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Scottish Hydro Electric Transmission Plc
(Previously Scottish Hydro Electric Transmission Limited)

Regulatory Accounts

Year ended 31 March 2013

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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 2013, 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 plc (the "Company") is a wholly owned subsidiary of SSE plc (the "Group"). The Company owns the Electricity Transmission network in the north of Scotland. Since the introduction of British Electricity Trading and Transmission Arrangements in April 2005, National Grid has been the National Electricity Transmission System Operator, responsible for balancing the supply and demand of electricity across Great Britain. The Company is responsible for maintaining and investing in the transmission network in its area, which comprises around 5,000km of high voltage overhead lines and underground cables covering around 70% of the land mass of Scotland serving remote and, in some cases, island communities. As the licensed transmission company for the area, the Company has to ensure there is sufficient network capacity for those seeking to generate electricity from renewable and other sources.

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

The Company's strategy and main objectives are to:

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

Business performance overview

a) Operating Profit

Year to March 2013	£91.4m
Year to March 2012	£71.5m
Increase (%)	27.8%

b) Capital Expenditure

Year to March 2013	£334.1m
Year to March 2012	£228.7m
Increase (%)	46.1%

c) Number of Transmission System Incidents

Year to March 2013	23
Year to March 2012	19
Increase (%)	21%

Business performance overview (continued)

d) System Availability

Year to March 2013	96.5%
Year to March 2012	97.1%
Decrease (%)	0.6%

The Company's operating profit increased by 27.8% from £71.5m to £91.4m. This reflected the continuing increase in its investment in its asset base and resultant increase in allowed revenue.

Whilst the number of Transmission System Incidents remains low in absolute terms, they rose during 2012/13 as a result of poor weather during the year. System Availability fell by 0.6% during the year. This is related to the increased level of investment in the network and associated construction work, which at times requires planned system outages in order to carry out works safely.

A total of £334.1m was invested by SHE Transmission in its network in 2012/13, up from £228.7m in 2011/12. As of 31 March 2013, the Company's estimate of Ofgem's valuation of the assets of its electricity transmission business (the Regulatory Asset Value, or RAV) was £1.05bn using Ofgem's methodology. This includes expenditure on network upgrades.

Upgrading Scotland's electricity transmission network
The base of SHE Transmission's plans for 2013 to 2021 is an approved capital investment programme of over £1bn in 2009/10 prices. There is flexibility to increase this very significantly, if required, to upgrade the transmission network during the period. To proceed to construction, projects require a demonstrable commitment from developers, any necessary consents for development and authorisation from Ofgem that SHE Transmission can recover the cost of its investment. Within the base capital investment programme, projects completed or under construction include (investment numbers are on an expected out-turn basis):

- **Beauly-Dounreay:** Work on upgrading and reinforcing the transmission network between Beauly and Dounreay is now complete on time and within Ofgem's authorised budget of £78m. Further work, including on new and upgraded substations, is under way which, once complete, will allow the connection of around an additional 400MW of renewable generation in the Caithness and Sutherland area.
- **Beauly-Denny:** Full construction work on the replacement of SSE's part of the line, from Beauly to Wharry Burn, is now well under way. All 136 towers have been erected in the north section between Beauly and Fort Augustus and the line was energised in early July 2013. With a total of around £340m invested so far, the replacement line is 200km in length and involves the development of five substations. Further work is taking place with SP Transmission on the interface with the network in the south of Scotland and this will inform the timescales for the completion of the entire line.
- **Beauly-Mossford:** The first stage of this project, to construct a new substation at Corriemoille, is well under way. This already has an Ofgem allowance of £14m. Consent for a replacement 132kV transmission line between Beauly and Mossford has been received from Scottish Ministers. Progress is being made for Ofgem authorisation and contracts are being negotiated in order to complete the overhead line works by 2015. The estimated cost of both parts of the project is around £70m.
- **Beauly-Blackhillock-Kintore:** Work on replacing the conductors of the 275kV transmission lines between Beauly and Blackhillock and Blackhillock and Kintore to allow an increase in the capacity of the network to transmit electricity is, subject to the outage programme, well under way. Ofgem has authorised investment of over £90m for this development.

A total of £246.1m was invested in these four projects during 2012/13.

Implementing RIIO-T1
The Company has now entered the next price control period, RIIO T1 (Revenue = Incentives + Innovation + Outputs) which runs for eight years from 1 April 2013 until 31 March 2021. The decision to fast track with the publication of the Final Proposals in April 2012 allowed the Company a year to prepare for the implementation of the new Price Control. This included looking at opportunities to maximise potential revenue from incentives and preparing a number of key projects for submission under the new flexible funding process including:

Business performance overview (continued)

Implementing RIIO-T1 (continued)

- **Kintyre-Hunterston:** The Company has received consent to build a new 132kV substation in Crossaig on the Kintyre peninsula and replace the existing 132kV overhead line between Carradale and Crossaig with a higher capacity double circuit overhead line and install two subsea cable circuits from this new substation round the north coast of Arran to Hunterston. An investment case has recently been consulted on by Ofgem. The current programme anticipates that the reinforcement will be completed around 2016. The investment is currently estimated to be in excess of £200m.
- **Caithness to Moray**: The Company has submitted an investment case to Ofgem to develop a subsea electricity cable between Caithness, where work is continuing to secure consents for a new substation at Spittal, and Moray, where it is proposed to upgrade the existing substation at Blackhillock, to transmit the large volume of existing and planned electricity from renewable sources in the north of Scotland. The cable will be capable of transmitting around 1,200MW of electricity and has a forecast investment requirement of around £1.2bn. This proposal to develop a subsea cable retains the flexibility to accommodate further generation developments in the north of Scotland as and when the need to do so arises.
- **East Coast 400kV:** The Company is planning to upgrade the existing east coast transmission line which runs from Blackhillock to Kincardine from an operating voltage of 275kV to 400kV, with associated substation developments. This will enable new capacity for generating electricity to link to the main transmission system and centres of demand. The project is a key reinforcement in the Scottish Government's National Planning Framework for Scotland and has a forecast investment requirement of around £415m.

