REGISTERED NO.
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Scottish Hydro Electric Power Distribution plc

Regulatory Financial Statements

Year ended 31 March 2015

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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 Power Distribution plc (the "Company") during the year ended 31 March 2015, 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 distributes electricity to around 758,000 customers in the North of Scotland. It currently has over 47,000 kilometres of electricity mains on commission. The Company also provides electricity connections within the Company's licensed area and owns and operates a number of the out of area electricity networks in the rest of Scotland.

The Company is the subject of incentive-based regulation by the industry regulator, the Office of Gas and Electricity Markets (Ofgem), which sets the prices that can be charged for the use of the electricity network, the capital expenditure and the allowed operating expenditure, within a framework known as the Price Control. 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. Ofgem also places specific incentives on companies to improve their efficiency and quality of service.

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;
- provide good performance in areas such as reliability of supply, customer service and innovation and thus earn additional incentive-based revenue under the various Ofgem schemes;
- deliver efficient and innovative capital expenditure programmes, so that the number and duration of power cuts experienced by customers is kept to a minimum;
- 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 2015 were as follows (comparisons with the same period to 31 March 2014):

a) Operating Profit (£m)

Year to March 2015	£128.7m
Year to March 2014	£153.5m
Decrease (%)	16.2%

b) Capital Expenditure (£m)

Year to March 2015	£87.6m
Year to March 2014	£81.5m
Increase (%)	7.5%

c) Electricity Distributed (TWh)

Year to March 2015	7.8 TWh
Year to March 2014	8.1 TWh
Decrease (%)	3.7%

d) Customer Minutes Lost

Year to March 2015	69
Year to March 2014	77
Decrease (%)	10.4%

Strategic and Financial Report (continued)

Business performance overview (continued)

e) Customer Interruptions – number per 100 customers

Year to March 2015	70
Year to March 2014	75
Decrease (%)	6.7%

f) Regulated Asset Value

As at 31 March 2015	£1.0bn
As at 31 March 2014	£1.0bn
Increase (%)	0%

In a year of relatively mild weather which included several periods of high winds affecting in particular the north of Scotland, a reduction was achieved in both the number of supply interruptions and the average time each customer was without power.

The decrease in operating profit principally results from a reduction in regulated revenue compared with 2013/14 and higher ongoing depreciation charges.

If, in any year, regulated networks companies' revenue is greater (over recovery) or lower (under recovery) than is allowed under the relevant Price Control, the difference is carried forward and the subsequent prices the companies may charge are varied. In 2013/14 the network over-recovered regulated revenue by £8m and this was reflected in the 2014/15 tariffs. During 2014/15, there was an under recovery of approximately £12m, meaning the year on year comparison has been impacted by around £20m as a result of timing of revenue collection. Due to a change in the regulatory framework, the £12m under recovery in 2014/15 will not be reflected in customer charges until 2016/17.

Volume of electricity distributed

The total volume of electricity distributed by the company in the year to 31 March 2015 was 7.8TWh, compared with 8.1TWh in the previous year primarily due to the milder weather during the year and reduction in customer demand. Under the electricity distribution Price Control for 2010-15, the volume of electricity distributed does not affect companies' overall allowed revenue (although it does have an impact on the timing of revenue collection).

Investing in network resilience

Capital expenditure was £87.6m in the year to 31 March 2015, taking the total for the 2010-15 Price Control to £397.8m.

The network includes 111 subsea distribution cables which are critical to serving customers in 59 island communities. During 2014/15, the Company invested £6.9m in the replacement of the cable connecting the Scottish mainland with Jura, which also supplies the islands of Islay and Colonsay. It expects to complete remaining work to protect the new cable during 2015. It has engaged actively with the development of Scotland's National Marine Plan to ensure that marine licensing arrangements recognise the interests of customers in a secure and cost efficient energy network serving the islands.

Responding to feedback from customers

The Company recognises the particular importance of its performance when exceptional weather events cause widespread disruption to customer supplies. Following extensive consultation in the first half of 2014 and via constructive engagement with DECC and Ofgem storm reviews, The Company's 'Reconnecting with Customers' initiative has resulted in faster electricity supply restoration, enhanced customer welfare support and clearer communications during storm events.

These improvements were recognised by stakeholders following exceptional weather events which affected the north of Scotland during 2014/15. The most recent of these events occurred in early March 2015 and resulted in the fastest ever restoration of supplies following a 'Category 2' event in the north of Scotland, with over 110

Strategic and Financial Report (continued)

Responding to feedback from customers (continued)

high voltage faults tackled and all customers' supplies restored within 24 hours. The Company has also heavily promoted its Priority Services for vulnerable customers and worked with other agencies to identify customers with medical or other needs that require special attention during a power outage.

In addition it has invested in improved customer communications by:

- further developing the industry-leading Power Track app, which gives real time information on outages by postcode;
- introducing a new rolling news website for up-to-the-minute information during storms; and;
- delivering more and earlier information through customer contact centres and social media channels about power restoration times.

The Company remains focused on listening to its customers and delivering continuing improvements, both to the resilience of its network and to the service it provides when power cuts occur. This work is in line with the new RIIO-ED1 price control, under which financial incentives for customer satisfaction will be an increasingly significant contributor to revenues.

Keeping costs down and improving customer service for RIIO ED1

The DPCR5 price control period came to an end on 31 March 2015 and the Company is starting to tackle the challenges and earn the potential rewards of the new RIIO-ED1 regime which began on 1 April 2015 and will run until 31 March 2023.

The Company has long supported the incentive-based RIIO framework for networks' price controls given the clear benefits to customers of increased transparency and greater focus on outputs and innovation. It is clear from the reduction in network allowed revenue under the RIIO-ED1 settlement, the subsequent fall in underlying 2015/16 charges and the service improvements required that customers will benefit from this process.

On 3 March 2015 British Gas lodged an appeal with the CMA on the RIIO-ED1 final determination affecting five Distribution Network Operator groups, including Scottish Hydro Electric Power Distribution plc.

The Company is focused on achieving the efficiencies required by the new price control and ensuring that investors receive a fair return on the funding needed to operate and invest in the distribution networks for customers' benefit. It will engage with the CMA as required to help ensure that any outstanding issues are addressed in the right way and that the GB energy sector continues to benefit from a stable and transparent regulatory framework. The CMA's determination of the appeal will not have an impact on distribution companies' base revenues in 2015/16.

Working for a new energy solution for Shetland

Since April 2014, the Company has been working closely with Ofgem to prepare an open competitive process to obtain from the market the lowest cost and most efficient solution to meet the future energy needs of customers on its network in Shetland from 2019. The future solution will take into account learning and enduring elements from the Northern Isles News Energy Solutions (NINES) project, which was developed to reduce maximum demand and enable the connection of more renewable energy generators in the context of the isolated island network. The Company is also working with Ofgem to determine the best approach in considering the timing and potential impact of a mainland transmission cable link.

Following public consultation with customers and market participants, final preparations for the competitive process are at an advanced stage. The Pre-Qualification Stage began in April 2015 and, subject to final agreement with Ofgem, an invitation to tender will be issued in late 2015. The Company is committed to working with Ofgem, communities and interested parties to conduct the required process and to deliver long-term, timely arrangements to meet the future needs of its Shetland customers.

Strategic and Financial Report (continued)

Electricity Distribution priorities in 2015/16 and beyond

During 2015/16 and beyond, the Company's priorities are to:

- comply fully with all safety standards and environmental requirements;
- place customers' needs at the centre of plans for the networks, particularly by improving reliability so that the number and duration of power cuts is kept to a minimum;
- ensure that the networks are managed as efficiently as possible, delivering required outputs while maintaining tight controls over day-to-day operational expenditure;
- implement the changes required to deliver the cost efficiencies, network and customer service improvements to deliver a fair return to investors under the new RIIO-ED1 price control;
- ensure that there is adequate capacity to meet challenging demand on the electricity system; and
- continue progress on the deployment of innovative technology.

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. The Group has six core values which seek to bind 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.

