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Scottish Hydro Electric Transmission plc

Regulatory Financial Statements

Year ended 31 March 2015

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Strategic and Financial Report

The Strategic and Financial Review sets out the main trends and factors underlying the development and performance of Scottish Hydro Electric Transmission plc (the "Company") during the year ended 31 March 2015, 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 owns the Electricity Transmission network in the north of Scotland. Since the introduction of British Electricity Trading and Transmission Arrangements in April 2005, National Grid has been the National Electricity Transmission System Operator, responsible for balancing the supply and demand of electricity across Great Britain. The Company is responsible for maintaining and investing in the transmission network in its area, which comprises around 6,000km of high voltage overhead lines and underground cables covering around 70% of the land mass of Scotland serving remote and, in some cases, island communities. As the licensed transmission company for the area, the Company has to ensure there is sufficient network capacity for those seeking to generate electricity from renewable and other sources.

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

The Company's strategy and main objectives are to:

- comply fully with all electricity network safety standards and environmental requirements;
- ensure that the electricity network is managed as efficiently as possible, including maintaining tight controls over operational expenditure and the delivery of the capital expenditure programme;
- provide good performance in areas such as reliability of supply, customer service and innovation;
- ensure there is sufficient network capacity for those seeking to generate electricity from renewable and other sources within the licensed network area;
- grow the 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 2015 were as follows (comparisons with the same period to 31 March 2014):

a) Operating Profit

Year to March 2015	£182.0m
Year to March 2014	£133.8m
Increase (%)	36.0%

b) Capital Expenditure

Year to March 2015	£467.2m
Year to March 2014	£349.2m
Increase (%)	33.8%

Strategic and Financial Report (continued)

Business performance overview (continued)

c) Number of Transmission System Incidents

Year to March 2015	39
Year to March 2014	20
Increase (%)	95.0%

d) Average Circuit Unreliability

Year to March 2015	0.35%
Year to March 2014	0.27%
Increase (%)	29.6%

e) Regulated Asset Value

As at 31 March 2015	£1.7bn
As at 31 March 2014	£1.3bn
Increase (%)	30.8%

The Company's operating profit increased by 36.0% to £182.0m. This reflects the increase in regulated revenue as a result of the major programme of capital investment undertaken in recent years. Since the current RIIO T1 Price Control started in April 2013, the Company's capital investment has totalled £816.4m. For 2015/16 as a whole, the Company expects to invest over £600m, including the first full year of construction on the Caithness to Moray transmission link.

The number of Transmission Incidents and Average Circuit Unreliability (a new measure under RIIO-T1) rose in 2014/15 compared to the prior year as a result of an exceptional weather event experienced in January 2015.

Managing the Company through a period of rapid growth

As a result of the requirement to connect large volumes of dispersed renewable energy generation, the Company has committed to a major programme of investment in electricity transmission infrastructure in its licence area to support the transition to lower carbon electricity generation, increase security of supply and promote economic growth.

The Company maintains a significant portfolio of work to develop and construct local connections for new generation sites across its licence area. In the year, 97 new connection offers were provided in the required period.

Delivering the Beauly-Denny line

Transmission Investment for Renewable Generation (TIRG) is a mechanism that preceded Strategic Wider Works (see below) to provide a framework for funding large transmission projects. The Company has one project in construction under this mechanism - the replacement of the Beauly-Denny line between Beauly and Wharry Burn, near Dunblane. It is on programme to complete the majority of its outstanding works associated with the Beauly-Denny network reinforcement in the summer of 2015. The Company has, to date, successfully constructed 537 new towers along its section of the 220km overhead line route and has safely energised and integrated 127km of overhead line between Beauly and Tummel Bridge substations.

In February 2014, The Highland Council served the Company with a noise abatement notice regarding the substation at Beauly. The Company announced in August 2014 that it would invest around £2.5m in noise abatement equipment. This equipment has been installed and the Company and The Highland Council are continuing to monitor its impact.

Construction of two remaining towers and fitting a further 16km of overhead conductor will complete the 400kV works in the Company's area. Energisation of the final 93km section is dependent on completion of Scottish Power Transmission (SP Transmission) works to the south of Wharry Burn, which SP Transmission

Strategic and Financial Report (continued)

Delivering the Beauly-Denny line (continued)

reports are scheduled to be completed in November 2015. The remaining rationalisation schemes located at Beauly, Amulree and in the Cairngorms National Park remain on course to be completed during 2015. Works to dismantle the original 132kV overhead line and to reinstate land used during construction are progressing with a target completion date in 2016.

Based on expenditure to date of £616 m and known issues, including the interface with SP Transmission's section of the line, the forecast cost is now not expected to exceed £680m. Further discussions continue to take place with SP Transmission and Ofgem on coordination with the networks in the south of Scotland; and the timescales and full cost of completion. The Company is in discussion with Ofgem regarding recovery of efficiently incurred costs following completion of the construction works.

Delivering under Strategic Wider Works

The Company is now two years into the RIIO-T1 Price Control. Under this framework Ofgem recognises the requirement for the Company to significantly expand its network over the period of the price control to facilitate the growth of renewable generation in the north of Scotland in order to meet national renewable energy targets. The exact timing and scale of growth can be fluid and dependent on the changing requirements of developers.

To allow these projects to be delivered in this dynamic environment, Ofgem developed the Strategic Wider Works mechanism whereby it considers on a case-by-case basis the evidence presented by the Company to decide whether a project is needed. It then considers the Company's proposed solution in detail, scrutinises the costs and approves funding. The Company is currently delivering three major projects under the Strategic Wider Works mechanism:

Caithness-Moray:
In December 2014, Ofgem announced its approval of capital funding of £1,118m (2013/14 prices) for the upgrade of the Company's network between Caithness and Moray, including a High Voltage Direct Current (HVDC) subsea cable beneath the Moray Firth. The project will enable the connection of up to 1,200MW of additional generation capacity in the north of Scotland and the islands. It is scheduled to be operational by the end of 2018. Contracts have now been awarded for all main elements of the work. Enabling works are under way at converter station sites in Caithness and Moray; and at substation sites in Caithness, Sutherland and Ross-shire. Early exploratory drilling at the Noss Head landfall of the subsea cable in Caithness has helped to identify the optimal location to minimise risk during the installation process. Manufacture of the specialised subsea and onshore cables required is under way. Enabling works for onshore cable installation in Caithness are due to begin later in 2015. The first revenues will be received in 2015/16.

