Scottish Hydro Electric Power Distribution plc

Regulatory Accounts for the year ended 31 March 2008

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Corporate Report for the year ended 31 March 2008

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Scottish Hydro Electric Power Distribution plc

Corporate Report: Review of the Year to 31 March 2008

Scottish Hydro Electric Power Distribution Plc (the Company) is a wholly owned subsidiary of Scottish and Southern Energy plc (the Group). The Company's first responsibility is to maintain safe and reliable supplies of electricity and to restore supplies as quickly as possible in the event of interruptions. In line with this it is encouraging that our performance across a range of measures continues to be good. This performance has been achieved while maintaining close control over the operating cost base and confirms that the electricity networks managed by the Group are among the most efficient in the world.

The Company is the subject of incentive-based regulation by the Office of Gas and Electricity Markets (Ofgem), which sets for periods of five years the prices that can be charged for the use of the electricity network, the capital expenditure and the allowed operating expenditure. In broad terms, Ofgem seeks to strike the right balance between attracting investment in electricity, encouraging companies to operate the networks as efficiently as possible and ensuring that prices for customers are no higher than they need to be. As at 31 March 2008, the Company estimates that based on Ofgem's methodology for valuing the assets of the Company's distribution business (the Regulated Asset Value or 'RAV') was approximately £810m.

Operating profit for the Company increased by 7.3% to £113.5m. In the Scottish Hydro Electric area, 8.8TWh of electricity were distributed during the year, compared with 8.5TWh distributed in the previous year. There was a 2.1% increase in the number of customers to whom electricity is distributed and this combined with an increase in the price of these units has also contributed to the increase in profitability in the year.

Ensuring the reliability of the electricity networks it owns and operates is one of the Company's main priorities and the key measures of reliability are customer minutes lost and customer interruptions. The average number of minutes that customers were without supply was 72, compared with 77 in the previous year. The number of supply interruptions per 100 customers was 69, 10 less than in the previous year. Performance in respect of both minutes lost and interruptions was ahead of Ofgem's Quality of Service Incentive Scheme (QSIS), which gives financial benefits to distribution network operators that deliver good performance for customers QSIS targets. This, together with income earned in 2007/08 under other incentive arrangements, is expected to lead to the Company receiving additional revenue of £5.5m in the next two financial years.

Electricity Network Investment

The key responsibility of the Company's businesses is to maintain safe and reliable supplies of electricity and to restore supplies as quickly as possible in the event of interruptions. The Distribution Price Control Review for 2005-10 resulted in substantially increased allowances for capital expenditure to maintain and improve the networks performance. This will enable the Company to increase its revenue from its networks, and delivery of this enhanced investment programme was one of the Company's priorities for 2007/08. It is now well under way, with capital expenditure of £61.8m during the year, which was 14.2% higher than in 2006/07. In the course of the year, the Company added 233km to the length of its networks, taking the total, to over 46,000km.

Investment at broadly similar levels to 2007/08 will continue during the remainder of the current price control period.

Scottish Hydro Electric Power Distribution plc

Corporate Report: Review of the Year to 31 March 2008 (continued)

Electricity Distribution Priorities in 2008/09

During 2008/09, the Company's first objective will be to maintain safe and reliable supplies of power. In addition a key objective is to ensure that the network operations are managed as efficiently as possible, including maintaining tight controls over operational expenditure and delivering efficicent capital expenditure, so that the number and duration of power cuts experienced by customers is kept to a minimum. The Company seeks to earn additional incentive-based revenue under the various Ofgem-sponsored schemes. Over time, the objective is to grow the RAV of the network business and secure increased revenue from it.

These objectives will be supported by delivery of continuous improvement initiatives, following the implementation of a review of internal processes and customer-facing operations that took place during 2007/08. Ofgem has already stated that encouraging electricity distribution companies to be 'more responsive to the needs of customers' will be amongst its key priorities for the forthcoming Distribution Price Control Review for 2010-15.

Over the next year, detailed work will begin on the Review, where Ofgem's other key priorities include giving companies 'strong incentives to help tackle climate change' and 'delivering good value for consumers by ensuring that companies provide secure and more sustainable networks'. Ofgem also pointed out that it is likely that there will be growth in renewable and small-scale 'distributed' generation, which could see much more generation connecting directly to the distribution, as opposed to the transmission network.

The Company believe that constructive engagement with Ofgem during the Review process is important and this will be a major objective during 2008/09.

1 Operational Review

1.1 Factors affecting the Business

The Company is responsible for managing an electricity distribution network, serving more than 720,000 customers. Distribution of electricity within specified areas is a monopoly activity and the income earned by charging electricity customers for the use of the wires is closely regulated by Ofgem, as is the level of investment which is made in electricity networks. The Company has completed the third year of the price controls set for the period up to 31 March 2010.

Against this background, the Company's objective is to manage the consequences of the growth in demand for electricity and ensure the network has the minimum number of faults and the maximum robustness in the face of severe weather and other supply interruption risks. It is also important to automate networks so that when supply is interrupted, it can be restored as soon as possible. The programme of investment is designed with these goals in mind.

1.2 Use of Resources and Status of Significant Projects

In line with the policies in place to achieve the objectives highlighted at 1.1, a total of £61.8m was invested in the electricity network. Investment of this kind upgrades the electricity network and reinforces the value of the RAV which, in turn, supports the ongoing value of the business.

In the Scottish Hydro Electric Power Distribution area, the programme to upgrade and refurbish the network continued during 2007/08, with 2,309km of high voltage overhead lines and 412km of low voltage lines refurbished.

The programme of network automation continued, with another 47 new radio-controlled automated switching units in rural areas, allowing for faster restoration of supply to customers.

Scottish Hydro Electric Power Distribution plc

Corporate Report: Review of the Year to 31 March 2008

1 Operational Review (continued)

1.2 Use of Resources and Status of Significant Projects (continued)

A specific feature of the capital investment programme this year has been the replacement of several submarine cables connecting the mainland electricity network to islands and between islands. The Company's territory features a number of submarine cable links and has the greatest number and longest length of these of any Distribution Network Operator in the United Kingdom. Total expenditure on these cables was over £4m in the year with cables replaced at Kerrera/Mull (8km); Sanday/Stronsay (6km); and Corran Narrows (2km). In addition a new overhead line and submarine cable costing in excess of £2m were installed to provide the island of Mull with a more secure and stable supply of electricity.

Work to enable the maximum Distributed Generation (DG) to connect to the network continues apace. On the Western Isles the company installed a novel device to support the island network at a cost of approximately £2m. The Arnish Generator/Compensator supports the grid voltage at both times of maximum and minimum demand and will assist the optimum volume of DG to connect. The device is integral to plans for a Western Isles Registered Power Zone that aims to increase the DG penetration on the Isles although constraints on the mainland Transmission Grid are the major blockage to this aim as things stand.

