take place with SP Transmission and Ofgem on the coordination with the network in the south of Scotland and the timescales and full cost of completion.
- **Beauly to Blackhillock to Kintore**: The replacement of the 275kV conductors to allow an increase in the capacity of the network to transmit electricity is also well under way with over 50% of the project already complete and anticipated energisation in 2015. Ofgem has given capital funding approval of £94m (2013/14 prices) for this development.
- **Beauly to Mossford:** Good progress is being made on the upgrade with phase one complete, including the commissioning of Corriemoillie substation within the Ofgem funding allowance. Phase two, including the rebuilding of the overhead line, is on programme for completion in 2015 and Ofgem has given capital funding approval of £53m (2013/14 prices) for this phase.
- **Kintyre-Hunterston:** This network reinforcement, including the subsea cable from Crossaig on the Kintyre peninsula around the north coast of Arran to Hunterston, is well under way with completion of the platform for the substation and landing point for the subsea cable in Kintyre. The current programme anticipates that the reinforcement will be operational by 2016. Ofgem has given capital funding approval of £205.6m (2013/14 prices).

The RAV as of 31 March 2014 is £1.3bn. In 2014/15 the Company expects to incur capital expenditure of around £400m, taking its RAV to over £1.6bn.

Taking forward transmission upgrades to meet the needs of generators and customers

As stated above, Ofgem scrutinises major transmission reinforcements on a case-by-case basis – seeking to deliver the right projects at the right time to minimise constraint on the electricity system without risking excessive costs for electricity consumers across Great Britain. This means that, to proceed to construction, projects require:

- a demonstrable commitment from developers;
- any necessary consents for development; and
- authorisation from Ofgem that the Company can recover the efficient cost of its investment.

The Company has in place advanced plans and associated planning consents for a new transmission link between Caithness and Moray, including a subsea electricity cable in the Moray Firth. The assessment from the Company demonstrates that customer benefit of the new link, which is required to transmit a large volume of electricity from renewable sources in the north of Scotland, is clear. On 11 July 2014, following a public consultation, Ofgem approved the Company's proposal to install an offshore subsea cable as opposed to the alternative onshore option. The subsea link has a forecast investment requirement of around £1.2bn (2013/14 prices), and Ofgem are currently assessing the costs and investment required for the project proposal. This investment which would take the Company's total investment in the next four years to around £2bn. If it is approved, revenue recovery is expected to begin in 2015/16.

Strategic and Financial Report (continued)

Taking forward transmission upgrades to meet the needs of generators and customers (continued)

The Company is planning to upgrade the existing East Coast transmission line from an operating voltage of 275kV to 400kV, with associated substation developments. The line runs from Blackhillock in Moray to Kincardine in Fife. Planning consent has now been received for the substations along the line and work continues to secure approval for the overhead line. Plans for the upgrade are dependent on generators' requirements and the timing of the Company's submission will be in line with meeting generators' needs. The project has a forecast investment requirement of around £0.5bn (2013/14 prices).

Working with stakeholders on the Scottish island groups

The new framework being implemented from 2017 under the UK government's Electricity Market Reform plans should bring some clarity to the volume of generation seeking connection to the network and will therefore allow the Company to make a robust business case for reinforcement where a case can be demonstrated to be economic and efficient. While the volume and diversity of generation on the mainland enables a clear case to be made, making the business case for a subsea link to a number of potential generation developments on the Scottish islands remains challenging.

In recognition of this challenge, the UK government has confirmed additional support through an enhanced Islands Strike Price for onshore wind and has issued a consultation indicating its position that the islands should not be subject to the competitive allocation, competing with onshore wind on the mainland. This, aligned with the strong wind resource in the north of Scotland, has led the Company to continue to work with the UK government and Scottish government to help find a solution to the policy and regulatory hurdles being faced by developers on the Scottish islands.

The uncertainty around the transmission charging regime has been resolved through a decision taken by Ofgem through Project TransmiT in July 2014, although this decision is subject to formalisation. As a result the Company, along with developers, anticipates that the outcome will contribute to developers' ability to formalise their financial positions about their projects on the islands.

While these key issues continue towards a resolution, the Company is working closely with government officials, developers and Ofgem in order to make further progress through the regulatory approval process for the island connections, taking into account the continuing policy and regulatory hurdles, with the objective of developing a robust case that demonstrates the affordability of the links.

Electricity Transmission priorities for 2014/15 and beyond

For the business, the core activity for much of the next decade will be construction. Against this background, its priorities for 2014/15 and beyond are to:

- meet key milestones in projects under construction, in a way that is consistent with all safety and environmental requirements;
- continue to implement the new operational regimes for the 2013-21 Price Control and maintain high levels of system availability;
- work within the changing policy framework and, where appropriate, achieve regulatory approval for new links in an efficient and timely manner;
- make progress with projects in development, including implementing the programme of consulting with, and updating, interested parties;
- maintain and develop effective stakeholder relationships; and
- ensure it has the people, skills, resources and supply chain relationships that will be necessary to support growth.

Strategic and Financial Report (continued)

Factors affecting the business

The Company is responsible for managing the electricity transmission network in the North of Scotland. Transmission of electricity within specified areas is a monopoly activity and the level of allowed revenue for the use of the system is closely regulated by Ofgem, as is the level of investment which is made.

Against this background, the Company's objective is to manage the consequences of the change in demand for electricity, changes to the generation mix and to ensure the network has the minimum number of faults and the maximum robustness in the face of severe weather and other supply interruption risks.

Other factors which would affect the longer term performance of the business would include the macroeconomic situation and impact on the Company's funding costs, and the performance of the company and its contractors on large capital projects. The former is addressed by SSE plc's group treasury policies to ensure that appropriate funding is available to the business. The latter is addressed by use of the group's Large Capital Project Goverance Framework which is designed to ensure projects are governed, developed, approved and executed in an effective manner. All significant transmission projects are governed by this framework.

Values and responsibilities

The Group and the Company believes that the behaviours and culture of an organisation should be guided by its values, and that an organisation's values should be at its core. SSE has six core values which seek to bound the behaviour and attitude of its employees and those it works with. They are:

- Safety: We believe all accidents are preventable, so we do everything safely and responsibly or not at all.
- Service: We give our customers service we are proud of and make commitments that we deliver.
- Efficiency: We keep things simple, do the work that adds value and avoid wasting money, materials, energy or time.
- Sustainability: Our decisions and actions are ethical, responsible and balanced, helping to achieve environmental, social and economic wellbeing for current and future generations.
- Excellence: We strive to get better, smarter and more innovative and be the best in everything we do.
- Teamwork: We support and value our colleagues and enjoy working together as a team in an open and honest way.

Employees

Fundamental to the Company's success is the professionalism and enthusiasm of employees, guided by SSE's teamwork value, which states: 'We support and value our colleagues and enjoy working together as a team in an open and honest way.' SSE is committed to ensuring that it is a great place to work and its policies on human resources are developed and delivered in support of this.

Of all employees 84% are men and 16% are women. During the year the Board of Directors included one woman and five men, and the Company's senior management team consisted of two women and seven men.