Kintyre-Hunterston:
Construction of the new substation building at Crossaig is complete and transformer deliveries took place in March and April 2015. All 50 steel towers between Crossaig and Carradale have been constructed and onshore cable installation in Kintyre was completed in April 2015. Marine cable installation and remaining onshore works at Hunterston, in conjunction with SP Transmission, are scheduled to allow energisation by the end of 2015. Ofgem has given capital funding approval of £207m (nominal prices).

Beauly-Mossford:
All substation and underground cable works are now complete. The replacement overhead line is on schedule to be completed in late 2015. Ofgem has given capital funding approval of £68m (nominal prices) for the works.

Working on future transmission links

The Company has a number of further projects at advanced stages in the development process. These projects will be submitted for consideration by Ofgem once the necessary conditions are in place to justify the need.

Strategic and Financial Report (continued)

Western Isles:
The Company continues to work with all stakeholders on the development of grid links to the Scottish Islands, particularly through the work of the Scottish Islands Renewables Delivery Forum. In order to enable generation developers to commit to funding island connections, the UK and Scottish Governments are actively working on the delivery of an islands onshore wind strike price with associated budget allocation. The UK Government is expected to confirm the position (including EU State Aid approval) this summer, enabling developers to bid for Contracts for Difference (CfDs) in the auction scheduled to open in October. The Company already has well-developed proposals for a cable connection between Beauly and the Isle of Lewis. Work is under way with Ofgem to allow submission of a needs case in December 2015 to enable delivery of this potential project.

Shetland:
The delivery of a transmission connection between Shetland and mainland Scotland is subject to the same conditions that are being addressed through the work of the Scottish Island Renewables Delivery Forum. As in the case of the Western Isles connection, the Company has a well-developed proposal for the installation of an HVDC circuit between Noss Head in Caithness and Upper Kergord in Shetland. An option exists with a preferred supplier to deliver the cable within generation developers' timescales. Subject to resolution of the policy issues affecting island generators, the Company is working with Ofgem to prepare a needs case for submission in December 2015 to allow timely delivery of the connection.

East Coast:
The Company is planning to undertake works on the existing 275kV East Coast Transmission line to increase the capacity available from these circuits. The line runs from Blackhillock in Moray to Kincardine in Fife. Development of a needs case submission is under way for what is envisaged to be the first phase of works. This will also consider the optimal timing for longer-term investment to upgrade the assets to 400kV as further generation is connected.

The Company has a number of additional potential SWW reinforcements at earlier stages in the planning and development process. It continues to work with communities and other interested parties to identify the best available options to progress the necessary consent applications in order to meet the needs of generators.

Responding to proposed regulatory changes for electricity transmission

In its Final Conclusions on Integrated Transmission Planning and Regulation (ITPR) published in March 2015, Ofgem confirmed its position on significant changes proposed to the regulation of electricity transmission, and that it will take steps to implement:

- an enhanced role for the System Operator in identifying system needs and development of options to meet them;
- measures to mitigate the conflict of interest with the System Operator’s role;
- a broad framework for the regulation of transmission asset delivery; and
- expanded use of competitive tendering where Ofgem believes it can drive efficiency, with a focus on new substantial assets that can be easily identified and separated from the surrounding network.

Ofgem issued its formal consultation on the licence modifications to enhance the role of the System Operator and mitigate arising conflicts of interest in April 2015, with these modifications currently envisaged to take effect later this year. The other changes remain subject to further, more detailed development by Ofgem and DECC (the Department of Energy and Climate Change). The Company will continue to engage with these parties as their proposals develop in order to understand at the earliest opportunity the potential impact on the Company’s future investment programme.

Supporting sustainable growth

The Company is committed to maximising the positive economic and social impact of its work and the lasting benefits it can deliver for the communities it works in. In the course of the efficient delivery of its construction programme, it actively promotes opportunities for the local supply chain and supports a diverse range of training and employment opportunities in the local and regional economies. To measure and enhance its impact, the Company has commissioned work which showed that the Beauly-Denny project is

Strategic and Financial Report (continued)

Supporting sustainable growth (continued)

delivering Gross Value Added for the UK of around £528m (2010 prices) and has supported an average of 2,000 jobs each year over seven years.

Electricity Transmission priorities for 2015/16 and beyond

For the Company, the core activity for the rest of this decade will be construction. Against this background, its priorities for the rest of 2015/16 and beyond are to:

- meet key milestones in projects under construction, in a way that is consistent with all safety and environmental requirements;
- provide an excellent service to all generation and demand customers who rely on its network;
- continue to implement the new operational regimes for the 2013-21 Price Control and maintain high levels of system availability;
- work within the changing policy and regulatory framework and, where appropriate, achieve regulatory approval for new links in an efficient and timely manner;
- make progress with projects in development, including implementing the programme of consulting with, and updating, interested parties;
- ensure the proper Operations and Maintenance capabilities are in place to support the enhanced and expanded network;
- maintain and develop effective stakeholder relationships; and
- ensure it has the people, skills, resources and supply chain relationships that will be necessary to support growth.

Factors affecting the business

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

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

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

Values and responsibilities

The 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. The Group has six core values which seek to bind 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.

Strategic and Financial Report (continued)

Values and responsibilities (continued)

- Teamwork: We support and value our colleagues and enjoy working together as a team in an open and honest way.

Understanding and managing our principal risks

Company risk has been considered by the SSE Power Distribution (SSEPD) Board during 2014/15. This has been reviewed in line with the Group approach to risk. Risk workshops have been attended by the Networks Leadership team and SSEPD Board members during the year in order to aid identification of the risks specific to the business. As a result of this process, eight principal risks were identified which have the potential to threaten the business model, future performance, solvency or liquidity of SSEPD. An overview of these risks and the mitigating actions are as follows:

