REGISTERED NO.
4094290

Southern Electric Power Distribution plc

Regulatory Accounts

Year ended 31 March 2010

CONTENTS

Operating and Financial Review

The Operating and Financial Review sets out the main trends and factors underlying the development and performance of the Company during the year ended 31 March 2010, as well as those matters which are likely to affect its future development and performance.

The business, its objectives and strategy

Southern Electric Power Distribution plc (the Company) is a wholly owned subsidiary of Scottish and Southern Energy plc (the Group). The Company distributes electricity to over 2.9m customers in the South of England. It currently has 77,004 kilometres of electricity mains on commission.

The Company is the subject of incentive-based regulation by the industry regulator, 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, 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 capital expenditure programmes, so that the number and duration of power cuts experienced by customers is kept to a minimum;
- grow the RAV of the networks business and so secure increased revenue; and
- engage constructively with the regulator, Ofgem.

Business performance overview

Performance during 2009/10 has been encouraging and against a range of measures has continued to be good. The following financial and operational key performance indicators are used by the Company in measuring performance:

a) Operating Profit (£m)

Year to March 2010	£234.4m
Year to March 2009	£220.1m
Increase (%)	6.5%

b) Capital Expenditure (£m)

Year to March 2010	£198.7m
Year to March 2009	£185.7m
Increase (%)	7.0%

c) Electricity Distributed (TWh)

Year to March 2010	33.7 TWh
Year to March 2009	34.4 TWh
Decrease (%)	1.9%

d) Customer Minutes Lost

Year to March 2010	65
Year to March 2009	66
Decrease	1.5%

Operating and Financial Review (continued)

Business performance overview (continued)

e) Customer Interruptions – number per 100 customers

Year to March 2010	61
Year to March 2009	64
Decrease	4.7%

The increase in operating profit reflects changes in the price of units distributed, which have mitigated the reduction in volume and a continued focus on cost control. Performance in respect of both minutes lost and interruptions was ahead of the targets set by Ofgem under its Quality of Service Incentive Scheme (QSIS), which gives financial benefits to distribution network operators that deliver good performance for customers. Performance-based income covers a number of issues, including the quality of service provided to customers and innovation. For 2009/10 performance-based additional income of £15.8m is expected to be earned, compared with the final out-turn of £12.0m in the previous year.

According to Ofgem's Distribution Quality of Service Report, published in December 2009, covering performance in respect of Customer Interruptions and Customer Minutes Lost, the Company earned additional revenue of £29m in nominal prices in the four years to March 2009 (the most recent period for which comparative data is available). This makes the Company one of the most successful electricity distribution companies on this measure in Great Britain. This reflects effective investment in the automation of the networks and effective operational responses to electricity supply interruptions.

Efficiency is one of the Group and Company's core values and, amongst Ofgem's explicit purposes in setting Price Controls, is to keep the costs of providing secure and reliable networks as low as possible. As part of the most recent Price Control Review, in December 2009, Ofgem published analysis which showed that the Company continues to be at the forefront of efficiency for overall operating costs.

This is based on the Company and Group's straightforward operating model, under which the vast majority of activities are in-house. Under this model:

- customer-facing activities such, as restoring power supplies or providing new connections, are managed from a network of 9 depots in communities throughout central and southern England;
- network management activities such as, inspections, maintenance and investment, are carried out in Operational Production Groups; and
- there is a strong emphasis on work being in-sourced and carried out by directly-employed people.

In August 2009, the Company and the Group's other electricity network operator, Scottish Hydro Electric Power Distribution plc, received an award of £200,000 under Ofgem's Customer Service Reward Scheme 2008/09 'in recognition of the breadth of its corporate responsibility programme which was seen to go beyond core business drivers'.

Electricity Network Investment

The key responsibility of the Company's business is to maintain safe and reliable supplies of electricity and to restore supplies as quickly as possible in the event of interruption. The Distribution Price Control Review 4 for 2005-10 resulted in substantially increased allowances for capital expenditure to maintain and improve the networks' performance. This has enabled the Company to increase its revenue from its networks, and delivery of this enhanced investment programme was one of the Company's priorities for the year. Investment is geared to renewing the Company's network, which were largely built in the 1950s and 1960s, and thereby reducing the number and duration of power supply interruptions. It is also geared to providing the infrastructure to accommodate customers' demand for power. 2009/10 was the final year of Distribution Price Control Review 4 and the level of capital expenditure increased in the year with the continuation of a number of significant schemes and an increase in refurbishment programmes. Capital expenditure was £198.7m during the year, which was 7% higher than in 2008/09. This takes the total capital expenditure on the network during the five years of DPCR4 to £793.7m. This represents an increase of £350m (79%) on the capital expenditure in the Distribution Price Control Review 3 period (2000 to 2005).

Operating and Financial Review (continued)

Electricity Network Investment (continued)

One feature of the 2005-10 Price Control that was widely welcomed was the ability to place under ground electricity lines, which were previously overhead, to help restore views in national parks and areas of outstanding natural beauty. For example, in early 2010, the Company's engineers removed a 30 metre electricity pylon in Langstone Harbour as part of a £1.6m project to remove 700 metres of overhead line from the harbour and from the road linking Langstone with Hayling Island and replacing it with underground cabling - the area is a Site of Special Scientific Interest.

