REGISTERED NO.
4094290

Southern Electric Power Distribution plc

Regulatory Financial Statements

Year ended 31 March 2014

CONTENTS	**PAGE**

Strategic and Financial Report

The Strategic and Financial Review sets out the main trends and factors underlying the development and performance of Southern Electric Power Distribution plc (the "Company") during the year ended 31 March 2014, as well as those matters which are likely to affect its future development and performance.

The business, its objectives and strategy

The Company is a wholly owned subsidiary of SSE plc (the "Group"). The Company distributes electricity to nearly 3 million customers in the South of England. It currently has around 77,000 kilometres of electricity mains on commission. The Company also provides electricity connections within the Company's licensed area and owns and operates a number of out of area electricity networks in the rest of England & Wales.

The Company is the subject of incentive-based regulation by the industry regulator, the Office of Gas and Electricity Markets (Ofgem), which sets the prices that can be charged for the use of the electricity network, the capital expenditure and the allowed operating expenditure, within a framework known as the Price Control. In broad terms, Ofgem seeks to strike the right balance between attracting investment in electricity networks, encouraging companies to operate the networks as efficiently as possible and ensuring that prices for customers are no higher than they need to be. Ofgem also places specific incentives on companies to improve their efficiency and quality of service.

The Company's strategy and main objectives are to:

- comply fully with all electricity network safety standards and environmental requirements;
- ensure that the electricity network is managed as efficiently as possible, including maintaining tight controls over operational expenditure;
- provide good performance in areas such as reliability of supply, customer service and innovation and thus earn additional incentive-based revenue under the various Ofgem schemes;
- deliver efficient and innovative capital expenditure programmes, so that the number and duration of power cuts experienced by customers is kept to a minimum;
- grow the Regulated Asset Value ("RAV") of the networks business and so secure increased revenue; and
- engage constructively with the regulator, Ofgem, to secure regulatory outcomes that meet the needs of customers and investors.

Business performance overview

The key performance indicators of the Company and the related performance during the year to 31 March 2014 were as follows (comparisons with the same period to 31 March 2013):

a) Operating Profit (£m)

Year to March 2014	£293.9m
Year to March 2013	£324.1m
Decrease (%)	9.3%

b) Capital Expenditure (£m)

Year to March 2014	£240.0m
Year to March 2013	£215.4m
Increase (%)	11.4%

c) Electricity Distributed (TWh)

Year to March 2014	32.3 TWh
Year to March 2013	33.2 TWh
Decrease (%)	2.7%

d) Customer Minutes Lost

Year to March 2014	67
Year to March 2013	65
Increase (%)	3.1%

Strategic and Financial Report (continued)

Business performance overview (continued)

e) Customer Interruptions – number per 100 customers

Year to March 2014	68
Year to March 2013	62
Increase (%)	9.7%

The decrease in operating profit principally results from flat revenue across the network compared with 2012/13 due to the impact of regulated revenue recovery positions combined with higher storm related costs. The 2013/14 winter period saw record levels of rainfall and flooding as well as heavy winds. The heavy rain and gale force winds brought down hundreds of trees in southern England, and 83% of faults in this network area were in East Surrey, West Sussex and Hampshire, all highly populated, leafy commuter areas with significant tree cover. During the winter period the costs incurred on these events totalled around £20m. The general wet and windy conditions experienced throughout the winter period had a negative impact on the number of lost supply and supply interruption events from non-exceptional weather occurrences.

Volume of electricity distributed

The total volume of electricity distributed by the Company during 2013/14 was 32.3TWh, compared with 33.2TWh in the previous year primarily due to the milder weather during the year. Under the electricity Distribution Price Control for 2010-15, the volume of electricity distributed does not affect companies' overall allowed revenue, although it does have an impact on the timing of revenue collection.

If, in any year, regulated network companies' revenue is greater (over recovery) or lower (under recovery) than is allowed under the relevant Price Control, the difference is carried forward and the subsequent prices the company may charge are varied. The network is in an over-recovery position at March 2014 as a result of the roll forward of prior year recovery positions and other regulatory mechanisms being closed out at the year end.

The over-recovery position for the distribution networks at the year end is estimated at £17.4m.

Managing the Networks during the wettest winter on record

During the winter of 2013/14 the UK was affected by an exceptional run of severe weather events. Heavy persistent rainfall combined with high winds caused mass disruption. The Company's network area suffered significant disruption during December 2013, January and February 2014 as a result of the extreme exceptional weather events.

In March 2014, the Department of Energy and Climate Change ("DECC") published a report reviewing the winter weather that had been experienced by electricity networks in 2013/14, including central southern England. The report stated: 'Throughout December, January and February 2013/14, the UK has been affected by an exceptional run of severe winter storms. The Met Office has confirmed that the two month period covering December and January for the South East and central Southern England has been the wettest since 1910. Widespread high winds have also been recorded across the country, and December 2013 has been confirmed as one of the windiest calendar months for the UK since January 1993.'

The Company has submitted all the evidence required by Ofgem for its investigation into performance and processes over the Christmas period. Over the entire winter of 2013/14, it experienced five exceptional events (storms) in its central southern England network. The cost of managing the impact of the winter weather on the network has been around £20m, including payment to customers who have experienced disruption due to adverse weather.

The wind speeds and heavy rain led to flooding, impassable roads, ground saturation, and fallen trees. Unusually, severe weather affected the north of Scotland and central southern England at similar times. All of this made for some of the most challenging working conditions the Company's workforce has ever faced when trying to restore power. Power was restored to 99% of the Company's customers who lost power within two days. The Company remains very grateful for both the dedication of engineers, tree-cutters and customer service employees and the patience of customers.

Strategic and Financial Report (continued)

Managing the Networks during the wettest winter on record (continued)

Demonstrating that the Company is not complacent about its performance, a consultation was launched on 3 January 2014 to gather feedback from customers and interested parties on storm management in order to learn any lessons. The consultation closed on 28 March and, once fully analysed and considered, these views will feed into a range of improvements that will be set out in the summer of 2014. In the meantime, a number of improvements have been implemented including better information from field employees on expected restoration times, improvements to its award-winning Power Track App for smart phones and more face-to-face customer liaison.

In addition, over the coming months, the Company will be working collaboratively with DECC, other Distribution Network Operators ("DNOs") and the Electricity Networks Association ("ENA") to undertake the actions identified in the DECC review. In particular, the Company strongly supports the recommendation that a single three digit phone number for customers to use during power cuts should be put in place and will work with all relevant stakeholders to ensure this is delivered as quickly as practically possible.

Investing in network resilience

The total investment in the regulated electricity distribution network in the 2010 – 2015 price control to date has been in excess of £765m with a total of £226m spent in the current financial year. The RAV of the electricity distribution network is estimated at a total of £2.07bn at the end of March 2014 and is expected to reach around £2.170bn by 31 March 2015.

This investment contributes to the key priority of providing an essential service to customers by delivering a reliable supply of electricity. The Company has a strong historic performance on network reliability, currently over 99%. Investing in the networks to maintain reliability is therefore critical to maintaining this record; and with new standards on restoring power within 12 hours, the Company continues to implement a programme to keep assets in good condition and, under revised proposals for RIIO-ED1 ("Revenue = Inputs + Incentives + Outputs for Electricity Distribution"), to further improve reliability without increasing costs for customers.

