REGISTERED NO.
SC213461

Scottish Hydro Electric Transmission Limited

Regulatory Accounts

Year ended 31 March 2010

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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
Scottish Hydro Electric Transmission Limited (the Company) is a wholly owned subsidiary of Scottish and Southern Energy plc (the Group). The company owns the Electricity Transmission network in the north of Scotland. It currently has 4,913 kilometres of electricity mains on commission. Since the introduction of British Electricity Trading and Transmission Arrangements in April 2005, National Grid has been the National Electricity Transmission System Operator, responsible for balancing the supply and demand of electricity across Great Britain. Scottish Hydro Electric Transmission Limited remains responsible for maintaining and investing in the transmission network in its area, which serves around 70% of the landmass of Scotland.

The Company is the subject of incentive-based regulation by the industry regulator, the Office of Gas and Electricity Markets (Ofgem), which sets for periods of five years the revenue that is allowed use of the 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.

The Company's strategy and main objectives are to :

- comply fully with all electricity network safety standards and environmental requirements;
- ensure that the electricity network is managed as efficiently as possible, including maintaining tight controls over operational expenditure and capital expenditure;
- provide good performance in areas such as reliability of supply, customer service and innovation ;
- ensure there is sufficient network capacity for those seeking to generate electricity from renewable and other sources within the licensed network area;
- grow the 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	£35.8m
Year to March 2009	£41.4m
Decrease (%)	13.5%

b) Capital Expenditure (£M)

Year to March 2010	£59.6m
Year to March 2009	£60.7m
Decrease (%)	1.8%

c) Number of Transmission System Incidents (Number)

Year to March 2010	34
Year to March 2009	14
Increase (%)	143%

d) System Availability (%)

Year to March 2010	97.3%
Year to March 2009	96.7%
Increase (%)	0.6%

Business performance overview (continued)

The reduction in Operating Profit was due to increases in operating costs associated with a transmission upgrade project and pension deficit costs incurred in the year. £4.5m of costs were associated with pre construction activities on the Beauly Denny transmission upgrade An application to recover these costs will be submitted to Ofgem during 2010. It is expected that these costs will be recovered via regulated revenue during the course of the next year. A charge of £1.9m was incurred relating to the Company's share of pension deficit payment made by the Group to the Scottish Hydro Electric Pension Scheme (SHEPS). 2009/10 was the first year in which a deficit payment was made to SHEPS.

The increase in the number of Transmission incidents involving 3 or more customers from 14 in 2008/09 to 34 in 2009/10 was primarily due to 17 incidents over two 24 hour periods in February and March 2010. These were caused by 2 severe weather events. All but 2 of these events auto-reclosed and the average disruption time was less than 2 minutes. 9 of the remaining 17 events were caused by lightning strikes all of which auto-reclosed.. Despite the increase in the number of incidents, the level of system availability increased from 96.7% in 2008/09 to 97.3% in 2008/09.

Electricity Network Investment & future developments

2009/10 was Year 3 of the current Transmission price control Review period that runs from April 2007 until March 2012. The level of investment in the Transmission network continued at similar levels to 2008/09. 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 £405m based on Ofgem's methodology.

The Company is responsible for maintaining and investing in the transmission network in its area. As the licensed transmission company for the area the Company has to ensure there is sufficient network capacity for those seeking to generate electricity from renewable (and other) sources within it. In support of this objective four major developments are currently under way and have the potential to transform the scale and scope of the Company's business:

- **Knocknagael, Beauly-Blackhillock-Kintore and Beauly-Dounreay**: In January 2010, Ofgem announced authorisation of construction funding for these three upgrades in the Company's area, which form part of the first tranche of transmission projects to help connect renewable energy to the electricity network. These projects have a total value of almost £200m and should all be completed by 2014. During 2009/10 £9.2m was spent on these projects.