As at 31 March 2010, the Company's estimate of Ofgem's valuation of the assets of its electricity distribution businesses (the Regulated Asset Value, or RAV) was £1,705m, based on Ofgem's methodology.

Factors & risks affecting the Business

The Company is responsible for managing an electricity distribution network, serving more than 2.9m 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. In December 2009, Ofgem published their final proposals document for the Distribution Price Control Review Period 5.

The Company decided, on balance, to accept Ofgem's final proposals for the Price Control for the five years from 1 April 2010. Ofgem's final proposals were assessed against the combined impact of three key criteria:

- the scope to earn additional revenue through operational efficiency and excellence;
- the treatment of ongoing pension costs; and
- the allowed return for shareholders as measured by the weighted average cost of capital.

On its own, the headline allowed weighted average cost of capital contained within the proposals (4.0%, on a post-tax, real return on capital basis) would not be enough to provide an adequate return on investment in electricity distribution. In addition to the cost of capital, however, Ofgem's proposals contained enhanced incentive mechanisms in areas such as customer service. They also reduced further the level of risk associated with energy network businesses by ensuring that the volume of electricity distributed will no longer affect companies' income.

The overall package should, therefore, allow the Company, the most efficient operator in Great Britain, to add to the return it earns from its electricity distribution assets by delivering good operational performance and innovations in network management.

In January 2010, Ofgem published its *Emerging Thinking* document on the future of electricity and gas network regulation. It suggests that the RPI-X price control mechanism needs to be changed as it will not be able to cope with the pace, uncertainty and scale of change needed to deliver sustainable energy supplies for customers. The document's proposals are designed to change the focus of regulation from companies' costs to looking more at what companies can deliver in terms of reliable networks, safety and investment to support low-carbon generation and meet the needs of customers.

This approach builds on the electricity Distribution Price Control Review 5, and could amount to a form of contract between Ofgem and the regulated network company, with the emphasis on delivery of certain key outputs. Ofgem is consulting on its 'emerging thinking' before more 'concrete and detailed' proposals are published in the summer of 2010.

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 interruption. 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 the Group's other network business, contractors and other electricity distribution network

Operating and Financial Review (continued)

Factors & risks affecting the Business (continued)

operators in the event of major interruptions. In addition 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.

Electricity Distribution Priorities in 2010/11

During 2010/11, the Company's first objective will continue to be to maintain safe and reliable supplies of power. The Company will also ensure that the network operations are managed as efficiently as possible, including maintaining tight controls over operational expenditure and delivering efficient capital expenditure, so that the number and duration of power cuts experienced by customers is kept to a minimum. In addition, as a result of the new Distribution Price Control Review, the Company aims to respond effectively to the new arrangements in the electricity distribution price control for allocating costs between support activities and network operating costs and also in deploying innovative techniques to maximise returns from good performance of the electricity network.

Safety

The Company 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 within the Group. 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 Group Health, Safety and Environmental Advisory Committee, together with the Group 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 Group 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, both the Group and the Company continue to be at the forefront of Britain's electricity industry in relation to safety.

Employees

The Group believes that there is a commonality of interest between employees, customers and shareholders. To reinforce this it provides opportunities for employees to become and remain shareholders in the Group through a Share Incentive Plan and a Sharesave Scheme. Employee participation in these schemes is now 42% and 34% respectively across the Group.

Within the Group, employee participation is encouraged through adherence to the Company's Teamwork value, which states: 'We support and value our colleagues and enjoy working together in an open and honest way.' The appraisal process for employees, including the senior management team, specifically evaluates their performance in Teamwork, along with performance in respect of the Group's other core values: Safety, Service, Efficiency, Sustainability and Excellence. In keeping with these values, the Group produced and distributed to all employees in March 2010 a comprehensive code of business practice, 'Doing the right thing'. It highlights, summarises and complements a range of ethics-related policies which the Group has in place.

In addition to a wide range of internal communication media and events, employee participation in the Group is also encouraged through the Chief Executive's blog, inter-active online forums, division and subject-specific employee surveys, Director-led regional roadshows and the Licence to Innovate scheme, which enables employees to research, review and test-trial new ideas.

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

Operating and Financial Review (continued)

Capital Structure (continued)

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

Treasury Policy, Objectives and Financial Risk Management

The Company's operations are generally financed by a combination of retained profits, bank borrowings, long term debt issuance and inter company loan balances. As a matter of policy, a minimum of 50% of the Company's debt is subject to fixed or inflation linked rates of interest. Within this policy framework, the Company borrows, as required, on different interest bases, with derivatives and forward rate agreements being used to achieve the desired out-turn interest rate profile. Borrowings of the Company are mainly made in Sterling to reflect the underlying currency denomination of assets and cashflows within the Company. Further details of the Company's borrowings can be found in note 13 of the notes to the financial statements.

The Company's financial risk is managed as part of the wider Group risk management policy. For more information regarding this, please visit the Group's 2010 Annual Report at www.scottish-southern.co.uk.
The main financial risks affecting the Group, and therefore the company, include exposures to fluctuations or changes in interest rates, foreign exchange rates, liquidity, commodity prices and volumes and counterparty creditworthiness.