During the year, the Company undertook several investments across the network area. These projects include an investment to improve supplies to Marlow town centre, £6m to strengthen and upgrade electricity suppliers in Fleet and Crookham, and £13m to renew the electricity cable between the Isle of Wight and the UK mainland. These are examples of the types and size of projects undertaken to renew and upgrade the distribution network across the region.

Keeping costs down and improving customer service for RIIO ED1

RIIO-ED1 will be the first electricity distribution Price Control review to reflect the new regulatory framework first adopted in RIIO-T1 (electricity transmission) and RIIO-GD1 (gas distribution). It will run from 2015 to 2023. In line with wider trends in electricity networks, it puts an emphasis on incentives to secure the innovation required for a cost effective transition to low carbon technology.

The Company submitted a business plan in June 2013 and in November 2013 Ofgem announced that the plan had not been selected for 'fast-track'. Nevertheless, the Company is encouraged that, as with previous Price Controls, the business is recognised as one of the leading companies on cost efficiency and that a number of proposals in key areas such as connections and customer service have been accepted in full. The outcome of the decision has been used to review a number of areas and a revised business plan was submitted in March 2014. Key proposals include:

- a reduction to the distribution element of the electricity bill of around 15%;
- a reduction in the frequency and duration of power cuts;
- doubling the Guaranteed Standard payment to customers who are off supply for more than 18 hours as a result of an unplanned interruption;
- more partnership working with relevant organisations to support vulnerable customers; and
- reducing by 10% the average time it takes to receive a quote for connection and to connect in to the network.

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Strategic and Financial Report (continued)

Keeping costs down and improving customer service for RIIO ED1 (continued)

While Ofgem has reduced its central reference point of the appropriate allowed base return on equity from 6.3% to 6.0% post-tax real, the Company has continued to make the case for a fair return on equity; at the same time, this is just one part of a wider package of measures that will comprise the final proposals for electricity distribution between 2015 and 2023. The Company believes that its revised business plan will lead to a Price Control that is fair to customers and investors alike. The RIIO-ED1 process will be completed later this year and the new price control arrangements will come into effect on 1 April 2015

Innovating for the future of electricity networks

Good progress is being made on a series of major 'smart' projects, with total approved funding under the Ofgem Low Carbon Networks (LCN) Fund of £34.5m which are being led by the Company:

- **Thames Valley Vision (TVV)**: based in and around Bracknell, aims to demonstrate that by applying new technologies to the local network the Company can provide a lower cost alternative to redeveloping the network in order to meet increasing electricity use; these trials also have potential to significantly reduce costs to customers.
- **My Electric Avenue**: the Company, as the host electricity distribution company, is working with EA Technology to undertake a series of trials with electric vehicle drivers to assess their cars' impact on the network.
- **Solent Achieving Value from Efficiency (SAVE)**: is a new project to trial and establish the extent to which energy efficiency measures can be considered as a cost effective, predictable and sustainable tool for managing peak electricity demand as an alternative to network reinforcement. The project will run until 2018.

Electricity Distribution priorities in 2014/15 and beyond

During 2014/15 and beyond the Company's priorities are to:

- comply fully with all safety standards and environmental requirements;
- place customers' needs at the centre of plans for the networks;
- achieve an acceptable and appropriate settlement from Ofgem on RIIO-ED1;
- ensure that the networks are managed as efficiently as possible, delivering required outputs while maintaining tight controls over operational expenditure;
- implement actions from the reviews of storm performance by the autumn;
- put responsiveness at the heart of day-to-day operations, so that the number and duration of power cuts experienced by customers is kept to a minimum;
- ensure that there is adequate capacity to meet changing demands on the electricity system; and
- make progress on the deployment of innovative investment in smart grids.

In addition to the changing nature of the electricity networks and the regulatory environment, other factors which would affect the longer term performance of the business include the macroeconomic situation, 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 Governance Framework which is designed to ensure projects are governed, developed, approved and executed in an effective manner. All significant distribution projects are governed by this framework.

Strategic and Financial Report (continued)

Values and responsibilities

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

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

Employees

Fundamental to the Company's success is the professionalism and enthusiasm of employees, guided by SSE's teamwork value, which states: 'We support and value our colleagues and enjoy working together as a team in an open and honest way.' SSE is committed to ensuring that it is a great place to work and its policies on human resources are developed and delivered in support of this.

Of all employees 82% are men and 18% are women. During the year the Board of Directors included one woman and five men, and the Company's senior management team consisted of two women and seven men.

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.

Employee benefits

The Group believes that there is a commonality of interest between employees, customers and shareholders. To reinforce that it:

- encourages all employees to become and remain customers by providing them with energy at a 12% reduction on the normal unit rate for their tariff, plus discounts on other SSE products and services such as energy efficiency installations, central heating and wiring maintenance and telephone and broadband services; and
- provides opportunities for employees to become and remain shareholders in SSE through a Share Incentive Plan and a Sharesave Scheme. Employee participation in these schemes is now 53% and 40% respectively.

The Group believes that all employees should invest for retirement and offers pension schemes to all employees. It has been automatically enrolling all new starts into pension schemes since 2005. The UK government's policy to help those in employment build up a pension through their workplace now requires all employers to enrol their workers into a workplace pension scheme if they are not already in one.

In addition, in recognition that it operates in a competitive employment market, SSE provides a wide range of employee benefits including: a range of salary sacrifice offerings; access to the SSE Extras programme which provides employees with discounts and offers from a range of retailers; and EmployeeCare, a service which provides counselling during times of need and a health and wellbeing advisory service.

Strategic and Financial Report (continued)

Employee participation

The Group recognises the value in attracting and retaining an engaged workforce and runs an annual externally-facilitated Company-wide survey of employee engagement. The 2013 survey, which was open to all employees, had a 92% response rate and showed that SSE has an above benchmark employee engagement index of 78%.

SSE shares the details of the survey results with all employees and publishes and implements detailed business by business action plans based on the findings of the survey. Within SSE, employee participation is encouraged through adherence to the Company's Teamwork value and an established recognition programme. The appraisal process for employees, including the senior management team, specifically evaluates their performance in teamwork, along with performance in respect of SSE's other core values. Coupled with this is formal recognition of strong teamwork and good performance through an annual employee awards scheme – the eSSEntial Awards – which celebrates success.

In addition to a wide range of internal communication media and events, employee participation in SSE is also encouraged through internal blogs, interactive online forums, division- and subject-specific employee surveys, Director-led regional roadshows and the Licence to Innovate scheme, established in 2007, 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 £1.5bn available to SSE plc which could be made available to the Company as required.

The Company has 1,494 employees which it calls on to maintain its distribution network and carry out investment in future developments. The Company also draws upon shared services covering central functions such as finance, HR, regulation, health and safety, company secretarial and insurance services. All such services are provided under an appropriate Service Level Agreement. In addition to these employees, the services of key contractors are called upon in a number of large capital projects to ensure that these projects are delivered on time and on budget. Where possible and economically efficient for the Company, these contractors are provided by other SSE group companies, reducing reliance on external companies.

Social and community issues

The Company considers its relationship with the community it serves as a core part of its operations. Engagement with local users and the wider stakeholder community is a fundamental principle underlying the RIIO-ED1 price control, and the Company has a detailed stakeholder engagement plan in place to ensure that it is sufficiently informed by its customers and the community which it serves. The Business Plan which the Company submitted to Ofgem as part of that price control detailed the areas on which stakeholders were consulted, their responses, and how those responses were used to shape our Business Plan and associated capital expenditure projects.