Understanding and managing our principal risks

Company risk has been considered by the SSE Power Distribution (SSEPD) Board during 2014/15. This has been reviewed in line with the Group approach to risk. Risk workshops have been attended by the Networks Leadership team and SSEPD Board members during the year in order to aid identification of the risks specific to the business. As a result of this process, eight principal risks were identified which have the potential to threaten the business model, future performance, solvency or liquidity of SSEPD. An overview of these risks and the mitigating actions are as follows:

- **Alternative technologies** – Technological developments may identify alternative or more efficient means of transmitting or distributing electricity. It is important that the business is aware of and keeps pace with the application of these technological improvements in order to improve efficiency and value to the end consumer. The Company has a dedicated team who look at incremental technologies aimed at increasing the reliability and efficiency of network assets.
- **Legislation and Regulation -** Regulation and legislation affecting SSEPD is complex and fast-moving, with increasing levels of European legislation together with a changing domestic backdrop. Changes, either explicit or indirect, can lead to additional obligations and can have a significant effect on the profitability of our asset base. This risk is mitigated jointly by Company management and staff along with the Group's dedicated Corporate Affairs, Regulation, Legal and Compliance departments which provide advice on the interpretation of political and regulatory change. In addition there is proactive engagement with regulators, politicians, officials and other stakeholders on these issues.
- **Major Projects Quality** – The Company continues to deliver its capital investment programme with a number of ongoing network construction and IT projects. It is critical that these projects are delivered

Strategic and Financial Report (continued)

Understanding and managing our principal risks (continued)

on time, on budget and to high quality standard given the long term nature of the business. The Company will typically manage the development process and organise the delivery of the project by third party contractors, taking a pro-active oversight role during the construction phase. Whilst this model ensures that the correct skills are leveraged, there is a risk of supplier failures, faulty components, and quality defects. The Group-wide Large Capital Projects Governance framework helps to mitigate this risk by ensuring a consistent approach to project development and delivery as well as proactive engagement with the supply chain.

- **Network Resilience** – The Company has a regulatory licence obligation to maintain and enhance its network within the UK. The capital investment plans require a significant amount of plant and materials to be procured. Whilst all plant and materials must pass manufacturers' specification checks and relevant stress testing, there is a possibility that latent defects or reduced lifespan issues may only appear some time later into operation. There is a risk that design, specification or quality of assets installed is insufficient to support the longer term reliability of the network. In order to mitigate this risk, there is a robust design and quality assurance process to ensure that capital projects and equipment are of the correct standard and specification to provide a safe, efficient and reliable network.
- **People** – The Company views its employees as one of our most valuable assets, playing a major part in our continued success and it is our people who will deliver the business transformation critical to our strategy. The actions of our people influence the relationship we have with our customers and our wider reputation. The Company aims to employ, train, develop and retain a diverse and talented workforce and provide them with the support they need to deliver business objectives in a responsible way. Management undertake regular succession planning reviews.
- **Safety and Environmental Incident** – The Company operations are in many cases undertaken in hazardous environments and involve working with high voltage electricity in a wide variety of locations. Our operations require the storage of a significant volume of water, fuel, oil and other chemicals, and any uncontrolled release of these could result in injury to our staff, contractors or members of the public and damage to the environment. Safety is the Company and Group's number one value, with a Safety Management System in place, complimented by the Safety Family, to support people at work and ensure their safety. Regular hazard studies are undertaken on key areas of exposure with support and oversight provided by the Group Safety, Health and Environment team. There are crisis management and business continuity plans in place, which are designed for the management of, and recovery from, significant safety or environmental interruption events.
- **Severe Weather Events** - Among the perceived impacts of global climate change, it is anticipated that the volume and impact of storm events will increase. These events are unpredictable and can cause significant damage to the Network and interruptions to customer electricity supplies. The Company has many years experience in dealing with these events and there is significant effort directed to forecasting such events and ensuring that there are plans in place to deal with them. This involves early deployment of staff to potentially affected areas and ensuring sufficient staff and other resources are available to effectively deal with any disruption caused.

Employees

The Group and Company wants to be a great place to work; characterised by the engaged, motivated and committed people who already work throughout the company and an ability to attract a talented and diverse range of new people to meet changing business needs.

That is why the Group and the Company has clear priorities for how it:

- engages with the people who work for the Group and recognises the different needs they have;
- creates sustainable employment opportunities that attract a talented and diverse range of new people into all levels of the business;

Strategic and Financial Report (continued)

Employees (continued)

- invests for the future to ensure each individual can perform to the best of their ability; and
- ensures it is constantly seeking to do the right things, particularly in how people are treated throughout the company.

Of all employees in the Company, 81% are men and 19% are women. During the year the Board of Directors included one woman and seven men at any one time and the Networks leadership team consisted of two women and seven men.

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.

Employee benefits

The Company and the Group aims to support its employees through its employee benefit packages but recognises the different needs across its workforce. The Group is proud to be one of the UK's largest Living Wage employers, guaranteeing that all employees will receive at least the Living Wage rate, which is independently set to ensure people can cover the basic cost of living in the UK. The Group believes paying the Living Wage makes an important contribution to reducing in-work poverty throughout the UK.

In keeping with the Group's commitment to creating sustainable jobs for the long term, it has taken proactive measures to help employees plan and save for their financial future. It has proactively enrolled all new employees into its pension schemes since 2005. Employee pension contributions attract contributions from the Company and also offer free life cover. These proactive measures have resulted in 97% of employees choosing to look after their future by saving in one of the Group's pension schemes.

The Group offers a range of benefits which help employees share in the ongoing success of the Group. These include both an employee Share Incentive Plan and a Sharesave Scheme. Employee participation in these schemes is now 52% and 41% respectively.

The Group's full range of employee benefits reflects the differing needs and interests of its employees. Particular focus is given to contributing positively towards employees' wellbeing. Employees have the opportunity to buy additional holidays, medical cover, gym memberships, as well as discounts on products and services for the home and family life. Recognising that employees can require advice and support for a range of personal and professional reasons, a free comprehensive employee assistance programme is also available.

Employee participation

The Group's long-established teamwork value is the primary driver of positive employee engagement throughout its range of businesses.

The annual Group-wide externally facilitated employee engagement survey had an exceptional 92% response rate in 2014 and the results showed that the Group has an employee engagement index of 73%; the benchmark level for UK private sector companies. Safety is the Group's number one value and this is clearly recognised by the Group's employees, with 94% believing that the Group takes safety seriously. 72% of employees believe they work in a business unit committed to working efficiently. This is a 12% increase from last year and demonstrates the Group's focus on continually driving improved efficiency and its employees' commitment to support this. The Group shares the detailed survey results with all employees and develops and implements detailed business by business action plans based on the findings of the survey.

Resources available

As part of the 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 the Group at 31 March 2015 which could be made available to the Company as required.

Strategic and Financial Report (continued)

Resources available (continued)

The Company has 835 employees which it calls on to maintain its distribution 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 group companies, reducing reliance on external companies.

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-ED1 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. The Business Plan which the Company submitted to Ofgem as part of that price control detailed the areas on which stakeholders were consulted, their responses, and how those responses were used to shape our Business Plan and associated capital expenditure projects.

The Group continues to make a positive impact across a wide range of local communities. Group employees are empowered to 'Be the difference' for the causes, charities and communities they care about. The Company's employees fully participate in these social and community activities.

The Group's volunteering programme enables employees to take a day off from work to support community initiatives that are important to them. During 2014/15, over 5,000 volunteering days were used to support 542 projects across the UK and Ireland. Initiatives included over 100 people assisting with the renovation of the Community Lido in Hillsea and providing marshalling support for the annual Maggies Bike & Hike event around Loch Ness.

The Group's matched funding programme enables employees to support charities and local groups by matching their fundraising efforts with a donation from the Group. The programme, launched in October 2014, has provided matched funds of almost £25,000 across a variety of national causes and many local sports clubs and community groups.

The Group operates an industry leading community investment programme, delivering financial support to a diverse range of community projects near to its renewable developments. Over 25 local community funds and a regionally-focused Sustainable Development Fund are all managed in-house.