The Group's Risk and Trading Committee, which reports to the Group Board, reviews and agrees policies for addressing each of these risks. At 31 March 2010, 75.1% of the Group's borrowings were at fixed or inflation-linked interest rates, after taking account of interest rate swaps. The Company's main risk area is in relation to interest rates and, as noted, this is controlled as part of the Group's risk management policies. Further details about the Company's risk management of interest rate risk can be found in note 20 of the notes to the financial statements.

Liquidity

The Company's exposure to liquidity risk is managed centrally by the Group's Treasury function. Short term liquidity is reviewed daily by Treasury, while the longer term liquidity position is reviewed on a regular basis by the Group Board. In relation to the Group's liquidity risk, the Group's and therefore Company's policy is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. It does this by ensuring that the Group has available committed borrowings and facilities equal to at least 105% of forecast borrowings over a rolling 12 month period.

Taxation

The Company's effective current tax rate was 30.1% compared with 31.5% in the previous year after prior year adjustments. The headline effective tax rate is 28.7% compared with 27.8% in the previous year.

Dividend

The Company's normal dividend policy was to distribute up to 50% of surplus cash flow as a dividend for both years. After consideration by the Directors a dividend of £25.0m (2009 - £50.0m) was declared, approved and paid in the year.

Borrowings and Facilities

The Company has loans of £844.7m (2009 – £851.6m) of which none of this (2009 - £nil) is due to other group companies and £71.4m (2009 - £78.6m) is in the form of loans from the European Investment Bank. Of the total, interest is paid at fixed rates on £844.7m (2009 - £851.6m).

As at 31 March 2010, the weighted average interest rate payable was 5.07% (2009 – 5.15%) and the weighted average remaining term was 23.62 years (2009 – 23.03 years).

Operating and Financial Review (continued)

Pensions

The majority of employees of the Company are members of the Southern Electric Pension Scheme, which, at 31 March 2010, had a deficit included in the Group financial statements, net of deferred tax, of £337.8m (2009 - £196.9m) on an IAS 19 basis.

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 2010 have been prepared in accordance with EU adopted IFRS.

The financial statements of Southern Electric Power Distribution plc have been prepared in accordance with applicable UK Generally Accepted Accounting Principles (UK GAAP).

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 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 and appropriate.

Southern Electric Power Distribution plc ("The Company")

Board of Directors
The Board consists of six Directors, two of whom are Directors of the Group. None of the Directors are Directors of Group Companies involved in Supply or Generation activities. Company Board Meetings were held on 7 occasions during the course of the year. The Group has an Audit Committee, a Remuneration Committee, an Executive Committee, a Risk and Trading Committee, a Health, Safety and Environmental Advisory Committee and a Nomination Committee and details of the appointees and work undertaken by these committees are included in the published Corporate Governance Statement of the Group (see www.scottish-southern.co.uk). The Company, as a subsidiary entity, has no such Committees, but the Group arrangements cover the operations of the Company.

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 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.

Corporate Governance Statement (continued)

Internal Control (continued)

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.

Going Concern

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

Report of the Directors

The Directors present their report together with the audited Financial statements for the year ended 31 March 2010.

1. Principal Activities

The Company's principal activity during the year was the regulated distribution of electricity. It will continue in this activity for the foreseeable future.

2. Business Review

The Company is responsible for managing an electricity distribution network serving more than 2.9m customers in the South of England. 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. A full review of the year is contained within the Operating and Financial Review section of these Accounts.

3. Results and Dividends

The profit for the financial year amounted to £135.4m (2009 - £133.3m). A final dividend of £25.0m (2009 – £50.0m) was declared, approved and paid by the Board during the year.

4. Directors

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

Gregor Alexander	
Colin Hood	
Steven Kennedy	
Mark Mathieson	
Ian Funnell	(appointed 30 November 2009)
Robert McDonald	(appointed 30 November 2009)

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 38 days at 31 March 2010.

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 489 of the Companies Act 2006, 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

Lilian Manderson

Lilian Manderson
Company Secretary
20 July 2010

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

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

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

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

We have audited the Regulatory Financial statements of Southern Electric Power Distribution plc ("the Company") which comprise: the Profit and Loss Account, Balance Sheet, Statement of Total Recognised Gains and Losses, Reconciliation of Movements in Shareholders' Funds, 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 Principals (UK GAAP) and the basis of preparation of information provided in the regulatory financial statements 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 Financial statements prepared in accordance with the Companies Act 2006.

Respective responsibilities of the regulator, the directors and auditors

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 11, 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 are properly prepared in accordance with Standard Condition 44 of the Regulatory Licence and the accounting policies set out on pages 18 to 21 of the Regulatory Financial statements. 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 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 Corporate Report, review of the year and Corporate Governance Statement. Our responsibilities do not extend to the other information.

Independent auditors' report to Southern Electric Power Distribution plc and to the Gas and Electricity Markets Authority ("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 includes 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 adequately 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, as 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 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 Financial statements of the Company for the year ended 31 March 2010 have been properly prepared in accordance with Standard Condition 44 of the Regulatory Licence and the accounting policies set out in on pages 18 to 21of the Regulatory Financial statements.