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.

Strategic and Financial Report (continued)

Employee benefits

The Group believes that there is a commonality of interest between employees, customers and shareholders. To reinforce that it:

- encourages all employees to become and remain customers by providing them with energy at a 12% reduction on the normal unit rate for their tariff, plus discounts on other SSE products and services such as energy efficiency installations, central heating and wiring maintenance and telephone and broadband services; and
- provides opportunities for employees to become and remain shareholders in SSE through a Share Incentive Plan and a Sharesave Scheme. Employee participation in these schemes is now 53% and 40% respectively.

The Group believes that all employees should invest for retirement and offers pension schemes to all employees. It has been automatically enrolling all new starts into pension schemes since 2005. The UK government's policy to help those in employment build up a pension through their workplace now requires all employers to enrol their workers into a workplace pension scheme if they are not already in one.

In addition, in recognition that it operates in a competitive employment market, SSE provides a wide range of employee benefits including: a range of salary sacrifice offerings; access to the SSE Extras programme which provides employees with discounts and offers from a range of retailers; and EmployeeCare, a service which provides counselling during times of need and a health and wellbeing advisory service.

Employee participation

The Group recognises the value in attracting and retaining an engaged workforce and runs an annual externally-facilitated Company-wide survey of employee engagement. The 2013 survey, which was open to all employees, had a 92% response rate and showed that SSE has an above benchmark employee engagement index of 78%.

SSE shares the details of the survey results with all employees and publishes and implements detailed business by business action plans based on the findings of the survey.

Within SSE, employee participation is encouraged through adherence to the Company's Teamwork value and an established recognition programme. The appraisal process for employees, including the senior management team, specifically evaluates their performance in teamwork, along with performance in respect of SSE's other core values. Coupled with this is formal recognition of strong teamwork and good performance through an annual employee awards scheme – the eSSEntial Awards – which celebrates success.

In addition to a wide range of internal communication media and events, employee participation in SSE is also encouraged through internal blogs, interactive online forums, division- and subject-specific employee surveys, Director-led regional roadshows and the Licence to Innovate scheme, established in 2007, which enables employees to research, review and test-trial new ideas.

Resources available

As part of the SSE plc group, the Company has significant resources which it can draw upon to meet its service commitments. The Company benefits from group-wide treasury management functions in order to provide adequate financing, with undrawn facilities totalling £1.5bn available to SSE plc which could be made available to the Company as required.

The Company has 403 employees which it calls on to maintain its transmission network and carry out investment in future developments. The Company also draws upon shared services covering central functions such as finance, HR, regulation, health and safety, company secretarial and insurance services. All such services are provided under an appropriate Service Level Agreement. In addition to these employees, the services of key contractors are called upon in a number of large capital projects to ensure that these projects are delivered on time and on budget. Where possible and economically efficient for the Company, these contractors are provided by other SSE group companies, reducing reliance on external companies.

Strategic and Financial Report (continued)

Social and community issues

The Company considers its relationship with the community it serves as a core part of its operations. Engagement with local users and the wider stakeholder community is a fundamental principle underlying the RIIO-T1 price control, and the Company has a detailed stakeholder engagement plan in place to ensure that it is sufficiently informed by its customers and the community which it serves.

On a wider basis, the Company participates in SSE plc's programme of community-based schemes. SSE continues to establish close working relationships with local community groups, organisations and charities in the regions in which it operates. SSE undertook three main community programmes during 2013/14:

- **Action –** through SSE's employee volunteering programme, under which employees are given one day of leave to support community initiatives. During 2013/14, over 8,000 volunteer days were given to 740 individual projects in the UK and Ireland. SSE teams supported a wide range of initiatives including: conservation tasks at wildlife trusts; fund-raising and support for local hospices; gardening and DIY in schools, sports clubs and community theatres; and educational workshops for schools and public events;
- **Fundraising –** supporting key partner charities such as Mission Christmas, for which £9k was raised in cash and a further 1,000 Christmas gifts were donated by employees in December 2013, and Sport Relief, for which over £50k was raised in the spring of 2014. All funds raised by SSE staff were matched by SSE in order to double the impact for local good causes;
- **Heritage** – cataloguing, maintaining and preparing for display the SSE Heritage Collection (see sseheritage.org.uk), currently based in Dorset, developing a new £3m visitor centre at its Pitlochry hydro electric scheme and launching a Perthshire renewables trail guide, in order to make the built and natural heritage of SSE's hydro plant and wind farms more accessible to the public.

In addition, during 2013/14, SSE shared £2.5m between eight UK charities working to improve the lives of people living in fuel poverty. Energy Action Scotland, Citizens Advice Bureau, Age UK, Save the Children and Macmillan Cancer Support are amongst the charities to receive a share of money. The money is being used for a range of projects including training for local energy champions, energy awards for cancer sufferers and a grant scheme for energy efficiency measures.

Internal control

The Directors acknowledge that they have responsibility for the Company's systems of internal control and risk management and for monitoring their effectiveness. The purpose of these systems is to manage, rather than eliminate, the risk of failure to achieve business objectives, and 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, to the materiality of the risks inherent in the business, and to the relative costs and benefits of implementing specific controls. This process is regularly reviewed by the Board and has been in place for the whole year.

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 high quality information systems. These methods of control are subject to periodic review as to their implementation and continued suitability.

There are established procedures in place for regular budgeting and reporting of financial information. The Company's performance is reviewed by the Board as well as the Group Board. Reports include variance analysis and projected forecasts of the year compared to approved budgets and non-financial performance indicators.

Strategic and Financial Report (continued)

Internal control (continued)

There are Group policies in place covering a wide range of issues and risks such as financial authorisations, IT procedures, health, safety and environmental risks, crisis management, and a policy on ethical principles. The business risks associated with the Company's operations are regularly assessed by the Directors.

The effectiveness of the systems of internal control is monitored by the Group internal audit department. Their reports, which include where appropriate relevant action plans, are distributed to senior managers and Directors.

Environment

The Group manages a wide range of environmental issues. Operating the power systems network is recognised as a priority area and formal environmental management systems have been developed. The systems have five main elements, based on the established management cycle of (1) setting policy, (2) planning, (3) implementing and operating, (4) checking and correcting and (5) reviewing.

The system exists to enable managers to deliver the Group's environmental policies through procedures and work instructions. It reflects an integrated, Group-wide health and safety and environmental management system.

Key contractual arrangements

There are a number of contracts in place for construction of major projects, such as the Beauly-Denny line, upon which the Company is dependent for delivery of these projects. Appropriate terms have been included within these contracts to ensure that the services provided and the costs charged are clearly agreed, and to provide an appropriate long-term relationship. However, the nature of these projects is such that there is no monopoly on provision of the required services, and the Directors believe that they would be able to replace the incumbent providers should there be any requirement to do so.

The Directors consider the Service Level Agreement between the Company and SSE Services plc for the provision of corporate services to be essential for the continuance of the Company's operations in the short-to-medium term.