The Company continues to ensure that the stewardship of the network is efficient, addresses customer concerns and is robust over the long term. Investment during the year was spread over overhead lines, substations and cables. Network improvements have been driven by targeted investment on automation, refurbishment and replacement. The largest schemes were at Kintore Substation (£587,000), Dornoch Substation (£900,000) and an overhead line at Dunvegan (£687,000).

The Company continues to implement a number of initiatives to improve further the resilience of the electricity network for the future. For example, falling trees or clashing branches are a major source of supply interruptions during windy weather conditions. To improve performance in this area, for the past number of years the Group has employed directly most of the people involved in tree cutting. This is also in line with the Group's general approach that operations and services are best managed and delivered by people who are directly employed by the company.

1.3 Employees

Employees are encouraged to participate in the businesses of the Group in a variety of ways. In support of the Board's commitment to providing opportunities for employees to become shareholders, the Group offers a Share Incentive Plan and a Sharesave Scheme which is open to all eligible employees. Employee participation in these schemes, over the Group, is around 38% and 37% respectively. The company recognises that its continuing success is closely linked to the performance, skills and individual commitment of its employees. As part of a 2007 employee award, all eligible employees were awarded 20 free shares. The company places a strong emphasis on employee communication and involvement. An employee newspaper is published and distributed to employees. Participation and engagement is encouraged through team meetings, briefings and the intranet where employees are informed of the latest company news from recent media coverage and about developments within the business.

The Group Chief Executive regularly communicates with employees through his blog and receives feedback, in addition to live on-screen question and answer style 'webchats'. During the year, the senior management held a series of roadshows around the Group to present and discuss the Group's vision, values and strategy. The company has in place an extensive range of policies to safeguard the interests of its employees and potential employees. In particular, its equal opportunities policy aims to ensure that all employees and job applicants are no less fairly treated due to age, gender, sexual orientation, race, disability or other reasons not justified in law or relevant to performing their job. The company also aims to ensure that employees have the right skills to deliver the high standard s of performance that are necessary to achieve its objectives. Detailed information about the Group's approach to these and related matters is set out in its Corporate Responsibility Report 2008.

Scottish Hydro Electric Power Distribution plc

Corporate Report: Review of the Year to 31 March 2008

1 Operational Review (continued)

1.4 Safety

The Group believes that all work can be done in such a way that no-one, whether an employee, contractor, customer or member of the community, suffers from its operations. It believes that all injuries are preventable and it aims to provide staff with training, work methods and equipment to achieve that goal.

'Being safe' is a core value in the business. In line with this, the Group's Health, Safety and Environment Manual, which has the status of a work instruction, emphasises that safety will not be compromised for business interest or operational pressures and all injuries, plant damage and near misses will be reported and investigated. The Health, Safety and Environmental Advisory Committee, together with the Audit Committee and management, ensures that health, safety and environmental policy statements are being adhered to; sets health, safety and environmental targets for the Group; and monitors the performance of the Group against these targets. The Director with lead responsibility for Health and Safety is Colin Hood, who chairs the Safety and Health leadership team.

As a result of this commitment to safety, Scottish and Southern Energy plc continues to be at the forefront of Britain's electricity industry in relation to safety.

1.5 Principal risks and uncertainties

As noted, the Company is responsible for managing a regulated electricity distribution network, based in the North of Scotland. One of the major risks arises from the quinquennial price review, when the future income that the Company may collect from the users of the electricity network is set. The current price control period runs from 1 April 2005 to 31 March 2010 and discussions on the next price control have now started. The year to 31 March 2008 was the third year of the current price review period. In arriving at the allowed income Ofgem assess the revenue and capital expenditure plans of the business and determine an efficient level of that expenditure. In addition, they assess the quality of service requirements for the network and determine a cost of capital sufficient to encourage the required investment in the network. Given the importance of the outcome of the price control review process, the establishment of allowable income for the following years, the Company invests considerable management time to ensure that the correct price control is set.

In March 2008, Ofgem announced plans to review the 20-year old regime governing the regulation of electricity and gas networks. The review will examine whether the 'current approach will continue to deliver customers reliable, well-run networks with good service at reasonable prices amid growing investment challenges faced by the energy networks in the future'. Ofgem has stated that the range of possible recommendations emerging from the review runs from no change to substantial change, and that where change is recommended, there will be full consultation. Because the review will not report until 2010, and because any proposed changes will be subject to consultation, work on the Distribution Price Control Review for 2010-15 is expected to be unaffected.

The key responsibility of the Company is to maintain safe and reliable supplies of electricity and to restore supplies as quickly as possible in the event of interruptions. In the long term this is done by ensuring the correct level of investment in the network. In the short term the electricity network can be subject to damage, and potentially major disruption, by the weather. Storms caused by winter weather fronts, winter snow fall and lightning storms at any time of year can damage the electricity distribution network and result in customers' supply of electricity being interrupted. To mitigate the effects of these events, weather forecasts are closely monitored and staff deployed in advance of foreseeable major weather events. Arrangements are in place to use resources from contractors and other electricity distribution network operators in the event of major interruptions and contracts are in place with suppliers of materials and services which can be brought into action at short notice in the event of severe weather.

Scottish Hydro Electric Power Distribution plc

Corporate Report: Review of the Year to 31 March 2008

2. Financial Review

2.1 Balance Sheet
The Group and Company both continue to maintain one of the strongest balance sheets in the global utility sector. This gives the Company significant competitive advantage in terms of cost of funding and supporting new developments.

The majority of employees of the Company are members of the Scottish Hydro-Electric Pension Scheme, which, at 31 March 2008, had a surplus included in the Group accounts, net of deferred tax, of £61.8M (2007 - £89.7M).

2.2 Financial Risk Management

The Company's financial risk is managed as part of the wider group risk management policy.

The Company's operations are financed by a combination of retained profits, bank borrowings, long term debt issuance and inter company loan stocks.

The main financial risks affecting the Group include exposures to fluctuations or changes in interest rates, foreign exchange rates, liquidity, commodity prices and volumes and counterparty creditworthiness. The Group's Risk Committee, which reports to the Board, reviews and agrees policies for addressing each of these risks. At 31 March 2008, 65.7% of the Group's borrowings were at fixed or inflation-linked interest rates, after taking account of interest rate swaps. The Company's main risk area is in relation to interest rates and, as noted, this is managed as part of the Group's risk policies.

2.3 Taxation

The Company's effective current tax rate was 31.7% compared with 31.3% in the previous year, after prior year adjustments. The headline effective tax rate is 15.5% compared with 26.0% in the previous year.

2.4 Dividend

The Company's dividend policy was to distribute up to 50% of surplus cash flow as a dividend for both years.