John Luke (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

20 July 2010

Profit and Loss Account
for the year ended 31 March 2010

	Note	2010 £m	2009 £m
Turnover		**474.1**	451.7
Cost of sales		**(20.3)**	(20.1)
Gross profit		**453.8**	431.6
Distribution costs		**(211.7)**	(202.8)
Administrative costs		**(7.7)**	(8.7)
Operating profit	2	**234.4**	220.1
Net interest payable	5	**(44.6)**	(35.6)
Profit on ordinary activities before taxation		**189.8**	184.5
Tax on profit on ordinary activities	6	**(54.4)**	(51.2)
Profit for the financial year	16	**135.4**	133.3

The above results are derived from continuing activities.

The accompanying notes are an integral part of these Financial statements.

Statement of Total Recognised Gains and Losses for the year ended 31 March 2010

	2010 **£m**	2009 £m
Profit for the financial year	**135.4**	133.3
Total recognised gains and losses relating to the financial year	**135.4**	133.3
Total gains and losses recognised since last annual report	**135.4**	133.3

Balance Sheet
as at 31 March 2010

	Note	2010 £m	2009 £m
Fixed Assets			
Tangible assets	8	**2,004.8**	1,886.1
Investments	9	**0.4**	0.3
		2,005.2	1,886.4
Current assets			
Debtors	10	**328.0**	391.4
Creditors:			
Amounts falling due within one year	11	**(351.3)**	(363.9)
Net current (liabilities)/assets		**(23.3)**	27.5
Total assets less current liabilities		**1,981.9**	1,913.9
Creditors:			
Amounts falling due after more than one year	12	**(977.5)**	(1,018.8)
Derivative financial liabilities	19	**(2.4)**	(2.2)
		(979.9)	(1,021.0)
Provisions for liabilities and charges			
Deferred taxation	14	**(286.0)**	(288.7)
Net assets		**716.0**	604.2
Capital and reserves			
Called up share capital	15	**7.9**	7.9
Profit and loss account	16	**708.1**	596.3
Shareholders' funds		**716.0**	604.2

These Financial statements were approved by the Directors on 20 July 2010 and signed on their behalf by

Gregor Alexander, Director

Southern Electric Power Distribution plc, registered no. 4094290

Cash Flow Statement
for the year ended 31 March 2010

	Note	2010 £m	2009 £m
Net cash inflow from operating activities	22	**319.3**	262.3
Interest received		**1.8**	8.9
Interest paid		**(45.4)**	(42.4)
Returns on investments and servicing of finance		**(43.6)**	(33.5)
Corporation tax paid		**(62.7)**	(56.1)
Taxation		**(62.7)**	(56.1)
Purchase of tangible fixed assets		**(181.1)**	(198.0)
Sale of tangible fixed assets		**-**	7.9
Capital expenditure and financial investment		**(181.1)**	(190.1)
Equity dividends paid	7	**(25.0)**	(50.0)
Net cash inflow/(outflow) before management of liquid resources and financing		**6.9**	(67.4)
Repayment of borrowings		**(6.9)**	(32.6)
New borrowings		**-**	100.0
Financing		**(6.9)**	67.4
Increase/(decrease) in cash in the year		**-**	-

Notes on the Financial statements for the year ended 31 March 2010

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) and as required by Standard Condition 44, Regulatory Financial statements, of the Electricity Distribution Licence. The principal accounting policies are summarised in the Notes to the Financial statements and have been applied consistently.

The Company's balance sheet at 31 March 2010 shows a net current liability position of £23.3m (2009 – net current assets of £27.5m). 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 financial statements are appropriately prepared on a going concern basis.

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 financial statements.

Limitation of application of CA06 exemption disclosure

Standard Condition 44 requires the Regulatory Financial statements to be prepared inclusive of all mandatory disclosures which otherwise may have been excluded from the Statutory Financial statements as a result of the application of a CA06 exemption allowance.

However, as the Company is a wholly owned subsidiary of 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 Southern 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 financial statements of the Group. The statutory accounts pensions accounting policy is commented upon in the notes to the financial statements.

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

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

Turnover

Turnover comprises the value of electricity distribution services and facilities provided during the year. Turnover includes an estimate of the value of electricity distribution services provided to 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.

Notes on the Financial statements for the year ended 31 March 2010

1. Significant accounting policies (continued)

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 substantially enacted, at the balance sheet date.

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

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

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

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

(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.

Customer contributions
Customer contributions and capital grants are recorded as deferred income and released to the profit and loss account over the estimated life used in calculating contributions.

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

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.

Notes on the Financial statements for the year ended 31 March 2010

1. Significant accounting policies (continued)

Equity and equity-related compensation benefits (continued)
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 an option pricing 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 account.

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 financial statements.

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).

Notes on the Financial statements for the year ended 31 March 2010

1. Significant accounting policies (continued)

Accounting policies under FRS 25 and 26 (continued)

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.

2. Operating profit

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

	2010 £m	2009 £m
Depreciation of tangible fixed assets	**80.0**	75.1
Operating lease rentals	**3.0**	0.4
Research and development	**0.9**	0.7
Release of deferred income in relation to customer contributions and capital grants	**(8.9)**	(9.2)
Net management fee in respect of services provided by parent company	**7.7**	8.7

The Company incurred an audit fee of £0.1m (2009 - £0.1m) in the year.