Capital structure

The Company regards its capital as comprising its equity, cash and borrowings. Its objective in managing capital is to maintain a strong balance sheet and credit rating so as to maintain investor, creditor and market confidence and to sustain future development of the business. The capital structure is kept under review and the Group and Company both continue to maintain one of the strongest balance sheets in the global utility sector. This gives the Company significant competitive advantage in terms of cost of funding and supporting new developments.

Treasury policy, objectives and financial risk management

The Company's operations are generally financed by a combination of retained profits, bank borrowings, long term debt issuance and inter company loan balances. As a matter of policy, a minimum of 50% of the Company's debt is subject to fixed rates of interest. Within this policy framework, the Company borrows, as required, on different interest bases, with derivatives and forward rate agreements being used to achieve the desired out-turn interest rate profile.

Borrowings of the Company are mainly made in Sterling to reflect the underlying currency denomination of assets and cashflows within the Company. Further details of the Company's borrowings can be found in note 14 of the notes to the Regulatory Financial Statements.

The Company's financial risk is managed as part of the wider Group risk management policy. For more information regarding this please visit the Group's 2014 Annual Report at www.sse.com.

Strategic and Financial Report (continued)

Treasury policy, objectives and financial risk management (continued)

The main financial risks affecting the Group, and therefore the Company, include exposures to fluctuations or changes in interest rates, foreign exchange rates, liquidity, commodity prices and volumes and counterparty creditworthiness.

The Group's Risk and Trading Committee, which reports to the Group Board, reviews and agrees policies for addressing each of these risks. At 31 March 2014, over 79% of the Group's borrowings were at fixed or inflation-linked interest rates, after taking account of interest rate swaps. The Company's main risk area is in relation to interest rates and, as noted, this is controlled as part of the Group's risk management policies.

Liquidity

The Company's exposure to liquidity risk is managed centrally by the Group's Treasury function. Short term liquidity is reviewed daily by Treasury, while the longer term liquidity position is reviewed on a regular basis by the Group's Executive Committee. In relation to the Group's liquidity risk, the Group's and therefore Company's policy is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. It does this by ensuring that the Group has available committed borrowings and facilities equal to at least 105% of forecast borrowings over a rolling 6 month period.

Borrowings and Facilities

The Company has loans of £463.1m (2013 – £313.1m) of which £313.1m (2013 - £313.1m) is due to other group companies and £150m (2013 - £nil) is in the form of loans from the European Investment Bank. Of the total, interest is paid at fixed interest rates on £313.1m (2013 - £313.1m) with the interest paid at floating rates to the European Investment Bank.

As at 31 March 2014, the weighted average interest rate payable was 4.10% (2013 – 5.43%) and the weighted average remaining term was 7.94 years (2013 – 9.15 years).

Taxation

The Company's effective current tax rate was 9.1% compared with 5.2% in the previous year, after prior year adjustments. The headline effective tax rate is 15.3% compared with 21.9% in the previous year.

Dividend

Following a review of distributable reserves a dividend of £nil (2013 - £40.0m) was declared.

Pensions

21% (2013: 26%) of employees of the Company are members of the Scottish Hydro-Electric Pension Scheme, which, at 31 March 2013, based on an IAS 19 accounting basis, had a deficit included in the Group Financial Statements, net of deferred tax, of £146.2m (2013 - £143.1m).

Strategic and Financial Report (continued)

International Financial Reporting Standards

The Regulatory Financial Statements of the Company have been prepared in accordance with applicable UK Generally Accepted Accounting Principles (UK GAAP). Under the Companies Act, the Company will no longer be able to prepare accounts under UK GAAP for its year ending 31 March 2016 and is currently considering whether it will prepare accounts under FRS 101 or FRS 102 at that time. Once it has adopted either FRS 101 or FRS 102, transitional balances, the transition date being 1 April 2014, will be restated accordingly.

ON BEHALF OF THE BOARD

Gregor Alexander
16 July 2014
Company Registered Number: SC213461

Corporate Governance Statement

As a subsidiary company of SSE plc, (the "Group"), Scottish Hydro Electric Transmission plc (the "Company") operates within the Group's corporate governance framework. The Company does not have listed shares and therefore is not subject to the UK Corporate Governance Code.

The Group's corporate governance policies are described in the SSE plc's annual report and accounts 2014 under Governance on pages 58 to 94 available at www.sse.com.

The Board of the Group considers that it complied in full with the UK Corporate Governance Code during 2013/14 with the exception of the provision relating to audit tendering. The Group has complied with all other provisions of the Code. The detailed explanation of non-compliance with the audit tendering provision is given in the Audit Committee Report on Page 72 of the Group's annual report to 31 March 2014.

SSE plc Group (the "Group")

The Board is collectively responsible to the Group's shareholders for the long-term success of the Group and for its overall strategic direction, its values and its governance. It provides the leadership necessary for the Group to meet its business objectives whilst ensuring that a sound system of internal control and risk management is in place.

The Group's core purpose is to provide the energy people need in a reliable and sustainable way while abiding by its core values: safety; service; efficiency; sustainability; excellence; and teamwork.

The Board continues to be committed to ensuring that the highest standards of corporate governance are maintained. The Board confirms that it has, throughout the period under review, complied with all provisions set out in the Code. More details of this can be found in SSE plc's annual report on page 58.

The Board comprises the Chairman, two Executive Directors (from 1 July 2013) and six independent non-Executive Directors. This gives the Board a good balance of independence and experience, ensuring that no one individual or group of individuals has undue influence over the Board's decision making.

There are four principal Board committees; an Audit Committee, a Remuneration Committee, a Health, Safety and Environmental Advisory Committee and a Nomination Committee and details of the appointees and work undertaken by these committees are included in the published Annual Report of the Group, a copy of which is on the Group website (www.sse.com).

The Audit Committee, the Health, Safety and Environmental Committee receive reports in respect of the Company's business performance and the relevant findings of these committees will be advised to the Company Board where appropriate.

Scottish Hydro Electric Transmission plc (the "Company")

Board of Directors

During the year the Board consisted of six Executive Directors, one of whom is an Executive Director of the Group and one of whom is a member of the Group's Executive Committee. None of the Directors are Directors of Group Companies involved in Retail or Wholesale activities. The Group Director is the Chairman of the Board. Company Board meetings were held on eight occasions during the course of the year. The Company does not have a Nomination, Remuneration or Audit Committee. These functions are dealt with in conjunction with the relevant committee of the Group Board. There were no Non-Executive Directors on the Board during the course of the financial year.

The Board operates under approved terms of reference. The Board set the Strategic aims of the Company, supervises management, monitors and reports on performance, approves investment and is responsible for all statutory and regulatory approvals.

Attendance at meetings of the Board during 2013/14, expressed as a number of meetings attended out of number eligible to attend is set out below:

Corporate Governance Statement (continued)

Scottish Hydro Electric Transmission plc (the "Company")

Board of Directors (continued)

Director	Attendance
Gregor Alexander (Chairman)	8 of 8
Steven Kennedy	6 of 8
Mark Mathieson	8 of 8
Aileen McLeod	8 of 8
Stuart Hogarth	7 of 8
David Gardner	8 of 8

Under the terms of the Standard Condition B22 of the Company's regulatory licence that came into effect during 2013/14 two sufficiently independent Directors are required to be appointed to the Company Board. On 1st April 2014 David Rutherford and Gary Steel were appointed as Non Executive Directors of the Company.