2.5 Borrowings and Facilities

The Company has loans of £479.0m (2007 – £475.0m) of which £300m (2007 - £300m) is due to other group companies and £179.0m (2007 - £175.0m) is in the form of loans from the European investment Bank and an index-linked bond. Of the total, interest is paid at fixed or inflation-linked rates on £454.0m (2007 - £450.0m).

As at 31 March 2008, the weighted average interest rate payable was 5.81% (2007 – 5.70%) and the weighted average remaining term was 20.11 years (2007 – 20.88 years).

2.6 International Financial Reporting Standards

The application of International Financial Reporting Standards (IFRS) is required for listed companies for accounting periods commencing on or after 1 January 2005. As a result, the Group's financial statements for the year to 31 March 2008 have been prepared in accordance with EU adopted IFRS.

The accounts of Scottish Hydro Electric Power Distribution plc have been prepared in accordance with applicable UK Generally Accepted Accounting Principles (UK GAAP). A number of the Company's accounting policies were changed in the accounts to 31 March 2007 following the Company re-registering as a Public company and the adoption of a number of new accounting standards issued by the Accounting Standards Board (ASB) as part of the project to converge UK GAAP with adopted IFRS.

Scottish Hydro Electric Power Distribution plc

Corporate Governance Statement

Scottish and Southern Energy plc Group ("The Group")

The Board is accountable to the Group's shareholders for the good conduct of the Group's affairs. Throughout the year the Group monitors developments in corporate governance best practice. Due regard is also given to the policy guidelines of organisations representing major institutional investors. In addition, internal procedures are regularly reviewed and updated by the Board and the various Board committees.

The Board continues to be committed to ensuring that the highest standards of corporate governance are maintained. The Group's core purpose is to provide the energy people need in a reliable and sustainable way while abiding by its core values: safety; service; efficiency; sustainability; excellence; and teamwork.

The Board continues to be committed to ensuring that the highest standards of corporate governance are maintained and the Board confirms that throughout the year, the Group complied with all provisions set out in Section 1 of the Code.

The Board consists of a non-Executive Chairman, four Executive Directors and five independent non-Executive Directors. This gives the Board an appropriate balance of independence and experience, ensuring that no one individual or group of individuals has undue influence over the Board's decision-making. The composition of the Board and its committees is regularly reviewed to ensure that this balance and mix of skills and experience is maintained.

Scottish Hydro Electric Power Distribution plc ("The Company")

Board of Directors

The Board consists of four Directors, two of whom are Directors of the Group. None of the Directors are Directors of Group Companies involved in Supply or Generation activities. The Group has an Audit Committee, a Remuneration Committee, an Executive Committee, a Risk Committee, a Health, Safety and Environmental Advisory Committee and a Nomination Committee and details of the appointees are included in the published Corporate Governance Statement of the Group. The Company, as a subsidiary entity, has no such Committees.

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 are 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 and the Executive Committee. Reports include variance analysis and projected forecasts of the year compared to approved budgets and non-financial performance indicators.

There are 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 internal audit department. Their reports, which include where appropriate relevant action plans, are distributed to senior managers and Directors.

Scottish Hydro Electric Power Distribution plc

Corporate Governance Statement

Scottish Hydro Electric Power Distribution plc ("The Company") (continued)

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 across the Group. 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.

Going Concern

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

REGISTERED NO.

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Scottish Hydro Electric Power Distribution plc

Accounts for the year ended 31 March 2008

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Scottish Hydro Electric Power Distribution plc

Report of the Directors

The Directors present their report together with the audited Accounts for the year ended 31 March 2008.

1. Principal Activities

The Company's principal activity during the year was the regulated distribution of electricity.

2. Business Review

The Company is responsible for managing an electricity distribution network, serving more than 720,000 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. This is set for a period of 5 years and the current price control runs until April 2010.

Review of development and performance of the Company

The year to 31 March 2008 was the third year of the current distribution price control period and the operating profit increased by 7.3% to £113.5M.

During the year, the Company distributed 8.8TWh compared with 8.5TWh distributed in the previous year. The positive impact on profitability of this increase in the number of units distributed was supplemented by increased tariffs under the allowed revenue formula. There was a 2.1% increase in customer numbers during the year.

The level of investment in the network has also increased in the year reflecting continuing load growth as well as ongoing asset refurbishment. In 2007/08 the capital expenditure was £61.8M an increase of 14% on 2006/07. This level of investment is expected to remain at approximately this level in the remaining years of the current price control period. In 2007/08 a further 233km in length was added to the network and 2,636km were refurbished.

The operational performance of the Company was good with the number of supply interruptions per 100 customers reducing to 69 from a level of 79 in 2006/07. The average number of minutes that customers were without supply during the year was 72, compared with 77 in the previous year. The performance in these two areas were ahead of Ofgem's Quality of Supply Incentives targets and is expected to contribute, along with other incentives established in the price control agreement, towards additional revenue of £5.5M in the next 2 financial years.

Principal Risks and Uncertainties

As noted, the Company is responsible for managing a regulated electricity distribution network, based in the North of Scotland. One of the major risks arises from the quinquennial price review, when the future income that the Company may collect from the users of the electricity network is set. The current price control period runs from 1 April 2005 to 31 March 2010 . The year to 31 March 2008 is the third year of the current price review period. In arriving at allowed income, Ofgem assess the revenue and capital expenditure plans of the business and determine an efficient level of expenditure. In addition ,they assess the quality of service requirements for the network and determine a cost of capital sufficient to encourage the required investment in the network. Given the importance of the outcome of the price control review process and the agreement of allowed income for the following five years, the Company invests considerable management time to ensure that an equitable price control is agreed. The fifth Distribution Price Control Process (DPCR5) has recently formally commenced and the Company believe that full and proactive engagement with Ofgem is essential during this two year process.

Scottish Hydro Electric Power Distribution plc

Report of the Directors (continued)

2. Business Review (continued)

Principal Risks and Uncertainties (continued)

The key responsibility of the Company is to maintain safe and reliable supplies of electricity and to restore supplies as quickly as possible in the event of interruptions. In the long term this is done by ensuring the correct level of investment in the network. In the short term the electricity network can be subject to damage, and potentially major disruption, by the weather. Storms caused by winter weather fronts, winter snow fall and lightning storms at any time of year can damage the electricity distribution network and result in customers' supply of electricity being interrupted. To mitigate the effects of these events, weather forecasts are closely monitored and staff deployed in advance of foreseeable major weather events. Arrangements are in place to use resources from contractors and other electricity distribution network operators in the event of major interruptions and contracts are in place with suppliers of materials and services which can be brought into action at short notice in the event of severe weather.

The Directors acknowledge that they have responsibility for the Company's systems of internal control and risk management and for monitoring their effectiveness. The purposes of these systems are to manage, rather than eliminate, the risk of failure to achieve business objectives, to provide reasonable assurance as to the quality of management information and to maintain proper control over the income, expenditure, assets and liabilities of the Company.