Through its community investment funds, in 2014/15 the Group provided almost £4m to community projects in the UK and Ireland, supporting initiatives such as: energy efficiency programmes; local apprenticeship schemes; and infrastructure upgrades such as rural broadband and lifeline services.

The SSE Sustainable Development Fund aims to support larger scale transformational projects at a regional level. The fund launched in the Highland region last year and during 2014/15 expanded to three new local authority areas – Scottish Borders, Perth and Kinross, and North Lincolnshire. The fund is expected to deliver around £50m in funding for strategic regional projects over the next 25 years.

Following the storms of December 2013 which caused severe disruption across the UK network, a new Resilient Communities fund, to support communities in its network distribution areas in preparing for future emergency weather events was established. It will fund initiatives that will improve community resilience in dealing with extreme weather events. The fund is expected to distribute £1.3m over the next two years.

The Group is acutely aware that it is the custodian of a legacy arising from over 70 years of association with communities across the country. Preserving that heritage is the first priority, with the digitalisation of both the Hydro and Southern archive almost complete. A new company archive will open to the public in the summer of 2015 and it is anticipated that these archives will provide valuable content for a proposed new SSE visitor centre at Pitlochry, in Scotland.

Strategic and Financial Report (continued)

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.

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

The Directors consider the Service Level Agreement in place 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. Due to its nature, the risk of this contract being terminated is low.

There are a number of contracts with both internal and external parties for the provision of services to maintain and develop the Company's distribution network. It is not believed that any of these contracts are of sufficient size or concentration to result in a dependence on any one external supplier.

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.

Strategic and Financial Report (continued)

Capital structure (continued)

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 Group's treasury policy is designed to be prudent and flexible. In line with that, its operations and investments are generally financed by a combination of: retained profits; bank borrowings and bond issuance.
As a matter of policy, a minimum of 50% of the Group's debt is subject to fixed rates of interest. Within this policy framework, the Group borrows as required on different interest bases, with financial instruments being used to achieve the desired out-turn interest rate profile. At 31 March 2015, 83% of the Group's borrowings were at fixed rates.

Borrowings are mainly made in Sterling and Euro to reflect the underlying currency denomination of assets and cashflows within the Group. All other foreign currency borrowings are swapped back into either Sterling or Euros.

Transactional foreign exchange risk arises in respect of: procurement contracts and long-term service agreements for plant.

The Group's policy is to hedge any material transactional foreign exchange risks through the use of forward currency purchases and/or financial instruments. Translational foreign exchange risk arises in respect of overseas investments, and hedging in respect of such exposures is determined as appropriate to the circumstances on a case-by-case basis.

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 2015 Annual Report at www.sse.com.

Liquidity

The Group's Treasury function is responsible for managing the banking and liquidity requirements of the Group and therefore the Company. This includes, risk management relating to interest rate and foreign exchange exposures and managing the credit risk relating to the banking counterparties with which it transacts. Short term liquidity is reviewed daily by Treasury, while the longer term liquidity position is reviewed on a regular basis by the Board. The department's operations are governed by policies determined by the Board and any breaches of these policies are reported to the Risk and Trading Committee and Audit Committee.

In relation to the Group's liquidity risk, the Group'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 Group's reputation.

During the year, the Group's approach to managing liquidity was to seek to ensure that the Group had 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 £429.0m (2014 – £450.9m) of which £300.0m (2014 – £300.0m) is due to other Group companies and £129.0m (2014 – £150.9m) is in the form of an index-linked bond. Of the total, interest is paid at fixed rates on £300.0m (2014 - £300.0m) and inflation-linked rates on £129.0m (2014 – £150.9m).

As at 31 March 2015, the weighted average interest rate payable was 4.68% (2014 – 4.48%) and the weighted average remaining term was 18.10 years (2014 –17.23 years).

Strategic and Financial Report (continued)

Taxation

The Company's effective current tax rate was 20.2% compared with 22.7% in the previous year after prior year adjustments. The headline effective tax rate, which includes the impact of substantively enacted changes in the UK corporation tax rate, is 19.6% compared with 12.3% in the previous year.

Dividend

Following a review of distributable reserves, the Directors declared, approved and paid a dividend of £250.0m (2014 – £25.0m) in the year.

On 17 June 2015, the directors approved a dividend in respect of the 2015/16 financial year of £50.0m. This has not been provided for within these accounts as it was not approved and paid before 31 March 2015.

Pensions

44% (2014: 52%) of employees of the Company are members of the Scottish Hydro Electric Pension Scheme, which, at 31 March 2015 on an IAS 19 basis adjusted for IFRIC 14 had a deficit, net of deferred tax, of £104.9m included in the Group accounts (2014 - £146.2m).

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
21 July 2015
Company Registered Number: 213460

Corporate Governance Statement

As a subsidiary company of SSE plc ("The Group"), Scottish Hydro Electric Power Distribution 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 2015 under Governance on pages 72 to 113 available at www.sse.com.

The Board of the Group considers that it complied in full with the UK Corporate Governance Code 2012 during 2014/15 with the exception of the provision C3.7, relating to audit tender. The Group has complied with all other provisions of the Code. A detailed explanation of the non-compliance, along with the anticipated timeline for the tender of the external audit contract can be found in the Audit Committee report on pages 84 to 87 of the Group's annual report to 31 March 2015.

SSE plc Group ("the Group")

The Group 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 Group is fully supportive of the "comply or explain" model outlined in the Code as it provides organisations with flexibility and the opportunity to adapt governance practices that are appropriate in supporting the effective operation of the business

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, out with the exception noted above. More details of this can be found in the Group's annual report on page 72.

There are four principal Board committees; an Audit Committee, a Remuneration Committee, a Safety, Health and Environment 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 Board comprises the Chairman, two Executive Directors, a Senior Independent Director and four 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.

The Audit Committee and 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.

The Code was subject to revision in September 2014, making changes to the areas of Directors' remuneration, risk management and internal control, and engagement with shareholders upon a significant vote against any resolution. Aware of these changes and their coming into force for reporting periods starting on or after 1 October 2014, the Group is working on their implementation for 2015/16

Corporate Governance Statement (continued)

Scottish Hydro Electric Power Distribution 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 nine 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 two 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 2014/15, expressed as a number of meetings attended out of number eligible to attend is set out below (see Report of the Directors on page 14 for appointments and resignations):

Board of Directors

Director	Attendance
Gregor Alexander (Chairman)	9 of 9
Steven Kennedy	9 of 9
Mark Mathieson	6 of 6
Aileen McLeod	9 of 9
Stuart Hogarth	9 of 9
David Gardner	9 of 9
Colin Nicol	2 of 3
David Rutherford (Non Executive Director)	9 of 9
Gary Steel(Non Executive Director)	8 of 9
Robert McDonald	0 of 0

Under the terms of the Standard Condition 43A 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.

Board evaluation

The Board and the individual Directors participate in an annual evaluation of performance. The Board evaluation is an objective, formal and rigorous process and includes a feedback mechanism, ensuring that leadership of the Company remains effective. The evaluation strives to assess not only the mix of skills, experience and knowledge in Board and Committee composition but also diversity in approach to key issues. In 2014 an internally facilitated Board and Committee evaluation was carried out. The outcome of the evaluation process was considered at the Board meeting held in January 2015, with subsequent recommendations made and objectives set for 2014/15. Each Director confirmed the Board to be effective and confirmed their agreement with the objectives. The objectives set can be found at page 4.

Corporate Governance Statement (continued)

Director induction, training and development

On joining the Board, non-Executive Directors received a comprehensive induction course tailored to their individual requirements. A two day programme was completed following appointment, which was facilitated by both the Chairman and Company Secretary.

Directors are also expected to develop and refresh their knowledge and skills on an on-going basis with developmental needs being reviewed as part of the annual Board evaluation process. The necessary resources are made available should any Director wish additional training.

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 2015.