The key driver for the above projects, which could represent an investment of up to £1.9bn, is the need to accommodate renewable energy developments in the north of Scotland. In line with this, the Company expects to invest an average of around £350m for the next few years, possibly rising to over £500m. Throughout that period it will be, in essence, a construction business. In this context, the enforcement of SSE's Major Projects Governance Framework, including strong control over risk and project management, is absolutely critical.

In addition to these, a joint project between the Company, National Grid Electricity Transmission and SP Transmission to facilitate the proposed development of a 2GW East Coast HVDC subsea link between the north of Scotland and centres of electricity demand is progressing. This project is subject to some uncertainty in generation scenarios, against which the cost benefit assessment is carried out in order to ensure that the preferred option for development remains economic and efficient. While this is taking place, a number of technical and environmental assessments and consultations have been carried out and consultation processes relating to the proposed infrastructure are under way.

Working with stakeholders on the Scottish island groups

The Company's plans for 2013 to 2021 include approved base capital expenditure of over £1bn. There is flexibility to increase this significantly, to upgrade the transmission network during 2013-21 in response to the needs of electricity generators. This need is demonstrated by developers meeting commercial obligations under connection agreements thus enabling the Company to make the case for funding for transmission investment with Ofgem. However, developer confidence is currently affected by a period of regulatory and policy change, including the outcome of the UK government's Electricity Market Reform proposals and the transmission charging regime changes envisaged by Ofgem's Project TransmiT.

In recognition of some of the challenges faced by generation on the Scottish Islands, including the Western Isles, Orkney and Shetland, a Scottish Islands Renewables Steering Group, chaired by UK Government with input from the Scottish Government, has examined the commercial viability of renewable projects on the Scottish islands, the overall value for money that these projects would provide for the UK and options to address or mitigate the impact of transmission charges. The report, published in May 2013, concludes that, under current policy, it is unlikely to be economic to develop further onshore wind projects on the Scottish islands and that the marine renewables industry will continue to require financial support at levels at or above those currently being offered. The report calls on Government to weigh up the costs and benefits of renewable generation on the Scottish Islands against other sources of electricity, considering the impact on the local economies and communities, and on wider GB consumers.

Business performance overview (continued)

Working with stakeholders on the Scottish island groups (continued)
Prior to a decision from the UK and Scottish Governments on how to address the above issues, the Company continues to make progress in developing projects to connect the Scottish islands including:

- **Orkney to Caithness:** The Company is continuing to develop a project for a new 220kV subsea cable between Orkney and Dounreay to increase transmission system capacity to support renewable energy projects, mainly marine, in and around Orkney. Site investigations, survey and design work are continuing and, pending the required consents and regulatory approval, the completion of the link is planned for 2018.
- **Western Isles:** The Company has undertaken a considerable amount of work in relation to the proposed Western Isles HVDC link and Lewis infrastructure. However, under the regulatory framework, the Company will need to be able to demonstrate a robust economic case for constructing the link and, in light of the findings of the Scottish Islands Renewables Project, the funding gap for developers continues to be a key challenge. Therefore, while the Company looks forward to a Ministerial decision to address the policy issues, due to the timescales for placing the cable contract, the link is no longer deliverable before 2017.
- **Shetland:** The Company is in the process of securing consents for converter stations and the proposed subsea/onshore underground HVDC transmission link between the Shetland Islands and the Scottish mainland to accommodate renewable energy developments in Shetland. The link would also connect properties in Shetland to the mainland electricity network for the first time and could be installed in the second half of this decade. Pending the required consents, regulatory approval and securing of HVDC supply chain capacity, the completion of the link is currently planned for 2018.

For these island projects, a decision from the UK and Scottish Governments on the issues raised in the Scottish Island Renewables Project report is required before the Company will submit the projects for regulatory approval. In the meantime, it will continue to seek planning consents and engage the supply chain.

Building a supply chain for transmission infrastructure
Global demand for key plant items such as HVDC technology, cable manufacturing capacity and subsea installation equipment is high with the result that there is a restricted market place and competition with projects within the UK as well as further afield across Europe and the rest of the world. Equally important is the availability of a skilled and experienced workforce. The Company continues to engage with key global suppliers for HVDC technology and has recently awared four contracts with four global businesses to help facilitate the delivery of the new electricity substations in the north of Scotland, an integral part of the investment programme. The Company is also working on similar awards for all of the proposed overhead line and underground cable works.

In addition, the Company is investing in the skills for the future through the recruitment of apprentices, Technical Staff Trainees and graduates to help deliver the infrastructure programme over the next decade. In the last three years, almost 100 such roles have been created and The Company plans to recruit for more than 50 additional roles this year.

Managing energy networks in exceptional situations
In March 2013, SSE's electricity transmission and distribution networks in the west of Scotland were affected by severe snow drifts and line-icing with the resulting requirement to replace around 350 wooden poles on the distribution network and repair or replace nine steel towers on the 132kV Port Ann to Carradale transmission line in Kintyre. To restore supplies as quickly as possible, two of the largest mobile power generation installations ever seen in the UK were deployed. Access was a key issue in what was an exceptional weather event.