- **Alternative technologies** – Technological developments may identify alternative or more efficient means of transmitting or distributing electricity. It is important that the business is aware of and keeps pace with the application of these technological improvements in order to improve efficiency and value to the end consumer. The Company has a dedicated team who look at incremental technologies aimed at increasing the reliability and efficiency of network assets.
- **Legislation and Regulation -** Regulation and legislation affecting SSEPD is complex and fast-moving, with increasing levels of European legislation together with a changing domestic backdrop. Changes, either explicit or indirect, can lead to additional obligations and can have a significant effect on the profitability of our asset base. This risk is mitigated jointly by Company management and staff along with the Group's dedicated Corporate Affairs, Regulation, Legal and Compliance departments which provide advice on the interpretation of political and regulatory change. In addition there is proactive engagement with regulators, politicians, officials and other stakeholders on these issues.
- **Major Projects Quality** – The Company continues to deliver its capital investment programme with a number of ongoing network construction and IT projects. It is critical that these projects are delivered on time, on budget and to high quality standard given the long term nature of the business. The Company will typically manage the development process and organise the delivery of the project by third party contractors, taking a pro-active oversight role during the construction phase. Whilst this model ensures that the correct skills are leveraged, there is a risk of supplier failures, faulty components, and quality defects. The Group-wide Large Capital Projects Governance framework helps to mitigate this risk by ensuring a consistent approach to project development and delivery as well as proactive engagement with the supply chain.
- **Network Resilience** – The Company has a regulatory licence obligation to maintain and enhance its network within the UK. The capital investment plans require a significant amount of plant and materials to be procured. Whilst all plant and materials must pass manufacturers' specification checks and relevant stress testing, there is a possibility that latent defects or reduced lifespan issues may only appear some time later into operation. There is a risk that design, specification or quality of assets installed is insufficient to support the longer term reliability of the network. In order to mitigate this risk, there is a robust design and quality assurance process to ensure that capital projects and equipment are of the correct standard and specification to provide a safe, efficient and reliable network.
- **People** – The Company views its employees as one of our most valuable assets, playing a major part in our continued success and it is our people who will deliver the business transformation critical to our strategy. The actions of our people influence the relationship we have with our customers and our wider reputation. The Company aims to employ, train, develop and retain a diverse and talented workforce and provide them with the support they need to deliver business objectives in a responsible way. Management undertake regular succession planning reviews.
- **Safety and Environmental Incident** – The Company operations are in many cases undertaken in hazardous environments and involve working with high voltage electricity in a wide variety of

Strategic and Financial Report (continued)

Understanding and managing our principal risks (continued)

locations. Our operations require the storage of a significant volume of water, fuel, oil and other chemicals, and any uncontrolled release of these could result in injury to our staff, contractors or members of the public and damage to the environment. Safety is the Company and Group's number one value, with a Safety Management System in place, complimented by the Safety Family, to support people at work and ensure their safety. Regular hazard studies are undertaken on key areas of exposure with support and oversight provided by the Group Safety, Health and Environment team. There are crisis management and business continuity plans in place, which are designed for the management of, and recovery from, significant safety or environmental interruption events.

- **Severe Weather Events** - Among the perceived impacts of global climate change, it is anticipated that the volume and impact of storm events will increase. These events are unpredictable and can cause significant damage to the Network and interruptions to customer electricity supplies. The Company has many years experience in dealing with these events and there is significant effort directed to forecasting such events and ensuring that there are plans in place to deal with them. This involves early deployment of staff to potentially affected areas and ensuring sufficient staff and other resources are available to effectively deal with any disruption caused.

Employees

The Group and the Company wants to be a great place to work; characterised by the engaged, motivated and committed people who already work throughout the company and an ability to attract a talented and diverse range of new people to meet changing business needs.

That is why the Group and the Company has clear priorities for how it:

- engages with the people who work for the Group and recognises the different needs they have;
- creates sustainable employment opportunities that attract a talented and diverse range of new people into all levels of the business;
- invests for the future to ensure each individual can perform to the best of their ability; and
- ensures it is constantly seeking to do the right things, particularly in how people are treated throughout the company.

Of all employees in the Company, 80% are men and 20% are women. During the year the Board of Directors included one woman and seven men at any one time and the Networks leadership team consisted of two women and seven men.

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 Company and the Group aims to support its employees through its employee benefit packages but recognises the different needs across its workforce.

The Group is proud to be one of the UK's largest Living Wage employers, guaranteeing that all employees will receive at least the Living Wage rate, which is independently set to ensure people can cover the basic cost of living in the UK. The Group believes paying the Living Wage makes an important contribution to reducing in-work poverty throughout the UK.

In keeping with the Group's commitment to creating sustainable jobs for the long term, it has taken proactive measures to help employees plan and save for their financial future. It has proactively enrolled all new employees into its pension schemes since 2005. Employee pension contributions attract contributions from the

Strategic and Financial Report (continued)

Employee benefits (continued)

Company and also offer free life cover. These proactive measures have resulted in 97% of employees choosing to look after their future by saving in one of the Group's pension schemes.

The Group offers a range of benefits which help employees share in the ongoing success of the Group. These include both an employee Share Incentive Plan and a Sharesave Scheme. Employee participation in these schemes is now 52% and 41% respectively.

The Group's full range of employee benefits reflects the differing needs and interests of its employees. Particular focus is given to contributing positively towards employees' wellbeing. Employees have the opportunity to buy additional holidays, medical cover, gym memberships, as well as discounts on products and services for the home and family life. Recognising that employees can require advice and support for a range of personal and professional reasons, a free comprehensive employee assistance programme is also available.

Employee participation

The Group's long-established teamwork value is the primary driver of positive employee engagement throughout its range of businesses. The annual Group-wide externally facilitated employee engagement survey had an exceptional 92% response rate in 2014 and the results showed that the Group has an employee engagement index of 73%; the benchmark level for UK private sector companies. Safety is the Group's number one value and this is clearly recognised by the Group's employees, with 94% believing that the Group takes safety seriously. 72% of employees believe they work in a business unit committed to working efficiently. This is a 12% increase from last year and demonstrates the Group's focus on continually driving improved efficiency and its employees' commitment to support this. The Group shares the detailed survey results with all employees and develops and implements detailed business by business action plans based on the findings of the survey.

Resources available

As part of the 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 the Group at 31 March 2015 which could be made available to the Company as required.

The Company has 447 employees which it calls on to maintain its transmission 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 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-T1 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.

The Group continues to make a positive impact across a wide range of local communities. Group employees are empowered to 'Be the difference' for the causes, charities and communities they care about. The Company's employees fully participate in these social and community activities.

The Group's volunteering programme enables employees to take a day off from work to support community initiatives that are important to them. During 2014/15, over 5,000 volunteering days were used to support 542

Strategic and Financial Report (continued)

Social and community issues (continued)

projects across the UK and Ireland. Initiatives included over 100 people assisting with the renovation of the Community Lido in Hillsea and providing marshalling support for the annual Maggies Bike & Hike event around Loch Ness.

The Group's matched funding programme enables employees to support charities and local groups by matching their fundraising efforts with a donation from the Group. The programme, launched in October 2014, has provided matched funds of almost £25,000 across a variety of national causes and many local sports clubs and community groups.