1. Principal activity

The Company is responsible for managing an electricity distribution network, serving around 758,000 customers in the North of Scotland. Distribution of electricity and the level of capital investment within the network area is a monopoly activity and is closely regulated by the Office of Gas and Electricity Markets (Ofgem) within a framework known as the Price Control. The Company also carries out the business of provision of new electrical connections services within its licensed area and the construction and management of out-of-area electricity networks in 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 £80.8m (2014 - £120.9m). A final dividend of £250.0m (2014 - £25.0m) was declared, approved and paid by the Board during the year.

3. Directors

The Directors who held office during the year were as follows:

Gregor Alexander
Steven Kennedy
Mark Mathieson (resigned 12 December 2014)
Aileen McLeod (resigned 31 March 2015)
Stuart Hogarth
David Gardner
Colin Nicol (appointed 12 December 2014)
Robert McDonald (appointed 1 June 2015)
David Rutherford (Non-Executive Director)
Gary Steel (Non-Executive Director)

Helen Gettinby resigned as Company Secretary on 2 June 2015. Mark McLaughlin was appointed as Company Secretary effective from 2 June 2015.

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

Mark McLaughlin
Company Secretary
21 July 2015
Company Registered Number: 213460

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 Regulatory Financial Statements for each financial year. Under that law they have elected to prepare the Regulatory 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 Regulatory 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
- prepare the Regulatory Financial Statements in accordance with the applicable set of accounting standards, and confirm that, to the best of their knowledge, the Regulatory Financial Statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company.

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 Regulatory 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
21 July 2015
Company Registered Number: 213460

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

We have audited the Regulatory Financial Statements of Scottish Hydro Electric Power Distribution plc (the "Company") set out on pages 18 to 40 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 44 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 44 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 44 of the Regulatory Licence specifies alternative treatment or disclosure in certain respects. Where Standard Condition 44 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 15 the Company's Directors are responsible for the preparation of the Regulatory Financial Statements in accordance with Standard Condition 44 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 44 of the Regulatory Licence and the accounting policies set out on page 22 to 25, 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 Power Distribution 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 2015 fairly present, in accordance with Standard Condition 44 of the Regulatory Licence and the accounting policies set out on page 22 to 25, the state of the Company's affairs at 31 March 2015 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with those conditions.

W. Meredith

William Meredith (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

191 West George Street
Glasgow
G2 2LJ

21 July 2015

Profit and Loss Account
for the year ended 31 March 2015

	Note	**2015 £m**	2014 £m
Turnover		**365.4**	360.0
Cost of sales		**(81.3)**	(66.0)
Gross profit		**284.1**	294.0
Distribution costs		**(140.4)**	(124.7)
Administrative costs		**(15.0)**	(14.0)
Exceptional costs	3	**-**	(1.8)
Operating profit	2	**128.7**	153.5
Net interest payable	6	**(28.2)**	(15.6)
Profit on ordinary activities before taxation		**100.5**	137.9
Tax on profit on ordinary activities	7	**(19.7)**	(17.0)
Profit for the financial year	18	**80.8**	120.9

The above results are derived from continuing activities.

The accompanying notes form part of these Regulatory Financial Statements.

Statement of Total Recognised Gains and Losses for the year ended 31 March 2015

	2015 £m	2014 £m
Profit for the financial year	**80.8**	120.9
Gain on effective portion of cash flow hedges (net of tax)	**-**	0.5
Total recognised gains and losses relating to the financial year	**80.8**	121.4

Reconciliation of Movements in Shareholders' Funds for the year ended 31 March 2015

	Note	2015 £m	2014 £m
Profit for the financial year		**80.8**	120.9
Dividends paid to shareholders	8	**(250.0)**	(25.0)
Credit in respect of employee share schemes		**1.4**	1.2
Gain on effective portion of cash flow hedges (net of tax)		**-**	0.5
Net (reduction in)/addition to shareholders' funds		**(167.8)**	97.6
Opening shareholders' funds		**312.2**	214.6
Closing shareholders' funds		**144.4**	312.2

Balance Sheet
as at 31 March 2015

	Note	**2015 £m**	2014 £m
Fixed Assets			
Tangible assets	9	**1,020.3**	977.1
Current assets			
Stocks	10	**2.2**	3.2
Debtors	11	**84.8**	440.2
Total current assets		**87.0**	443.4
Creditors			
Amounts falling due within one year	12	**(117.8)**	(455.5)
Net current liabilities		**(30.8)**	(12.1)
Total assets less current liabilities		**989.5**	965.0
Creditors:			
Amounts falling due after more than one year	13	**(752.2)**	(564.7)
Derivative financial liabilities	21	**(14.7)**	(7.5)
		(766.9)	(572.2)
Provisions for liabilities and charges			
Deferred taxation	15	**(78.2)**	(78.8)
Restructuring	16	**-**	(1.8)
Net assets		**144.4**	312.2
Capital and reserves			
Called up share capital	17	**62.0**	62.0
Profit and loss account	18	**82.2**	250.0
Hedge reserve	18	**0.2**	0.2
Equity shareholders' funds		**144.4**	312.2

These Regulatory Financial Statements were approved by the Directors on 21 July 2015 and signed on their behalf by

Gregor Alexander, Director

Scottish Hydro Electric Power Distribution plc, Registered No. 213460

Cash Flow Statement
for the year ended 31 March 2015

	Note	**2015** **£m**	2014 £m
Net cash inflow from operating activities	23	**405.1**	155.4
Interest received		**-**	6.8
Interest paid		**(19.4)**	(20.8)
Returns on investments and servicing of finance		**(19.4)**	(14.0)
Corporation tax paid		**(27.3)**	(28.0)
Taxation		**(27.3)**	(28.0)
Purchase of tangible fixed assets		**(83.4)**	(88.4)
Capital expenditure and financial investment		**(83.4)**	(88.4)
Equity dividends paid	8	**(250.0)**	(25.0)
Net cash inflow before management of liquid resources and financing		**25.0**	-
Repayment of borrowings		**(25.0)**	-
Financing		**-**	-
Movement in cash in the year		**-**	-

Notes to the Regulatory Financial Statements for the year ended 31 March 2015

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 2015 shows a net current liability position of £30.8m (2014 – £12.1m). 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 FRS 29 and has therefore not prepared the disclosures relating to financial instruments and capital as full disclosure is provided in Group Financial Statements.

Turnover
Turnover comprises the value of electricity distribution services and facilities provided during the year. Turnover includes an estimate of the value of the distribution of electricity on behalf of customers between the date of the last meter reading and the year-end. In addition, turnover is also recognised on the value of customer contributions towards new connections, diversions and modifications to existing networks that occurred in the year.

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

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.

Deferred taxation arises in respect of all 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.

Tangible fixed assets

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

Depreciation is provided 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
Network assets			5 to 80
Other Equipment:			
Buildings	-	freehold	Up to 60
	-	leasehold	Lower of lease period and 60
Fixtures, equipment, plant and machinery, vehicles and mobile plant			5 to 10

Notes to the Regulatory Financial Statements for the year ended 31 March 2015

1. Significant accounting policies (continued)

Tangible fixed assets (continued)

(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 directly attributable to the acquisition, construction or production of major capital projects, which are projects that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use, and depreciated as part of the total cost over the useful life of the asset.

Customer contributions
Customer contributions towards construction or acquisition of new Out-of-Area networks and capital grants are recorded as deferred income and released to the profit and loss account over the estimated life used in calculating contributions. Deferred income also includes outstanding balances of customer contributions on new connections to existing networks pre business separation in 2001.

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

Stocks and work in progress
Stocks are valued at the lower of cost and net realisable value.

Employee benefit obligations

Pensions
The Group operates a number of pension schemes on behalf of employees. The amounts charged represent the contributions payable to the schemes in the year and are charged directly to the profit and loss account as incurred.

Equity and equity-related compensation benefits
The Group 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.

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

Notes to the Regulatory Financial Statements for the year ended 31 March 2015

1. Significant accounting policies (continued)

Dividends on shares presented within shareholders' funds (continued)
meet these criteria are disclosed in the notes to these Regulatory Financial Statements.

Derivative Financial Instruments:
FRS 26 requires that derivative financial instruments are initially recognised and subsequently measured at fair value. Financial assets and liabilities are recognised when the Company becomes a party to the provisions of the instrument.