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. SSE undertook three main community programmes during 2013/14:

- **Action** – through SSE's employee volunteering programme, under which employees are given one day of leave to support community initiatives. During 2013/14, over 8,000 volunteer days were given to 740 individual projects in the UK and Ireland. SSE teams supported a wide range of initiatives including: conservation tasks at wildlife trusts; fund-raising and support for local hospices; gardening and DIY in schools, sports clubs and community theatres; and educational workshops for schools and public events;
- **Fundraising** – supporting key partner charities such as Mission Christmas, for which £9k was raised in cash and a further 1,000 Christmas gifts were donated by employees in December 2013, and Sport Relief, for which over £50k was raised in the spring of 2014. All funds raised by SSE staff were matched by SSE in order to double the impact for local good causes;

Strategic and Financial Report (continued)

Social and community issues (continued)

- **Heritage** – cataloguing, maintaining and preparing for display the SSE Heritage Collection (see sseheritage.org.uk), currently based in Dorset, developing a new £3m visitor centre at its Pitlochry hydro electric scheme and launching a Perthshire renewables trail guide, in order to make the built and natural heritage of SSE's hydro plant and wind farms more accessible to the public.

In addition, during 2013/14, SSE shared £2.5m between eight UK charities working to improve the lives of people living in fuel poverty. Energy Action Scotland, Citizens Advice Bureau, Age UK, Save the Children and Macmillan Cancer Support are amongst the charities to receive a share of money. The money is being used for a range of projects including training for local energy champions, energy awards for cancer sufferers and a grant scheme for energy efficiency measures.

Internal Control

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

No system of control can, however, provide absolute assurance against material misstatement or loss. Accordingly, the Directors have regard to what controls, in their judgement, are appropriate to the Company's business, to the materiality of the risks inherent in the business, and to the relative costs and benefits of implementing specific controls. This process is regularly reviewed by the Board and has been in place for the whole year.

Control is maintained through: an organisation structure with clearly defined responsibilities; authority levels and lines of reporting; the appointment of suitably qualified staff in specialised business areas; and continuing investment in high quality information systems. These methods of control are subject to periodic review as to their implementation and continued suitability.

There are established procedures in place for regular budgeting and reporting of financial information. The Company's performance is reviewed by the Board as well as the Group Board. Reports include variance analysis and projected forecasts of the year compared to approved budgets and non-financial performance indicators.

There are Group policies in place covering a wide range of issues and risks such as financial authorisations, IT procedures, health, safety and environmental risks, crisis management, and a policy on ethical principles. The business risks associated with the Company's operations are regularly assessed by the Directors.

The effectiveness of the systems of internal control is monitored by the Group internal audit department. Their reports, which include where appropriate relevant action plans, are distributed to senior managers and Directors.

Environment

The Group manages a wide range of environmental issues. Operating the power systems network is recognised as a priority area and formal environmental management systems have been developed. The systems have five main elements, based on the established management cycle of (1) setting policy, (2) planning, (3) implementing and operating, (4) checking and correcting and (5) reviewing.

The system exists to enable managers to deliver the Group's environmental policies through procedures and work instructions. It reflects an integrated, Group-wide health and safety and environmental management system.

Strategic and Financial Report (continued)

Key contractual arrangements

The Directors consider the Service Level Agreement in place between the Company and SSE Services plc for the provision of corporate services to be essential for the continuance of the Company's operations in the short-to-medium term. Due to its nature, the risk of this contract being terminated is low.

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

Capital structure

The Company regards its capital as comprising its equity, cash and borrowings. Its objective in managing capital is to maintain a strong balance sheet and credit rating so as to maintain investor, creditor and market confidence and to sustain future development of the business. The capital structure is kept under review and the Group and Company both continue to maintain one of the strongest balance sheets in the global utility sector. 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 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 cash flows within the Company. Further details of the Company's borrowings can be found in note 16 of the notes to the Regulatory 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 2014 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.

The Group's Risk and Trading Committee, which reports to the Executive Committee reviews, and agrees policies for addressing each of these risks. At 31 March 2014, over 79% 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 Group's Executive Committee. 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.

Strategic and Financial Report (continued)

Borrowings and facilities

The Company has loans of £1,190.0m (2013 – £1,188.3m) of which £400.0m (2013 – £400.0m) is due to other Group companies and there are no loans from the European Investment Bank (2013 – £1.4m). Of the total, interest is paid at fixed rates on £1,073.9m (2013 – £1,075.2m). The remaining loan amounts to £116.1m (2013 - £113.1m) and is an index-linked bond.

As at 31 March 2014, the weighted average interest rate payable was 4.74% (2013 – 4.74%) and the weighted average remaining term was 17.54 years (2013 –18.49 years).

Taxation

The Company's effective current tax rate was 21.7% compared with 21.5% in the previous year after prior year adjustments. The headline effective tax rate, which includes the impact of substantively enacted changes in the UK corporation tax rate, is 10.1% compared with 14.8% in the previous year.

Dividend

Following a review of distributable reserves, the Directors declared, approved, and paid a dividend of £50.0m (2013 – £400.0m).

Pensions

43% (2013: 47%) of employees of the Company are members of the Southern Electric Pension Scheme, which, at 31 March 2014, had a deficit included in the Group Financial Statements, net of deferred tax, of £364.0m (2013 – £400.4m) on an IAS 19 basis.

International Financial Reporting Standards

The Regulatory Financial Statements of the Company have been prepared in accordance with applicable UK Generally Accepted Accounting Principles (UK GAAP). Under the Companies Act, the Company will no longer be able to prepare accounts under UK GAAP for its year ending 31 March 2016 and is currently considering whether it will prepare accounts under FRS 101 or FRS 102 at that time. Once it has adopted either FRS 101 or FRS 102, transitional balances, the transition date being 1 April 2014, will be restated accordingly.

ON BEHALF OF THE BOARD

Gregor Alexander
16 July 2014
Company Registered Number: 4094290

Corporate Governance Statement

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

The Group's corporate governance policies are described in the SSE plc's annual report and accounts 2014 under Governance on pages 58 to 94 available at www.sse.com.

The Board of the Group considers that it complied in full with the UK Corporate Governance Code during 2013/14 with the exception of the provision relating to audit tendering, the Group has complied with all other provisions of the Code. The detailed explanation of non-compliance with the audit tendering provision is given in the Audit Committee Report on page 72 of the Group's annual report to 31 March 2014.

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 UK Corporate Governance Code. More details of this can be found in SSE plc's annual report on page 58.

The Board comprises the Chairman, two Executive Directors (from 1 July 2013) and six 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).

The Audit Committee, the Health, Safety and Environmental Committee receive reports in respect of the Company's business performance and the relevant findings of these committees will be advised to the Company Board where appropriate.

Southern Electric Power Distribution plc ("the Company")

Board of Directors

During the year the Board consisted of six Executive Directors, one of whom is an Executive Director of the Group and one of whom is a member of the Group's Executive Committee. None of the Directors are Directors of Group Companies involved in Retail or Wholesale activities. The Group Director is the Chairman of the Board. Company Board meetings were held on eight occasions during the course of the year. The Company does not have a Nomination, Remuneration or Audit Committee. These functions are dealt with in conjunction with the relevant committee of the Group Board. There were no Non-Executive Directors on the Board during the course of the financial year.

The Board operates under approved terms of reference. The Board sets the Strategic aims of the Company, supervises management, monitors and reports on performance, approves investment and is responsible for all statutory and regulatory approvals.