No system of control can, however, provide absolute assurance against material misstatement or loss. Accordingly, the Directors have regard to what controls, in their judgement, are appropriate to the Company's business and to the relative costs and benefits of implementing specific controls.

Key Performance Indicators

The following financial and operational key performance indicators are used by the Company in measuring performance:

Financial

a) Operating Profit (£M)

Year to March 2007	£105.8M
Year to March 2008	£113.5M
Increase (%)	7.3%

b) Capital Expenditure (£M)

Year to March 2007	£54.1M
Year to March 2008	£61.8M
Increase (%)	14.2%

Operational

c) Electricity Distributed (TWh)

Year to March 2007	8.5 TWh
Year to March 2008	8.8 TWh
Increase (%)	3.5%

Scottish Hydro Electric Power Distribution plc

Report of the Directors (continued)

2. Business Review (continued)

Key Performance Indicators (continued)

d) Customer Minutes Lost

Year to March 2007	77
Year to March 2008	72
Decrease (%)	6.5%

e) Customer Interruptions – number per 100 customers

Year to March 2007	79
Year to March 2008	69
Decrease (%)	12.7%

3. Results and Dividends

The profit for the financial year amounted to £81.3m (2007 - £66.2m). A final dividend of £15.0m (2007 - £nil) was declared, approved and paid during the year.

4. Directors

The Directors who served during the year were as follows: -

Gregor Alexander
Colin Hood
Steven Kennedy
Mark Mathieson (appointed 21/11/2007)

5. Political and Charitable Donations

During the year, no charitable or political donations were made.

6. Employment Policies

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

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

7. Supplier Payment Policy

The Company complies with the CBI Prompt Payment Code. The main features of the Code are that payment terms are agreed at the outset of a transaction and are adhered to; that there is a clear and consistent policy that bills are paid in accordance with the contract; and that there are no alterations to payment terms without prior agreement. Copies of the Code are available on application to the Company Secretary. The number of suppliers' days represented by trade creditors was 42 days at 31 March 2008.

Scottish Hydro Electric Power Distribution plc

Report of the Directors (continued)

8. Auditors

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 auditors are 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 auditors are aware of that information.

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

ON BEHALF OF THE BOARD

V Donnelly

Vincent Donnelly
Company Secretary
22 July 2008

Scottish Hydro Electric Power Distribution plc

Statement of directors' responsibilities in respect of the Directors' Report and the Accounts

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

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

The Accounts are required by law to 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 Accounts, 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 Accounts; and
- prepare the Accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its Accounts comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The licensee is also required by standard condition 44 of the Electricity Distribution Licence to deliver to the Authority regulatory accounts prepared for each financial year ending on 31 March.

Scottish Hydro Electric Power Distribution plc

Profit and Loss Account
for the year ended 31 March 2008

	Note	2008 £M	2007 £M
Turnover		**235.6**	216.7
Cost of sales		**(27.7)**	(26.0)
Gross profit		**207.9**	190.7
Distribution costs		**(88.3)**	(78.8)
Administrative costs		**(6.1)**	(6.1)
Operating profit	2	**113.5**	105.8
Gains on disposal of fixed assets		**-**	0.4
Net interest payable	5	**(17.3)**	(16.7)
Profit on ordinary activities before taxation		**96.2**	89.5
Tax on profit on ordinary activities	6	**(14.9)**	(23.3)
Profit for the financial year	16	**81.3**	66.2

The above results are derived from continuing activities.

The accompanying notes are an integral part of these Accounts.

Scottish Hydro Electric Power Distribution plc

Balance Sheet
as at 31 March 2008

	Note	2008 £M	2007 £M
Fixed Assets			
Tangible assets	8	**756.6**	728.8
Current assets			
Stocks	9	**1.5**	1.3
Debtors:			
Amounts falling due within one year	10	**292.2**	236.4
Amounts falling due after more than one year	10	**28.0**	28.0
Total debtors		**320.2**	264.4
Total current assets		**321.7**	265.7
Creditors			
Amounts falling due within one year	11	**(101.1)**	(72.2)
Net current assets		**220.6**	193.5
Total assets less current liabilities		**977.2**	922.3
Creditors:			
Amounts falling due after more than one year	12	**(546.8)**	(546.2)
Derivative financial liabilities	19	**(5.5)**	(2.2)
Provisions for liabilities and charges			
Deferred taxation	14	**(124.5)**	(140.2)
Net assets		**300.4**	233.7
Capital and reserves			
Called up share capital	15	**62.0**	62.0
Profit and loss account	16	**240.2**	173.2
Hedge reserve	16	**(1.8)**	(1.5)
Shareholders' funds		**300.4**	233.7

These Accounts were approved by the Directors on 22 July 2008 and signed on their behalf by

Gregor Alexander, Director

Scottish Hydro Electric Power Distribution plc

Statement of Total Recognised Gains and Losses for the year ended 31 March 2008

	2008 £M	2007 £M
Profit for the financial year	**81.3**	66.2
(Losses) / gains on effective portion of cash flow hedges (net of tax)	**(0.3)**	1.1
Total recognised gains and losses relating to the financial year	**81.0**	67.3

Reconciliation of Movements in Shareholders' Funds as at 31 March 2008

	2008 £M	2007 £M
Profit for the financial year	**81.3**	66.2
Dividends	**(15.0)**	-
Credit in respect of employee share schemes	**0.8**	1.7
Purchase of shares to satisfy employee share awards	**(0.1)**	(0.4)
(Losses) / gains on effective portion of cash flow hedges (net of tax)	**(0.3)**	1.1
Net addition to shareholders' funds	**66.7**	68.6
Opening shareholders' funds	**233.7**	165.1
Closing shareholders' funds	**300.4**	233.7

Scottish Hydro Electric Power Distribution plc

Notes on the Accounts
for the year ended 31 March 2008

1. Significant accounting policies

Basis of preparation
The Accounts have been prepared in accordance with all applicable United Kingdom accounting standards. The principal accounting policies are summarised below and have been applied consistently.

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

As the Company is a wholly owned subsidiary of Scottish and Southern Energy plc (SSE plc), it has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the Scottish and Southern Energy Group (the Group).

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 accounts.

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.

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.

Scottish Hydro Electric Power Distribution plc

Notes on the Accounts
for the year ended 31 March 2008

1. Significant accounting policies (continued)

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
Distribution assets	10 to 40
Non-operational assets:	
Buildings - freehold	Up to 60
- leasehold	Lower of lease period and 60
Fixtures, equipment, plant and machinery, vehicles and mobile plant	4 to 10

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

Stocks and work in progress
Stocks are valued at the lower of cost and net realisable value. The valuation of work in progress is based on the cost of labour, plus appropriate overheads and the cost of materials. Progress invoices are deducted in arriving at the amounts stated

Scottish Hydro Electric Power Distribution plc

Notes on the Accounts
for the year ended 31 March 2008

1. Significant accounting policies (continued)

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

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

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

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

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to these accounts.