Recognition of profits on contracts
Profit is recognised on long-term contracts on completion of the total contract. Provision is made for foreseeable losses.

Accounting policies under FRS 25 and 26

i) Interest Rate Derivatives
Financial derivative instruments are used by the Company to hedge interest rate exposures. All such derivatives are recognised at fair value and are re-measured to fair value in each reporting period. Certain derivative financial instruments are designated as being held for hedging purposes. The designation of the hedge relationship is established at the inception of the contract and procedures are applied to ensure the derivative is highly effective in achieving its objective and that the effectiveness of the hedge can be reliably measured. The treatment of gains and losses on re-measurement is dependent on the classification of the hedge and whether the hedge relationship is designated as either a 'fair value' or 'cash flow' hedge. Derivatives that are not designated as hedges are treated as if held for trading, with all fair value movements attributable to the risk being hedged recorded through the profit and loss account.

A derivative classified as a 'fair value' hedge recognises gains and losses from re-measurement immediately in the profit and loss account. Loans and borrowings are measured at cost except where they form the underlying transaction in an effective fair value hedge relationship. In such cases, the carrying value of the loan or borrowing is adjusted to reflect fair value movements with the gain or loss being reported in the profit and loss account.

A derivative classified as a 'cash flow' hedge recognises the portion of gains or losses on the derivative which are deemed to be effective directly in equity in the hedge reserve. Any ineffective portion of the gains or losses is recognised in the profit and loss account. The gains or losses that are recognised directly in equity are transferred to the profit and loss account in the same period in which the forecast transaction actually occurs.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the forecast transaction occurs. If the transaction is no longer expected to occur, the cumulative gain or loss recognised in equity is recognised in the profit and loss account.

ii) Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the Statement of cash flows.

iii) Debtors
Debtors do not carry any interest and are measured at cost (less an appropriate allowance for irrecoverable balances).

iv) Interest-bearing loans and borrowings
All such loans and borrowings are initially recognised at fair value including transaction costs and are subsequently measured at amortised cost, except where the loan or borrowing is the hedged item in an effective fair value hedge relationship.

Notes to the Regulatory Financial Statements for the year ended 31 March 2015

1. Significant accounting policies (continued)

v) Share Capital
Ordinary shares are accounted for as equity. Costs associated with the issue of new shares are deducted from the proceeds of issue.

2. Operating profit

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

	2015 £m	2014 £m
Depreciation of tangible fixed assets	**44.4**	41.9
Operating lease rentals	**4.3**	4.0
Release of deferred income in relation to customer contributions and capital grants	**(3.6)**	(3.6)
Research and development	**1.4**	1.2
Net management fee in respect of services provided by group companies	**14.1**	14.0

The Company incurred an audit fee of £0.05m (2014 - £0.05m) in the year.

3. Exceptional costs

	2015 £m	2014 £m
Exceptional costs – restructuring	**-**	1.8

During March 2014, the Group 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 was recorded in the prior year to account for the cost of releasing employees within the Company.

4. Staff costs and numbers

	2015 £m	2014 £m
Staff costs:		
Wages and salaries	**30.3**	27.8
Social security costs	**3.2**	2.9
Share based remuneration	**1.4**	1.2
Other pension costs (note 19)	**26.6**	25.1
	61.5	57.0
Less capitalised as tangible fixed assets	**(16.3)**	(16.6)
	45.2	40.4

Included within the above costs is a charge recognised under FRS 20 of £1,306,272 (2014 - £1,196,307).

Employee numbers

	2015 Number	2014 Number
Numbers employed at 31 March	**835**	793

	2015 Number	2014 Number
The monthly average number of people employed by the Company during the year	**812**	780

Notes to the Regulatory Financial Statements for the year ended 31 March 2015

5. Directors' remuneration

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

	2015	2014
	£m	£m
Directors' remuneration	**1.5**	0.6

The aggregate of remuneration of the highest paid director was £1.3m. Included within total directors' remuneration is £0.8m compensation for loss of office.

6. Net interest payable

	2015	2014
	£m	£m
Interest receivable:		
Interest due from group companies	**0.6**	6.3
	0.6	6.3
Interest payable:		
Bank loans and overdrafts	**(4.3)**	(6.5)
Interest due to group companies	**(17.6)**	(17.7)
	(21.9)	(24.2)
Net interest payable before capitalisation	**(21.3)**	(17.9)
Interest capitalised (note 9)	**0.3**	0.2
Movement on financing derivatives	**(7.2)**	2.1
Net interest payable	**(28.2)**	(15.6)

7. Taxation

	2015	2014
	£m	£m
Current tax:		
UK corporation tax on profits of the year	**21.8**	32.9
Adjustments in respect of prior years	**(1.5)**	(1.6)
	20.3	31.3
Deferred tax:		
Origination and reversal of timing differences	**(0.4)**	(1.1)
Effect of tax rate change	**-**	(11.8)
Adjustment in respect of previous year	**(0.2)**	(1.4)
Total Deferred Tax	**(0.6)**	(14.3)
Total tax on profit on ordinary activities	**19.7**	17.0

Notes to the Regulatory Financial Statements for the year ended 31 March 2015

7. Taxation (continued)

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:

	2015 £m	2014 £m
Profit before tax	**100.5**	137.9
Tax on profit on ordinary activities at standard UK corporation tax rate of 21% (2014 - 23%)	**21.1**	31.7
Effects of:		
Depreciation in excess of capital allowances	**0.4**	1.0
Depreciation of non qualifying assets	**0.2**	0.2
Other timing differences	**0.1**	-
Adjustments in respect of prior years	**(1.5)**	(1.6)
Current tax charge for year	**20.3**	31.3

The 2013 Finance Act announced that the UK corporation tax rate will reduce to 20% from 1 April 2015. This was substantively enacted on 2 July 2013. The deferred tax liability at 31 March 2015 has therefore been calculated having regard to the rate of 20% substantively enacted at the balance sheet date. As this rate change has been substantively enacted it has the effect of reducing the Company's net deferred tax liabilities recognised at 31 March 2015 by nil (2014: £11.8m). The Chancellor announced in his Summer Budget on 8 July 2015 that the main rate of corporation tax will be reduced to 19% from 1 April 2017 and 18% from 1 April 2020. These changes are contained in the Finance Bill 2015 which is not expected to be substantively enacted until October 2015 and will reduce the company's future current tax charge and deferred tax liabilities accordingly.

8. Dividends

	2015 £m	2014 £m
Amounts recognised as distributions from equity:		
Final dividend of 403.2p (2014 – 40.3p) per share	**250.0**	25.0

The final dividend for the current year, £250.0m (2014 – £25.0m), was declared and approved on 27 March 2015 and was paid to shareholders on 30 March 2015. The final dividend for the previous year was approved on 21 March 2014 and paid to shareholders on 31 March 2014.

9. Tangible fixed assets

	Network Assets £m	**Other Equipment £m**	**Total £m**
Cost:			
At 1 April 2014	1,721.3	65.5	1,786.8
Additions	86.4	1.2	87.6
Transfer	(1.8)	1.8	-
At 31 March 2015	**1,805.9**	**68.5**	**1,874.4**
Depreciation:			
At 1 April 2014	748.4	61.3	809.7
Charge for the year	43.4	1.0	44.4
At 31 March 2015	**791.8**	**62.3**	**854.1**
Net book value			
At 31 March 2015	**1,014.1**	**6.2**	**1,020.3**
At 31 March 2014	972.9	4.2	977.1

Notes to the Regulatory Financial Statements for the year ended 31 March 2015

9. Tangible fixed assets (continued)

	2015	2014
	£m	£m
Tangible fixed assets include:		
Assets in the course of construction	**7.8**	12.7

There is a cumulative capitalised interest included in tangible fixed asset cost of £0.6m (2014 - £0.3m) at 31 March 2015. This is depreciated annually according to the useful economic life of the asset to which the capitalised interest relates.