Attendance at meetings of the Board during 2013/14, expressed as a number of meetings attended out of number eligible to attend is set out below:

Corporate Governance Statement (continued)

Southern Electric Power Distribution plc ("the Company")

Board of Directors (continued)

Director	Attendance
Gregor Alexander (Chairman)	8 of 8
Steven Kennedy	6 of 8
Mark Mathieson	8 of 8
Aileen McLeod	8 of 8
Stuart Hogarth	7 of 8
David Gardner	8 of 8

Under the terms of the Standard Condition 43A of the Company's regulatory licence that came into effect during 2013/14 two sufficiently independent Directors are required to be appointed to the Company Board. On 1st April 2014 David Rutherford and Gary Steel were appointed as Non Executive Directors of the Company.

Going Concern

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

Report of the Directors

The Directors present their report together with the audited Regulatory Financial Statements for the year ended 31 March 2014.

1. Principal activity

The Company is responsible for managing an electricity distribution network serving nearly 3m customers in the South of England. Distribution of electricity and the level of capital investment within the network area is a monopoly activity and is closely regulated by the Office of Gas and Electricity Markets (Ofgem) within a framework known as the Price Control. The Company also carries out the business of provision of new electrical connections services within its licensed area and the construction and management of out-of-area electricity networks in England. A full review of the year is contained within the Strategic and Financial Report section of these Accounts.

2. Results and dividends

The profit for the financial year amounted to £228.0m (2013 – £240.8m). A final dividend of £50m (2013 – £400.0m) was declared, approved and paid by the Board during the year.

3. Directors

The Directors who served during the year were as follows:

Gregor Alexander
Steven Kennedy
Mark Mathieson
Aileen McLeod
Stuart Hogarth
David Gardner

Lilian Manderson resigned as Company Secretary on 30 June 2014. Helen Gettinby was appointed as Company Secretary effective from 1 July 2014.

4. Corporate Governance

The Corporate Governance statement for the Company is outlined on page 10.

5. Auditor

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

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditors of the Company and Group is to be proposed at the forthcoming Annual General Meeting.

ON BEHALF OF THE BOARD

Helen Gettinby
Company Secretary
16 July 2014
Company Registered Number: 4094290

Statement of Directors' responsibilities in respect of the Strategic and Financial Report, the Directors' Report and the Regulatory Financial Statements

The Directors are responsible for preparing the Strategic and Financial Report, the Directors' Report and the Regulatory Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare 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 Regulatory Financial Statements, the Directors are required to:

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

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.

ON BEHALF OF THE BOARD

Gregor Alexander
16 July 2014
Company Registered Number: 4094290

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

We have audited the Regulatory Financial Statements of Southern Electric Power Distribution plc (the "Company") set out on pages 16 to 38 which comprise: the Profit and Loss Account, Balance Sheet, Statement of Total Recognised Gains and Losses, Cash Flow Statement and the related notes to the Regulatory Financial Statements. These Regulatory Financial Statements have been prepared under the accounting policies set out therein.

This report is made, on terms that have been agreed, solely to the Company and the Regulator in order to meet the requirements of Standard Condition 44 of the Company's Regulatory Licence. Our audit work has been undertaken so that we might state to the Company and the Regulator those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under the Company's Regulatory Licence to procure such a report and (b) to facilitate the carrying out by the Regulator of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Regulator, for our audit work, for this report, or for the opinions we have formed.

Basis of preparation
The Regulatory Financial Statements have been prepared under the historical cost convention and in accordance with Standard Condition 44 of the Regulatory Licence and the accounting policies set out in the statement of accounting policies.

The Regulatory Financial Statements are separate from the statutory Financial Statements of the Company. There are differences between United Kingdom Generally Accepted Accounting Principles (UK GAAP) and the basis of preparation of information provided in the Regulatory Financial Statements because the Standard Condition 44 of the Regulatory Licence specifies alternative treatment or disclosure in certain respects. Where Standard Condition 44 of the Regulatory Licence does not specifically address an accounting issue, then it requires UK GAAP to be followed. Financial information other than that prepared wholly on the basis of UK GAAP may not necessarily represent a true and fair view of the financial performance or financial position of the Company as shown in Financial Statements prepared in accordance with the Companies Act 2006.

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

As described in the Statement of Directors' Responsibilities on page 13 the Company's Directors are responsible for the preparation of the Regulatory Financial Statements in accordance with Standard Condition 44 of the Regulatory Licence.

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

We report to you our opinion as to whether the Regulatory Financial Statements present fairly in accordance with Standard Condition 44 of the Regulatory Licence and the accounting policies set out on page 20 to 23, the results, cash flows and financial position of the Company and whether they have been properly prepared in accordance with those conditions. We also report to you if, in our opinion, the Company has not kept proper accounting records or if, in our opinion, we have not received all information and explanations we require for our audit.

We read the other information contained in the Regulatory Financial Statements, including any supplementary schedules on which we do not express an audit opinion, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Regulatory Financial Statements. The other information comprises the Strategic and Financial Report, and the Corporate Governance Statement. Our responsibilities do not extend to the other information.

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board except as noted below. An audit excludes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Regulatory Financial Statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Regulatory Financial Statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequate disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Regulatory Financial Statements are free from material misstatement, whether caused by fraud or other irregularity or error. However, the nature, form and content of Regulatory Financial Statements are determined by the Regulator, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under those auditing standards.

Our opinion on the Regulatory Financial Statements is separate from our opinion on the statutory Financial Statements of the Company on which we report, which are prepared for a different purpose. Our audit report in relation to the statutory Financial Statements of the Company (our "statutory" audit) was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our statutory audit work was undertaken so that we might state to the Company those matters which we required to state to them in a statutory auditor's report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the company's members, as a body, for our statutory audit work, for any statutory audit work, for our statutory audit report, or for the opinions we have formed in respect of that statutory audit.

Opinion

In our opinion the Regulatory Financial Statements of the Company for the year ended 31 March 2014 fairly present, in accordance with Standard Condition 44 of the Regulatory Licence and the accounting policies set out on page 20 to 23, the state of the Company's affairs at 31 March 2014 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with those conditions.

John Luke (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

191 West George Street
Glasgow
G2 2LJ

16 July 2014

Profit and Loss Account
for the year ended 31 March 2014

	Note	2014 £m	2013 £m
Turnover		**659.6**	663.8
Cost of sales		**(79.8)**	(71.9)
Gross profit		**579.8**	591.9
Distribution costs		**(256.0)**	(240.8)
Administrative costs		**(26.9)**	(27.0)
Exceptional costs	3	**(3.0)**	-
Operating profit	2	**293.9**	324.1
Net interest payable	6	**(40.4)**	(41.5)
Profit on ordinary activities before taxation		**253.5**	282.6
Tax on profit on ordinary activities	7	**(25.5)**	(41.8)
Profit for the financial year	20	**228.0**	240.8

There were no other recognised gains or losses during the year (2013 – £nil).

The above results are derived from continuing activities.

The accompanying notes form part of these Regulatory Financial Statements.