The Group operates an industry leading community investment programme, delivering financial support to a diverse range of community projects near to its renewable developments. Over 25 local community funds and a regionally-focused Sustainable Development Fund are all managed in-house.

Through its community investment funds, in 2014/15 the Group provided almost £4m to community projects in the UK and Ireland, supporting initiatives such as: energy efficiency programmes; local apprenticeship schemes; and infrastructure upgrades such as rural broadband and lifeline services.

The SSE Sustainable Development Fund aims to support larger scale transformational projects at a regional level. The fund launched in the Highland region last year and during 2014/15 expanded to three new local authority areas – Scottish Borders, Perth and Kinross, and North Lincolnshire. The fund is expected to deliver around £50m in funding for strategic regional projects over the next 25 years.

Following the storms of December 2013 which caused severe disruption across the UK network, a new Resilient Communities fund, to support communities in its network distribution areas in preparing for future emergency weather events was established. It will fund initiatives that will improve community resilience in dealing with extreme weather events. The fund is expected to distribute £1.3m over the next two years.

The Group is acutely aware that it is the custodian of a legacy arising from over 70 years of association with communities across the country. Preserving that heritage is the first priority, with the digitalisation of both the Hydro and Southern archive almost complete. A new company archive will open to the public in the summer of 2015 and it is anticipated that these archives will provide valuable content for a proposed new SSE visitor centre at Pitlochry, in Scotland.

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.

Strategic and Financial Report (continued)

Internal control (continued)

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. Its 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.

Key contractual arrangements

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

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

Capital structure

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

Treasury policy, objectives and financial risk management

The Group's treasury policy is designed to be prudent and flexible. In line with that, its operations and investments are generally financed by a combination of: retained profits; bank borrowings and bond issuance.

As a matter of policy, a minimum of 50% of the Group's debt is subject to fixed rates of interest. Within this policy framework, the Group borrows as required on different interest bases, with financial instruments being used to achieve the desired out-turn interest rate profile. At 31 March 2015, 83% of the Group's borrowings were at fixed rates.

Borrowings are mainly made in Sterling and Euro to reflect the underlying currency denomination of assets and cashflows within the Group. All other foreign currency borrowings are swapped back into either Sterling or Euros.

Strategic and Financial Report (continued)

Treasury policy, objectives and financial risk management (continued)

Transactional foreign exchange risk arises in respect of: procurement contracts and long-term service agreements for plant.

The Group's policy is to hedge any material transactional foreign exchange risks through the use of forward currency purchases and/or financial instruments. Translational foreign exchange risk arises in respect of overseas investments, and hedging in respect of such exposures is determined as appropriate to the circumstances on a case-by-case basis.

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 2015 Annual Report at www.sse.com.

Liquidity

The Group's Treasury function is responsible for managing the banking and liquidity requirements of the Group and therefore the Company. This includes, risk management relating to interest rate and foreign exchange exposures and managing the credit risk relating to the banking counterparties with which it transacts. Short term liquidity is reviewed daily by Treasury, while the longer term liquidity position is reviewed on a regular basis by the Board. The department's operations are governed by policies determined by the Board and any breaches of these policies are reported to the Risk and Trading Committee and Audit Committee.

In relation to the Group's liquidity risk, the Group'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 Group's reputation.

During the year, the Group's approach to managing liquidity was to seek to ensure that the Group had available committed borrowings and facilities equal to at least 105% of forecast borrowings over a rolling 6 month period.

Borrowings and Facilities

The Company has loans of £913.1m (2014 – £463.1m) of which £613.1m (2014 - £313.1m) is due to other group companies and £300.0m (2014 - £150.0m) is in the form of loans from the European Investment Bank. Of the total, interest is paid at fixed interest rates on £613.1m (2014 - £313.1m) with the interest paid at floating rates to the European Investment Bank.

As at 31 March 2015, the weighted average interest rate payable was 3.46% (2014 – 4.10%) and the weighted average remaining term was 8.05 years (2014 – 7.94 years).

Taxation

The Company's effective current tax rate was 8.9% compared with 9.1% in the previous year, after prior year adjustments. The headline effective tax rate is 20.6% compared with 15.3% in the previous year.

Dividend

The Directors do not recommend the payment of a dividend (2014 - £nil).

Pensions

17% (2014: 21%) of employees of the Company are members of the Scottish Hydro-Electric Pension Scheme, which, at 31 March 2015, based on an IAS 19 accounting basis, had a deficit included in the Group financial statements, net of deferred tax, of £104.9m (2014 - £146.2m).

Strategic and Financial Report (continued)

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
21 July 2015
Company Registered Number: SC213461

Corporate Governance Statement

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

The Group's corporate governance policies are described in the Group's annual report and accounts 2015 under Governance on pages 72 to 113 available at www.sse.com.

The Board of the Group considers that it complied in full with the UK Corporate Governance Code 2012 during 2014/15 with the exception of the provision C3.7, relating to audit tender. The Group has complied with all other provisions of the Code. A detailed explanation of the non-compliance, along with the anticipated timeline for the tender of the external audit contract can be found in the Audit Committee report on pages 84 to 87 of the Group's annual report to 31 March 2015.

SSE plc Group ("the Group")

The Group 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 Group is fully supportive of the "comply or explain" model outlined in the Code as it provides organisations with flexibility and the opportunity to adapt governance practices that are appropriate in supporting the effective operation of the business

The Board continues to be committed to ensuring that the highest standards of corporate governance are maintained. The Board confirms that it has, throughout the period under review, complied with all provisions set out in the Code, out with the exception noted above. More details of this can be found in the Group's annual report on page 72.

There are four principal Board committees; an Audit Committee, a Remuneration Committee, a Safety, Health and Environment 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 Board comprises the Chairman, two Executive Directors, a Senior Independent Director and four 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.

The Audit Committee and 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.

The Code was subject to revision in September 2014, making changes to the areas of Directors' remuneration, risk management and internal control, and engagement with shareholders upon a significant vote against any resolution. Aware of these changes and their coming into force for reporting periods starting on or after 1 October 2014, the Group is working on their implementation for 2015/16.

Corporate Governance Statement (continued)

Scottish Hydro Electric Transmission 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 nine 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 two Non-Executive Directors on the Board during the course of the financial year.