3. Staff costs and numbers

	2010 £m	2009 £m
Staff costs:		
Wages and salaries	**47.3**	45.5
Social security costs	**4.2**	3.9
Share based remuneration	**1.5**	1.5
Other pension costs	**30.2**	32.5
	83.2	83.4
Less capitalised as tangible fixed assets	**(28.0)**	(27.9)
	55.2	55.5

Employee numbers

	2010 Number	2009 Number
Numbers employed at 31 March	**1,327**	1,267

	2010 Number	2009 Number
The monthly average number of people employed by the Company during the year	**1,299**	1,267

Notes on the Financial statements for the year ended 31 March 2010

4. Directors' remuneration

No Director received remuneration in respect of service to the Company.

5. Net finance costs

	2010 £m	2009 £m
Interest receivable:		
Interest due from group companies	1.8	8.6
Other interest receivable	-	0.3
	1.8	8.9
Interest payable:		
Bank loans and overdrafts	(44.1)	(39.3)
Interest due to group companies	(0.3)	(3.7)
Other finance charges	(1.8)	(0.2)
	(46.2)	(43.2)
Movement on financing derivatives	(0.2)	(1.3)
Net interest payable	(44.6)	(35.6)

6. Taxation

	2010 £m	2009 £m
Current tax:		
UK corporation tax on profits of the year	58.7	58.7
Adjustments in respect of prior periods	(1.5)	(0.6)
	57.2	58.1
Deferred tax:		
Origination and reversal of timing differences	(5.4)	(6.9)
Adjustment in respect of previous year	2.6	-
Total Deferred Tax	(2.8)	(6.9)
Total tax on profit on ordinary activities	54.4	51.2

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:

	2010 £m	2009 £m
Profit before tax	189.8	184.5
Tax on profit on ordinary activities at standard UK Corporation tax rate of 28% (2009 - 28%)	53.1	51.7
Effects of:		
Depreciation in excess of capital allowances	5.4	6.6
Fair value losses on derivatives	-	0.4
Adjustment in respect of previous year	(1.4)	(0.6)
Other timing differences	0.1	-
Current tax charge for year	57.2	58.1

Notes on the Financial statements for the year ended 31 March 2010

7. Dividends

	2010 £m	2009 £m
Amounts recognised as distributions from equity:		
Final dividend of £3.18 (2009 - £6.37) per share	**25.0**	50.0
	25.0	50.0

The final dividend for the current year, £25.0m (2009 – £50.0m), was declared and approved on 26 March 2010 and was paid to shareholders on 31 March 2010. The final dividend for the previous year was approved on 20 March 2009 and paid to shareholders on 31 March 2009.

8. Tangible fixed assets

	Distribution assets £m	Other land and buildings £m	Vehicles and miscellaneous equipment £m	Total £m
Cost:				
At 1 April 2009	3,153.7	9.3	37.7	3,200.7
Additions	198.5	-	0.2	198.7
At 31 March 2010	**3,352.2**	**9.3**	**37.9**	**3,399.4**
Depreciation:				
At 1 April 2008	1,275.9	1.1	37.6	1,314.6
Charge for the year	79.9	-	0.1	80.0
At 31 March 2010	**1,355.8**	**1.1**	**37.7**	**1,394.6**
Net book value:				
At 31 March 2010	**1,996.4**	**8.2**	**0.2**	**2,004.8**
At 31 March 2009	1,877.8	8.2	0.1	1,886.1

	2010 £m	2009 £m
Tangible fixed assets include:		
Assets in the course of construction	**79.8**	65.6

9. Fixed asset investments

	Other investments £m
At 1 April 2009	0.3
Additions	0.1
At 31 March 2010	**0.4**

Investments held by the Company represent loans to the EA Technology Group Trustees in relation to minimum funding requirements of the ESPS pension scheme.

Notes on the Financial statements for the year ended 31 March 2010

10. Debtors

	2010 £m	2009 £m
Amounts falling due within one year:		
Trade debtors	**21.7**	21.5
Prepayments and accrued income	**20.1**	13.5
Amounts owed by group undertakings	**286.2**	356.4
	328.0	391.4

11. Creditors: amounts falling due within one year

	2010 £m	2009 £m
Short-term loans (note 13)	**32.7**	7.2
Trade creditors	**9.1**	8.5
Amounts owed to group undertakings	**205.3**	262.6
Corporation tax	**41.4**	47.0
Other creditors	**9.1**	10.2
Accruals and other deferred income	**53.7**	28.4
	351.3	363.9

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

	2010 £m	2009 £m
Loans (note 13)	**812.0**	844.4
Accruals and other deferred income	**116.2**	125.1
Amounts owed to group undertakings	**49.3**	49.3
	977.5	1,018.8