Scottish Hydro Electric Power Distribution plc

Notes on the Accounts
for the year ended 31 March 2008

1. Significant accounting policies (continued)

Financial instruments:
The Company adopted FRS 25 and FRS 26 with effect from 1 April 2005. FRS 26 requires that 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.

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.

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.

Scottish Hydro Electric Power Distribution plc

Notes on the Accounts
for the year ended 31 March 2008

2. Operating profit

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

	2008 £M	2007 £M
Depreciation of tangible fixed assets	**34.0**	32.1
Operating lease rentals	**0.5**	0.4
Release of deferred income in relation to customer contributions and capital grants	**(3.6)**	(3.6)
Gain on disposal of tangible fixed assets	**-**	(0.4)
Research and development	**0.5**	0.3
Net management fee in respect of services provided by group companies	**6.1**	6.1

The Company incurred an audit fee of £0.05m in the year (2007 - £0.05m).

3. Staff costs and numbers

	2008 £M	2007 £M
Staff costs:		
Wages and salaries	**26.7**	24.9
Social security costs	**2.1**	2.0
Share based remuneration	**0.8**	0.5
Other pension costs	**4.7**	4.6
	34.3	32.0
Less charged as capital expenditure	**(14.3)**	(10.9)
	20.0	21.1

Employee numbers

	2008 Number	2007 Number
Numbers employed at 31 March	**837**	801

	2008 Number	2007 Number
The monthly average number of people employed by the Company during the year	**819**	794

The basis used for the average employed during the year was changed from WTE to a headcount basis (2007 reported – 762).

4. Directors' remuneration

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

	2008 £000	2007 £000
Remuneration as executives	**0.3**	-

Scottish Hydro Electric Power Distribution plc

Notes on the Accounts
for the year ended 31 March 2008

5. Net interest payable

	2008 £M	2007 £M
Interest receivable:		
Other interest receivable	**14.4**	8.8
Interest payable:		
Bank loans and overdrafts	**(10.3)**	(6.6)
Other financing charges	**(18.5)**	(18.9)
	(28.8)	(25.5)
Movement on financing derivatives	**(2.9)**	-
Net interest payable	**(17.3)**	(16.7)

6. Taxation

	2008 £M	2007 £M
Current tax:		
UK corporation tax	**30.5**	28.0
Deferred tax:		
Origination and reversal of timing differences	**(5.6)**	(4.7)
Effect of change in UK corporation tax	**(9.0)**	-
Adjustment in respect of previous year	**(1.0)**	-
Total Deferred Tax	**(15.6)**	(4.7)
Total tax on profit on ordinary activities	**14.9**	23.3

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:

	2008 £M	2007 £M
Profit before tax	**96.2**	89.5
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2007 - 30%)	**28.9**	26.8
Effects of:		
Depreciation in excess of capital allowances	**5.6**	4.7
Expenses not deductible for tax purposes	**-**	0.1
Other timing differences	**-**	0.1
Utilisation of tax losses	**-**	(0.1)
Adjustments in respect of prior years	**(4.0)**	(3.6)
Current tax charge for year	**30.5**	28.0

In the year, it was confirmed that the corporation tax rate applicable to the Company will change from 30% to 28% from 1 April 2008. Temporary differences which exist at 1 April 2008 will reverse at 28% rather than 30%, which was the basis at 31 March 2007. Consequently, the Company has recognised the following credits in respect of this in the period to 31 March 2008:

	£M
Adjustments recognised in the Profit and Loss Account	**(9.0)**
Adjustments recognised in Equity	**-**
	(9.0)

Scottish Hydro Electric Power Distribution plc

Notes on the Accounts
for the year ended 31 March 2008

7. Dividends

	2008 £M	2007 £M
Amounts recognised as distributions from equity:		
Final dividend for the current year of 24.2 p (2007 – nil) per share	**15.0**	-

The final dividend for the current year, £15.0m (2007 – £nil), was declared and approved on 18 March 2008 and was paid to shareholders on 31 March 2008. No dividend was paid or proposed in the year to 31 March 2007.

8. Tangible fixed assets

	Distribution assets £M	Other land and buildings £M	Vehicles and miscellaneous equipment £M	Total £M
Cost:				
At 1 April 2007	1,195.7	6.1	64.5	1,266.3
Additions	61.5	-	0.3	61.8
At 31 March 2008	**1,257.2**	**6.1**	**64.8**	**1,328.1**
Depreciation:				
At 1 April 2007	485.4	-	52.1	537.5
Charge for the year	33.0	0.5	0.5	34.0
At 31 March 2008	**518.4**	**0.5**	**52.6**	**571.5**
Net book value:				
At 31 March 2008	**738.8**	**5.6**	**12.2**	**756.6**
At 31 March 2007	710.3	6.1	12.4	728.8

	2008 £M	2007 £M
Tangible fixed assets include:		
Assets in the course of construction	**8.4**	7.7

9. Stocks

	2008 £M	2007 £M
Raw materials and consumables	**1.5**	1.3

10. Debtors

	2008 £M	2007 £M
Amounts falling due within one year:		
Trade debtors	**20.2**	17.8
Amounts owed by group undertakings	**272.0**	218.6
	292.2	236.4
Amounts falling due after more than one year:		
Amounts owed by group undertakings	**28.0**	28.0
	320.2	264.4

Scottish Hydro Electric Power Distribution plc

Notes on the Accounts
for the year ended 31 March 2008

11. Creditors: amounts falling due within one year

	2008 £M	2007 £M
Trade creditors	**2.8**	3.3
Amounts owed to group undertakings	**59.0**	33.0
Corporation tax	**31.0**	29.0
Taxation and social security	**1.2**	0.9
Other creditors	**4.2**	3.7
Accruals and other deferred income	**2.9**	2.3
	101.1	72.2

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

	2008 £M	2007 £M
Loans (note 13)	**179.0**	175.0
Loans due to ultimate parent (note 13)	**300.0**	300.0
Accruals and other deferred income	**62.2**	65.6
Amounts owed to group undertakings	**5.6**	5.6
	546.8	546.2

13. Analysis of borrowings

	Weighted Average Interest rate 2008 %	Weighted Average Interest rate 2007 %	2008 £M	2007 £M
Between two and five years				
6.29% European Investment Bank repayable on 24 September 2012	**6.29**	6.29	**50.0**	50.0
Over five years				
Floating rate European Investment Bank repayable on 13 June 2014	**5.88**	5.54	**25.0**	25.0
5.90% Loan Stock repayable to Scottish and Southern Energy plc on 31 March 2022	**5.90**	5.90	**300.0**	300.0
1.429% Index linked bond repayable 20 October 2056	**5.29**	5.08	**104.0**	100.0
			429.0	425.0
			479.0	475.0