Working closely with partners across government, local authorities and the emergency services, power was restored to the majority of homes within five days with the remaining households being connected within a week. The efforts of SSE's employees were recognised by, amongst many others, the residents of Arran, who gathered hampers of food and toiletries produced on the island to say thank you to the SSE employees who restored their electricity supply. The Chairman of VisitArran said: 'We are enormously grateful to the small army of men and women who worked in some pretty appalling conditions to restore power to our homes and workplaces'.

Business performance overview (continued)

Working with customers and stakeholders
As the licenced electricity Transmission Owner (TO) in the north of Scotland, the Company has a duty to maintain and develop the transmission system. In carrying out this duty, the Company's activities are scrutinised and regulated by Ofgem, including the level of engagement with customers and stakeholders.

The programme to expand the network to facilitate the growth of electricity generation from renewable sources is of interest to a wide range of individuals and organisations including developers, communities, national and local government, the supply chain and trade organisations. Keeping these stakeholders updated and informed about its programme is a key priority for the Company.

In addition, there is a complex system of co-ordination for development of the network in Great Britain which means that significant new generation connecting in to the system in the north of Scotland is likely to impact on the network in the south of Scotland and require reinforcement into England and, potentially, Wales. The Company participates in the Electricity Networks Steering Group, jointly chaired by the UK government and Ofgem, to identify and co-ordinate work to help address key strategic issues that affect the electricity networks in the transition to a low carbon future.

Electricity transmission priorities for 2013/14 and beyond
The Company is a fast-growing and fast-changing business, where the core activity for much of the next decade will be construction. Against this background, its priorities for 2013/14 and beyond are to:

- meet key milestones in projects under construction, in a way that is consistent with all safety and environmental requirements;
- implement the new operational regimes for the 2013-21 Price Control and maintain high levels of system availability.
- make progress with projects in development, including implementing the programme of consulting with, and updating, interested parties;
- maintain and develop effective stakeholder relationships; and
- ensure it has the people, skills, resources and supply chain relationships that will be necessary to support growth on a significant scale.

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

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

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

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

Values and responsibilities (continued)

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

Employees

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 48% and 38% 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. The Group also runs an annual externally facilitated survey of employee engagement. The 2012 survey, with a 90% response rate, showed that the Group has an above-average benchmark employee engagement score of 81%.

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, regional roadshows and the Licence to Innovate scheme, which enables employees to research, review and test-trial new ideas.

Resources available

As part of the SSE plc group, the Company has significant resources which it can draw upon to meet its service commitments. The Company benefits from group-wide treasury management functions in order to provide adequate financing, with undrawn facilities totalling £1bn available to SSE plc which could be made available to the Company as required. The Company also draws upon shared services covering central functions such as finance, HR, regulation, health and safety, company secretarial and insurance services. All such services are provided under an appropriate Service Level Agreement.

The Company has 333 employees which it calls on to maintain its transmission network and carry out investment in future developments. In addition to these employees, the services of key contractors are called upon in a number of large capital projects to ensure that these projects are delivered on time and on budget. The size of the contracting companies is appropriate to the scale of the projects which the Company undertakes, ensuring that each contractor also has sufficient resources to deploy.

Social and community issues

The Company considers its relationship with the community it serves as a core part of its operations. Engagement with local users and the wider stakeholder community is a fundamental principle underlying the RIIO T1 price control period, and the Business Plan which the Company submitted to Ofgem as part of that price control details the areas on which stakeholders were consulted, their responses, and how those responses were used to shape our Business Plan and associated capital expenditure projects.

Social and community issues (continued)
The learning from RIIO T1 process is being turned into an enduring stakeholder engagement strategy which will be used to guide the Company's operations and decisions in the future.

On a wider basis, the Company participates in SSE plc's programme of community-based schemes. SSE continues to establish close working relationships with local community groups, organisations and charities in the regions in which it operates;

- **Action** – employee volunteering, under which employees are given one day of leave to support community initiatives. During 2012/13, 6,268 volunteer days were given throughout the Group to 622 projects in the UK and Ireland. SSE teams supported a range of projects.
- **Education** – support the work of schools by promoting safe and responsible use of energy. During 2012/13, SSE established a partnership with Keep Scotland Beautiful. Through the partnership, SSE has sponsored the Eco-Schools initiative which works with schools to change attitudes towards the environment. Furthermore, SSE is supporting the work of the Wood Family Trust in helping to support the Youth and Philanthropy Initiative which engages young people in creating social change. SSE took the decision not to reopen its visitor facilities in Dorset and Perthshire. Following a detailed review, SSE concluded that, in order to bring the buildings up to modern standards, including the addition of suitable disabled access, a significant investment would be required. SSE is now seeking to create more sustainable options for delivering a quality education programme to schools and visitors in the future. In particular, it is developing proposals for a brand new visitors' facility close to its hydro-electric power station in Pitlochry. More information on SSE's community programmes can be found online at www.sse.com/community.

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

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

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

Treasury policy, objectives and financial risk management
The Company's operations are generally financed by a combination of retained profits, bank borrowings, long term debt issuance and inter company loan balances. As a matter of policy, a minimum of 50% of the Company's debt is subject to fixed 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 12 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 2013 Annual Report at www.sse.com.

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.

Treasury policy, objectives and financial risk management (continued)
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 2013, over 87% 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 6 month period.

Taxation
The Company's effective current tax rate was 5.3% compared with 10.2% in the previous year, after prior year adjustments. The headline effective tax rate is 22.0% compared with 18.4% in the previous year.

Dividend
Following a review of distributable reserves a dividend of £40.0m (2012 - £50.0m) was declared and paid in the year.