Notes on the Financial statements for the year ended 31 March 2010

13. Analysis of borrowings

	Weighted Average Interest rate 2010 %	Weighted Average Interest rate 2009 %	2010 £m	2009 £m
Within one year				
Bank overdraft	-	-	-	-
5.76% European Investment Bank repayable on 20 December 2010	5.76%	5.66%	25.0	-
7.42% European Investment Bank repayable on 15 March 2012*	7.42%	7.32%	2.8	2.6
6.54% European Investment Bank repayable on 15 September 2012*	6.54%	6.44%	2.5	2.3
5.79% European Investment Bank repayable on 15 September 2013*	5.79%	5.69%	2.4	2.3
			32.7	7.2
Between two and five years				
5.76% European Investment Bank repayable on 20 December 2010	5.76%	5.66%	-	25.0
5.34% European Investment Bank repayable on 5 April 2011	5.34%	5.24%	25.0	25.0
7.42% European Investment Bank repayable on 15 March 2012*	7.42%	7.32%	3.0	5.8
6.54% European Investment Bank repayable on 15 September 2012*	6.54%	6.44%	4.0	6.5
5.79% European Investment Bank repayable on 15 September 2013*	5.79%	5.69%	6.7	9.1
			38.7	71.4
Over five years				
5.50% Eurobond repayable on 19 June 2032	5.50%	5.50%	350.3	350.3
4.625% Eurobond repayable on 20 February 2037	4.63%	4.63%	323.4	323.4
4.454% Index Linked Bond repayable on 27 February 2044	4.46%	2.16%	99.6	99.3
			773.3	773.0
			844.7	851.6

* Amortising

14. Deferred taxation

Deferred taxation is provided as follows:

	2010 £m	2009 £m
Accelerated capital allowances	286.1	289.5
Fair value losses on derivatives	-	(0.6)
Share based remuneration	0.2	0.1
Other timing differences	(0.3)	(0.3)
Provision for deferred tax	286.0	288.7

	31 March 2010 £m
Provision at 1 April 2009	288.7
Credited to profit and loss account	(2.8)
Charged directly to equity	0.1
Provision at end of year	286.0

Notes on the Financial statements for the year ended 31 March 2010

15. Share capital

	2010 £m	2009 £m
Equity:		
Authorised:		
7,850,000 ordinary shares of £1 each	7.9	7.9
Allotted, called up and fully paid:		
7,850,000 ordinary shares of £1 each	7.9	7.9

16. Reserves

	£m
At 1 April 2009	596.3
Profit for the year	135.4
Dividends	(25.0)
Credit in respect of employee share schemes (net of tax)	1.4
At 31 March 2010	**708.1**

17. Reconciliation of movement in shareholders' funds

	2010 £m	2009 £m
Profit for the financial year	**135.4**	133.3
Dividends	**(25.0)**	(50.0)
Credit in respect of employee share schemes (net of tax)	**1.4**	1.1
Net addition to shareholders' funds	**111.8**	84.4
Opening shareholders' funds	**604.2**	519.8
Closing shareholders' funds	**716.0**	604.2

18. Pensions

The majority of the Company's employees are members of the Electricity Supply 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 a contribution to a defined contribution scheme. New employees can opt to join a personal pension scheme which is a money purchase scheme with the Company matching the members' contributions up to a maximum of 6% of salary. The scheme is managed by Friends Provident.

The Company's share of the total contributions payable to the pension schemes during the year was £5.1m (2009 - £4.5m).

The Company has provided a guarantee to the Southern Electric Pension Scheme in respect of 80% of the Scheme's deficit. Should the company operating the Scheme, SSE Services plc, fail to adequately fund the deficit, the Company will provide 80% of the funding required. In relation to this, the Company incurred a further charge, payable to SSE Services plc, of £25.1m (2009 – £28.0m), which related to its share of the Scheme's deficit repair contributions for the year ended 31 March 2010.

Notes on the Financial statements for the year ended 31 March 2010

19. Employee share-based payments

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

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

This scheme gives employees the option to purchase shares in the 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. 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 also match the purchase up to a maximum of 6 (previously 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, the following special awards of free shares have been made:

Award made			31 March 2005	31 March 2007	31 March 2008
Free shares per employee			50	20	10
Date at which employee must still be employed to receive award (in addition to 31 March)			20 August 2005	30 May 2007	1 August 2008

These awards were made to all employees in recognition of their contribution to the success of the company. Under the arrangements for the awards, 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 income tax and national insurance would then be payable on any amounts withdrawn.

Notes on the Financial statements for the year ended 31 March 2010

19. 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. The level of these awards are subject to certain performance conditions over the three year performance period, which can be summarised as follows:

Award made		26 July 2007	10 June 2008	30 June 2009
Maximum value of award as a % of base salary		150	150	150
Performance conditions				
Total shareholder return (50% of award) (i)	Full vesting	> 75th percentile	> 75th percentile	> 75th percentile
	25% vesting	median	median	Median
Earnings per share (50% of award) (ii)	Full vesting	RPI + 9%	RPI + 9%	RPI + 9%
	25% vesting	RPI + 3%	RPI + 3%	RPI + 3%