- **Beauly-Denny**: Scottish Ministers announced in January 2010 that they have granted consents, with associated conditions, to install a 400,000 volt overhead electricity transmission line to replace the existing 132,000 volt overhead transmission line between Beauly and Denny. The existing line will be dismantled. The final cost of replacing the Beauly-Denny line can only be established once analysis of all of the conditions associated with the consent has been completed; and full construction work can only begin once it is clear that all of the conditions can be satisfied and Ofgem is able to confirm the investment is necessary, efficient and economical. The Company has concluded it should be able to undertake preliminary construction works during 2010, with a value of around £50m, with a further four summers of construction work required to complete the new line.

- **Western Isles:** The Company's proposal for an electricity transmission connection between the Western Isles and the north west of Scotland features, for the 77km mainland section, an underground cable between the west coast of Sutherland and the Beauly substation. The Company submitted the necessary Scottish Ministers an application for consent to construct the connection in 2008. The connection will be required to transmit renewable energy from the Western Isles, and a significant milestone was reached in January 2010 when a developer received approval for a 118MW wind farm at Eishken.

- **Shetland:** In July 2009, the Company submitted planning applications for converter stations associated with the proposed 320km subsea high voltage direct current (HVDC) transmission link between the Shetland Islands and Moray on the Scottish mainland to accommodate renewable energy developments in Shetland. It would also connect properties in Shetland to the mainland electricity network for the first time. Related to this, in December 2009, the European Commission announced that the Company had been successful in securing a capital grant of €74m under the European Energy Programme for

Electricity Network Investment & future developments (continued)

Recovery. The grant is towards the incremental cost of including an intermediate offshore HVDC hub off Caithness on the route of the proposed Shetland link and increasing the capacity of the southern section to Moray. The hub is at the centre of a potential, innovative three-ended 'Y' configuration, with legs from Caithness and Shetland to accommodate substantial planned renewable energy developments in the far north east of Scotland and the Northern isles.

Looking to the longer term, the Company has participated in the Electricity Networks Strategy Group, sponsored by Ofgem and the UK Department of Energy and Climate Change and involving all of the transmission companies in Great Britain. It has identified a potential need for sub-sea cable links between Scotland and England known as 'bootstraps'. The Company expects to be a major participant in this and other transmission developments over the next decade and beyond.

Electricity Transmission Priorities in 2010/11

During 2010/11, the Company's first objective will be to maintain safe and reliable supplies of power and to restore supplies as quickly as possible in the event of interruptions, so performance in terms of transmission system incidents and availability will continue to be critical.

Key priorities for the Company during the year will include the continued efficient delivery of the major programme of investment in the network along with the progression and development of the projects including those mentioned in the section above.

In addition Ofgem announced in January 2010 a delay of 1 year to the start of the Transmission Price Control Review 5 period. A one year rollover price control agreement for 2012/13 financial year will be put in place. Discussions with Ofgem have already commenced on the scope and terms of this rollover year and these will continue during the course of 2010/11.

Factors affecting the Business

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

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

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 existing and future customers.

This approach builds on the recent 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.

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

Safety (continued)

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 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 11 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.

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 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 21.8% compared with 17.3% in the previous year, after prior year adjustments. The headline effective tax rate is 27.8% compared with 22.1% in the previous year.

Dividend

The Company's dividend policy is to distribute up to 50% of surplus cash flow as a dividend for both years. No dividend was declared or paid in the year.

Borrowings and Facilities

The Company has loans of £158.1m (2009 – £158.1m) of which £133.1m (2009 - £133.1m) is due to other group companies and £25.0m (2009 - £25.0m) is in the form of loans from the European investment Bank. Of the total, interest is paid at fixed or inflation-linked interest rates on £158.1m (2009 - £158.1m).

As at 31 March 2010, the weighted average interest rate payable was 5.96% (2009 – 5.94%) and the weighted average remaining term was 9.66 years (2009 – 10.66 years).

Pensions

The majority of employees of the Company are members of the Scottish Hydro-Electric Pension Scheme, which, at 31 March 2010, based on an IAS 19 accounting basis, had a deficit included in the Group financial statements, net of deferred tax, of £180.8m (2009 - £nil).

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 Scottish Hydro Electric Transmission Limited have been prepared in accordance with applicable UK Generally Accepted Accounting Principles (UK GAAP).