Going concern

The Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. The Regulatory Financial Statements are therefore prepared on a going concern basis.

Report of the Directors

The Directors present their report together with the audited Regulatory Financial Statements for the year ended 31 March 2014.

1. Business review

The Company is part of the SSE plc (the 'Group') and the key responsibility of the Group's Network businesses, including the Company, is to maintain safe and reliable supplies of electricity and to restore supplies as quickly as possible in the event of interruptions. The Directors intend the Company to pursue its principal activity of the transmission of electricity in the north of Scotland. A full review of the year is contained within the Strategic and Financial Report section of these Accounts.

2. Results and dividends

The profit for the financial year amounted to £105.7m (2013 - £57.5m). A dividend of £nil (2013 - £40.0m) was declared, approved and paid during the year.

3. Directors

The Directors who served during the year were as follows:

Gregor Alexander
Steven Kennedy
Mark Mathieson
Aileen McLeod
Stuart Hogarth
David Gardner

Lilian Manderson resigned as Company Secretary on 30 June 2014. Helen Gettinby was appointed as Company Secretary effective from 1 July 2014.

4. Corporate Governance

The Corporate Governance statement for the Company is outlined on page 11.

5. 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.

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditors of the Company and Group is to be proposed at the forthcoming Annual General Meeting.

ON BEHALF OF THE BOARD

Helen Gettinby
Company Secretary
16 July 2014
Company Registered Number: SC213461

Statement of Directors' responsibilities in respect of the Strategic and Financial Report, the Directors' Report and the Regulatory Financial Statements

The Directors are responsible for preparing the Strategic and Financial Report, the Directors' Report and the Regulatory 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 Regulatory 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 Regulatory Financial Statements; and
- prepare the Regulatory 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.

ON BEHALF OF THE BOARD

Gregor Alexander
16 July 2014
Company Registered Number: SC213461

Independent Auditor's Report to Scottish Hydro Electric Transmission plc and to The Office of Gas and Electricity Markets (the "Regulator")

We have audited the Regulatory Financial Statements of Scottish Hydro Electric Transmission plc (the "Company") set out on pages 17 to 35 which comprise: the Profit and Loss Account, Balance Sheet, Statement of Total Recognised Gains and Losses, Cash Flow Statement and the related notes to the Regulatory Financial Statements. These Regulatory Financial Statements have been prepared under the accounting policies set out therein.

This report is made, on terms that have been agreed, solely to the Company and the Regulator in order to meet the requirements of Standard Condition B1 of the Company's Regulatory Licence. Our audit work has been undertaken so that we might state to the Company and the Regulator those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under the Company's Regulatory Licence to procure such a report and (b) to facilitate the carrying out by the Regulator of its regulatory functions, 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 Regulator, for our audit work, for this report, or for the opinions we have formed.

Basis of preparation
The Regulatory Financial Statements have been prepared under the historical cost convention and in accordance with Standard Condition B1 of the Regulatory Licence and the accounting policies set out in the statement of accounting policies.

The Regulatory Financial Statements are separate from the statutory Financial Statements of the Company. There are differences between United Kingdom Generally Accepted Accounting Principles (UK GAAP) and the basis of preparation of information provided in the Regulatory Financial Statements because the Standard Condition B1 of the Regulatory Licence specifies alternative treatment or disclosure in certain respects. Where Standard Condition B1 of the Regulatory Licence does not specifically address an accounting issue, then it requires UK GAAP to be followed. Financial information other than that prepared wholly on the basis of UK GAAP may not necessarily represent a true and fair view of the financial performance or financial position of the Company as shown in Financial Statements prepared in accordance with the Companies Act 2006.

Respective responsibilities of the Regulator, the Directors and Auditor
The nature, form and content of Regulatory Financial Statements are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly, we make no such assessment.

As described in the Statement of Directors' Responsibilities on page 14 the Company's Directors are responsible for the preparation of the Regulatory Financial Statements in accordance with Standard Condition B1 of the Regulatory Licence.

Our responsibility is to audit the Regulatory Financial Statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland), except as stated in the "Basis of audit opinion" below and having regard to the guidance contained in Audit 05/03 '*Reporting to Regulators of Regulated Entities*'.

We report to you our opinion as to whether the Regulatory Financial Statements present fairly in accordance with Standard Condition B1 of the Regulatory Licence and the accounting policies set out on page 21 to 23, the results, cash flows and financial position of the Company and whether they have been properly prepared in accordance with those conditions. We also report to you if, in our opinion, the Company has not kept proper accounting records or if, in our opinion, we have not received all information and explanations we require for our audit.

We read the other information contained in the Regulatory Financial Statements, including any supplementary schedules on which we do not express an audit opinion, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Regulatory Financial Statements. The other information comprises the Strategic and Financial Report, and the Corporate Governance Statement. Our responsibilities do not extend to the other information.

Independent Auditor's Report to Scottish Hydro Electric Transmission plc and to The Office of Gas and Electricity Markets (the "Regulator") (continued)

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board except as noted below. An audit excludes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Regulatory Financial Statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Regulatory Financial Statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequate disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Regulatory Financial Statements are free from material misstatement, whether caused by fraud or other irregularity or error. However, the nature, form and content of Regulatory Financial Statements are determined by the Regulator, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under those auditing standards.

Our opinion on the Regulatory Financial Statements is separate from our opinion on the statutory Financial Statements of the Company on which we report, which are prepared for a different purpose. Our audit report in relation to the statutory Financial Statements of the Company (our "statutory" audit) was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our statutory audit work was undertaken so that we might state to the Company those matters which we required to state to them in a statutory auditor's report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the company's members, as a body, for our statutory audit work, for any statutory audit work, for our statutory audit report, or for the opinions we have formed in respect of that statutory audit.

Opinion
In our opinion the Regulatory Financial Statements of the Company for the year ended 31 March 2014 fairly present, in accordance with Standard Condition B1 of the Regulatory Licence and the accounting policies set out on page 21 to 23, the state of the Company's affairs at 31 March 2014 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with those conditions.

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

191 West George Street
Glasgow
G2 2LJ

16 July 2014

Profit and Loss Account
for the year ended 31 March 2014

	Note	**2014** **£m**	2013 £m
Turnover		**184.1**	137.6
Cost of sales		**(0.6)**	-
Gross profit		**183.5**	137.6
Distribution costs		**(42.3)**	(39.2)
Administrative costs		**(6.5)**	(7.0)
Exceptional costs	3	**(0.9)**	-
Operating profit	2	**133.8**	91.4
Net interest payable	6	**(9.0)**	(17.8)
Profit on ordinary activities before taxation		**124.8**	73.6
Tax on profit on ordinary activities	7	**(19.1)**	(16.1)
Profit for the financial year	18	**105.7**	57.5

There are no other recognised gains or losses other than the reported profit above (2013 - £nil).