Scottish Hydro Electric Power Distribution plc

Notes on the Accounts
for the year ended 31 March 2008

14. Deferred Taxation

Deferred taxation is provided as follows:

	2008 £M	2007 £M
Accelerated capital allowances	**126.3**	141.1
Other timing differences	**(0.2)**	(0.2)
Derivatives	**(1.6)**	(0.7)
Provision for deferred tax	**124.5**	140.2

	31 March 2008
Provision at 31 March 2007	140.2
Credited to profit and loss account	(15.6)
Credited to hedge reserve	(0.1)
Provision at 31 March 2008	**124.5**

15. Share capital

	2008 £	2007 £
Equity:		
Authorised:		
62,001,000 ordinary shares of £1 each	**62,001,000**	62,001,000
Allotted, called up and fully paid:		
62,000,000 ordinary shares of £1 each	**62,000,000**	62,000,000

16. Reserves

	Hedge Reserve £M	Profit and loss account £M	Total £M
At 31 March 2007	(1.5)	173.2	**171.7**
Retained profit for the year	-	81.3	**81.3**
Dividends		(15.0)	**(15.0)**
Credit in respect of employee share awards	-	0.8	**0.8**
Purchase of shares to satisfy employee share awards	-	(0.1)	**(0.1)**
Losses on effective portion of cash flow hedges (net of tax)	(0.3)	-	**(0.3)**
At 31 March 2008	**(1.8)**	**240.2**	**238.4**

Scottish Hydro Electric Power Distribution plc

Notes on the Accounts
for the year ended 31 March 2008

17. Pensions

The majority 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 treated as 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 £4.7m (2007 - £4.6m).

18. Employee share-based payments

The Group operates a number of share schemes for the benefit of all employees. Details of these schemes are as follows:

(i) Savings-related share option schemes ("Sharesave")

This scheme gives employees the option to purchase shares in the parent Company at a discounted market price, subject to them remaining in employment with the Group for the term of the agreement. Employees may opt to save between £5 and £250 per month for a period of 3 or 5 years and at the end of this period, employees have six months to exercise their options by using the cash saved (including a 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 parent Company on a monthly basis. Employees may nominate an amount between £10 and £125 to be deducted from their gross salary, and this is then used to purchase shares ('partnership shares') in the market on the final business day of each month. These shares are then held in trust for a period of 5 years, at which point they are transferred at no further cost to the employee. These shares may be withdrawn at any point during the 5 years, but tax and national insurance would then be payable on any amounts withdrawn.

In addition to the shares purchased on behalf of the employee, the Group will match the purchase up to a maximum of 5 shares ('matching shares') per month. Again these shares are held in trust for the five years until they are transferred to the employee. If an employee leaves during the first three years, or removes his/her 'partnership' shares, these 'matching' shares are forfeited.

In addition to the above, at 31 March 2005 and 31 March 2007 the Company made a special award of 50 and 20 free shares respectively. These awards were made to all employees in employment at both 31 March and 20 August 2005 for the 2005 award, and 31 March and 30 May 2007 for the 2007 award, in recognition of their contribution to the success of the Company. Under the arrangements for the award, the shares will be held in trust for five years, at which point they will be transferred to the employees at no cost to the employee. These shares may be withdrawn at any point during years four and five, but tax and national insurance would then be payable on any amounts withdrawn.

Scottish Hydro Electric Power Distribution plc

Notes on the Accounts for the year ended 31 March 2008

18. Employee share-based payments (continued)

(iii) Deferred bonus scheme

This scheme applied to senior managers and Executive Directors. Those eligible were awarded shares based on performance in the year. This amount was then used to purchase shares in the market which are held in trust on behalf of the employee for a period of three years, at which point the employee is entitled to exercise the award. In addition to shares purchased using the adjusted bonus award, additional shares will also be purchased using any dividends received on the shares held by the trust. If the employee resigns, they lose all outstanding awards.

This scheme has been replaced by the current Annual Bonus Scheme. Under this scheme, 25% of eligible employees' annual bonus is deferred into shares which only vest after three years, subject to continued service. The number of shares awarded is determined by dividing the relevant pre-tax bonus amount by the share price shortly after the announcement of the results for the financial year to which the bonus relates.

(iv) Performance Share Plan

This scheme applies to Executive Directors and senior executives. Those eligible are awarded a maximum value of share awards of up to 150% of base salary (previously 100%). These awards will vest after three years to the extent that certain performance conditions are met. These performance conditions are as follows: 50% of the award is subject to a Total Shareholder Return (TSR) target relative to other FT-SE100 companies over the performance period, with full vesting if the Company is above the 75th percentile and 25% (2007 – 30%) vesting if the Company is at the median, with pro rata vesting between the median and 75th percentile; the remaining 50% of the award is subject to an Earnings Per Share (EPS) growth target with full vesting occurring if adjusted EPS is 9% (2007 – 8%) above RPI per annum and 25% (2007 – 30%) vesting if adjusted EPS is 3% above RPI per annum with pro rata vesting between 3% and 9% (2007 – 3% to 8%) above RPI. There will be no vesting of the relevant portion of the award if the TSR minimum target is not met or the minimum EPS growth target is not achieved.

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

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

(i) Savings-related share option scheme

Date of grant		25 July 2003		16 July 2004		14 July 2005		11 July 2006		10 July 2007	
		2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Outstanding at start of year	Shares	**195,809**	253,556	**166,396**	168,273	**154,800**	156,729	**97,494**	-	-	-
	Option price	***562***	*562*	***622***	*622*	***886***	*886*	**999**	-	-	-
Granted	Shares	-	-	-	-	-	-	-	101,094	**109,220**	-
	Option price	-	-	-	-	-	-	-	*999*	***1,306***	-
Forfeited	Shares	**(1,285)**	(1,272)	**(1,161)**	(1,877)	**(3,154)**	(1,929)	**(2,200)**	(3,600)	**(734)**	-
	Option price	***562***	*562*	***622***	*622*	***886***	*886*	***999***	*999*	***1,306***	-
Exercised	Shares	-	(56,475)	**(35,633)**	-	**(64)**	-	**(219)**	-	-	-
	Weighted average price at date of exercise	-	*1,334*	***1,479***	-	***1,680***	-	***1,543***	-	-	-
Outstanding at end of year	Shares	**194,524**	195,809	**129,602**	166,396	**151,582**	154,800	**95,075**	97,494	**108,486**	-
	Price	***562***	*562*	***622***	*622*	***886***	*886*	***999***	*999*	***1,306***	-
Exercisable at year end	Shares	-	493	-	-	-	-	-	-	-	-
	Price	-	*562*	-	-	-	-	-	-	-	-