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.

Scottish Hydro Electric Transmission Limited ("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.

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.

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 transmission of electricity in the north of Scotland.

2. Business Review

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

3. Results and Dividends

The profit for the financial year amounted to £19.2m (2009 - £26.1m). The Directors do not recommend the payment of a dividend and no dividends were paid in the year (2009 – £nil).

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.

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.

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office.

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 Financial statements and the Regulatory Financial statements in accordance with applicable law and regulations. Standard Licence Condition B1 of the Regulatory Licence requires the Directors to prepare Regulatory Financial statements, for each regulatory year, which present fairly the assets, liabilities, reserves and provisions of, or reasonably attributable to the Company and of revenues, costs and cash flows of, or reasonably attributable to, the Company for that period. In preparing the Regulatory Financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the Regulatory Financial statements on a 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 which 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 1985 and Standard Licence Condition B1 as applicable. They are also responsible for the system of internal control, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditors' report to Scottish Hydro Electric Transmission Limited and to the Gas and Electricity Markets Authority ("The Regulator")

We have audited the Regulatory Financial statements of Scottish Hydro Electric Transmission Limited ("the Company") set out 14 to 29 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 Financial statements. These Regulatory Financial statements have been prepared under the accounting policies set out therein.

This report is made, on terms that have been agreed, solely to the Company and the Regulator in order to meet the requirements of Standard Condition B1 of the Company's Regulatory Licence. Our audit work has been undertaken so that we might state to the Company and the Regulator those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under the Company's Regulatory Licence to procure such a report and (b) to facilitate the carrying out by the Regulator of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Regulator, for our audit work, for this report, or for the opinions we have formed.

Basis of preparation

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

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

Respective responsibilities of the regulator, the directors and 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 B1 of the Regulatory Licence.

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

We report to you our opinion as to whether the Regulatory Financial statements are properly prepared in accordance with Standard Condition B1 of the Regulatory Licence and the accounting policies set out on pages 18 to 20 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 Scottish Hydro Electric Transmission Limited 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 are properly prepared in accordance with Standard Condition B1 of the Regulatory Licence and the accounting policies set out on pages 18 to 20 of 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		**63.7**	61.0
Cost of sales		**(3.7)**	(0.1)
Gross profit		**60.0**	60.9
Distribution costs		**(20.9)**	(16.8)
Administrative costs		**(3.3)**	(2.7)
Operating profit	2	**35.8**	41.4
Net interest payable	5	**(9.2)**	(7.9)
Profit on ordinary activities before taxation		**26.6**	33.5
Tax on profit on ordinary activities	6	**(7.4)**	(7.4)
Profit for the financial year	14	**19.2**	26.1

There are no other recognised gains or losses other than the reported profit above.

The above results are derived from continuing activities.

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

Balance Sheet
as at 31 March 2010

	Note	2010 £m	2009 £m
Fixed Assets			
Tangible assets	7	**348.7**	302.0
Current assets			
Debtors	8	**15.2**	66.8
Creditors:			
Amounts falling due within one year	9	**(45.1)**	(77.9)
Net current liabilities		**(29.9)**	(11.1)
Total assets less current liabilities		**318.8**	290.9
Creditors:			
Amounts falling due after more than one year	10	**(169.0)**	(162.0)
Provisions for liabilities and charges			
Deferred taxation	12	**(37.6)**	(36.0)
Net assets		**112.2**	92.9
Capital and reserves			
Called up share capital	13	**4.3**	4.3
Profit and loss account	14	**107.9**	88.6
Shareholders' funds		**112.2**	92.9

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

Gregor Alexander, Director

Scottish Hydro Electric Transmission Limited, Registered No. SC213461

Reconciliation of Movement in Shareholders' Funds as at 31 March 2010

	2010 £m	2009 £m
Profit for the financial year	**19.2**	26.1
Credit in respect of employee share awards	**0.1**	0.1
Net addition to shareholders' funds	**19.3**	26.2
Opening shareholders' funds	**92.9**	66.7
Closing shareholders' funds	**112.2**	92.9