The Board operates under approved terms of reference. The Board set 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 2014/15, expressed as a number of meetings attended out of number eligible to attend is set out below (see Report of the Directors on page 16 for appointments and resignations):

Director	Attendance
Gregor Alexander (Chairman)	9 of 9
Steven Kennedy	9 of 9
Mark Mathieson	6 of 6
Aileen McLeod	9 of 9
Stuart Hogarth	9 of 9
David Gardner	9 of 9
Colin Nicol	2 of 3
David Rutherford (Non Executive Director)	9 of 9
Gary Steel (Non Executive Director)	8 of 9
Robert McDonald	0 of 0

Under the terms of the Standard Condition B22 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.

Board evaluation

The Board and the individual Directors participate in an annual evaluation of performance. The Board evaluation is an objective, formal and rigorous process and includes a feedback mechanism, ensuring that leadership of the Company remains effective. The evaluation strives to assess not only the mix of skills, experience and knowledge in Board and Committee composition but also diversity in approach to key issues. In 2014 an internally facilitated Board and Committee evaluation was carried out. The outcome of the evaluation process was considered at the Board meeting held in January 2015, with subsequent recommendations made and objectives set for 2014/15. Each Director confirmed the Board to be effective and confirmed their agreement with the objectives. The objectives set can be found at page 5.

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Corporate Governance Statement (continued)

Director induction, training and development

On joining the Board, non-Executive Directors received a comprehensive induction course tailored to their individual requirements. A two day programme was completed following appointment, which was facilitated by both the Chairman and Company Secretary.

Directors are also expected to develop and refresh their knowledge and skills on an on-going basis with developmental needs being reviewed as part of the annual Board evaluation process. The necessary resources are made available should any Director wish additional training.

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 2015.

1. Business review

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

2. Results and dividends

The profit for the financial year amounted to £137.6m (2014 - £105.7m). The Directors do not recommend the payment of a dividend (2014 - £nil).

3. Directors

The Directors who held office during the year were as follows:

Gregor Alexander
Steven Kennedy
Mark Mathieson (resigned 12 December 2014)
Aileen McLeod (resigned 31 March 2015)
Stuart Hogarth
David Gardner
Colin Nicol (appointed 12 December 2014)
Robert McDonald (appointed 1 June 2015)
David Rutherford (Non-Executive Director)
Gary Steel (Non-Executive Director)

Helen Gettinby resigned as Company Secretary on 2 June 2015. Mark McLaughlin was appointed as Company Secretary effective from 2 June 2015.

4. Corporate Governance

The Corporate Governance statement for the Company is outlined on page 13.

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

Mark McLaughlin
Company Secretary
21 July 2015
Company Registered Number: SC213461

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 Regulatory Financial Statements for each financial year. Under that law they have elected to prepare the Regulatory 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 Regulatory 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
- prepare the Regulatory Financial Statements in accordance with the applicable set of accounting standards, and confirm that, to the best of their knowledge, the Regulatory Financial Statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company.

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 Regulatory 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
21 July 2015
Company Registered Number: SC213461

Independent Auditor's Report to Scottish Hydro Electric Transmission plc and to The Office of Gas and Electricity Markets (the "Regulator")

We have audited the Regulatory Financial Statements of Scottish Hydro Electric Transmission plc (the "Company") set out on pages 20 to 39 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 B1 of the Company's Regulatory Licence. Our audit work has been undertaken so that we might state to the Company and the Regulator those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under the Company's Regulatory Licence to procure such a report and (b) to facilitate the carrying out by the Regulator of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Regulator, for our audit work, for this report, or for the opinions we have formed.

Basis of preparation

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

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

Respective responsibilities of the Regulator, the Directors and Auditor

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

As described in the Statement of Directors' Responsibilities on page 17 the Company's Directors are responsible for the preparation of the Regulatory Financial Statements in accordance with Standard Condition B1 of the Regulatory Licence.

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

We report to you our opinion as to whether the Regulatory Financial Statements present fairly in accordance with Standard Condition B1 of the Regulatory Licence and the accounting policies set out on page 24 to 25, 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 Scottish Hydro Electric Transmission 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 2015 fairly present, in accordance with Standard Condition B1 of the Regulatory Licence and the accounting policies set out on page 24 to 25, the state of the Company's affairs at 31 March 2015 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with those conditions.

W. Meredith

William Meredith (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

191 West George Street
Glasgow
G2 2LJ

21 July 2015

Profit and Loss Account
for the year ended 31 March 2015

	Note	**2015 £m**	2014 £m
Turnover		**232.6**	184.1
Cost of sales		**(3.7)**	(0.6)
Gross profit		**228.9**	183.5
Distribution costs		**(39.0)**	(42.3)
Administrative costs		**(7.9)**	(6.5)
Exceptional costs	3	**-**	(0.9)
Operating profit	2	**182.0**	133.8
Net interest payable	6	**(8.7)**	(9.0)
Profit on ordinary activities before taxation		**173.3**	124.8
Tax on profit on ordinary activities	7	**(35.7)**	(19.1)
Profit for the financial year	17	**137.6**	105.7

There are no other recognised gains or losses other than the reported profit above (2014 - £nil).

The above results are derived from continuing activities.

The accompanying notes are an integral part of these Regulatory Financial Statements.

Reconciliation of Movement in Shareholders' Funds as at 31 March 2015

	2015 **£m**	2014 £m
Profit for the financial year	**137.6**	105.7
Credit in respect of employee share awards	**0.3**	0.2
Net addition to shareholders' funds	**137.9**	105.9
Opening shareholders' funds	**239.3**	133.4
Closing shareholders' funds	**377.2**	239.3

Balance Sheet
as at 31 March 2015

	Note	**2015 £m**	2014 £m
Fixed Assets			
Tangible fixed assets	8	**1,735.3**	1,300.7
Current assets			
Debtors	9	**17.0**	3.4
Cash at bank and in hand	10	**17.9**	3.5
Total current assets		**34.9**	6.9
Creditors:			
Amounts falling due within one year	11	**(150.6)**	(508.6)
Net current liabilities		**(115.7)**	(501.7)
Total assets less current liabilities		**1,619.6**	799.0
Creditors:			
Amounts falling due after more than one year	12	**(1,158.2)**	(494.9)
Provisions for liabilities and charges			
Deferred taxation	14	**(84.2)**	(63.9)
Restructuring	15	**-**	(0.9)
Net assets		**377.2**	239.3
Capital and reserves			
Called up share capital	16	**4.3**	4.3
Profit and loss account	17	**372.9**	235.0
Equity shareholders' funds		**377.2**	239.3