Borrowings and Facilities
The Company has loans of £313.1m (2012 – £338.1m) of which £313.1m (2012 - £313.1m) is due to other group companies and £nil (2012 - £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 £313.1m (2012 - £338.1m).

As at 31 March 2013, the weighted average interest rate payable was 5.43% (2012 – 5.50%) and the weighted average remaining term was 9.15 years (2012 – 9.43 years).

Pensions
26% of employees of the Company are members of the Scottish Hydro-Electric Pension Scheme, which, at 31 March 2013, based on an IAS 19 accounting basis, had a deficit included in the Group financial statements, net of deferred tax, of £143.1m (2012 - £149.1m).

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 2013 have been prepared in accordance with EU adopted IFRS.

The Regulatory financial statements of Scottish Hydro Electric Transmission plc have been prepared in accordance with applicable UK Generally Accepted Accounting Principles (UK GAAP).

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

The Group's corporate governance policies are described in the SSE plc's annual report and accounts 2013 under Governance on pages 61 to 102.

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

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

The Board continues to be committed to ensuring that the highest standards of corporate governance are maintained. The Board confirms that it has, throughout the period under review, complied with all provisions set out in the Code. More details of this can be found in SSE plc's annual report on page 61.

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

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

Following a competitive tender, KPMG Audit Plc has been the external auditor of the enlarged Group since 1999. Under its terms of reference, the Audit committee has responsibility for recommending to the Board removal of the external Auditors. The Audit Committee considers that the relationship with the Auditors is working well and remains satisfied with their effectiveness. Accordingly, it has not considered it necessary to require the firm to tender for the audit work. There are no contractual obligations restricting the Company's choice of external auditor. The external Auditors are required to rotate the audit partner's responsible for the Group audit every five years and the current lead partner has been in place for four years.

Scottish Hydro Electric Transmission plc (the "Company")

Board of Directors
The Board consists of six Directors, one of whom is a Director of the Group and one of whom is a member of the SSE Management Board. None of the Directors are Directors of Group Companies involved in Retail or Wholesale activities. Company Board meetings and sub committee meetings were held on 8 occasions during the course of the year. There are no non-executive or independent directors. The Board does not have a separately appointed chairman. Meetings are chaired by a member of the Board. The Board of the Company does not have a Nominations, Remuneration or Audit Committee. These functions are dealt for the Company in conjunction with the relevant committee of the SSE plc ('the Group') Board.

Attendance at meetings of the Board during 2012/13, expressed as a number of meetings attended out of number eligible to attend is set out below:

Board of Directors (continued)

Director	Attendance	
Gregor Alexander	8 of 8	
Steven Kennedy	7 of 7	
Mark Mathieson	8 of 8	
Ian Funnell	3 of 3	Resigned 12 October 2012
Aileen McLeod	8 of 8	
Stuart Hogarth	6 of 6	
David Gardner	5 of 5	Appointed 16 November 2012

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 2013.

1. Principal activities

The Company's principal activity during the year was the regulated transmission of electricity in the north of Scotland. On 25 October 2012 the company re-registered as a public company and changed its name to Scottish Hydro Electric Transmission Plc.

2. Business review

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

3. Results and dividends

The profit for the financial year amounted to £57.5m (2012 - £51.9m). A dividend of £40.0m (2012 - £50.0m) was declared approved and paid during the year.

4. Directors

The Directors who served during the year were as follows:

Gregor Alexander	
Ian Funnell	Resigned 12 October 2012
Steven Kennedy	
Mark Mathieson	
Aileen McLeod	
Stuart Hogarth	
David Gardner	Appointed 16 November 2012

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

It is the Company's policy that payment terms are agreed at the outset of a transaction and are adhered to; that bills are paid in accordance with the contract; and that there are no alterations to payment terms without prior agreement. The number of suppliers' days represented by trade creditors was 35 days at 31 March 2013.

8. Auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that ought to have been taken as a director to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

ON BEHALF OF THE BOARD

L. Manderson

Lilian Manderson
Company Secretary
18 July 2013

Company Registered Number: SC213461

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 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 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.

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 auditor's report to Scottish Hydro Electric Transmission plc and to the Gas and Electricity Markets Authority ("The Regulator")

We have audited the Financial information set out on pages 16 to 33 of the Regulatory Financial statements of Scottish Hydro Electric Transmission plc ("the Company"). The Financial information comprises: 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. The Financial information has 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 Financial information has 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 Financial information is separate from the statutory financial statements of the Company. There are differences between United Kingdom Generally Accepted Accounting Principles (UK GAAP) and the basis of preparation of information provided in the regulatory financial statements because Standard Condition B1 of the Regulatory Licence specifies alternative treatment or disclosure in certain respects. Where Standard Condition B1 of the Regulatory Licence does not specifically address an accounting issue, then it requires UK GAAP to be followed. Financial information other than that prepared wholly on the basis of UK GAAP may not necessarily represent a true and fair view of the financial performance or financial position of the Company as shown in financial statements prepared in accordance with the Companies Act 2006.

Respective responsibilities of the regulator, the Directors and Auditor

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

As described in the Statement of Directors' Responsibilities on page 13, the Company's directors are responsible for the preparation of the Financial information in accordance with Standard Condition B1 of the Regulatory Licence.

Our responsibility is to audit, and express an opinion on, the Financial information 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 Financial information has been properly prepared in accordance with Standard Condition B1 of the Regulatory Licence and the accounting policies set out on pages 20 to 22 of the Regulatory Financial statements.