The above results are derived from continuing activities.

The accompanying notes are an integral part of these Regulatory Financial Statements.

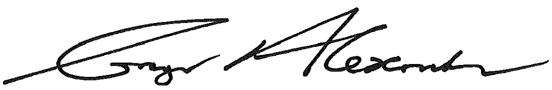
Reconciliation of Movement in Shareholders' Funds as at 31 March 2014

	Note	**2014** **£m**	2013 £m
Profit for the financial year		**105.7**	57.5
Dividends paid to shareholders	8	**-**	(40.0)
Credit in respect of employee share awards		**0.2**	0.2
Net addition to shareholders' funds		**105.9**	17.7
Opening shareholders' funds		**133.4**	115.7
Closing shareholders' funds		**239.3**	133.4

Balance Sheet
as at 31 March 2014

	Note	2014 £m	2013 £m
Fixed Assets			
Tangible fixed assets	9	**1,300.7**	976.7
Current assets			
Debtors	10	**3.4**	5.1
Cash at bank and in hand	11	**3.5**	1.3
Total current assets		**6.9**	6.4
Creditors:			
Amounts falling due within one year	12	**(508.6)**	(448.0)
Net current liabilities		**(501.7)**	(441.6)
Total assets less current liabilities		**799.0**	535.1
Creditors:			
Amounts falling due after more than one year	13	**(494.9)**	(345.6)
Provisions for liabilities and charges			
Deferred taxation	15	**(63.9)**	(56.1)
Restructuring	16	**(0.9)**	-
Net assets		**239.3**	133.4
Capital and reserves			
Called up share capital	17	**4.3**	4.3
Profit and loss account	18	**235.0**	129.1
Equity shareholders' funds		**239.3**	133.4

These Regulatory Financial Statements were approved by the Directors on 16 July 2014 and signed on their behalf by



Gregor Alexander, Director

Scottish Hydro Electric Transmission plc, Registered No. SC213461

Cash Flow Statement
for the year ended 31 March 2014

	Note	**2014 £m**	2013 £m
Net cash inflow from operating activities	22	**235.1**	435.1
Interest paid		**(31.1)**	(34.8)
Returns on investments and servicing of finance		**(31.1)**	(34.8)
Corporation tax paid		**(7.5)**	(5.4)
Taxation		**(7.5)**	(5.4)
Purchase of tangible fixed assets		**(344.3)**	(328.6)
Capital expenditure and financial investment		**(344.3)**	(328.6)
Equity dividends paid		**-**	(40.0)
Net cash outflow before management of liquid resources and financing		**(147.8)**	26.3
Repayment of borrowings		**-**	(25.0)
New borrowings		**150.0**	-
Financing		**150.0**	(25.0)
Net increase in cash and cash equivalents		**2.2**	1.3
Cash and cash equivalents at start of year		**1.3**	-
Net increase in cash and cash equivalents		**2.2**	1.3
Cash and cash equivalents at the end of the year	11	**3.5**	1.3

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

1. Significant accounting policies

Basis of preparation
The Regulatory Financial Statements have been prepared under the historical cost convention and in accordance with UK generally accepted accounting standards (UK GAAP). The principal accounting policies are summarised in the Notes to the Regulatory Financial Statements and have been applied consistently.

The Company's balance sheet at 31 March 2014 shows a net current liability position of £501.7m (2013 – net current liabilities of £441.6m). The parent company has confirmed that it will continue to provide financial support to the Company and in particular will not seek repayment of the amounts currently made available. On this basis, the directors believe that the Company will be in a position to meet its liabilities as they fall due and that the Regulatory Financial Statements are appropriately prepared on a going concern basis.

It has also taken advantage of the exemption contained in FRS29 and has therefore not prepared the disclosures relating to financial instruments and capital as full disclosure is provided in the Group Financial Statements.

Limitation of application of CA06 exemption disclosure
Standard Condition B1 requires the Regulatory Financial Statements to be prepared inclusive of all mandatory disclosures which otherwise may have been excluded from the statutory Financial Statements as a result of the application of a CA06 exemption allowance.

However, as the Company is a wholly owned subsidiary of SSE plc ("the Group"), the Directors believe certain accounting policies required of listed Companies cannot practicably be applied to the Company. These include, but are not limited to:

- Pensions. The Group operates two Defined Benefit Schemes, one of which, the Scottish Hydro Electric Pension Scheme, is the main defined benefit Pension Scheme for the Company. The contributions made to this scheme are treated as contributions to a Defined Contribution scheme. The Defined Benefit Schemes disclosure is published in the Financial Statements of the Group. The statutory accounts pensions accounting policy is commented upon in the notes to the Financial Statements.

- Director's Remuneration. The remuneration of the Director of the Company who is also an Executive Director of the Ultimate Parent is published in the Financial Statements of the Group.

Furthermore, while it has been mandatory to prepare Financial Statements of listed entities in accordance with EU-adopted International Financial Reporting Standards (adopted IFRS) for reporting periods beginning on or after 1 January 2005, the statutory Financial Statements of all the Group's subsidiary entities continue to be prepared under UK GAAP. As a result, the Directors of the Company, and those of the Group, do not believe it would be reasonably practicable to prepare the Regulatory Financial Statements of the Company under adopted IFRS. However, under the Companies Act, the Company will no longer be able to prepare accounts under UK GAAP for its year ending 31 March 2016 and is currently considering whether it will prepare accounts under FRS 101 or FRS 102 at that time. Once it has adopted either FRS 101 or FRS 102, transitional balances, the transition date being 1 April 2014, will be restated accordingly.

Turnover
Turnover comprises the value of electricity transmission services and facilities provided during the year.

Taxation
The charge for taxation is based on the profit for the year 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 substantively enacted, by the balance sheet date.

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

1. Significant accounting policies (continued)

Taxation (continued)
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.

Foreign currencies
Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Research and development
Expenditure on research and development is charged to the profit and loss account as incurred.

Operating Leases
The Company treats operating leases in accordance with SSAP 21 whereby the assets in which the expenditure relates are not owned by Company as an asset and are therefore not capitalised.

Tangible fixed assets

(i) Depreciation
Heritable and freehold land is not depreciated.

Depreciation is charged to the profit and loss account on tangible fixed assets to write off cost, less residual values, on a straight-line basis over their estimated operational lives. The estimated operational lives are as follows:

			Years
Transmission assets			10 to 80
Non-operational assets:			
Buildings	-	freehold	Up to 60
	-	leasehold	Lower of lease period and 60
Fixtures, equipment, plant and machinery, vehicles and mobile plant			4 to 10

(ii) Subsequent expenditure
Expenditure incurred to replace a component of a tangible fixed asset that is accounted for separately is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits of the tangible fixed asset to which it relates.

Capitalised interest
Interest on the funding attributable to major capital projects is capitalised during the years of construction and depreciated as part of the total cost over the useful life of the asset.