These Regulatory Financial statements were approved by the Directors on 21 July 2015 and signed on their behalf by

Gregor Alexander, Director

Scottish Hydro Electric Transmission plc, Registered No. SC213461

Cash Flow Statement
for the year ended 31 March 2015

	Note	2015 £m	2014 £m
Net cash (outflow)/inflow from operating activities	21	**(6.8)**	235.1
Interest paid		**(35.8)**	(31.1)
Returns on investments and servicing of finance		**(35.8)**	(31.1)
Corporation tax paid		**(13.5)**	(7.5)
Taxation		**(13.5)**	(7.5)
Purchase of tangible fixed assets		**(379.5)**	(344.3)
Capital expenditure and financial investment		**(379.5)**	(344.3)
Net cash outflow before management of liquid resources and financing		**(435.6)**	(147.8)
Repayment of borrowings		**-**	-
New borrowings		**450.0**	150.0
Financing		**450.0**	150.0
Net increase in cash and cash equivalents		**14.4**	2.2
Cash and cash equivalents at start of year		**3.5**	1.3
Net increase in cash and cash equivalents		**14.4**	2.2
Cash and cash equivalents at the end of the year	10	**17.9**	3.5

Notes to the Regulatory Financial Statements for the year ended 31 March 2015

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 2015 shows a net current liability position of £115.7m (2014 – £501.7m). 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 FRS29 and has therefore not prepared the disclosures relating to financial instruments and capital as full disclosure is provided in the Group financial statements.

Turnover
Turnover comprises the value of electricity transmission services and facilities provided during the year.

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

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

Taxation
The charge for taxation is based on the profit for the year and takes into account deferred taxation.

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted, or substantively enacted, by the balance sheet date.

Deferred taxation arises in respect of 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 provided on tangible fixed assets to write off cost, less residual values, on a straight-line basis over their estimated operational lives. The estimated operational lives are as follows:

			Years
Network Assets			5 to 80
Other Equipment:			
Buildings	-	freehold	Up to 60
	-	leasehold	Lower of lease period and 60
Fixtures, equipment, plant and machinery, vehicles and mobile plant			5 to 10

Notes to the Regulatory Financial Statements for the year ended 31 March 2015

1. Significant accounting policies (continued)

(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 directly attributable to the acquisition, construction or production of major capital projects, which are projects that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use, and depreciated as part of the total cost over the useful life of the asset.

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

Operating Leases
Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Employee benefit obligations

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

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

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

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

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

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

Notes to the Regulatory Financial Statements for the year ended 31 March 2015

2. Operating profit

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

	2015 £m	2014 £m
Depreciation of tangible fixed assets	**32.6**	25.2
Operating lease rentals	**0.6**	0.2
Release of deferred income in relation to customer contributions and capital grants	**(1.8)**	(1.8)
Research and development	**1.4**	1.2
Net management fee in respect of services provided by group companies	**7.9**	6.5

The Company incurred an audit fee of £0.01m (2014 - £0.01m) in the year.

3. Exceptional costs

	2015 £m	2014 £m
Exceptional costs – restructuring	**-**	0.9

During March 2014, the Group 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 was recorded in the prior year to account for the cost of releasing employees within the Company.

4. Staff costs and numbers

	2015 £m	2014 £m
Staff costs:		
Wages and salaries	**18.7**	15.6
Social security costs	**2.1**	1.7
Share-based remuneration	**0.3**	0.2
Other pension costs (note 18)	**5.7**	4.8
	26.8	22.3
Less capitalised as tangible fixed assets	**(22.3)**	(18.0)
	4.5	4.3

Included within the above costs is a charge recognised under FRS 20 of £303,740 (2014 - £213,235).

Employee numbers

	2015 Number	2014 Number
Numbers employed at 31 March	**447**	403

	2015 Number	2014 Number
The monthly average number of people employed by the Company during the year	**422**	364

Notes to the Regulatory Financial Statements for the year ended 31 March 2015

5. Directors' remuneration

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

	2015 £m	2014 £m
Directors' remuneration	**0.3**	0.2

The aggregate of remuneration of the highest paid director was £0.3m.

6. Net interest payable

	2015 £m	2014 £m
Interest receivable:		
Foreign exchange translation of monetary assets and liabilities	**7.9**	0.9
	7.9	0.9
Interest payable and similar charges:		
Bank loans and overdrafts	**(4.0)**	(1.2)
Interest payable to group companies	**(33.9)**	(30.3)
Other financing costs	**(0.2)**	-
	(38.1)	(31.5)
Interest capitalised (note 9)	**21.5**	21.6
Net interest payable	**(8.7)**	(9.0)

7. Taxation

	2015 £m	2014 £m
Current tax:		
UK corporation tax on profits for the year	**16.4**	11.8
Adjustments in respect of previous years	**(1.0)**	(0.5)
	15.4	11.3
Deferred tax:		
Origination and reversal of timing differences	**20.3**	17.1
Change in applicable tax rate	**-**	(9.6)
Adjustment in respect of prior years	**-**	0.3
Total Deferred Tax	**20.3**	7.8
Total tax on profit on ordinary activities	**35.7**	19.1

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:

Notes to the Regulatory Financial Statements for the year ended 31 March 2015

7. Taxation (continued)

	2015 **£m**	2014 £m
Profit before tax	**173.3**	124.8
Tax on profit on ordinary activities at standard UK corporation tax rate of 21% (2014 – 23%)	**36.4**	28.7
Effects of:		
Capital allowances more than depreciation	**(20.3)**	(17.1)
Depreciation on non qualifying assets	**0.2**	0.2
Other timing differences	**0.1**	-
Adjustment in respect of prior periods	**(1.0)**	(0.5)
Current tax charge for year	**15.4**	11.3

The 2013 Finance Act announced that the UK corporation tax rate will reduce to 20% from 1 April 2015. This was substantively enacted on 2 July 2013. The deferred tax liability at 31 March 2015 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 2015 by nil (2014: £9.6m). The Chancellor announced in his Summer Budget on 8 July 2015 that the main rate of corporation tax will be reduced to 19% from 1 April 2017 and 18% from 1 April 2020. These changes are contained in the Finance Bill 2015 which is not expected to be substantively enacted until October 2015 and will reduce the company's future current tax charge and deferred tax liabilities accordingly.