Basis of audit opinion

An audit involves obtaining evidence about the amounts and disclosures in the Financial information sufficient to give reasonable assurance that the Financial information are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's' circumstances and have been consistently applied and adequately disclosed; and the reasonableness of significant accounting estimates made by the directors. 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 Regulatory Financial statements, which would have been required if we were to express an audit opinion under International auditing Standards on Auditing (UK and Ireland).

Independent auditor's report to Scottish Hydro Electric Transmission plc and to the Gas and Electricity Markets Authority ("The Regulator") (continued)

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 Operating and Financial Review, Corporate Governance Statement and Report of the Directors. Our responsibilities do not extend to the other information.

Our opinion on the Financial information 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's members those matters which we are required to state to them in a statutory auditor's report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Company's members, as a body, for our statutory audit work, for our statutory audit report, or for the opinions we have formed in respect of that statutory audit.

Opinion on Financial information

In our opinion the Financial information of the Company for the year ended 31 March 2013 are properly prepared in accordance with Standard Condition B1 of the Regulatory Licence and the accounting policies set out on pages 20 to 22 of the Regulatory Financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of proper accounting records have not been kept or if, in our opinion, we have not received all the information and explanations we require for our audit.

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

25 July 2013

Profit and Loss Account
for the year ended 31 March 2013

	Note	2013 £m	2012 £m
Turnover		**137.6**	107.8
Cost of sales		**-**	(0.5)
Gross profit		**137.6**	107.3
Distribution costs		**(39.2)**	(31.8)
Administrative costs		**(7.0)**	(4.0)
Operating profit	2	**91.4**	71.5
Net interest payable	5	**(17.8)**	(7.9)
Profit on ordinary activities before taxation		**73.6**	63.6
Tax on profit on ordinary activities	6	**(16.1)**	(11.7)
Profit for the financial year	15	**57.5**	51.9

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 2013

	Note	2013 £m	2012 £m
Fixed Assets			
Tangible assets	8	**976.7**	664.7
Current assets			
Debtors	9	**5.1**	26.7
Cash at bank		**1.3**	-
Creditors:			
Amounts falling due within one year	10	**(448.0)**	(184.5)
Net current liabilities		**(441.6)**	(157.8)
Total assets less current liabilities		**535.1**	506.9
Creditors:			
Amounts falling due after more than one year	11	**(345.6)**	(347.4)
Provisions for liabilities and charges			
Deferred taxation	13	**(56.1)**	(43.8)
Net assets		**133.4**	115.7
Capital and reserves			
Called up share capital	14	**4.3**	4.3
Profit and loss account	15	**129.1**	111.4
Shareholders' funds		**133.4**	115.7

These Financial statements were approved by the Directors on 18 July 2013 and signed on their behalf by

Gregor Alexander, Director

Scottish Hydro Electric Transmission plc, Registered No. SC213461

Reconciliation of Movement in Shareholders' Funds as at 31 March 2013

	Note	2013 £m	2012 £m
Profit for the financial year		**57.5**	51.9
Dividends paid to shareholders	7	**(40.0)**	(50.0)
Credit in respect of employee share awards		**0.2**	0.1
Net addition to shareholders' funds		**17.7**	2.0
Opening shareholders' funds		**115.7**	113.7
Closing shareholders' funds		**133.4**	115.7

Cash Flow Statement
for the year ended 31 March 2013

	Note	2013 £m	2012 £m
Net cash inflow from operating activities	19	**435.1**	133.0
Interest received		**-**	-
Interest paid		**(34.8)**	(11.6)
Returns on investments and servicing of finance		**(34.8)**	(11.6)
Corporation tax paid		**(5.4)**	(7.0)
Taxation		**(5.4)**	(7.0)
Purchase of tangible fixed assets		**(328.6)**	(214.4)
Capital expenditure and financial investment		**(328.6)**	(214.4)
Equity dividends paid		**(40.0)**	(50.0)
Net cash (outflow)/inflow before management of liquid resources and financing		**(40.0)**	(50.0)
Repayment of borrowings		**(25.0)**	-
New borrowings		**-**	150.0
Financing		**(25.0)**	150.0
Net increase in cash and cash equivalents		**1.3**	-
Cash and cash equivalents at start of year		**-**	-
Net increase in cash and cash equivalents		**1.3**	-
Cash and cash equivalents at the end of the year		**1.3**	-

1. Significant accounting policies

Basis of preparation
On the 25 October 2012 the company re-registered as a public company from a private company and accordingly changed its name to Scottish Hydro Electric Transmission Plc.

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

The Company's balance sheet at 31 March 2013 shows a net current liability position of £441.6m (2012 – net current liabilities of £157.8m). 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 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 SSE plc 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 B1 requires the Regulatory Financial statements to be prepared inclusive of all mandatory disclosures which otherwise may have been excluded from the Statutory Financial statements as a result of the application of a CA06 exemption allowance.

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

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

- Director's Remuneration. The remuneration of the Directors of the Company w ho 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.

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.

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

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

Tangible fixed assets

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

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

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

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

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

Customer contributions
Customer contributions and capital grants are recorded as deferred income and released to the profit and loss account over the estimated useful life of the related fixed assets.

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

1. Significant accounting policies (continued)

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

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

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

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

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

2. Operating profit

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

	2013 £m	2012 £m
Depreciation of tangible fixed assets	22.1	16.9
Operating lease rentals	0.2	-
Release of deferred income in relation to customer contributions and capital grants	(1.9)	(1.4)
Research and development	0.5	0.5
Net management fee in respect of services provided by group companies	8.4	4.2

The Company incurred an audit fee of £0.01m (2012 - £0.01m) in the year.