Reconciliation of Movements in Shareholders' Funds for the year ended 31 March 2014

	Note	**2014 £m**	2013 £m
Profit for the financial year		**228.0**	240.8
Dividends paid to shareholders	8	**(50.0)**	(400.0)
Credit in respect of employee share schemes (net of tax)		**1.0**	1.1
Net addition/(reduction) to shareholders' funds		**179.0**	(158.1)
Opening shareholders' funds		**688.2**	846.3
Closing shareholders' funds		**867.2**	688.2

Balance Sheet
as at 31 March 2014

	Note	**2014 £m**	2013 £m
Fixed Assets			
Tangible fixed assets	9	**2,508.2**	2,351.2
Investments	10	**0.9**	0.8
		2,509.1	2,352.0
Current assets			
Stocks	11	**0.1**	-
Debtors	12	**673.7**	642.3
Cash at bank and in hand	13	**16.6**	19.1
Total current assets		**690.4**	661.4
Creditors:			
Amounts falling due within one year	14	**(718.6)**	(669.2)
Net current liabilities		**(28.2)**	(7.8)
Total assets less current liabilities		**2,480.9**	2,344.2
Creditors:			
Amounts falling due after more than one year	15	**(1,418.2)**	(1,434.0)
Provisions for liabilities and charges			
Deferred taxation	17	**(192.5)**	(222.0)
Restructuring	18	**(3.0)**	-
Net assets		**867.2**	688.2
Capital and reserves			
Called up share capital	19	**7.9**	7.9
Profit and loss account	20	**859.3**	680.3
Equity shareholders' funds		**867.2**	688.2

These Regulatory Financial Statements were approved by the Directors on 16 July 2014 and signed on their behalf by

Gregor Alexander, Director

Southern Electric Power Distribution plc, registered no. 4094290

Cash Flow Statement
for the year ended 31 March 2014

	Note	2014 £m	2013 £m
Net cash inflow from operating activities	25	**363.2**	331.2
Interest received		**17.2**	4.4
Interest paid		**(45.1)**	(41.8)
Returns on investments and servicing of finance		**(27.9)**	(37.4)
Corporation tax paid		**(57.8)**	(60.0)
Taxation		**(57.8)**	(60.0)
Purchase of tangible fixed assets		**(228.7)**	(213.3)
Capital expenditure and financial investment		**(228.7)**	(213.3)
Equity dividends paid	8	**(50.0)**	(400.0)
Net cash outflow before management of liquid resources and financing		**(1.2)**	(379.5)
New borrowings		**0.1**	400.0
Repayment of borrowings		**(1.4)**	(1.4)
Financing		**(1.3)**	398.6
(Decrease) / increase in cash in the year		**(2.5)**	19.1
Cash and cash equivalents at start of year		**19.1**	-
Net (decrease)/increase in cash and cash equivalents		**(2.5)**	19.1
Cash and cash equivalents at the end of the year	13	**16.6**	19.1

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

1. Significant accounting policies

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

The Company's balance sheet at 31 March 2014 shows a net current liability position of £28.2m (2013 – £7.8m). 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 Regulatory Financial Statements are appropriately prepared on a going concern basis.

It has also taken advantage of the exemption contained in FRS 29 and has therefore not prepared the disclosures relating to financial instruments and capital as full disclosure is provided in Group Financial Statements.

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 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 Director of the Company who is also an Executive Director 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. However, under the Companies Act, the Company will no longer be able to prepare accounts under UK GAAP for its year ending 31 March 2016 and is currently considering whether it will prepare accounts under FRS 101 or FRS 102 at that time. Once it has adopted either FRS 101 or FRS 102, transitional balances, the transition date being 1 April 2014, will be restated accordingly.

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

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

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

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 substantively enacted, at the balance sheet date.

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

Tangible fixed assets

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

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

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

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

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

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.

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

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.

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

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

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

Financial instruments
The Company adopted FRS 25 and FRS 26 with effect from 1 April 2005. FRS 26 requires that financial instruments are initially recognised and subsequently measured at fair value. Financial assets and liabilities are recognised when the Company becomes a party to the provisions of the instrument.

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

Accounting policies under FRS 25 and 26

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

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

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

1. Significant accounting policies (continued)

i) Interest Rate Derivatives (continued)
A derivative classified as a 'cash flow' hedge recognises the portion of gains or losses on the derivative which are deemed to be effective directly in equity in the hedge reserve. Any ineffective portion of the gains or losses is recognised in the profit and loss account. The gains or losses that are recognised directly in equity are transferred to the profit and loss account in the same period in which the forecast transaction actually occurs. The company does not have any cash flow hedge derivatives.

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

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

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

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

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

Operating Leases
The Company treats operating leases in accordance with SSAP 21 whereby the assets in which the expenditure relates are not owned by Company as an asset and are therefore not capitalised.

2. Operating profit

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

	2014 £m	2013 £m
Depreciation of tangible fixed assets	**83.0**	92.2
Operating lease rentals	**6.3**	6.3
Release of deferred income in relation to customer contributions and capital grants	**(9.6)**	(9.5)
Research and development	**2.7**	3.3
Net management fee in respect of services provided by group companies	**24.7**	27.0

The Company incurred an audit fee of £0.1m (2013 – £0.1m) in the year.

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

3. Exceptional costs

	2014 £m	2013 £m
Exceptional costs – restructuring	**3.0**	-

During March 2014, SSE plc announced that a "Voluntary Early Release" scheme was available to employees seeking to leave the company in return for a financial settlement. As a result of this process an exceptional charge has been recorded to account for the cost of releasing employees within the Company. Employees successful in their application will leave the Company over the course of 2014.

4. Staff costs and numbers

	2014 £m	2013 £m
Staff costs:		
Wages and salaries	**55.1**	52.8
Social security costs	**5.8**	5.3
Share based remuneration	**1.0**	1.1
Other pension costs (note 21)	**49.0**	44.1
	110.9	103.3
Less capitalised as tangible fixed assets	**(30.2)**	(25.6)
	80.7	77.7

Included within the above costs is a charge recognised under FRS 20 of £1,032,341 (2013 - £1,107,639).

Employee numbers

	2014 Number	2013 Number
Numbers employed at 31 March	**1,494**	1,444

	2014 Number	2013 Number
The monthly average number of people employed by the Company during the year	**1,467**	1,421

5. Directors' remuneration

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

	2014 £m	2013 £m
Remuneration as executives	**0.2**	0.2

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

6. Net interest payable

	2014 £m	2013 £m
Interest receivable:		
Interest due from group companies	**12.3**	2.2
Other interest receivable	**4.9**	4.4
	17.2	6.6
Interest payable:		
Bank loans and overdrafts	**(42.5)**	(42.9)
Interest due to group companies	**(16.8)**	(7.1)
	(59.3)	(50.0)
Net interest payable before capitalisation	**(42.1)**	(43.4)
Interest capitalised (note 9)	**1.7**	1.9
Net interest payable	**(40.4)**	(41.5)

7. Taxation

	2014 £m	2013 £m
Current tax:		
UK corporation tax on profits of the year	**56.4**	69.4
Adjustments in respect of prior periods	**(1.4)**	(8.5)
	55.0	60.9
Deferred tax:		
Origination and reversal of timing differences	**2.2**	(1.3)
Change in applicable tax rate	**(28.9)**	(9.6)
Adjustment in respect of previous year	**(2.8)**	(8.2)
Total Deferred Tax	**(29.5)**	(19.1)
Total tax on profit on ordinary activities	**25.5**	41.8

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:

	2014 £m	2013 £m
Profit before tax	**253.5**	282.6
Tax on profit on ordinary activities at standard UK Corporation tax rate of 23% (2013 - 24%)	**58.3**	67.9
Effects of:		
Depreciation in excess of capital allowances	**(2.1)**	1.2
Adjustment in respect of previous year	**(1.4)**	(8.5)
Share based remuneration	**(0.1)**	0.1
Other timing differences	**0.3**	0.2
Current tax charge for year	**55.0**	60.9

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

7. Taxation (continued)

The 2013 Finance Act announced that the U.K. corporation tax rate will reduce to 20% by 2015. A reduction in the rate from 23% to 21% (effective from 1 April 2014) was substantively enacted on 3 July 2013 and substantive enactment of the rate of 20% with effect from 1 April 2015 also took place on 3 July 2013. This change will reduce the Company's future current tax charge accordingly.