8. Tangible fixed assets

	Network Assets £m	**Other Equipment £m**	**Total £m**
Cost:			
At 1 April 2014	1,530.6	3.5	1,534.1
Additions	467.2	-	467.2
At 31 March 2015	**1,997.8**	**3.5**	**2,001.3**
Depreciation:			
At 1 April 2014	230.9	2.5	233.4
Charge for the year	32.3	0.3	32.6
At 31 March 2015	**263.2**	**2.8**	**266.0**
Net book value			
At 31 March 2015	**1,734.6**	**0.7**	**1,735.3**
At 31 March 2014	1,299.7	1.0	1,300.7

	2015 **£m**	2014 £m
Tangible fixed assets include:		
Assets in the course of construction	**744.3**	771.8

Notes to the Regulatory Financial Statements for the year ended 31 March 2015

8. Tangible fixed assets (continued)

There is a cumulative capitalised interest included in tangible fixed asset's costs of £68.0m (2014 - £46.5m) at 31 March 2015. This is depreciated annually according to the useful economic life of the asset to which the capitalised interest relates.

9. Debtors

	2015 £m	2014 £m
Trade debtors	**15.4**	2.4
Other debtors	**1.4**	0.5
Amounts owed by group undertakings	**0.2**	0.5
	17.0	3.4

10. Cash at bank and in hand

	2015 £m	2014 £m
Cash at bank and in hand	**17.9**	3.5

Cash at bank represents amounts being held to settle foreign currency contractual liabilities arising as a result of the capital expenditure of the Company.

11. Creditors: amounts falling due within one year

	2015 £m	2014 £m
Trade creditors	**2.8**	3.5
Amounts owed to group undertakings	**17.4**	456.1
Corporation tax	**8.3**	6.3
Accruals and other deferred income	**111.2**	39.0
Other creditors	**10.9**	3.7
	150.6	508.6

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

	2015 £m	2014 £m
Loans (note 13)	**300.0**	150.0
Loans due to ultimate parent (note 13)	**613.1**	313.1
Accruals and other deferred income	**56.5**	31.8
Amounts owed to group undertakings	**188.6**	-
	1,158.2	494.9

Notes to the Regulatory Financial Statements for the year ended 31 March 2015

13. Analysis of borrowings

	Weighted Average Interest rate 2015 %	Weighted Average Interest rate 2014 %	2015 £m	2014 £m
Over five years				
6.00% Loan Stock repayable to SSE plc on 31 March 2021	**6.00**	6.00	**100.0**	100.0
5.50% Loan Stock repayable to SSE plc on 31 March 2021	**5.50**	5.50	**33.1**	33.1
5.00% Loan Stock repayable to SSE plc on 31 March 2022	**5.00**	5.00	**150.0**	150.0
5.625% Loan Stock repayable to SSE plc on 31 March 2028	**5.63**	5.63	**30.0**	30.0
2.75% Loan Stock repayable to SSE plc on 31 March 2025	**2.75**	-	**300.0**	-
Floating Rate European Investment Bank repayable 24 September 2021	**1.36**	1.30	**150.0**	150.0
Fixed Rate European Investment Bank repayable 20 October 2022	**2.87**	-	**150.0**	-
			913.1	463.1

14. Deferred taxation

Deferred taxation is provided as follows:

	2015 £m	2014 £m
Accelerated capital allowances	**84.1**	63.9
Share based remuneration	**0.1**	-
Provision for deferred tax	**84.2**	63.9

	2015 £m	2014 £m
Provision at start of the year	**63.9**	56.1
Charged to profit and loss account	**20.3**	7.8
Provision at end of the year	**84.2**	63.9

15. Restructuring provision

	2015 £m
Provision at start of the year	0.9
Utilised during the year	(0.9)
Provision at end of year	**-**

A provision was recorded in the prior year for the Voluntary Early Release scheme as discussed in note 3.

16. Share capital

	2015 £m	2014 £m
Equity:		
Allotted, called up and fully paid:		
4,300,000 ordinary shares of £1 each	**4.3**	4.3

Notes to the Regulatory Financial Statements for the year ended 31 March 2015

17. Reserves

	Profit and loss account £m
At 1 April 2014	235.0
Profit for the year	137.6
Credit in respect of employee share schemes	0.3
At 31 March 2015	**372.9**

18. Pensions

17% (2014: 21%) of the Company's employees are members of the Scottish Hydro-Electric Pension Scheme which provides defined benefits based on final pensionable pay. The Company's contributions to this scheme are set in relation to the current service period only (i.e. these are not affected by any surplus or deficit in the scheme relating to past service of its own employees and any other members of the scheme) and as such are accounted for as if they were contributions to a defined contribution scheme.

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

The Company's share of the total contribution payable to the pension schemes during the year was £3.6m (2014 - £2.7m).

The Company incurred a further charge, payable to SSE Services plc, of £2.1m (2014 – £2.1m), which related to its share of the Scheme's deficit repair contributions for the year ended 31 March 2015.

19. Employee share-based payments

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

19.1 Share Schemes Summary

(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 £500 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 £150 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 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.

Notes to the Regulatory Financial Statements for the year ended 31 March 2015

19. Employee share-based payments (continued)

(iii) Deferred Annual Incentive scheme

This 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 2011	02 June 2012	02 June 2013	26 June 2014
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	≥ 50th Percentile
Earnings per share (ii)	Full vesting	RPI + 8%	RPI + 8%	RPI + 8%	RPI + 8%
	25% vesting	RPI + 2%	RPI + 2%	RPI + 2%	RPI
Dividend per share growth (iii)	Full vesting	RPI + 6%	RPI + 6%	RPI + 6%	RPI + 4%
	25% vesting	RPI + 2%	RPI + 2%	RPI + 2%	RPI
Quality of Service (iv)	Full vesting	-	-	-	First place
	50% vesting	-	-	-	Second place

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

(i) Total Shareholder Return (TSR) target relative to other FTSE100 companies and MSCI Europe Utilities (a dedicated peer group of UK and other European utilities) Index. Pro rata vesting will take place between the 50thand 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 and full vesting if RPI +8% is achieved.
(iii) Under the Dividend per share growth performance condition, pro rata vesting between RPI and 4% above RPI, with no vesting if the minimum dividend per share growth target is not achieved.
(iv) The Quality of Service condition relates to the Company's Complaints Ranking. Full vesting will be awarded for first place in the league table, 50% vesting for second place with no vesting for below second place.