3. Staff costs and numbers

	2013 £m	2012 £m
Staff costs:		
Wages and salaries	13.4	9.4
Social security costs	1.5	1.0
Share-based remuneration	0.2	0.1
Other pension costs (note 16)	4.0	3.7
	19.1	14.2
Less capitalised as tangible fixed assets	(16.7)	(12.2)
	2.4	2.0

Included within the above costs is a charge recognised under FRS 20 of £150,138 (2012 - £73,772).

Employee numbers

	2013 Number	2012 Number
Numbers employed at 31 March	333	245

	2013 Number	2012 Number
The monthly average number of people employed by the Company during the year	295	201

4. Directors' remuneration

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

	2013 £m	2012 £m
Remuneration as executives	0.2	0.2

5. Net interest payable

	2013 £m	2012 £m
Interest receivable:		
Interest receivable from group companies	**0.3**	-
Foreign exchange translation of monetary assets and liabilities	**0.1**	-
	0.4	-
Interest payable and similar charges:		
Bank loans and overdrafts	**(0.8)**	(1.6)
Interest payable to group companies	**(34.3)**	(12.9)
	(35.1)	(14.5)
Interest capitalised	**16.9**	6.6
Net interest payable	**(17.8)**	(7.9)

6. Taxation

	2013 £m	2012 £m
Current tax:		
UK corporation tax on profits for the year	**4.8**	8.0
Adjustments in respect of previous years	**(1.0)**	(1.5)
	3.8	6.5
Deferred tax:		
Origination and reversal of timing differences	**12.8**	8.5
Effect of change in UK corporation tax (i)	**(2.4)**	(3.6)
Adjustment in respect of prior years	**1.9**	0.3
Total Deferred Tax	**12.3**	5.2
Total tax on profit on ordinary activities	**16.1**	11.7

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:

	2013 £m	2012 £m
Profit before tax	**73.6**	63.6
Tax on profit on ordinary activities at standard UK corporation tax rate of 24% (2012 - 26%)	**17.6**	16.5
Effects of:		
Capital allowances more than depreciation	**(12.7)**	(8.4)
Depreciation on non qualifying assets	**0.1**	-
Other timing differences	**(0.1)**	(0.1)
Adjustment in respect of prior periods	**(1.0)**	(1.5)
Current tax charge for year	**3.9**	6.5

The March 2013 Budget announced a 1% reduction in the tax rate, from 1 April 2013, to 23%. This was substantively enacted before March 2013. This change will reduce the Company's future current tax charge accordingly. As this rate change has been substantively enacted it has the effect of reducing the Company's net deferred tax liabilities recognised at 31 March 2013 by £2.4m. It has not yet been possible to quantify the full anticipated effect of the announced further 3% rate reduction (the rate now being reduced to 20% over the next two years) due to legislation not being enacted, although this will further reduce the Company's future current tax charge and reduce the Company's deferred tax liabilities accordingly.

7. Dividends

	2013 £m	2012 £m
Amounts recognised as distributions from equity:		
Final dividend of £9.30 (2012 – £11.62) per share	**40.0**	50.0

The final dividend for the current year, £40.0m (2012 – £50.0m), was declared and approved on 27 March 2013 and was paid to shareholders on 29 March 2013.

8. Tangible fixed assets

	Network Assets £m	Other Equipment £m	Total £m
Cost:			
At 1 April 2012	848.0	2.8	850.8
Additions	**334.0**	**0.1**	**334.1**
At 31 March 2013	**1182.0**	**2.9**	**1184.9**
Depreciation:			
At 1 April 2012	183.8	2.3	186.1
Charge for the year	**22.0**	**0.1**	**22.1**
At 31 March 2013	**205.8**	**2.4**	**208.2**
Net book value			
At 31 March 2013	**976.2**	**0.5**	**976.7**
At 31 March 2012	664.2	0.5	664.7

	2013 £m	2012 £m
Tangible fixed assets include:		
Assets in the course of construction	**563.9**	282.2

9. Debtors

	2013 £m	2012 £m
Amounts falling due within one year:		
Trade debtors	**3.4**	0.7
Other debtors	**1.7**	-
Amounts owed by group undertakings	**-**	26.0
	5.1	26.7

10. Creditors: amounts falling due within one year

	2013 £m	2012 £m
Loans (note 12)	**-**	25.0
Trade creditors	**1.9**	3.2
Amounts owed to group undertakings	**378.4**	87.9
Corporation tax	**2.5**	4.0
Accruals and other deferred income	**61.5**	60.3
Other creditors	**3.7**	4.1
	448.0	184.5

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

	2013 £m	2012 £m
Loans due to ultimate parent (note 12)	**313.1**	313.1
Accruals and other deferred income	**32.5**	34.3
	345.6	347.4

12. Analysis of borrowings

	Weighted Average Interest rate 2013 %	Weighted Average Interest rate 2012 %	2013 £m	2012 £m
Under one year				
6.39% European Investment Bank repayable 24 September 2012	-	6.39	-	25.0
Over five years				
6.00% Loan Stock repayable to SSE plc on 31 March 2021	**6.00**	6.00	**100.0**	100.0
5.50% Loan Stock repayable to SSE plc on 31 March 2021	**5.50**	5.50	**33.1**	33.1
5.00% Loan Stock repayable to SSE plc on 31 March 2022	**5.00**	5.00	**150.0**	150.0
5.625% Loan Stock repayable to SSE plc on 31 March 2028	**5.63**	5.63	**30.0**	30.0
			313.1	338.1

13. Deferred taxation

Deferred taxation is provided as follows:

	2013 £m	2012 £m
Accelerated capital allowances	**56.0**	43.9
Share based remuneration	**0.1**	-
Other timing differences	-	(0.1)
Provision for deferred tax	**56.1**	43.8

	2013 £m	2012 £m
Provision at start of year	**43.8**	38.6
Charged to profit and loss account	**12.3**	5.2
Provision at 31 March 2013	**56.1**	43.8

14. Share capital

	2013 £m	2012 £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

15. Reserves

	Profit and loss account £m
At start of the year	**111.4**
Profit for the year	**57.5**
Dividends	**(40.0)**
Credit in respect of employee share schemes	**0.2**
At 31 March 2013	**129.1**

16. Pensions

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

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

The Company's share of the total contribution payable to the pension schemes during the year was £1.9m (2012 - £1.6m).