10. Stocks

	2015	2014
	£m	£m
Raw materials and consumables	**2.2**	3.2

11. Debtors

	2015	2014
	£m	£m
Trade debtors	**20.2**	18.6
Prepayments and accrued income	**38.0**	30.6
Amounts owed by group undertakings	**26.6**	391.0
	84.8	440.2

12. Creditors: amounts falling due within one year

	2015	2014
	£m	£m
Short term loans (note 14)	**-**	25.0
Trade creditors	**2.4**	2.7
Amounts owed to group undertakings	**68.8**	386.0
Corporation tax	**10.8**	17.8
Other creditors	**9.1**	5.5
Accruals and other deferred income	**26.7**	18.5
	117.8	455.5

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

	2015	2014
	£m	£m
Loans (note 14)	**129.0**	125.9
Loans due to ultimate parent (note 14)	**300.0**	300.0
Accruals and other deferred income	**155.0**	138.8
Amounts owed to group undertakings	**168.2**	-
	752.2	564.7

Notes to the Regulatory Financial Statements for the year ended 31 March 2015

14. Analysis of borrowings

	Weighted Average Interest rate 2015 %	Weighted Average Interest rate 2014 %	**2015 £m**	2014 £m
Within one year				
Floating rate European Investment Bank repayable on 13 June 2015	**-**	0.75	**-**	25.0
Over five years				
5.90% Loan Stock repayable to SSE plc on 31 March 2022	**5.90**	5.90	**300.0**	300.0
1.429% Index linked bond repayable 20 October 2056	**1.84**	1.77	**129.0**	125.9
			429.0	425.9
			429.0	450.9

15. Deferred taxation

Deferred taxation is provided as follows:

	2015 £m	2014 £m
Accelerated capital allowances	**78.3**	78.9
Share based remuneration	**(0.1)**	(0.1)
Provision for deferred tax	**78.2**	78.8

	2015 £m
Provision at start of the year	78.8
Credit to profit and loss account	(0.6)
Provision at end of year	**78.2**

16. Restructuring provision

	31 March 2015 £m
Provision at start of the year	1.8
Utilised during the year	(1.8)
Provision at end of year	**-**

A provision was recorded in the prior year for the Voluntary Early Release scheme as discussed in note 3.

17. Share capital

	2015 £m	2014 £m
Allotted, called up and fully paid:		
62,000,000 ordinary shares of £1 each	**62.0**	62.0

Notes to the Regulatory Financial Statements for the year ended 31 March 2015

18. Reserves

	Hedge Reserve	Profit and loss account	Total
	£m	£m	£m
At start of the year	0.2	250.0	**250.2**
Profit for the year	-	80.8	**80.8**
Dividends	-	(250.0)	**(250.0)**
Credit in respect of employee share awards	-	1.4	**1.4**
At end of the year	**0.2**	**82.2**	**82.4**

19. Pensions

44% (2014: 52%) 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. That scheme is managed by Friends Provident.

The Company's share of the total contribution payable to the pension schemes during the year was £9.8m (2014 – £8.3m). In addition to this, the Company incurred a further charge, payable to SSE Services plc, of £16.8m (2014 – £16.8m), which related to its share of the Scheme's deficit repair contributions for the year ended 31 March 2015.

20. Employee share-based payments

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

20.1 Share Schemes Summary

(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 £500 per month for a period of 3 and / or 5 years. At the end of these periods employees have six months to exercise their options by using the cash saved (including any bonus equivalent to interest). If the option is not exercised, the funds may be withdrawn by the employee and the option expires.

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

In addition to the shares purchased on behalf of the employee, the Company will also match the purchase up to a maximum of 6 shares ('Matching' shares) per month. These shares are 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 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.

Notes to the Regulatory Financial Statements for the year ended 31 March 2015

20. Employee share-based payments (continued)

(iii) Deferred Annual Incentive scheme (continued)
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 2011	02 June 2012	02 June 2013	26 June 2014
Maximum value of award as a % of base salary		150	150	150	150
Performance conditions					
Total shareholder return (i)		≥ 75th	≥ 75th	≥ 75th	≥ 75th
	Full vesting	percentile	percentile	percentile	Percentile
	25% vesting	median	median	median	≥ 50th Percentile
Earnings per share (ii)	Full vesting	RPI + 8%	RPI + 8%	RPI + 8%	RPI + 8%
	25% vesting	RPI + 2%	RPI + 2%	RPI + 2%	RPI
Dividend per share growth (iii)	Full vesting	RPI + 6%	RPI + 6%	RPI + 6%	RPI + 4%
	25% vesting	RPI + 2%	RPI + 2%	RPI + 2%	RPI
Quality of Service (iv)	Full vesting	-	-	-	First place
	50% vesting	-	-	-	Second place

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 50thand 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 and full vesting if RPI +8% is achieved.
(iii) Under the Dividend per share growth performance condition, pro rata vesting between RPI and 4% above RPI, with no vesting if the minimum dividend per share growth target is not achieved.
(iv) The Quality of Service condition relates to the Company's Complaints Ranking. Full vesting will be awarded for first place in the league table, 50% vesting for second place with no vesting for below second place.

(iv) Long Term Incentive Plan (LTIP)
This scheme applies to the former Management Board and certain members of the Executive Committee. 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 + 4%
	40% vesting	RPI

Where DPS growth is between 0 and 4% above RPI, vesting will be calculated on a straight-line basis. Where DPS growth is less than RPI no vesting will occur.

20.2 Income Statement charge for all share schemes
A charge of £1.4m (2014 - £1.2m) was recognised in the Income Statement in relation to these schemes.

20.3 Share Schemes Details
Details used in the calculation of the costs of these schemes are as follows:

Notes to the Regulatory Financial Statements for the year ended 31 March 2015

20. Employee share-based payments (continued)

(i) Savings-related share option scheme

The movement in savings related share option schemes in the year were as follows:

As at 31 March 2015

Award Date	Option Price (pence)	Outstanding at start of year	Granted	Exercised	Lapsed	Re-instated*	Outstanding at end of year	Date from which exercisable	Expiry date
10 July 2007	1,306	7,303	-	(7,303)	-	-	-	1 October 2012	31 March 2014
17 July 2008	1,274	352	-	(352)	-	-	-	1 October 2014	31 March 2015
30 June 2009	1,042	54,376	-	(54,209)	(167)	506	506	1 October 2015	31 March 2015
30 June 2010	871	54	-	-	(54)	-	-	1 October 2014	31 March 2015
30 June 2010	871	307,213	-	(13,761)	(7,537)	6,801	292,716	1 October 2015	31 March 2016
28 June 2011	1,105	14,216	-	(13,483)	(113)	-	620	1 October 2015	31 March 2015
28 June 2011	1,105	54,359	-	(1,168)	(3,600)	3,040	52,631	1 October 2016	31 March 2017
29 June 2012	1,065	25,983	-	(1,079)	(2,380)	534	23,058	1 October 2015	31 March 2016
29 June 2012	1,065	50,245	-	(995)	(2,549)	3,147	49,848	1 October 2017	31 March 2018
05 July 2013	1,197	40,509	-	(558)	(4,151)	4,967	40,767	1 October 2016	31 March 2017
05 July 2013	1,197	40,223	-	(303)	(2,834)	-	37,086	1 October 2018	31 March 2019
02 July 2014		-	109,317	-	(2,169)	-	107,148	1 October 2017	31 March 2018
02 July 2014		-	141,776	(96)	(4,639)	-	137,041	1 October 2019	31 March 2020
		594,833	**251,093**	**(93,307)**	**(30,193)**	**18,995**	**741,421**		

* The re-instated column represents share awards which have moved between SSE Group companies in recent years due to internal movement of staff between companies.