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 assets.

Employee benefit obligations

Pensions
Contributions to pension schemes on behalf of the employees of the Company are charged to the profit and loss account in accordance with the contributions incurred in the year.

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

1. Significant accounting policies (continued)

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, this cost is 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.

Applying the transitional provisions of FRS 20, its requirements 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 a Black-Scholes 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 accounts.

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

Dividends on shares presented within shareholders' funds
Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to these Regulatory Financial Statements.

2. Operating profit

Operating profit is arrived at after charging / (crediting):

	2014	2013
	£m	£m
Depreciation of tangible fixed assets	**25.2**	22.1
Operating lease rentals	**0.2**	0.2
Release of deferred income in relation to customer contributions and capital grants	**(1.8)**	(1.9)
Research and development	**1.2**	0.5
Net management fee in respect of services provided by group companies	**6.5**	7.0

The Company incurred an audit fee of £0.01m (2013 - £0.01m) in the year.

3. Exceptional costs

	2014	2013
	£m	£m
Exceptional costs – restructuring	**0.9**	-

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

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

4. Staff costs and numbers

	2014	2013
	£m	£m
Staff costs:		
Wages and salaries	**15.6**	13.4
Social security costs	**1.7**	1.5
Share-based remuneration	**0.2**	0.2
Other pension costs (note 19)	**4.8**	4.0
	22.3	19.1
Less capitalised as tangible fixed assets	**(18.0)**	(16.7)
	4.3	2.4

Included within the above costs is a charge recognised under FRS 20 of £213,235 (2013 - £150,138).

Employee numbers

	2014	2013
	Number	Number
Numbers employed at 31 March	**403**	333

	2014	2013
	Number	Number
The monthly average number of people employed by the Company during the year	**364**	295

5. Directors' remuneration

The level of emoluments of the Directors employed by the Company were as follows:

	2014	2013
	£m	£m
Remuneration as executives	**0.2**	0.2

6. Net interest payable

	2014	2013
	£m	£m
Interest receivable:		
Interest receivable from group companies	**-**	0.3
Foreign exchange translation of monetary assets and liabilities	**0.9**	0.1
	0.9	0.4
Interest payable and similar charges:		
Bank loans and overdrafts	**(1.2)**	(0.8)
Interest payable to group companies	**(30.3)**	(34.3)
	(31.5)	(35.1)
Interest capitalised (note 9)	**21.6**	16.9
Net interest payable	**(9.0)**	(17.8)

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

7. Taxation

	2014 £m	2013 £m
Current tax:		
UK corporation tax on profits for the year	**11.8**	4.8
Adjustments in respect of previous years	**(0.5)**	(1.0)
	11.3	3.8
Deferred tax:		
Origination and reversal of timing differences	**17.1**	12.8
Change in applicable tax rate	**(9.6)**	(2.4)
Adjustment in respect of prior years	**0.3**	1.9
Total Deferred Tax	**7.8**	12.3
Total tax on profit on ordinary activities	**19.1**	16.1

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

	2014 £m	2013 £m
Profit before tax	**124.8**	73.6
Tax on profit on ordinary activities at standard UK corporation tax rate of 23% (2013 – 24%)	**28.7**	17.6
Effects of:		
Capital allowances more than depreciation	**(17.1)**	(12.7)
Depreciation on non qualifying assets	**0.2**	-
Other timing differences	**-**	(0.1)
Adjustment in respect of prior periods	**(0.5)**	(1.0)
Current tax charge for year	**11.3**	3.8

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. This change will reduce the Company’s future tax charge accordingly.

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 has reduced the Company’s current tax charge by £9.6m.

8. Dividends

	2014 £m	2013 £m
Amounts recognised as distributions from equity:		
Final dividend of £nil (2013 – £9.30) per share	**-**	40.0

There is no final dividend for the current year (2013 – £40.0m).

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

9. Tangible fixed assets

	Network Assets £m	Other Equipment £m	Total £m
Cost:			
At 1 April 2013	1,182.0	2.9	1,184.9
Additions	348.6	0.6	349.2
At 31 March 2014	**1,530.6**	**3.5**	**1,534.1**
Depreciation:			
At 1 April 2013	205.8	2.4	208.2
Charge for the year	25.1	0.1	25.2
At 31 March 2014	**230.9**	**2.5**	**233.4**
Net book value			
At 31 March 2014	**1,299.7**	**1.0**	**1,300.7**
At 31 March 2013	976.2	0.5	976.7

	2014 **£m**	2013 £m
Tangible fixed assets include:		
Assets in the course of construction	**771.8**	563.9

There is a cumulative capitalised interest included in tangible fixed asset's costs of £46.5m (2013 - £24.9m) at 31 March 2014. This is depreciated annually according to the useful economic life of the asset to which the capitalised interest relates.

10. Debtors

	2014 **£m**	2013 £m
Amounts falling due within one year:		
Trade debtors	**2.4**	3.4
Other debtors	**0.5**	1.7
Amounts owed by group undertakings	**0.5**	-
	3.4	5.1

11. Cash at bank and in hand

	2014 **£m**	2013 £m
Cash at bank and in hand	**3.5**	1.3

Cash at bank represents amounts being held to settle foreign currency contractual liabilities arising as a result of the capital expenditure of the Company.

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

12. **Creditors:** amounts falling due within one year

	2014 £m	2013 £m
Trade creditors	**3.5**	1.9
Amounts owed to group undertakings	**456.1**	378.4
Corporation tax	**6.3**	2.5
Accruals and other deferred income	**39.0**	61.5
Other creditors	**3.7**	3.7
	508.6	448.0

13. **Creditors:** amounts falling due after more than one year

	2014 £m	2013 £m
Loans (note 14)	**150.0**	-
Loans due to ultimate parent (note 14)	**313.1**	313.1
Accruals and other deferred income	**31.8**	32.5
	494.9	345.6

14. Analysis of borrowings

	Weighted Average Interest rate 2014 %	Weighted Average Interest rate 2013 %	2014 £m	2013 £m
Over five years				
6.00% Loan Stock repayable to SSE plc on 31 March 2021	**6.00**	6.00	**100.0**	100.0
5.50% Loan Stock repayable to SSE plc on 31 March 2021	**5.50**	5.50	**33.1**	33.1
5.00% Loan Stock repayable to SSE plc on 31 March 2022	**5.00**	5.00	**150.0**	150.0
5.625% Loan Stock repayable to SSE plc on 31 March 2028	**5.63**	5.63	**30.0**	30.0
Floating Rate European Investment Bank repayable 21 September 2021	**1.30**	-	**150.0**	-
			463.1	313.1

15. Deferred taxation

Deferred taxation is provided as follows:

	2014 £m	2013 £m
Accelerated capital allowances	**63.9**	56.0
Share based remuneration	**-**	0.1
Provision for deferred tax	**63.9**	56.1

	2014 £m	2013 £m
Provision at start of the year	**56.1**	43.8
Charged to profit and loss account	**7.8**	12.3
Provision at end of the year	**63.9**	56.1

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

16. Restructuring provision

	2014
	£m
Provision at start of the year	-
Charged to profit and loss account	0.9
Provision at end of year	**0.9**

A provision has been recorded in the year for the Voluntary Early Release scheme as discussed in Note 3.