The deferred tax liability at 31 March 2014 has therefore been calculated having regard to the rate of 20% substantively enacted at the balance sheet date. As this rate change has been substantively enacted it has the effect of reducing the Company's net deferred tax liabilities recognised at 31 March 2014 by £28.9m.

8. Dividends

	2014	2013
	£m	£m
Amounts recognised as distributions from equity:		
Final dividend of £6.37 (2013 – £50.96) per share	**50.0**	400.0

The final dividend for the current year, £50.0m (2013 – £400.0m), was declared and approved on 21 March 2014 and was paid to shareholders on 31 March 2014. The final dividend for the previous year was approved on 27 March 2013 and paid to shareholders on 29 March 2013.

9. Tangible fixed assets

	Network Assets	**Land and Buildings**	**Other Equipment**	**Total**
	£m	**£m**	**£m**	**£m**
Cost:				
At 1 April 2013	3,929.3	0.2	87.2	4,016.7
Additions	235.3	1.3	3.4	240.0
At 31 March 2014	**4,164.6**	**1.5**	**90.6**	**4,256.7**
Depreciation:				
At 1 April 2013	1,588.3	-	77.2	1,665.5
Charge for the year	80.6	-	2.4	83.0
At 31 March 2014	**1,668.9**	**-**	**79.6**	**1,748.5**
Net book value				
At 31 March 2014	**2,495.7**	**1.5**	**11.0**	**2,508.2**
At 31 March 2013	2,341.0	0.2	10.0	2,351.2

	2014	2013
	£m	£m
Tangible fixed assets include:		
Assets in the course of construction (not depreciated)	**95.7**	85.9

There is a cumulative capitalised interest included in tangible fixed asset cost of £3.6m (2013 - £1.9m) at 31 March 2014. This is depreciated annually according to the useful economic life of the asset to which the capitalised interest relates.

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

10. Fixed asset investments

	Other investments £m
At 1 April 2013	0.8
Additions	0.1
At 31 March 2014	**0.9**

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

11. Stocks

	2014 £m	2013 £m
Raw materials and consumables	**0.1**	-

12. Debtors

	2014 £m	2013 £m
Amounts falling due within one year:		
Trade debtors	**18.2**	46.8
Prepayments and accrued income	**29.8**	32.9
Amounts owed by group undertakings	**625.7**	562.6
	673.7	642.3

13. Cash at bank and in hand

	2014 £m	2013 £m
Cash at bank and in hand	**16.6**	19.1

Cash at bank represents amounts received from Distribution Network Operators (DNOs) to fund the Thames Valley Vision (TVV) project and the My Electric Avenue project, which is set up under Ofgem's Low Carbon Network funding arrangements. The use of the cash is restricted and can only be used for the purpose of the project. Therefore the balance has not been remitted to SSE plc as part of the Group's central treasury operations.

14. Creditors: amounts falling due within one year

	2014 £m	2013 £m
Short-term loans (note 16)	**-**	1.4
Trade creditors	**5.2**	7.3
Amounts owed to group undertakings	**584.9**	535.1
Corporation tax	**28.6**	31.4
Other creditors	**23.0**	20.6
Accruals and other deferred income	**76.9**	73.4
	718.6	669.2

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

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

	2014 £m	2013 £m
Loans and bonds (note 16)	**1,190.0**	1,186.9
Accruals and other deferred income	**228.2**	197.8
Amounts owed to group undertakings	**-**	49.3
	1,418.2	1,434.0

16. Analysis of borrowings

	Weighted Average Interest rate 2014 %	Weighted Average Interest rate 2013 %	2014 £m	2013 £m
One year or less				
5.79% European Investment Bank repayable on 15 September 2013*	**5.79%**	5.79%	-	1.4
			-	1.4
More than five years				
5.50% Eurobond repayable on 19 June 2032	**5.50%**	5.50%	**350.2**	350.2
4.625% Eurobond repayable on 20 February 2037	**4.63%**	4.63%	**323.7**	323.6
4.454% Index Linked Bond repayable on 27 February 2044	**4.46%**	4.46%	**116.1**	113.1
4.25% Loan Stock repayable to SSE on 31 March 2023	**4.25%**	4.25%	**400.0**	400.0
			1,190.0	1,186.9
			1,190.0	1,188.3

* Amortising

17. Deferred taxation

Deferred taxation is provided as follows:

	2014 £m	2013 £m
Accelerated capital allowances	**192.5**	222.0
Provision for deferred tax	**192.5**	222.0

	31 March 2014 £m
Provision at start of the year	222.0
Credited to profit and loss account	(29.5)
Provision at end of the year	**192.5**

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

18. Restructuring provision

	31 March 2014 £m
Provision at start of the year	-
Charged to profit and loss account	3.0
Provision at end of the year	**3.0**

A provision has been recorded in the year for the Voluntary Early Release scheme as discussed in Note 3.

19. Share capital

	2014 £m	2013 £m
Equity:		
Allotted, called up and fully paid:		
7,850,000 ordinary shares of £1 each	**7.9**	7.9

20. Reserves

	£m
At 1 April 2013	680.3
Profit for the year	228.0
Dividends (note 8)	(50.0)
Credit in respect of employee share schemes (net of tax)	1.0
At 31 March 2014	**859.3**

21. Pensions

43% (2013: 47%) of the Company's employees are members of the Southern Electric Pension Scheme, part of the Electricity Supply Pension Scheme, which provides defined benefits based on final pensionable pay. The Company's contributions to this scheme are set in relation to the current service period only (i.e. these are not affected by any surplus or deficit in the scheme relating to past service of its own employees and any other members of the scheme) and as such are accounted for as if they were a contribution to a defined contribution scheme.

New employees can opt to join a personal pension scheme which is a money purchase scheme with the Company matching the members' contributions up to a maximum of 6% of salary. The scheme is managed by Friends Provident
The Company's share of the total contributions payable to the pension schemes during the year was £12.4m (2013 – £8.4m).

In addition to this, the Company incurred a further charge, payable to SSE Services plc, of £36.6m (2013 – £35.7m), which related to its share of the Scheme's deficit repair contributions for the year ended 31 March 2014.

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

22. Employee share-based payments

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

(i) Savings-related share option schemes ("Sharesave")
This scheme gives employees the option to purchase shares in the Company at a discounted market price, subject to the employees remaining in employment for the term of the agreement. Employees may opt to save between £5 and £250 per month for a period of 3 and / or 5 years. At the end of these periods employees have six months to exercise their options by using the cash saved (including any bonus equivalent to interest). If the option is not exercised, the funds may be withdrawn by the employee and the option expires.