Cash Flow Statement
for the year ended 31 March 2010

	Note	2010 £m	2009 £m
Net cash inflow from operating activities	18	**78.3**	73.9
Interest received		**0.2**	2.1
Interest paid		**(9.4)**	(10.0)
Returns on investments and servicing of finance		**(9.2)**	(7.9)
Corporation tax paid		**(7.5)**	(7.2)
Taxation		**(7.5)**	(7.2)
Purchase of tangible fixed assets		**(63.0)**	(58.8)
Sale of tangible fixed assets		**1.4**	-
Capital expenditure and financial investment		**(61.6)**	(58.8)
Net cash (outflow)/inflow before management of liquid resources and financing		**-**	-
Repayment of borrowings		**-**	-
New borrowings		**-**	-
Financing		**-**	-
Increase/(decrease) in cash in the year		**-**	-

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 £29.9m (2009 – net current liabilities of £11.1m). The parent company has confirmed that it will continue to provide financial support to the Company and in particular will not seek repayment of the amounts currently made available. On this basis, the directors believe that the Company will be in a position to meet its liabilities as they fall due and that the financial statements are appropriately prepared on a going concern basis.

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 Financial statements.

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 FRS29 and has therefore not prepared the disclosures relating to financial instruments and capital as full disclosure is provided in the Group financial statements.

Limitation of application of CA06 exemption disclosure

Standard Condition 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 transmission services and facilities provided during the year. Turnover includes an estimate of the value of the transmission of electricity on behalf of customers between the date of the last meter reading and the year-end.

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, by the balance sheet date.

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

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

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

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

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

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.

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

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

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

1. Significant accounting policies (continued)

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.

2. Operating profit

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

	2010 £m	2009 £m
Depreciation of tangible fixed assets	**11.5**	9.9
Release of deferred income in relation to customer contributions and capital grants	**(0.5)**	(0.5)
Research and development	**0.5**	0.4
Net management fee in respect of services provided by parent company	**3.4**	2.7

The Company incurred an audit fee of £0.01m (2009 - £0.01m) in the year.

3. Staff costs and numbers

	2010 £m	2009 £m
Staff costs:		
Wages and salaries	**3.5**	3.3
Social security costs	**0.3**	0.3
Share-based remuneration	**0.1**	0.1
Other pension costs (note 15)	**2.8**	0.8
	6.7	4.5
Less capitalised as tangible fixed assets	**(3.2)**	(3.0)
	3.5	1.5

Included within the above costs is a charge recognised under FRS 20 of £94,862 (2009 - £58,740).

Employee numbers

	2010 Number	2009 Number
Numbers employed at 31 March	**83**	82

	2010 Number	2009 Number
The monthly average number of people employed by the Company during the year	**83**	75

4. Directors' remuneration

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

5. Net interest payable

	2010 £m	2009 £m
Interest receivable:		
Interest receivable from group companies	**0.2**	2.1
Interest payable and similar charges:		
Bank loans and overdrafts	**(1.5)**	(1.6)
Interest payable to group companies	**(7.9)**	(8.4)
	(9.4)	(10.0)
Net interest payable	**(9.2)**	(7.9)

6. Taxation

	2010 £m	2009 £m
Current tax:		
UK corporation tax on profits for the year	**6.0**	7.7
Adjustments in respect of previous years	**(0.2)**	(1.9)
	5.8	5.8
Deferred tax:		
Origination and reversal of timing differences	**1.5**	1.7
Adjustment in respect of prior years	**0.1**	(0.1)
Total Deferred Tax	**1.6**	1.6
Total tax on profit on ordinary activities	**7.4**	7.4

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	**26.6**	33.5
Tax on profit on ordinary activities at standard UK corporation tax rate of 28% (2009 - 28%)	**7.4**	9.4
Effects of:		
Capital allowances less than depreciation	**(1.8)**	(1.5)
Other timing differences	**0.4**	(0.2)
Adjustment in respect of prior periods	**(0.2)**	(1.9)
Current tax charge for year	**5.8**	5.8