Scottish Hydro Electric Power Distribution plc

Notes on the Accounts
for the year ended 31 March 2008

18. Employee share-based payments (continued)

(i) Savings-related share option scheme (continued)

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

	July 2003		July 2004		July 2005		July 2006		July 2007	
	3 Year	5 Year	3 Year	5 Year	3 Year	5 Year	3 Year	5 Year	3 Year	5 Year
Fair value	659p	667p	730p	739p	1,012p	1,023p	1,216p	1,226p	1,593p	1,619p
Expected volatility	17%	17%	17%	17%	15%	15%	19%	19%	25%	25%
Risk free rate	4.7%	4.8%	4.7%	4.8%	4.1%	4.2%	4.7%	4.7%	5.8%	5.7%
Expected dividends	4.6%	4.6%	4.6%	4.6%	4.2%	4.2%	4.8%	4.8%	5.3%	5.2%
Term of the option	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	630p	630p	699p	699p	967p	967p	1,180p	1,180p	1,460p	1,460p
Strike price	562p	562p	622p	622p	886p	886p	999p	999p	1,306p	1,306p

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

(ii) Share Incentive Plan

	2008		2007	
	Shares	**Weighted average price (pence)**	Shares	Weighted average price (pence)
Outstanding at start of year	**99,448**	**973**	74,830	834
Granted	**29,250**	**1,506**	27,787	1,330
Forfeited	**(1,415)**	**1,121**	(2,130)	834
Exercised	**(1,492)**	**1,484**	(1,039)	1,290
Outstanding at end of year	**125,791**	**1,097**	99,448	973
Exercisable at end of year	**33,501**	**733**	22,429	632

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

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

Free shares

	2008		2007	
	Shares	**Weighted average price (pence)**	Shares	Weighted average price (pence)
Outstanding at start of year	**36,100**	**965**	37,350	965
Granted	**15,820**	**1,484**	-	-
Forfeited	**(620)**	**965**	(900)	965
Exercised	**(690)**	**1,483**	(350)	1,290
Outstanding at end of year	**50,610**	**1,127**	36,100	965

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

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

Scottish Hydro Electric Power Distribution plc

Notes on the Accounts for the year ended 31 March 2008

18. Employee share-based payments (continued)

(iii) Deferred bonus scheme

	2008		2007	
	Shares	**Price (pence)**	Shares	Price (pence)
Outstanding at start of year	**14,125**	**932**	11,117	811
Granted	**4,058**	**1,455**	5,081	1,146
Exercised	**(3,332)**	**1,434**	(2,073)	1,187
Outstanding at end of year	**14,851**	**1,075**	14,125	932

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

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

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

(iv) Performance Share Plan

	2008		2007	
	Shares	**Price (pence)**	Shares	Price (pence)
Outstanding at start of year	**7,690**	**1,220**	-	-
Granted	**13,729**	**1,434**	7,690	1,220
Outstanding at end of year	**21,419**	**1,357**	7,690	1,220

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.

19. Derivatives and financial instruments

The Company adopted FRS 25 *Financial Instruments: Disclosure and Presentation* and FRS 26 *Financial Instruments: Measurement* with effect from 1 April 2005 in the current year.

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 Risk Committee, a standing committee of the Board, comprising three executive directors and senior managers from the Generation and Supply and Finance functions, oversees the control of these activities. This committee is discussed further in the Annual Report of SSE plc.

The Group treasury function 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 Board and any breaches of these policies are reported to the Risk Committee and Group's Audit Committee.

Scottish Hydro Electric Power Distribution plc

Notes on the Accounts
for the year ended 31 March 2008

19. Derivatives and financial instruments (continued)

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

The Company's policy is to manage this risk by stipulating that a minimum of 50% of borrowings be subject to fixed rates of interest, either directly through the debt instruments themselves or through the use of derivative financial instruments. 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.

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 floating rate borrowings mainly comprise commercial paper issued at interest rates less than LIBOR and cash advances from the European Investment Bank (EIB).

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 2008	**Effective interest rate %**	**Total £M**	2-5 years £M	More than 5 years £M
Long term bonds	**5.290**	**104.0**	-	104.0
Other bank loans – fixed	**5.978**	**350.0**	50.0	300.0
Other bank loans – floating	**5.880**	**25.0**	-	25.0
Interest rate swaps – fixed	**4.764**	**150.0**	-	150.0

(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:

	2008 Carrying Value £M	**2008 Fair Value £M**	2007 Carrying Value £M	2007 Fair Value £M
Financial Assets				
Trade and other debtors	**320.2**	**320.2**	264.4	264.4
Financial Liabilities				
Trade and other creditors	**137.9**	**137.9**	114.4	114.4
Bank loans and overdrafts	**75.0**	**77.9**	75.0	76.5
Long-term bonds	**104.0**	**105.9**	100.0	96.8
Long-term bonds	**300.0**	**329.5**	300.0	320.9
Derivative financial liabilities	**5.5**	**5.5**	2.2	2.2

Fair values have been determined with reference to closing market prices

Unless otherwise stated, carrying value approximates fair value.

Scottish Hydro Electric Power Distribution plc

Notes on the Accounts
for the year ended 31 March 2008

19. Derivatives and financial instruments (continued)

Financial derivative instruments – disclosure
For disclosure purposes, derivative financial instruments are classified into two categories, operating derivatives and financing derivatives. The company only utilise 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 £5.5M (2007 - £2.2M) 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.

20. Commitments and contingencies

(i) Capital commitments

Capital expenditure

	2008 £M	2007 £M
Contracted for but not provided	-	2.0

(ii) Operating lease commitments

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

	Other assets	
	2008 £M	2007 £M
After five years	0.4	0.3

(iii) Guarantees

The Company has provided a guarantee in relation to £300m Eurobonds held by Scottish and Southern Energy plc. This guarantee has been provided jointly with Scottish Hydro Electric Transmission plc.

21. Ultimate parent company

The Company is a subsidiary of Scottish and Southern Energy plc, a company registered in Scotland, whose consolidated accounts (which include those of the Company) are available from Corporate Communications, Inveralmond House, 200 Dunkeld Road, Perth PH1 3AQ.

Scottish Hydro Electric Power Distribution plc

Additional Disclosures: Regulatory Accounts

The attached schedules represent additional information required by Standard Condition 44 of the Electricity Distribution Licence.

This includes a Cash Flow Statement and additional guidance on the accounting policies adopted.