(ii) Share Incentive Plan (SIP)
This scheme allows employees the opportunity to purchase shares in the Company on a monthly basis. Employees may nominate an amount between £10 and £125 to be deducted from their gross salary. This is then used to purchase shares ('Partnership' shares) in the market each month. These shares are held in trust and become free of liability to income tax and national insurance on their fifth anniversary. These shares may be withdrawn at any point during the 5 years, but tax and national insurance would become payable on any shares withdrawn.

In addition to the shares purchased on behalf of the employee, the Company will also match the purchase up to a maximum of 6 (previously 5) shares ('Matching' shares) per month. These shares are also held in trust and become free of liability to income tax and national insurance on their fifth anniversary. If an employee leaves during the first three years, or removes his/her 'partnership' shares, these 'matching' shares are forfeited.

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

(iv) Performance Share Plan
This scheme applies to executive directors and senior executives. Shares granted under this arrangement vest subject to the attainment of performance conditions over the relevant three year performance period as set out below:

Award made		02 June 2010	02 June 2011	02 June 2012	02 June 2013
Maximum value of award as a % of base salary		150	150	150	150
Performance conditions					
Total shareholder return (i)	Full vesting	> 75th percentile	> 75th percentile	> 75th percentile	> 75th percentile
	25% vesting	median	median	median	median
Earnings per share (ii)	Full vesting	RPI + 8%	RPI + 8%	RPI + 8%	RPI + 8%
	25% vesting	RPI + 2%	RPI + 2%	RPI + 2%	RPI + 2%
Dividend per share growth (iii)	Full vesting	RPI + 6%	RPI + 6%	RPI + 6%	RPI + 6%
	25% vesting	RPI + 2%	RPI + 2%	RPI + 2%	RPI + 2%

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

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

22. Employee share-based payments (continued)

(i) Total Shareholder Return (TSR) target relative to other FTSE100 companies and MSCI Europe Utilities (a dedicated peer group of UK and other European utilities) Index. Pro rata vesting will take place between the 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.

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

(i) Savings-related share option scheme

As at 31 March 2014:

Award Date	Option Price (pence)	Outstanding at start of year	Granted	Exercised	Lapsed	Outstanding at end of year	Date from which exercisable	Expiry date
10 July 2007	1,306	15,215	-	-	(3,704)	11,511	1 October 2012	31 March 2013
17 July 2008	1,274	34,025	-	(33,666)	(82)	277	1 October 2013	31 March 2014
30 June 2009	1,042	35,093	-	-	(817)	34,276	1 October 2012	31 March 2013
30 June 2009	1,042	72,131	-	-	(1,579)	70,552	1 October 2014	31 March 2015
30 June 2010	871	81,347	-	(81,289)	(58)	-	1 October 2013	31 March 2014
30 June 2010	871	411,371	-	(84)	(7,608)	403,679	1 October 2015	31 March 2016
28 June 2011	1,105	36,413	-	(416)	(1,616)	34,381	1 October 2014	31 March 2015
28 June 2011	1,105	83,573	-	(199)	(6,272)	77,102	1 October 2016	31 March 2017
29 June 2012	1,065	62,165	-	(146)	(3,283)	58,736	1 October 2015	31 March 2016
29 June 2012	1,065	80,270	-	(125)	(6,500)	73,645	1 October 2017	31 March 2018
05 July 2013	1,197	-	77,256	-	(2,621)	74,635	1 October 2016	31 March 2017
05 July 2013	1,197	-	61,310	-	(2,277)	59,033	1 October 2018	31 March 2019
		911,603	**138,566**	**(115,925)**	**(36,417)**	**897,827**		

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
11 July 2006	999	13,379			(13,379)	-	1 October 2011	31 March 2012
10 July 2007	1,306	54,305		(37,829)	(1,261)	15,215	1 October 2012	31 March 2013
17 July 2008	1,274	9,804			(9,804)	-	1 October 2011	31 March 2012
17 July 2008	1,274	35,174			(1,149)	34,025	1 October 2013	31 March 2014
30 June 2009	1,042	35,889			(796)	35,093	1 October 2012	31 March 2013
30 June 2009	1,042	75,411		(119)	(3,161)	72,131	1 October 2014	31 March 2015
30 June 2010	871	84,223		(986)	(1,890)	81,347	1 October 2013	31 March 2014
30 June 2010	871	421,082		(743)	(8,968)	411,371	1 October 2015	31 March 2016
28 June 2011	1,105	41,207		-	(4,794)	36,413	1 October 2014	31 March 2015
28 June 2011	1,105	92,191		(31)	(8,587)	83,573	1 October 2016	31 March 2017
29 June 2012	1,065	-	65,763	-	(3,598)	62,165	1 October 2015	31 March 2016
29 June 2012	1,065	-	86,518	-	(6,248)	80,270	1 October 2017	31 March 2018
		862,665	**152,281**	**(39,708)**	**(63,635)**	**911,603**		

As share options are exercised continuously throughout the period from 1 October to 31 March, the weighted average share price during this period of 1,455p (2013: 1,433p) 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.

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

22. Employee share-based payments (continued)

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

	July 2007		July 2008		July 2009		July 2010		July 2011		July 2012		July 2013	
	3 Year	5 Year	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	287p	313p	304p	339p	244p	269p	231p	246p	171p	163p	182p	159p	194p	168p
Expected volatility	25%	25%	28%	28%	35%	35%	19%	19%	18%	18%	18%	18%	15%	15%
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%	0.7%	1.4%
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%	5.9%	5.9%
Term of the option	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs
Underlying price at grant date	1,460p	1,460p	1,397p	1,397p	1,139p	1,139p	1,089p	1,089p	1,393p	1,393p	1,391p	1,391p	1,579p	1,579p
Strike price	1,306p	1,306p	1,274p	1,274p	1,042p	1,042p	871p	871p	1,105p	1,105p	1,065p	1,065p	1,197p	1,197p

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

ii) Share Incentive Plan

Matching shares	**2014** Shares	**2014** Weighted average price (pence)	2013 Shares	2013 Weighted average price (pence)
Outstanding at start of year	**286,476**	**1,240**	267,484	1,169
Granted	**78,232**	**1,470**	74,432	1,395
Forfeited	**(10,804)**	**1,383**	(8,694)	1,263
Exercised	**(15,362)**	**1,239**	(12,347)	1,255
Transfer to pool account	**(42,039)**	**1,262**	(34,399)	1,506
Outstanding at end of year	**296,503**	**1,297**	286,476	1,240
Exercisable at end of year	**106,949**	**1,150**	86,967	1,301

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	**2014** Shares	**2014** Weighted average price (pence)	2013 Shares	2013 Weighted average price (pence)
Outstanding at start of year	**10,048**	**1,417**	30,923	1,174
Exercised	**(448)**	**1,404**	(2,066)	1,432
Transfer to pool account	**(9,600)**	**1,408**	(18,809)	1,474
Outstanding at end of year	**-**	**1,408**	10,048	1,417
Exercisable at end of year	**-**	**1,408**	10,048	1,417

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

22. Employee share-based payments (continued)

The fair value of these shares is not subject to valuation using the Black-Scholes model. However, the fair value of shares granted in the year is equal to the weighted average price 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

	2014		2013	
	Shares	**Price (pence)**	Shares	Price (pence)
Outstanding at start of year	**3,779**	**1,257**	3,606	1,464
Granted	**1,400**	**1,496**	858	1,383
Exercised	**(764)**	**1,183**	(685)	1,177
Outstanding at end of year	**4,415**	**1,409**	3,779	1,257
Exercisable at end of year	**2,298**	**1,327**	1,430	1,327

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

	2014		2013	
	Shares	**Price (pence)**	Shares	Price (pence)
Outstanding at start of year	**14,613**	**1,246**	13,824	1,253
Granted	**7,490**	**1,496**	4,706	1,383
Forfeited	**(2,559)**	**1,140**	(2,825)	1,204
Exercised	**(2,691)**	**1,079**	(1,092)	1,174
Outstanding at end of year	**16,853**	**1,408**	14,613	1,246

Of the outstanding options at the end of the year, 6,798 were exercisable at the end of the year.