17. Share capital

	2014	2013
	£m	£m
Equity:		
Allotted, called up and fully paid:		
4,300,000 ordinary shares of £1 each	**4.3**	4.3

18. Reserves

	Profit and loss account
	£m
At 1 April 2013	129.1
Profit for the year	105.7
Credit in respect of employee share schemes	0.2
At 31 March 2014	**235.0**

19. Pensions

21% (2013: 26%) of the Company's employees are members of the Scottish Hydro-Electric Pension Scheme which provides defined benefits based on final pensionable pay. The Company's contributions to this scheme are set in relation to the current service period only (i.e. these are not affected by any surplus or deficit in the scheme relating to past service of its own employees and any other members of the scheme) and as such are accounted for as if they were contributions to a defined contribution scheme.

New 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 maximum of 6% of salary. The scheme is managed by Friends Provident.

The Company's share of the total contribution payable to the pension schemes during the year was £2.7m (2013 - £1.9m).

The Company incurred a further charge, payable to SSE Services plc, of £2.1m (2013 – £2.1m), which related to its share of the Scheme's deficit repair contributions for the year ended 31 March 2014.

20. 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 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.

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

20. Employee share-based payments (continued)

(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 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 (previously 5) shares (‘Matching’ shares) per month. These shares are also 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.

(iii) Deferred Annual Incentive scheme
This scheme (previously deferred bonus scheme) applies to senior managers and Executive Directors. Under this scheme, 25% of all eligible employees’ annual bonus 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 bonus amount by the share price shortly after the announcement of the results for the financial year to which the bonus 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:

Award made		02 June 2010	02 June 2011	02 June 2012	02 June 2013
Maximum value of award as a % of base salary		150	150	150	150
Performance conditions					
Total shareholder return (i)	Full vesting	> 75th percentile	> 75th percentile	> 75th percentile	> 75th percentile
	25% vesting	median	median	median	median
Earnings per share (ii)	Full vesting	RPI + 8%	RPI + 8%	RPI + 8%	RPI + 8%
	25% vesting	RPI + 2%	RPI + 2%	RPI + 2%	RPI + 2%
Dividend per share growth (iii)	Full vesting	RPI + 6%	RPI + 6%	RPI + 6%	RPI + 6%
	25% vesting	RPI + 2%	RPI + 2%	RPI + 2%	RPI + 2%

These awards will vest after three years to the extent that the relevant performance conditions are met.

(i) Total Shareholder Return (TSR) target relative to other FTSE100 companies and MSCI Europe Utilities (a dedicated peer group of UK and other European utilities) Index. Pro rata vesting will take place between the median and 75th percentile, with no vesting if the minimum target is not met.
(ii) Under the EPS performance condition, pro rata vesting between the lower and upper level above RPI, with no vesting if the minimum EPS growth target is not achieved.
(iii) Under the Dividend per share growth performance condition, pro rata vesting between 2% and 6% above RPI, with no vesting if the minimum dividend per share growth target is not achieved.

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

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

20. Employee share-based payments (continued)

(v) Long Term Incentive Plan (LTIP)
This scheme applies to the Management Board (excluding Executive Directors). Shares granted under this arrangement vest subject to the attainment of performance conditions over the relevant performance period. The relevant performance period for this LTIP award is 1 April 2011 to 31 March 2016. The performance conditions are as set out below:

Performance conditions

Dividend per share growth (DPS)	Full vesting	RPI + 5%
	40% vesting	RPI + 2%

Where DPS growth is between 2 and 5% above RPI, vesting will be calculated on a straight-line basis. Where DPS growth is less than RPI + 2% no vesting will occur.
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	Exercised	Lapsed	Outstanding at end of year	Date from which exercisable	Expiry date
17 July 2008	1,274	1,020	-	(1,020)	-	-	1 October 2013	31 March 2014
30 June 2009	1,042	8,647	-	-	-	8,647	1 October 2014	31 March 2015
30 June 2010	871	5,925	-	(5,925)	-	-	1 October 2013	31 March 2014
30 June 2010	871	34,745	-	(654)	(1,119)	32,972	1 October 2015	31 March 2016
28 June 2011	1,105	3,834	-	-	(375)	3,459	1 October 2014	31 March 2015
28 June 2011	1,105	12,772	-	(117)	(1,528)	11,127	1 October 2016	31 March 2017
29 June 2012	1,065	13,170	-	(65)	(2,486)	10,619	1 October 2015	31 March 2016
29 June 2012	1,065	11,988	-	-	(394)	11,594	1 October 2017	31 March 2018
05 July 2013	1,197	-	21,631	-	(1,847)	19,784	1 October 2016	31 March 2017
05 July 2013	1,197	-	11,408	-	-	11,408	1 October 2018	31 March 2019
		92,101	**33,039**	**(7,781)**	**(7,749)**	**109,610**		

As at 31 March 2013

Award Date	Option Price (pence)	Outstanding at start of year	Granted	Exercised	Lapsed	Outstanding at end of year	Date from which exercisable	Expiry date
10 July 2007	1,306	1,979	-	(1,979)	-	-	1 October 2012	31 March 2013
17 July 2008	1,274	590	-	-	(590)	-	1 October 2011	31 March 2012
17 July 2008	1,274	1,020	-	-	-	1,020	1 October 2013	31 March 2014
30 June 2009	1,042	4,680	-	(4,680)	-	-	1 October 2012	31 March 2013
30 June 2009	1,042	8,647	-	-	-	8,647	1 October 2014	31 March 2015
30 June 2010	871	7,700	-	-	(1,775)	5,925	1 October 2013	31 March 2014
30 June 2010	871	39,355	-	-	(4,610)	34,745	1 October 2015	31 March 2016
29 June 2011	1,105	4,045	-	-	(211)	3,834	1 October 2014	31 March 2015
29 June 2011	1,105	14,446	-	-	(1,674)	12,772	1 October 2016	31 March 2017
29 June 2012	1,065	-	13,930	-	(760)	13,170	1 October 2015	31 March 2016
29 June 2012	1,065	-	11,988	-	-	11,988	1 October 2017	31 March 2018
		82,462	**25,918**	**(6,659)**	**(9,620)**	**92,101**		

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

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

20. Employee share-based payments (continued)

As share options are exercised continuously 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:

	July 2007		July 2008		July 2009		July 2010		July 2011		July 2012		July 2013	
	3 Year	5 Year	3 Year	5 Year	3 Year	5 year	3 year	5 Year	3 year	5 Year	3 year	5 year	3 year	5 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	5.8%	5.7%	4.9%	5.0%	2.7%	2.9%	1.4%	2.2%	1.2%	2.1%	0.4%	0.9%	0.7%	1.4%
Expected dividends	5.3%	5.2%	4.1%	4.2%	4.1%	4.2%	1.7%	2.2%	6.1%	6.1%	5.9%	5.8%	5.9%	5.9%
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	3 yrs	5 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 determined 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	**29,708**	**1,240**	22,405	1,214
Granted	**17,300**	**1,470**	14,252	1,395
Forfeited	**(2,192)**	**1,383**	(878)	1,263
Exercised	**(1,668)**	**1,239**	(1,028)	1,255
Transferred to pool	**(6,258)**	**1,262**	(5,043)	1,506
Outstanding at end of year	**36,890**	**1,297**	29,708	1,248
Exercisable at end of year	**-**	**1,150**	9,001	1,248

When shares have been held for 5 years they are transferred to a pooled share account. At this point the holder has an unconditional right to the share.