The Company incurred a further charge, payable to SSE Services plc, of £2.1m (2012 – £2.1m), which related to its share of the Scheme's deficit repair contributions for the year ended 31 March 2013.

17. 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 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.

(iii) Deferred annual incentive scheme

This scheme (previously deferred bonus scheme) applies to senior managers and executive directors of the Group. Under this scheme, 25% of all eligible employees' annual bonus is deferred into shares which only vest after three years, subject to continued service. The number of shares awarded is determined by dividing the relevant pre-tax bonus amount by the share price shortly after the announcement of the results for the financial year to which the bonus relates.

17. Employee share-based payments (continued)

(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		02 June 2010	02 June 2011	2 June 2012
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 + 8%	RPI + 8%	RPI + 8%
	25% vesting	RPI + 2%	RPI + 2%	RPI + 2%
Dividend per share growth [iii]	Full vesting	RPI + 6%	RPI + 6%	RPI + 6%
	25% vesting	RPI + 2%	RPI + 2%	RPI + 2%

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

[i] Total Shareholder Return (TSR) target relative to other FTSE100 companies and MSCI Europe Utilities Index over the relevant performance period. Pro rata vesting will take place between the median and 75th percentile, with no vesting if the minimum target is not met.

[ii] Under the EPS performance condition, pro rata vesting between the lower and upper level above RPI, with no vesting if the minimum EPS growth target is not achieved.

[iii] Under the Dividend per share growth performance condition, pro rata vesting between 2% and 6% above RPI, with no vesting if the minimum dividend per share growth target is not achieved.

(v) Long Term Incentive Plan (LTIP)

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

Performance conditions

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

Where DPS growth is between 2 and 5% above RPI, vesting will be calculated on a straight-line basis. Where DPS growth is less than RPI + 2% no vesting will occur.

17. Employee share-based payments (continued)

In addition to the above, the following special awards of free shares have been made:

Award made			31 March 2008
Free shares per employee			10
Date at which employee must still be employed to receive award (in addition to 31 March)			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.

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

(i) Savings-related share option scheme

As at 31 March 2013

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

As at 31 March 2012

Award Date	Option Price (pence)	Outstanding at start of year	Granted	Exercised	Lapsed	**Outstanding at end of year**	Date from which exercisable	Expiry date
11 July 2006	999	**4,605**	-	(4,605)	-	-	1 October 2011	31 March 2012
10 July 2007	1,306	**532**	-	-	(532)	-	1 October 2010	31 March 2011
10 July 2007	1,306	**2,229**	-	-	(250)	**1,979**	1 October 2012	31 March 2013
17 July 2008	1,274	**1,399**	-	(809)	-	**590**	1 October 2011	31 March 2012
17 July 2008	1,274	**1,530**	-	-	(510)	**1,020**	1 October 2013	31 March 2014
30 June 2009	1,042	**5,481**	-	(642)	(159)	**4,680**	1 October 2012	31 March 2013
30 June 2009	1,042	**8,647**	-	-	-	**8,647**	1 October 2014	31 March 2015
30 June 2010	871	**7,782**	-	(39)	(43)	**7,700**	1 October 2013	31 March 2014
30 June 2010	871	**39,355**	-	-	-	**39,355**	1 October 2015	31 March 2016
29 June 2011	1,105	-	4,045	-	-	**4,045**	1 October 2014	31 March 2015
29 June 2011	1,105	-	14,446	-	-	**14,446**	1 October 2016	31 March 2017
		71,560	**18,491**	**(6,095)**	**(1,494)**	**82,462**		

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

17. Employee share-based payments (continued)

As share options are exercised continuously throughout the period from 1 October to 31 March, the weighted average share price during this period of 1,433p (2012: 1,291p) is considered representative of the weighted average share price at the date of exercise. The weighted average share price of forfeitures is simply the option price to which the forfeit relates.
The fair value of these shares at vesting, calculated using the Black-Scholes model, and the assumptions made in that model are as follows:

	July 2007		July 2008		June 2009		June 2010		June 2011		July 2012	
	3 Year	5 Year	3 Year	5 Year	3 Year	3 Year	5 Year	3 Year	5 Year	3 Year	3 Year	5 Year
Fair value of option	287p	313p	304p	339p	244p	269p	231p	246p	171p	163p	182p	159p
Expected volatility	25%	25%	28%	28%	35%	35%	19%	19%	18%	18%	18%	18%
Risk free rate	5.8%	5.7%	4.9%	5.0%	2.7%	2.9%	1.4%	2.2%	1.2%	2.1%	0.4%	0.9%
Expected dividends	5.3%	5.2%	4.1%	4.2%	4.1%	4.2%	1.7%	2.2%	6.1%	6.1%	5.9%	5.8%
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	1,460p	1,460p	1,397p	1,397p	1,139p	1,139p	1,089p	1,089p	1,393p	1,393p	1,391p	1,391p
Strike price	1,306p	1,306p	1,274p	1,274p	1,042p	1,042p	871p	871p	1,105p	1,105p	1,065p	1,065p