7. Tangible fixed assets

	Transmission assets £m	Other land and buildings £m	Vehicles and miscellaneous equipment £m	Total £m
Cost:				
At 1 April 2009	442.8	3.2	0.3	446.3
Additions	59.6	-	-	59.6
Disposal	(1.4)	-	-	(1.4)
At 31 March 2010	501.0	3.2	0.3	504.5
Depreciation:				
At 1 April 2009	144.0	-	0.3	144.3
Charge for the year	11.5	-	-	11.5
At 31 March 2010	155.5	-	0.3	155.8
Net book value:				
At 31 March 2010	**345.5**	**3.2**	-	**348.7**
At 31 March 2009	298.8	3.2	-	302.0

	2010 £m	2009 £m
Tangible fixed assets include:		
Assets in the course of construction	**57.4**	29.2

8. Debtors

	2010 £m	2009 £m
Amounts falling due within one year:		
Trade debtors	-	1.1
Amounts owed by group undertakings	**15.2**	65.7
	15.2	66.8

9. Creditors: amounts falling due within one year

	2010 £m	2009 £m
Trade creditors	**1.3**	2.1
Amounts owed to group undertakings	**23.2**	51.2
Corporation tax	**3.0**	4.8
Accruals and other deferred income	**16.6**	19.0
Other creditors	**1.0**	0.8
	45.1	77.9

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

	2010 £m	2009 £m
Loans (note 11)	**25.0**	25.0
Loans due to ultimate parent (note 11)	**133.1**	133.1
Accruals and other deferred income	**10.9**	3.9
	169.0	162.0

11. Analysis of borrowings

	Weighted Average Interest rate 2010 %	Weighted Average Interest rate 2009 %	2010 £m	2009 £m
Between two and five years				
6.39% European Investment Bank repayable 24 September 2012	**6.39**	6.29	**25.0**	25.0
Over five years				
6.00% Loan Stock repayable to Scottish and Southern Energy plc on 31 March 2021	**6.00**	6.00	**100.0**	100.0
5.50% Loan Stock repayable to Scottish and Southern Energy plc on 31 March 2021	**5.50**	5.50	**33.1**	33.1
			158.1	158.1

12. Deferred taxation

Deferred taxation is provided as follows:

	2010 £m	2009 £m
Accelerated capital allowances	**38.0**	36.0
Other timing differences	**(0.4)**	-
Provision for deferred tax	37.6	36.0

	31 March 2010 £m
Provision at start of year	36.0
Charged to profit and loss account	1.6
Provision at 31 March 2010	**37.6**

13. Share capital

	2010 £m	2009 £m
Equity:		
Authorised:		
4,301,000 ordinary shares of £1 each	**4.3**	4.3
Allotted, called up and fully paid:		
4,300,000 ordinary shares of £1 each	**4.3**	4.3

14. Reserves

	Profit and loss account £M
At start of the year	**88.6**
Profit for the year	**19.2**
Credit in respect of employee share schemes	**0.1**
At 31 March 2010	**107.9**

15. 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. The scheme is managed by Friends Provident.

The Company's share of the total contribution payable to the pension schemes during the year was £0.9m (2009 - £0.8m).

The Company incurred a further charge, payable to SSE Services plc, of £1.9m (2009 – £nil), which related to its share of the Scheme's deficit repair contributions for the year ended 31 March 2010.

16. 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 6 years (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.

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

16. Employee share-based payments (continued)

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	11,558	-	(11,558)	-	-	1 October 2009	31 March 2010
14 July 2005	886	10,701	-	-	-	**10,701**	1 October 2010	31 March 2011
11 July 2006	999	1,230	-	(1,230)	-	-	1 October 2009	31 March 2010
11 July 2006	999	5,293	-	-	(366)	**4,927**	1 October 2011	31 March 2012
10 July 2007	1,306	877	-	-	(345)	**532**	1 October 2010	31 March 2011
10 July 2007	1,306	8,240	-	-	(3,509)	**4,731**	1 October 2012	31 March 2013
17 July 2008	1,274	1,664	-	-	(206)	**1,458**	1 October 2011	31 March 2012
17 July 2008	1,274	12,323	-	-	(8,446)	**3,877**	1 October 2013	31 March 2014
30 June 2009	1,042	-	6,786	-	(174)	**6,612**	1 October 2012	31 March 2013
30 June 2009	1,042	-	22,813	-	(447)	**22,366**	1 October 2014	31 March 2015
		51,886	29,599	(12,788)	(13,493)	**55,204**		