The fair value of shares in the share incentive plan 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 and is based on the 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.

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

20. Employee share-based payments (continued)

Free shares

	2014 Shares	**2014 Weighted average price (pence)**	2013 Shares	2013 Weighted average price (pence)
Outstanding at start of year	**630**	**1,417**	2,960	1,188
Exercised	**(30)**	**1,404**	(110)	1,432
Transferred to pool	**(600)**	**1,408**	(2,220)	1,474
Outstanding at end of year	**-**	**1,408**	630	1,376
Exercisable at end of year	**-**	**1,408**	630	1,376

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 and is based on the 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.

(iii) Deferred annual incentive scheme

	2014 Shares	**2014 Price (pence)**	2013 Shares	2013 Price (pence)
Outstanding at start of year	**4,665**	**1,257**	7,230	1,241
Granted	**2,639**	**1,496**	2,626	1,383
Exercised	**(2,404)**	**1,183**	(1,967)	1,174
Forfeited	**-**	**1,409**	(3,224)	1,281
Outstanding at end of year	**(4,900)**	**1,327**	4,665	1,322

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

The fair value of the annual incentive scheme 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 and is based on the 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.

(iv) Performance Share Plan

	2014 Shares	**2014 Price (pence)**	2013 Shares	2013 Price (pence)
Outstanding at start of year	**40,086**	**1,246**	53,546	1,198
Granted	**16,009**	**1,496**	25,339	1,383
Forfeited	**(5,739)**	**1,140**	(35,557)	1,409
Exercised	**(6,033)**	**1,079**	(3,242)	1,174
Outstanding at end of year	**44,323**	**1,408**	40,086	1,246

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.

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

20. Employee share-based payments (continued)

(iv) Long Term Incentive Plan

	2014	
	Shares	**Price (pence)**
Outstanding at start and end of year	**21,051**	**1,350**

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

The fair value of the long term incentive 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.

21. Commitments and contingencies

(i) Capital commitments

Capital expenditure:

	2014 £m	2013 £m
Contracted for but not provided	**296.0**	157.1

(ii) Operating lease commitments
Leases as lessee:

	2014 £m	2013 £m
Amount included in the profit and loss account relating to the current year leasing arrangements	**0.2**	0.2

The payments under operating leases which are due to be made in the next year, analysed over the periods when the leases expire, are:

	2014 £m	2013 £m
Within one year	**0.9**	-
Between two and five years	**1.1**	0.7
After five years	**-**	-
	2.0	0.7

(iii) Guarantees

The Company has provided a guarantee in relation to £300m Eurobonds held by SSE plc. This guarantee has been provided jointly with Scottish Hydro Electric Power Distribution plc.

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

22. Reconciliation of operating profit to operating cash flows

	2014 £m	2013 £m
Reconciliation of operating profit to operating cash flows		
Operating profit	**133.8**	91.4
Depreciation	**25.2**	22.1
Customer contributions and capital grants released	**(1.8)**	(1.9)
Decrease / (increase) in debtors	**2.2**	(4.4)
(Decrease) / increase in creditors	**(2.6)**	11.2
Increase in provisions	**0.9**	-
Movement in intercompany	**77.2**	316.5
Charge in respect of employee share awards	**0.2**	0.2
Net cash inflow from operating activities	**235.1**	435.1

23. Net debt

Reconciliation of net cash flow to movement in net debt

	2014 £m	2013 £m
Cash inflow from increase in cash	**2.2**	1.3
Cash (inflow)/outflow from (increase)/decrease in debt and lease financing	**(150.0)**	25.0
Movement in net debt in the year	**(147.8)**	26.3
Net debt at 1 April	**(311.8)**	(338.1)
Net debt at 31 March	**(459.6)**	(311.8)

Analysis of net debt

	As at 1 April 2013 £m	Increase in cash(i) £m	Increase in debt £m	**As at 31 March 2014 £m**
Cash at bank and in hand	1.3	2.2	-	**3.5**
Net borrowings due within one year	1.3	2.2	-	**3.5**
Net borrowings due after more than one year	(313.1)	-	(150.0)	**(463.1)**
Net debt	(311.8)	2.2	(150.0)	**(459.6)**

(i) Cash generated or required by the Company is remitted to or obtained from SSE plc or SSE Services plc. As a result the movement in indebtedness from the Group (reflected in movement in debtor and creditor balances on the balance sheet) can be said to represent the cash generated in the year. The cash balance above represents foreign currency bank account balances that are not remitted to SSE plc.

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

24. Regulatory Segmental Analysis

In accordance with standard licence condition B1, a segmental analysis of the Company's performance has been presented based on the prescribed distribution activities within the licence. The Company does not consider these activities to be segments as defined by SSAP 25.

For the year to 31 March 2014:

	Transmission Owner	Excluded Services (i)	De Minimis (ii)	**Total**
	£m	£m	£m	**£m**
Revenue	175.9	8.0	0.2	**184.1**
Operating Costs*	(25.1)	-	-	**(25.1)**
Depreciation	(24.0)	(1.2)	-	**(25.2)**
Operating Profit	**126.8**	**6.8**	**0.2**	**133.8**
Capital additions	**332.0**	**17.2**	**-**	**349.2**

*Operating costs includes £0.6m Cost of Sales for the year ended 31 March 2014.

(i) Excluded services includes Post Betta connection revenue.
(ii) De Minimis activities primarily relate to activities undertaken on behalf of other SSE plc Group companies.

25. Regulated Related Party Disclosure

For the year to 31 March 2014:

Type of transaction	Ultimate parent (SSE plc) £m	Immediate parent (SSEPD) (i) £m	Other SSE plc Group companies £m
Sales and provision of services	-	-	0.2
Purchases and receipt of services	-	-	(16.5)
Distribution of dividends	-	-	-
Finance income (note 6)	-	-	-
Finance costs (note 6)	(30.3)	-	-

(i) The immediate parent of the Company is Scottish and Southern Energy Power Distribution Limited (SSEPD).
(ii) Balances outstanding to and from Group companies including the Ultimate and Immediate Parent Companies are disclosed in Notes 10, 12, 13, and 14 to these Regulatory Financial Statements.

26. Ultimate parent company

The Company is a subsidiary of SSE plc, which is the ultimate parent company and is registered in Scotland. The largest and smallest group in which the results of the Company are consolidated is that headed by SSE plc. 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 Company's website at www.sse.com.