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.

23. Derivatives and financial instruments

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

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

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

23. Derivatives and financial instruments (continued)

(i) Risk

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

The Company's policy is to manage this risk by stipulating that a minimum of 50% of borrowings be subject to fixed rates of interest, either directly through the debt instruments themselves or through the use of derivative financial instruments. Such instruments include interest rate swaps and options, forward rate agreements and, in the case of debt raised in currencies other than sterling, cross currency swaps.

Although interest rate derivatives are primarily used to hedge risk relating to current borrowings, under certain circumstances they may also be used to hedge future borrowings. Any such pre-hedging is unwound at the time of pricing the underlying debt, either through cash settlement on a net present value basis or by transacting offsetting trades. The floating rate borrowings mainly comprise commercial paper issued at interest rates less than LIBOR and cash advances from the European Investment Bank (EIB).

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

At 31 March 2014	**Effective interest rate %**	**Total £m**	Within 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m
Long term bonds	**4.9954**	**790.0**	-	-	-	790.0
Loan Stock	**4.2500**	**400.0**	-	-	-	400.0

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

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

	2014 Carrying Value £m	**2014 Fair Value £m**	2013 Carrying Value £m	2013 Fair Value £m
Financial Assets				
Trade and other debtors	**644.0**	**644.0**	628.5	628.5
Financial Liabilities				
Trade and other creditors	**641.7**	**641.7**	594.4	594.4
Bank loans	**-**	**-**	1.4	1.4
Long-term bonds	**790.0**	**906.5**	786.9	978.2
Loan stock	**400.0**	**400.0**	400.0	400.0

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

Unless otherwise stated, carrying value approximates fair value.

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

23. Derivatives and financial instruments (continued)

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

The net financial liabilities of £nil (2013 – £nil) are represented as creditors that are due after more than one year.

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

24. Commitments and contingencies

(i) Capital expenditure

	2014	2013
	£m	£m
Contracted for but not provided	**69.1**	54.1

(ii) Operating lease commitments
Leases as lessee:

	2014	2013
	£m	£m
Amount included in the profit and loss account relating to the current year leasing arrangements	**6.3**	6.3

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

	2014	2013
	£m	£m
Within one year	**3.8**	0.6
Between two and five years	**5.8**	4.9
After five years	**-**	0.6
	9.6	6.1

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

25. Reconciliation of operating profit to operating cash flows

	2014 £m	2013 £m
Reconciliation of operating profit to operating cash flows		
Operating profit including gains on disposals	**293.9**	324.1
Depreciation	**83.0**	92.2
Customer contributions and capital grants released	**(9.6)**	(9.5)
Increase in stock	**(0.1)**	-
Decrease/(increase) in debtors	**31.6**	(15.2)
Increase in creditors	**23.0**	25.1
Increase in provisions	**3.0**	-
Movement in intercompany	**(62.6)**	(86.6)
Charge in respect of employee share awards	**1.0**	1.1
Net cash inflow from operating activities	**363.2**	331.2

26. Net debt

Reconciliation of net cash flow to movement in net debt	2014 £m	2013 £m
Cash (outflow)/inflow from (decrease)/increase in cash(i)	**(2.5)**	19.1
Net cash inflow from decrease/(increase) in debt and lease financing	**1.4**	(395.9)
Other movement	**(3.1)**	(3.3)
Movement in net debt in the year	**(4.2)**	(380.1)
Net debt at 1 April	**(1,169.2)**	(789.1)
Net debt at 31 March	**(1,173.4)**	(1,169.2)

Analysis of net debt

	As at 1 April 2013 £m	Decrease in cash(i) £m	Decrease in debt £m	Non-cash movements(ii) £m	**As at 31 March 2014 £m**
Cash at bank and in hand	19.1	(2.5)	-	-	**16.6**
Other debt due within one year	(1.4)	-	1.4	-	**-**
Net borrowings due within one year	17.7	(2.5)	1.4	-	**16.6**
Net borrowings due after more than one year	(1,186.9)	-	-	(3.1)	**(1,190.0)**
	(1,169.2)	(2.5)	1.4	(3.1)	**(1,173.4)**

(i) 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 movement recorded above represents cash received from Distribution Network Operators (DNOs) in respect of the Thames Valley Vision (TVV) project and My Electric Avenue project (see note 13).

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

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

27. Regulatory Segmental Analysis

In accordance with standard licence condition 44, a segmental analysis of the Company's performance has been presented based on the prescribed distribution activities within the licence. The Company does not consider these activities to be segments as defined by SSAP 25.

For the year to 31 March 2014:

	Distribution (DUoS)	Excluded Services (i)	Metering (ii)	Out of Area Networks	De Minimis (iii)	**Total**
	£m	£m	£m	£m	£m	**£m**
Revenue	570.7	69.9	6.6	11.6	0.8	**659.6**
Operating Costs	(204.9)	(71.2)	-	(5.8)	(0.8)	**(282.7)**
Depreciation	(80.0)	-	(0.5)	(2.5)	-	**(83.0)**
Operating Profit	**285.8**	**(1.3)**	**6.1**	**3.3**	**-**	**293.9**
Capital additions	**229.2**	**-**	**-**	**10.8**	**-**	**240.0**

For the year to 31 March 2013:

	Distribution (DUoS)	Excluded Services (i)	Metering (ii)	Out of Area Networks	De Minimis (iii)	**Total**
	£m	£m	£m	£m	£m	**£m**
Revenue	582.7	63.6	6.7	9.9	0.9	**663.8**
Operating Costs	(180.3)	(61.2)	-	(5.1)	(0.9)	**(247.5)**
Depreciation	(89.4)	-	(0.5)	(2.3)	-	**(92.2)**
Operating Profit	**313.0**	**2.4**	**6.2**	**2.5**	**-**	**324.1**
Capital additions	**207.1**	**-**	**-**	**8.3**	**-**	**215.4**

(i) Excluded services includes connections, diversions and other excluded services as defined in the licence (ES1, ES3 and ES7).
(ii) Metering services refer to Legacy MAP only. The Company does not undertake other metering activities.
(iii) De Minimis activities primarily relate to activities undertaken on behalf of other SSE plc Group companies.

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

28. Regulated Related Party Disclosure

For the year to 31 March 2014:

Type of transaction	Ultimate parent (SSE plc) £m	Immediate parent (SSEPD)[(i)] £m	Other SSE plc Group companies £m
Sales and provision of services	-	-	0.9
Purchases and receipt of services	-	-	(126.1)
Distribution of dividends	-	(50.0)	-
Finance income (note 6)	12.3	-	-
Finance costs (note 6)	(16.8)	-	-

(i) The immediate parent of the Company is Scottish and Southern Energy Power Distribution Limited (SSEPD).
(ii) Balances outstanding to and from Group companies including the Ultimate and Immediate Parent Companies are disclosed in Notes 12, 14, 15, and 16 to these Regulatory Financial Statements.

29. Ultimate parent company

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