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
10 July 2007	1,306	9,757	-	(1,002)	(1,452)	7,303	1 October 2012	31 March 2014
17 July 2008	1,274	26,638	-	(26,286)	-	352	1 October 2014	31 March 2015
30 June 2009	1,042	56,003	-	(251)	(1,376)	54,376	1 October 2015	31 March 2015
30 June 2010	871	48,360	-	(48,092)	(214)	54	1 October 2014	31 March 2015
30 June 2010	871	310,404	-	(1,319)	(1,872)	307,213	1 October 2015	31 March 2016
28 June 2011	1,105	16,043	-	(163)	(1,664)	14,216	1 October 2015	31 March 2015
28 June 2011	1,105	57,540	-	(126)	(3,055)	54,359	1 October 2016	31 March 2017
29 June 2012	1,065	29,360	-	(112)	(3,265)	25,983	1 October 2015	31 March 2016
29 June 2012	1,065	52,551	-	(75)	(2,231)	50,245	1 October 2017	31 March 2018
05 July 2014	1,197	-	41,124	-	(615)	40,509	1 October 2016	31 March 2017
05 July 2014	1,197	-	41,124	-	(901)	40,223	1 October 2018	31 March 2019
		606,656	**82,248**	**(77,426)**	**(16,645)**	**594,833**		

As share options are exercised continuously throughout the period from 1 October to 31 March, the weighted average share price during this period of 1,564p (2014 – 1,455p) 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:

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Notes to the Regulatory Financial Statements for the year ended 31 March 2015

20. Employee share-based payments (continued)

	July 2008 3 Year	July 2008 5 Year	July 2009 3 Year	July 2009 5 year	July 2010 3 year	July 2010 5 Year	July 2011 3 Year	July 2011 5 Year	July 2012 3 Year	July 2012 5 year	July 2013 3 year	July 2013 5 Year	July 2014 3 year	July 2014 5 year
Fair value of option	304p	339p	244p	269p	231p	246p	171p	163p	182p	159p	194p	168p	146p	163p
Expected volatility	28%	28%	35%	35%	19%	19%	18%	18%	18%	18%	15%	15%	15%	15%
Risk free rate	4.9%	5.0%	2.7%	2.9%	1.4%	2.2%	1.2%	2.1%	0.4%	0.9%	0.7%	1.4%	1.2%	1.7%
Expected dividends	4.1%	4.2%	4.1%	4.2%	1.7%	2.2%	6.1%	6.1%	5.9%	5.8%	5.9%	5.9%	5.9%	5.8%
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	1,397p	1,397p	1,139p	1,139p	1,089p	1,089p	1,393p	1,393p	1,391p	1,391p	1,579p	1,579p	1,595p	1,595p
Strike price	1,274p	1,274p	1,042p	1,042p	871p	871p	1,105p	1,105p	1,065p	1,065p	1,197p	1,197p	1,247p	1,247p

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

Matching shares	**2015 Shares**	**2015 Weighted average price (pence)**	2014 Shares	2014 Weighted average price (pence)
Outstanding at start of year	**170,345**	**1,297**	162,942	1,240
Granted	**45,750**	**1,556**	42,346	1,470
Forfeited	**(5,246)**	**1,449**	(3,958)	1,383
Exercised	**(13,350)**	**1,316**	(6,085)	1,239
Transferred to pool	**(19,693)**	**1,137**	(24,900)	1,262
Outstanding at end of year	**177,806**	**1,386**	170,345	1,297
Exercisable at end of year	**59,970**	**1,241**	62,449	1,150

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.

Free shares

	2015 Shares	**2015 Weighted average price (pence)**	2014 Shares	2014 Weighted average price (pence)
Outstanding at start of year	**-**	**-**	5,660	1,417
Exercised	**-**	**-**	(158)	1,404
Transferred to pool	**-**	**-**	(5,502)	1,408
Outstanding at end of year	**-**	**-**	-	1,408
Exercisable at end of year	**-**	**-**	-	1,408

Notes to the Regulatory Financial Statements for the year ended 31 March 2015

20. Employee share-based payments (continued)

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

	2015		2014	
	Shares	**Price (pence)**	Shares	Price (pence)
Outstanding at start of year	**11,526**	**1,409**	12,065	1,257
Granted	**5,444**	**1,545**	4,468	1,496
Exercised	**(12,856)**	**1,343**	(5,007)	1,183
Outstanding at end of year	**4,114**	**1,486**	11,526	1,409
Exercisable at end of year	**3,384**	**1,322**	4,401	1,327

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

	2015		2014	
	Shares	**Price (pence)**	Shares	Price (pence)
Outstanding at start of year	**74,205**	**1,408**	76,789	1,246
Granted	**32,409**	**1,545**	24,203	1,496
Forfeited	**(23,604)**	**1,350**	(13,058)	1,140
Exercised	**(5,763)**	**1,342**	(13,729)	1,079
Outstanding at end of year	**77,247**	**1,477**	74,205	1,408

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.

(iv) Long Term Incentive Plan

	2015		2014	
	Shares	**Price (pence)**	Shares	Price (pence)
Outstanding at start of year	**42,846**	**1,350**	42,846	1,350
Forfeited in the year	**(42,846)**	**1,342**	-	-
Outstanding	**-**	**-**	42,846	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.

Notes to the Regulatory Financial Statements for the year ended 31 March 2015

21. Derivatives and financial instruments

Exposure to interest rate risk arises in the normal course of the Company's business. Derivative financial instruments are entered into to hedge exposure to risk. The objectives and policies for holding or issuing financial instruments and similar contracts, and the strategies for achieving those objectives that have been followed during the year are explained below. The Group's Risk and Trading Committee, a standing committee of the Group's Executive Committee comprising three Executive Directors and senior managers from the Energy Portfolio Management and Finance functions, to oversee the control of these activities. This Committee is discussed further in the Annual Report of the Group..

The Group's treasury department is responsible for managing the banking and liquidity requirements of the Company, risk management relating to interest rate and foreign exchange exposures, and for managing the credit risk relating to the banking counterparties with which it transacts. The department's operations are governed by policies determined by the Group's Executive Committee and any breaches of these policies are reported to the Risk and Trading Committee and Group's Audit Committee.

(i) Risk

Interest rate risk
Interest rate risk derives from the Company's exposure to changes in the value of an asset or liability or future cash flows through changes in interest rates.

The Group's policy is to manage this risk by stipulating that a minimum of 50% of Group borrowings be subject to fixed rates of interest, either directly through the debt instruments themselves or through the use of derivative financial instruments. The floating rate borrowings are provided by banks including the European Investment Bank (EIB).Such instruments include interest rate swaps and options, forward rate agreements and, in the case of debt raised in currencies other than Sterling, cross currency swaps. These practices serve to reduce the volatility of the Group's financial performance.

Although interest rate derivatives are primarily used to hedge risk relating to current borrowings, under certain circumstances they may also be used to hedge future borrowings. Any such pre-hedging is unwound at the time of pricing the underlying debt, either through cash settlement on a net present value basis or by transacting offsetting trades.

The impact of a change in interest rates is dependent on the specific details of the financial asset or liability in question. Changes in fixed rate financial assets and liabilities, which account for the majority of cash, loans and borrowings, are not measured at fair value through the income statement. In addition to this, changes to fixed-to-floating hedging instruments which are recorded under cash flow hedge accounting also do not impact the income statement.

Changes in variable rate instruments and hedging instruments and hedged items recorded under fair value hedge accounting are recorded through the income statement. The exposure measured is therefore based on variable rate debt and instruments.

Effective interest rate analysis
In respect of income earning financial assets and interest bearing financial liabilities, the following table indicates their effective interest rates as at the balance sheet date and the periods in which they re-price or mature:

At 31 March 2015	**Effective interest rate**	**Total**	Within 1 year	1-2 years	2-5 years	More than 5 years
	%	**£m**	£m	£m	£m	£m
Long term bonds	**1.8406**	**129.0**	-	-	-	129.0
Other bank loans – fixed	**5.9000**	**300.0**	-	-	-	300.0
Interest rate swaps – fixed	**4.9975**	**25.0**				25.0

Notes to the Regulatory Financial Statements for the year ended 31 March 2015

21. Derivatives and financial instruments (continued)

(ii) Fair values

The fair values of the Company's financial assets and financial derivatives, and the carrying amounts in the balance sheet are analysed below. Balances included in the analysis of primary financial assets and liabilities include cash and cash equivalents, loans and borrowings, trade and other debtors, trade and other creditors and provisions, all of which are disclosed separately. Own use commodity contracts are not considered to be financial instruments

Summary fair values

The fair values of the primary financial assets and liabilities together with their carrying values are as follows:

	2015 Carrying Value £m	**2015 Fair Value £m**	2014 Carrying Value £m	2014 Fair Value £m
Financial Assets				
Trade and other debtors	**46.8**	**46.8**	409.6	409.6
Financial Liabilities				
Trade and other creditors	**91.1**	**91.1**	412.0	412.0
Bank loans and overdrafts	**-**	**-**	25.0	25.0
Long-term intercompany	**168.2**	**168.2**	-	-
Long-term bonds	**129.0**	**170.9**	125.9	127.8
Loan stock	**300.0**	**372.1**	300.0	354.2
Derivative financial liabilities	**14.7**	**14.7**	7.5	7.5

Fair values have been determined with reference to closing market prices.