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

As at 31 March 2010

Award Date	Option Price (pence)	Outstanding at start of year	Granted	Exercised	Lapsed	**Outstanding at end of year**	Date from which exercisable	Expiry date
16 July 2004	622	110,218	-	(109,693)	-	**525**	1 October 2009	31 March 2010
14 July 2005	886	575	-	-	(575)	-	1 October 2008	31 March 2009
14 July 2005	886	289,961	-	(2,757)	(8,103)	**279,101**	1 October 2010	31 March 2011
11 July 2006	999	69,189	-	(68,219)	(336)	**634**	1 October 2009	31 March 2010
11 July 2006	999	108,765	-	-	(6,141)	**102,624**	1 October 2011	31 March 2012
10 July 2007	1,306	49,639	-	-	(9,664)	**39,975**	1 October 2010	31 March 2011
10 July 2007	1,306	91,825	-	-	(18,424)	**73,401**	1 October 2012	31 March 2013
17 July 2008	1,274	41,293	-	-	(13,490)	**27,803**	1 October 2011	31 March 2012
17 July 2008	1,274	75,631	-	-	(23,597)	**52,034**	1 October 2013	31 March 2014
30 June 2009	1,042	-	71,067	-	(2,181)	**68,886**	1 October 2012	31 March 2013
30 June 2009	1,042	-	165,086	-	(4,128)	**160,958**	1 October 2014	31 March 2015
		837,096	236,153	(180,669)	(86,639)	805,941		

Notes on the Financial statements for the year ended 31 March 2010

19. Employee share-based payments (continued)

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

As at 31 March 2009

Award Date	Option Price (pence)	Outstanding at start of year	Granted	Exercised	Lapsed	**Outstanding at end of year**	Date from which exercisable	Expiry date
25 July 2003	562	113,678	-	(113,663)	(15)	-	1 October 2008	31 March 2009
16 July 2004	622	113,258	-	(787)	(2,253)	**110,218**	1 October 2009	31 March 2010
14 July 2005	886	73,857	-	(72,754)	(528)	**575**	1 October 2008	31 March 2009
14 July 2005	886	296,598	-	(1,677)	(4,960)	**289,961**	1 October 2010	31 March 2011
11 July 2006	999	71,413	-	(820)	(1,404)	**69,189**	1 October 2009	31 March 2010
11 July 2006	999	117,042	-	-	(8,277)	**108,765**	1 October 2011	31 March 2012
10 July 2007	1,306	54,385	-	(42)	(4,704)	**49,639**	1 October 2010	31 March 2011
10 July 2007	1,306	101,354	-		(9,529)	**91,825**	1 October 2012	31 March 2013
17 July 2008	1,274	-	42,485	-	(1,192)	**41,293**	1 October 2011	31 March 2012
17 July 2008	1,274	-	77,876	-	(2,245)	**75,631**	1 October 2013	31 March 2014
		941,585	**120,361**	**(189,743)**	**(35,107)**	**837,096**		

As share options are exercised continuously throughout the period from 1 October to 31 March, the weighted average share price during this period of 1,126p (2009: 1,164p) is considered representative of the weighted average share price at the date of exercise. The weighted average share price of forfeitures is simply the option price to which the forfeit relates.

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

	July 2004		July 2005		July 2006		July 2007		July 2008		June 2009	
	3 Year	5 Year	3 Year	5 Year	3 Year	5 Year	3 Year	5 Year	3 Year	5 Year	3 Year	5 Year
Fair value of option	108p	117p	126p	137p	217p	227p	287p	313p	304p	339p	244p	269p
Expected volatility	17%	17%	15%	15%	19%	19%	25%	25%	28%	28%	35%	35%
Risk free rate	4.7%	4.8%	4.1%	4.2%	4.7%	4.7%	5.8%	5.7%	4.9%	5.0%	2.7%	2.9%
Expected dividends	4.6%	4.6%	4.2%	4.2%	4.8%	4.8%	5.3%	5.2%	4.1%	4.2%	4.1%	4.2%
Term of the option	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs
Underlying price at grant date	699p	699p	967p	967p	1,180p	1,180p	1,460p	1,460p	1,397p	1,397p	1,139p	1,139p
Strike price	622p	622p	886p	886p	999p	999p	1,306p	1,306p	1,274p	1,274p	1,042p	1,042p

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

Matching shares	**2010** Shares	**Weighted average price (pence)**	2009 Shares	Weighted average price (pence)
Outstanding at start of year	**243,087**	**1,171**	215,156	1,108
Granted	**66,600**	**1,137**	56,911	1,260
Forfeited	**(3,452)**	**1,171**	(23,211)	778
Exercised	**(12,997)**	**1,125**	(5,769)	1,290
Outstanding at end of year	**293,238**	**1,165**	243,087	1,171
Exercisable at end of year	**132,916**	**1,091**	119,937	823

Notes on the Financial statements for the year ended 31 March 2010

19. Employee share-based payments (continued)

ii) Share Incentive Plan (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 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.

As share options are exercised continuously throughout the year, the weighted average share price during this period of 1,125p (2009: 1,290p) is considered representative of the weighted average share price at the date of exercise.

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	**2010**		2009	
	Shares	**Weighted average price (pence)**	Shares	Weighted average price (pence)
Outstanding at start of year	**97,577**	**1,161**	91,590	1,133
Granted	**-**	**-**	12,700	1,417
Forfeited	**(250)**	**1,161**	(1,070)	1,133
Exercised	**(3,849)**	**1,125**	(5,643)	1,290
Outstanding at end of year	**93,478**	**1,162**	97,577	1,161
Exercisable at end of year	**44,260**	**965**	48,161	965

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.