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	18,788	-	(18,788)	-	-	1 October 2008	31 March 2009
16 July 2004	622	11,715	-	-	(157)	**11,558**	1 October 2009	31 March 2010
14 July 2005	886	1,085	-	(1,085)	-	-	1 October 2008	31 March 2009
14 July 2005	886	10,812	-	-	(111)	**10,701**	1 October 2010	31 March 2011
11 July 2006	999	1,604	-	-	(374)	**1,230**	1 October 2009	31 March 2010
11 July 2006	999	6,259	-	-	(966)	**5,293**	1 October 2011	31 March 2012
10 July 2007	1,306	1,021	-	-	(144)	**877**	1 October 2010	31 March 2011
10 July 2007	1,306	8,240	-	-	-	**8,240**	1 October 2012	31 March 2013
17 July 2008	1,274	-	1,664	-	-	**1,664**	1 October 2011	31 March 2012
17 July 2008	1,274	-	12,578	-	(255)	**12,323**	1 October 2013	31 March 2014
		59,524	14,242	(19,873)	(2,007)	**51,886**		

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

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.

16. Employee share-based payments (continued)

(ii) Share Incentive Plan

	2010 Shares	2010 Weighted average price (pence)	2009 Shares	2009 Weighted average price (pence)
Outstanding at start of year	**12,642**	**1,214**	10,635	1,108
Granted	**4,606**	**1,174**	3,889	1,260
Forfeited	**(206)**	**1,214**	(1,720)	656
Exercised	**(849)**	**1,125**	(162)	1,290
Outstanding at end of year	**16,193**	**1,207**	12,642	1,214
Exercisable at end of year	**8,895**	**1,091**	6,643	820

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.

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

	2010 Shares	2010 Weighted average price (pence)	2009 Shares	2009 Weighted average price (pence)
Outstanding at start of year	**4,050**	**1,166**	3,490	1,120
Granted	**-**	**-**	720	1,417
Exercised	**(50)**	**1,125**	(160)	1,290
Outstanding at end of year	**4,000**	**1,166**	4,050	1,166
Exercisable at end of year	**2,300**	**965**	2,340	965

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.

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.

17. Commitments and contingencies

(i) Capital commitments

Capital expenditure:

	2010 £m	2009 £m
Contracted for but not provided	**87.5**	72.9

(ii) 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 Power Distribution plc.

18. Reconciliation of operating profit to operating cashflows

	2010 £m	2009 £m
Reconciliation of operating profit to operating cash flows		
Operating profit	**35.8**	41.4
Depreciation	**11.5**	9.8
Customer contributions and capital grants released	**(0.5)**	(0.5)
Decrease/(increase) in debtors	**1.1**	(1.1)
Increase in creditors	**30.3**	24.2
Charge in respect of employee share awards	**0.1**	0.1
Net cash inflow from operating activities	**78.3**	73.9

19. Net debt

Reconciliation of net cash flow to movement in net debt

	2010 £m	2009 £m
Cash inflow from increase in cash*	-	-
Cash (inflow)/outflow from decrease in debt and lease financing	-	-
Movement in net debt in the year	-	-
Net debt at 1 April	**(158.1)**	(158.1)
Net debt at 31 March	**(158.1)**	(158.1)

Analysis of net debt

	As at 1 April 2009 £m	Increase in cash* £m	(Increase)/ decrease in debt £m	**As at 31 March 2010 £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	(158.1)	-	-	**(158.1)**
Net debt	(158.1)	-	-	**(158.1)**

* 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.

20. 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.