Unless otherwise stated, carrying value approximates fair value.

Financial derivative instruments – disclosure

For disclosure purposes, derivative financial instruments are classified into two categories, operating derivatives and financing derivatives. The Company only utilises financing derivatives. Financing derivatives include all fair value and cash flow interest rate hedges, non-hedge accounted (mark-to-market, noted as MTM) interest rate derivatives, cash flow foreign exchange hedges and non-hedge accounted (MTM) foreign exchange contracts. Non-hedge accounted contracts are treated as held for trading (MTM). The carrying value is the same as the fair value for all instruments. All balances are stated gross of associated deferred taxation.

The net financial liabilities of £14.7m (2014 - £7.5m) are represented as creditors that are due after more than one year.

Basis of determining fair value

Closing rate market values have been used to determine the fair values of the interest rate and foreign currency contracts and denominated long-term fixed rate debt. Estimates applied reflect the management's best estimates of these factors.

22. Commitments and contingencies

(i) Capital expenditure

	2015 £m	2014 £m
Contracted for but not provided	**8.0**	9.6

Notes to the Regulatory Financial Statements for the year ended 31 March 2015

22. Commitments and contingencies (continued)

(ii) Operating lease commitments

Leases as lessee:

	2015 £m	2014 £m
Amount included in the profit and loss account relating to the current year leasing arrangements	**4.3**	4.0

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

	2015 £m	2014 £m
Less than one year	**3.8**	2.0
Between two and five years	**2.8**	4.2
After five years	**0.3**	0.3
	6.9	6.5

(iii) Guarantees and Indemnities

The Company has provided a guarantee in relation to £300.0m Eurobonds held by the Group. This Guarantee has been jointly provided with Scottish Hydro Electric Transmission plc.

23. Reconciliation of operating profit to operating cash flows

Reconciliation of operating profit to operating cash flows	**2015 £m**	2014 £m
Operating profit	**128.7**	153.5
Depreciation	**44.4**	41.9
Customer contributions and capital grants released	**(3.6)**	(3.6)
Decrease/(increase) in stocks	**1.0**	(0.5)
(Increase)/decrease in debtors	**(9.0)**	2.5
Increase in creditors	**28.6**	6.9
(Decrease)/increase in provisions	**(1.8)**	1.8
Movement in intercompany	**215.4**	(48.3)
Charge in respect of employee share awards	**1.4**	1.2
Net cash inflow from operating activities	**405.1**	155.4

24. Net debt

Reconciliation of net cash flow to movement in net debt

	2015 £m	2014 £m
Cash outflow from decrease in debt	**25.0**	-
Other non cash movement	**(3.1)**	(3.9)
Decrease/(increase) in net debt in the year	**21.9**	(3.9)
Net debt at 1 April	**(450.9)**	(447.0)
Net debt at 31 March	**(429.0)**	(450.9)

Notes to the Regulatory Financial Statements for the year ended 31 March 2015

24. Net debt (continued)

Analysis of net debt

	As at 1 April 2014 £m	Increase in cash[(i)] £m	Decrease in debt £m	Non-cash movement £m	**As at 31 March 2015 £m**
Cash at bank and in hand	-				
Short term loans due within one year	(25.0)	-	25.0	-	**-**
Net borrowings due within one year	(25.0)	-	25.0	-	**-**
Net borrowings due after more than one year	(425.9)	-	-	(3.1)	**(429.0)**
Net debt	(450.9)	-	25.0	(3.1)	**(429.0)**

(i) The Company does not hold cash balances at any time. Cash generated or required by the Company is remitted to or obtained from the Group 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.

25. Regulatory Segmental Analysis

In accordance with standard licence condition 44, 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 2015:

	Distribution (DUoS) £m	Excluded Services (i) £m	Metering (ii) £m	Out of Area Networks £m	De Minimis (iii) £m	**Total £m**
Revenue	313.3	44.7	2.0	2.1	3.3	**365.4**
Operating Costs	(142.4)	(45.6)	-	(1.0)	(3.3)	**(192.3)**
Depreciation	(43.6)	-	(0.4)	(0.4)	-	**(44.4)**
Operating Profit	**127.3**	**(0.9)**	**1.6**	**0.7**	**-**	**128.7**
Capital additions	**85.1**	**-**	**-**	**2.5**	**-**	**87.6**

For the year to 31 March 2014:

	Distribution (DUoS) £m	Excluded Services (i) £m	Metering (ii) £m	Out of Area Networks £m	De Minimis (iii) £m	**Total £m**
Revenue	319.4	35.1	2.0	2.0	1.5	**360.0**
Operating Costs	(126.1)	(35.9)	-	(1.1)	(1.5)	**(164.6)**
Depreciation	(41.1)	-	(0.4)	(0.4)	-	**(41.9)**
Operating Profit	**152.2**	**(0.8)**	**1.6**	**0.5**	**-**	**153.5**
Capital additions	**79.2**	**-**	**-**	**2.3**	**-**	**81.5**

(i) Excluded services includes connections, diversions and other excluded services as defined in the licence (ES1, ES3 and ES7).
(ii) Metering services refer to Legacy MAP only. The Company does not undertake other metering activities.

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

25. Regulatory Segmental Analysis (continued)

(iii) De Minimis activities primarily relate to activities undertaken on behalf of other SSE plc Group companies.

26. Regulated Related Party Disclosure

For the year to 31 March 2015:

	Ultimate parent (SSE plc)	Immediate parent (SSEPD) (i)	Other SSE plc Group companies
Type of transaction	£m	£m	£m
Sales and provision of services	-	-	120.8
Purchases and receipt of services	-	-	(67.9)
Distribution of dividends	-	(250.0)	-
Finance income (note 6)	0.6	-	-
Finance costs (note 6)	(17.6)	-	-

For the year to 31 March 2014:

	Ultimate parent (SSE plc)	Immediate parent (SSEPD) (i)	Other SSE plc Group companies (restated)(ii)
Type of transaction	£m	£m	£m
Sales and provision of services	-	-	122.9
Purchases and receipt of services	-	-	(56.9)
Distribution of dividends	-	(25.0)	-
Finance income (note 6)	6.3	-	-
Finance costs (note 6)	(17.7)	-	-

(i) The immediate parent of the Company is Scottish and Southern Energy Power Distribution Limited (SSEPD).
(ii) Sales and provision of services has been restated to include Distribution Use of System income from SSE Energy Supply Limited.
(iii) Balances outstanding to and from Group companies including the Ultimate and Immediate Parent Companies are disclosed in Notes 11, 12, 13, and 14 to these Regulatory Financial Statements.

27. Related undertakings

The related undertakings in which the Company has a shareholding are listed below:

Company Name	**Relation**	**Principal activity**	**Country of incorporation**
Electralink Limited	Associate	Data Transfer Service Operator	United Kingdom
Gemserv Limited	Associate	Market Design, Governance and Assurance Service Provider	United Kingdom
DCUSA Limited	Associate	Billing Framework Operator	United Kingdom
Smart Energy Code Company Limited	Associate	Smart Metering Implementation Management	United Kingdom
MRA Service Company Limited	Associate	Metering Point Administration Services Operator	United Kingdom

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

28. 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 Group's website at www.sse.com.