As share options are exercised continuously throughout the year, the weighted average share price during this period of 1,125p (2009: 1,290p) is considered representative of the weighted average share price at the date of exercise.

(iii) Deferred bonus scheme

	2010		2009	
	Shares	**Price (pence)**	Shares	Price (pence)
Outstanding at start of year	**9,738**	**1,399**	7,647	1,312
Granted	**4,361**	**1,174**	4,579	1,545
Exercised	**(6,589)**	**1,117**	(2,488)	1,401
Outstanding at end of year	**7,510**	**1,516**	9,738	1,399
Exercisable at end of year	**-**	**-**	937	1,009

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.

Notes on the Financial statements for the year ended 31 March 2010

19. Employee share-based payments (continued)

(iv) Performance Share Plan

	2010		2009	
	Shares	**Price (pence)**	Shares	Price (pence)
Outstanding at start of year	**11,526**	**1,311**	8,305	1,220
Granted	**6,454**	**1,174**	3,221	1,545
Exercised	**(8,305)**	**1,174**	-	-
Outstanding at end of year	**9,675**	**1,335**	11,526	1,311

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.

20. 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 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.

(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).

Notes on the Financial statements for the year ended 31 March 2010

20. Derivatives and financial instruments (continued)

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 2010	Effective interest rate %	Total £m	Within 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m
Long term bonds	**5.00%**	**775.3**	-	-	-	775.3
Other bank loans – fixed	**5.82%**	**71.4**	32.7	33.2	5.5	-
Interest rate swaps – floating	**6.08%**	**40.0**	-	40.0	-	-

(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:

	2010 Carrying Value £m	2010 Fair Value £m	2009 Carrying Value £m	2009 Fair Value £m
Financial Assets				
Trade and other debtors	**307.9**	**307.9**	377.9	377.9
Financial Liabilities				
Trade and other creditors	**442.7**	**442.7**	484.1	484.1
Bank loans and overdrafts	**71.4**	**75.0**	78.6	80.8
Long-term bonds	**773.9**	**769.0**	773.0	672.0
Derivative financial liabilities	**2.4**	**2.4**	2.2	2.2

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 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 £2.4m (2009 - £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.

Notes on the Financial statements for the year ended 31 March 2010

21. Capital commitments

(i) Capital expenditure

	2010	2009
	£m	£m
Contracted for but not provided	**19.5**	29.2

(ii) Operating lease commitments
Leases as lessee:

	2010	2009
	£m	£m
Amount included in the profit and loss account relating to the current year leasing arrangements	**3.0**	0.4

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	
	2010	2009
	£m	£m
Within one year	**0.2**	-
Between two and five years	**0.8**	-
After five years	**6.2**	0.2
	7.2	0.2

22. Reconciliation of operating profit to operating cashflows

	2010	2009
	£m	£m
Reconciliation of operating profit to operating cash flows		
Operating profit including gains on disposals	**234.4**	220.1
Depreciation	**80.0**	75.1
Customer contributions and capital grants released	**(8.9)**	(9.2)
(Increase) in debtors	**(6.8)**	(3.2)
Increase/(decrease) in creditors	**19.1**	(22.0)
Charge in respect of employee share awards	**1.5**	1.5
Net cash inflow from operating activities	**319.3**	262.3

23. Net debt

Reconciliation of net cash flow to movement in net debt

	2010	2009
	£m	£m
Cash inflow/(outflow) from increase/(decrease) in cash(i)	-	-
Cash outflow/(inflow)/ from decrease/(increase) in debt and lease financing	6.9	(67.4)
Movement in net debt in the year	6.9	(67.4)
Net debt at 1 April	(851.6)	(784.2)
Net debt at 31 March	(844.7)	(851.6)

Notes on the Financial Statements for the year ended 31 March 2010

23. Net debt (continued)

Analysis of net debt

	As at 1 April 2009 £m	Increase in cash[(i)] £m	(Increase)/ decrease in debt £m	Non-cash movements[(ii)] £m	As at 31 March 2010 £m
Cash at bank and in hand	-	-	-	-	-
Other debt due within one year	(7.2)	-	(0.5)	-	(7.7)
Net borrowings due within one year	(7.2)	-	(0.5)	-	(7.7)
Net borrowings due after more than one year	(844.4)	-	7.4	-	(837.0)
Net debt	(851.6)	-	6.9	-	(844.7)

(i) 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.

(ii) The fair value adjustment relates to the adoption of FRS 26 from 1 April 2005 and is in relation to certain hedged debt balances, which are fair valued in accordance with the fair value hedge accounting requirements under the standard. The Company's policies are explained in the Notes to the Financial statements. Movements in these values are shown as a non-cash item in the analysis of net debt.

24. Ultimate parent company

The Company is a subsidiary of Scottish and Southern Energy 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 Scottish and Southern Energy plc. The consolidated financial statements of the group (which include those of the Company) are available from Corporate Communications, Inveralmond House, 200 Dunkeld Road, Perth PH1 3AQ.