Scottish Hydro Electric Power Distribution plc

Cash Flow Statement
for the year ended 31 March 2008

	Note	2008 £M	2007 £M
Net cash inflow/(outflow) from operating activities	(i)	**119.4**	(2.9)
Returns on investments and servicing of finance	(ii)	**(10.4)**	(14.4)
Taxation		**(34.2)**	(26.4)
Free cash flow		**74.8**	(43.7)
Capital expenditure and financial investment	(iii)	**(63.8)**	(56.3)
Equity dividends paid		**(15.0)**	-
Net cash (outflow) before management of liquid resources and financing		**(4.0)**	(100.0)
Financing	(iv)	**4.0**	100.0
Increase in cash* in the year		**-**	-

Notes to the Cash Flow Statement
for the year ended 31 March 2008

Reconciliation of net cash flow to movement in net debt

	2008 £M	2007 £M
Cash inflow from increase in cash*	**-**	-
Cash (inflow) from (increase) in debt and lease financing	**(4.0)**	(100.0)
Movement in net debt in the year	**(4.0)**	(100.0)
Net debt at 1 April	**(475.0)**	(375.0)
Net debt at 31 March	**(479.0)**	(475.0)

Analysis of net debt

	As at 1 April 2007 £M	Increase in cash* £M	(Increase)/ decrease in debt £M	**As at 31 March 2008 £M**
Cash at bank and in hand	-	-	-	**-**
Other debt due within one year	-	-	-	**-**
Net borrowings due within one year	-	-	-	**-**
Net borrowings due after more than one year	(475.0)	-	(4.0)	**(479.0)**
Net debt	(475.0)	-	(4.0)	**(479.0)**

* The Company does not hold cash balances at any time. Cash generated or required by the Company is remitted to or obtained from Scottish and Southern Energy plc or SSE Services plc. As a result the movement in increase of the indebtedness from the Group can be said to represent the cash generated in the year.

Scottish Hydro Electric Power Distribution plc

Notes to the Cash Flow Statement (continued)
for the year ended 31 March 2008

		2008 £M	2007 £M
	Reconciliation of operating profit to operating cash flows		
	Operating profit	**113.5**	106.2
	Depreciation	**34.0**	32.1
	Customer contributions and capital grants released	**(3.6)**	(3.6)
	(Increase) in stocks	**(0.2)**	(0.1)
	(Increase) in debtors	**(2.4)**	(4.9)
	(Decrease) in creditors	**(22.7)**	(133.9)
	Employee share award share purchase	**-**	(0.4)
	Charge in respect of employee share awards	**0.8**	1.7
(i)	**Net cash inflow/(outflow) from operating activities**	**119.4**	(2.9)
	Returns on investments and servicing of finance		
	Interest received	**14.4**	8.9
	Interest paid	**(24.8)**	(23.3)
(ii)	**Net cash (outflow) from returns on investments and servicing of finance**	**(10.4)**	(14.4)
	Capital expenditure and financial investment		
	Purchase of tangible fixed assets	**(63.8)**	(56.7)
	Sale of tangible fixed assets	**-**	0.4
(iii)	**Net cash (outflow) from capital expenditure and financial investment**	**(63.8)**	(56.3)
	Financing		
	New borrowings	**4.0**	100.0
	Repayment of borrowings	**-**	-
(iv)	**Net cash inflow from financing**	**4.0**	100.0

Scottish Hydro Electric Power Distribution plc

Notes on the Regulatory Accounts for the year ended 31 March 2008

1. Principal accounting policies

Basis of accounting

The Regulatory Accounts have been prepared under the historical cost convention and in accordance with UK generally accepted accounting standards (UK GAAP) and as required by Standard Condition 44, Regulatory Accounts, of the Electricity Distribution Licence. The principal accounting policies are summarised in the Notes to the Accounts and have been applied consistently.

Limitation of application of CA85 exemption disclosure

Standard Condition 44 requires the Regulatory Accounts to be prepared inclusive of all mandatory disclosures which otherwise may have been excluded from the Statutory Accounts as a result of the application of a CA85 exemption allowance.

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

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

- Director's Remuneration. The remuneration of the Directors of the Company who are also Executive Directors of the Ultimate Parent is published in the accounts of the Group

Furthermore, while it has been mandatory to prepare Accounts of listed entities in accordance with EU-adopted International Financial Reporting Standards (adopted IFRS) for reporting periods beginning on or after 1 January 2005, the statutory accounts of all the Group's subsidiary entities continue to be prepared under UK GAAP. As a result, the Directors of the Company, and those of the Group, do not believe it would be reasonably practicable to prepare the Regulatory accounts of the Company under adopted IFRS.

Independent auditors' report to Scottish Hydro Electric Power Distribution plc and to the Gas and Electricity Markets Authority ("The Regulator")

We have audited the Regulatory Accounts of Scottish Hydro Electric Power Distribution plc ("the Company") set out in section 2 on pages 6 to 27 which comprise: the Profit and Loss Account, Balance Sheet, Statement of Recognised Gains and Losses, Reconciliation of Movements in Shareholders' Funds, Cash Flow statement and the related notes to the Regulatory Accounts. These Regulatory Accounts 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 Accounts 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 Accounts are separate from the statutory Accounts of the Company. There are differences between United Kingdom Generally Accepted Accounting Principals (UK GAAP) and the basis of preparation of information provided in the regulatory accounts because the Standard Condition 44 of the Regulatory Licence specify 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 Accounts prepared in accordance with the Companies Act 1985.

Respective responsibilities of the regulator, the directors and auditors
The nature, form and content of Regulatory Accounts 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 in section 2 on page 5, the Company's directors are responsible for the preparation of the Regulatory Accounts in accordance with Standard Condition 44 of the Regulatory Licence.

Our responsibility is to audit the Regulatory Accounts 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 accounts present fairly in accordance with Standard Condition 44 of the Regulatory Licence and the accounting policies set out in section 2 on pages 9 to 12 and 27, 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 the information and explanations we require for our audit.

We read the other information contained in the Regulatory Accounts, 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 Accounts. The other information comprises the Corporate Report, review of the year and Corporate Governance Statement. Our responsibilities do not extend to the other information.

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 includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Regulatory Accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Regulatory Accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

Independent auditors' report to Scottish Hydro Electric Power Distribution plc and to the Gas and Electricity Markets Authority ("The Regulator") (continued)

Basis of audit opinion (continued)

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 Accounts are free from material misstatement, whether caused by fraud or other irregularity or error. However, as the nature, form and content of Regulatory Accounts 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 Accounts is separate from our opinion on the statutory accounts of the company on which we report, which are prepared for a different purpose. Our audit report in relation to the statutory accounts of the company (our "statutory" audit) was made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our statutory audit work was undertaken so that we might state to the company those matters which we are required to state to them in a statutory auditors' 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 our statutory audit report, or for the opinions we have formed in respect of that statutory audit.

Opinion

In our opinion the Regulatory Accounts of the Company for the year ended 31 March 2008 fairly present, in accordance with Standard Condition 44 of the Regulatory Licence and the accounting policies set out in section 2 on pages 9 to 12 and 27, the state of the Company's affairs at 31 March 2008 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with those conditions.

KPMG Audit Plc

KPMG Audit plc
Chartered Accountants
Edinburgh
22 July 2008