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

	2013		2012	
	Shares	**Weighted average price (pence)**	Shares	Weighted average price (pence)
Outstanding at start of year	**22,405**	**1,214**	19,989	1,199
Granted	**14,252**	**1,395**	8,762	1,315
Forfeited	**(878)**	**1,263**	(932)	1,194
Exercised	**(1,028)**	**1,255**	(1,236)	1,310
Transferred to pool	**(5,043)**	**1,506**	(4,178)	1,328
Outstanding at end of year	**29,708**	**1,248**	22,405	1,214
Exercisable at end of year	**9,001**	**1,248**	8,962	1,214

When shares have been held for a period of 5 years they are transferred to a pooled share account. At this point the holder has an unconditional right to the share, but has chosen not to exercise immediately.

As share options are exercised continuously throughout the year, the weighted average share price during this period of 1,395p (2012: 1,310p) 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.

Free shares

	2013		2012	
	Shares	**Weighted average price (pence)**	Shares	Weighted average price (pence)
Outstanding at start of year	**2,960**	**1,188**	3,532	1,168
Exercised	**(110)**	**1,432**	(120)	1,310
Transferred to pool	**(2,220)**	**1,474**	(452)	1,000
Outstanding at end of year	**630**	**1,376**	2,960	1,188
Exercisable at end of year	**630**	**1,376**	2,960	1,188

17. Employee share-based payments (continued)

Free shares (continued)
As share options are exercised continuously throughout the year, the weighted average share price during this period of 1,395p (2012: 1,310p) 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.

(iii) Deferred annual incentive scheme

	2013		2012	
	Shares	Price (pence)	Shares	Price (pence)
Outstanding at start of year	**7,230**	**1,241**	6,313	1,270
Granted	**2,626**	**1,383**	2,847	1,342
Exercised	**(1,967)**	**1,174**	(1,930)	1,484
Forfeited	**(3,224)**	**1,281**	-	-
Outstanding at end of year	**4,665**	**1,322**	7,230	1,241

None of the outstanding options at the end of the year were exerciseable.

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.

(iv) Performance Share Plan

	2013		2012	
	Shares	**Price (pence)**	Shares	Price (pence)
Outstanding at start of year	**53,546**	**1,198**	38,000	1,162
Granted	**25,339**	**1,383**	19,934	1,342
Forfeited	**(35,557)**	**1,409**	(2,386)	1,545
Exercised	**(3,242)**	**1,174**	(2,002)	1,545
Outstanding at end of year	**40,086**	**1,246**	53,546	1,198

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

The fair value of the performance share plan shares is not subject to valuation using the Black-Scholes model. The fair value of shares granted in the year is equal to the closing market price on the date of grant.

(iv) Long Term Incentive Plan

	2013	
	Shares	**Price (pence)**
Outstanding at start of year	-	-
Granted	**21,051**	**1,383**
Outstanding at end of year	**21,051**	**1,383**

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

The fair value of the long term incentive plan shares is not subject to valuation using the Black-Scholes model. The fair value of shares granted in the year is equal to the closing market price on the date of grant.

18. Commitments and contingencies

(i) Capital commitments

Capital expenditure:

	2013 £m	2012 £m
Contracted for but not provided	**157.1**	336.6

(ii) Operating lease commitments
Leases as lessee:

	2013 £m	2012 £m
Amount included in the profit and loss account relating to the current year leasing arrangements	**0.2**	-

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

	Other assets 2013 £m	2012 £m
Within one year	-	-
Between two and five years	**0.7**	-
After five years	-	-
	0.7	-

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

19. Reconciliation of operating profit to operating cashflows

	2013 £m	2012 £m
Reconciliation of operating profit to operating cash flows		
Operating profit	**91.4**	71.5
Depreciation	**22.1**	16.9
Customer contributions and capital grants released	**(1.9)**	(1.4)
Increase in debtors	**(4.4)**	(0.5)
Increase in creditors	**11.2**	30.6
Movement in intercompany	**316.5**	15.8
Charge in respect of employee share awards	**0.2**	0.1
Net cash inflow from operating activities	**435.1**	133.0

20. Net debt

Reconciliation of net cash flow to movement in net debt

	2013 £m	2012 £m
Cash inflow from increase in cash*	**1.3**	-
Cash (inflow)/outflow from (increase)/decrease in debt and lease financing	**25.0**	(150.0)
Movement in net debt in the year	**26.3**	(150.0)
Net debt at 1 April	**(338.1)**	(188.1)
Net debt at 31 March	**(311.8)**	(338.1)

Analysis of net debt

	As at 1 April 2012 £m	Increase in cash* £m	Decrease in debt £m	**As at 31 March 2013 £m**
Cash at bank and in hand	-	1.3	-	**1.3**
Other debt due within one year	-	-	-	-
Net borrowings due within one year	-	1.3	-	**1.3**
Net borrowings due after more than one year	**(338.1)**	-	25.0	**(313.1)**
Net debt	**(338.1)**	1.3	25.0	**(311.8)**

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

21. Ultimate parent company

The Company is a subsidiary of SSE plc, which is the ultimate parent company and is registered in Scotland. The largest and smallest group in which the results of the Company are consolidated is that headed by SSE plc. The consolidated financial statements of the group (which include those of the Company) are available from the Company Secretary, SSE plc, Inveralmond House, 200 Dunkeld Road, Perth PH1 3AQ or by accessing the Company's website at www.sse.com.