(iv) Long Term Incentive Plan (LTIP)

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

Performance conditions		
Dividend per share growth (DPS)	Full vesting	RPI + 4%
	40% vesting	RPI

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Notes to the Regulatory Financial Statements for the year ended 31 March 2015

19. Employee share-based payments (continued)

(iv) Long Term Incentive Plan (LTIP) (continued)

Where DPS growth is between 0 and 4% above RPI, vesting will be calculated on a straight-line basis. Where DPS growth is less than RPI no vesting will occur.

19.2 Income Statement charge for all share schemes

A charge of £5.7m (2014 - £4.8m) was recognised in the Income Statement in relation to these schemes.

19.3 Share Schemes Details

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

(i) Savings-related share option scheme

The movement in savings related share option schemes in the year were as follows:

As at 31 March 2015

Award Date	Option Price (pence)	Outstanding at start of year	Granted	Exercised	Lapsed	Re-instated*	Outstanding at end of year	Date from which exercisable	Expiry date
30 June 2009	1,042	8,647	-	(8,643)	(4)	-	-	1 October 2014	31 March 2015
30 June 2010	871	32,972	-	(3,299)	(742)	33,466	62,397	1 October 2015	31 March 2016
28 June 2011	1,105	3,459	-	(3,452)	(7)	245	245	1 October 2014	31 March 2015
28 June 2011	1,105	11,127	-	(106)	(61)	5,980	16,940	1 October 2016	31 March 2017
29 June 2012	1,065	10,619	-	(578)	(1,280)	5,380	14,141	1 October 2015	31 March 2016
29 June 2012	1,065	11,594	-	-	-	3,923	15,517	1 October 2017	31 March 2018
05 July 2013	1,197	19,784	-	(366)	(1,134)	-	18,284	1 October 2016	31 March 2017
05 July 2013	1,197	11,408	-	-	(1,453)	3,107	13,062	1 October 2018	31 March 2019
02 July 2014	1,247	-	54,222	-	(1,570)	-	52,652	1 October 2017	31 March 2018
02 July 2014	1,247	-	45,509	-	(1,804)	-	43,705	1 October 2019	31 March 2020
		109,610	**99,731**	**(16,444)**	**(8,055)**	**52,101**	**236,943**		

*The re-instated column represents share awards which have moved between SSE Group companies in recent years due to internal movement of staff between companies.

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
17 July 2008	1,274	1,020	-	(1,020)	-	-	1 October 2013	31 March 2014
30 June 2009	1,042	8,647	-	-	-	8,647	1 October 2014	31 March 2015
30 June 2010	871	5,925	-	(5,925)	-	-	1 October 2013	31 March 2014
30 June 2010	871	34,745	-	(654)	(1,119)	32,972	1 October 2015	31 March 2016
28 June 2011	1,105	3,834	-	-	(375)	3,459	1 October 2014	31 March 2015
28 June 2011	1,105	12,772	-	(117)	(1,528)	11,127	1 October 2016	31 March 2017
29 June 2012	1,065	13,170	-	(65)	(2,486)	10,619	1 October 2015	31 March 2016
29 June 2012	1,065	11,988	-	-	(394)	11,594	1 October 2017	31 March 2018
05 July 2013	1,197	-	21,631	-	(1,847)	19,784	1 October 2016	31 March 2017
05 July 2013	1,197	-	11,408	-	-	11,408	1 October 2018	31 March 2019
		92,101	**33,039**	**(7,781)**	**(7,749)**	**109,610**		

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

As share options are exercised continuously throughout the period from 1 October to 31 March, the weighted average share price during this period of 1,564p (2014 – 1,455p) is considered representative of the weighted

Notes to the Regulatory Financial Statements for the year ended 31 March 2015

19. Employee share-based payments (continued)

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

average share price at the date of exercise. The weighted average share price of forfeitures is simply the option price to which the forfeit relates

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

	July 2008		July 2009		July 2010		July 2011		July 2012		July 2013		July 2014	
	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	304p	339p	244p	269p	231p	246p	171p	163p	182p	159p	194p	168p	146p	163p
Expected volatility	28%	28%	35%	35%	19%	19%	18%	18%	18%	18%	15%	15%	15%	15%
Risk free rate	4.9%	5.0%	2.7%	2.9%	1.4%	2.2%	1.2%	2.1%	0.4%	0.9%	0.7%	1.4%	1.2%	1.7%
Expected dividends	4.1%	4.2%	4.1%	4.2%	1.7%	2.2%	6.1%	6.1%	5.9%	5.8%	5.9%	5.9%	5.9%	5.8%
Term of the option	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs
Underlying price at grant date	1,397p	1,397p	1,139p	1,139p	1,089p	1,089p	1,393p	1,393p	1,391p	1,391p	1,579p	1,579p	1,595p	1,595p
Strike price	1,274p	1,274p	1,042p	1,042p	871p	871p	1,105p	1,105p	1,065p	1,065p	1,197p	1,197p	1,247p	1,247p

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

(ii) Share Incentive Plan

	2015		2014	
	Shares	**Weighted average price (pence)**	Shares	Weighted average price (pence)
Outstanding at start of year	**36,890**	**1,297**	29,708	1,240
Granted	**44,838**	**1,556**	17,300	1,470
Forfeited	**(1,742)**	**1,449**	(2,192)	1,383
Exercised	**(3,884)**	**1,316**	(1,668)	1,239
Transferred to pool	**(7,676)**	**1,137**	(6,258)	1,262
Outstanding at end of year	**68,426**	**1,386**	36,890	1,297
Exercisable at end of year	**18,762**	**1,241**	16,436	1,150

When shares have been held for 5 years they are transferred to a pooled share account. At this point the holder has an unconditional right to the share.

The fair value of shares in the share incentive plan 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 and is based on the 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.

Notes to the Regulatory Financial Statements for the year ended 31 March 2015

19. Employee share-based payments (continued)

Free shares

	2015 Shares	2015 Weighted average price (pence)	2014 Shares	2014 Weighted average price (pence)
Outstanding at start of year	-	-	630	1,417
Exercised	-	-	(30)	1,404
Transferred to pool	-	-	(600)	1,408
Outstanding at end of year	-	-	-	1,408
Exercisable at end of year	-	-	-	1,408

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 and is based on the 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

	2015 Shares	2015 Price (pence)	2014 Shares	2014 Price (pence)
Outstanding at start of year	**4,900**	**1,409**	4,665	1,257
Granted	**3,133**	**1,545**	2,639	1,496
Exercised	**(1,222)**	**1,343**	(2,404)	1,183
Outstanding at end of year	**6,811**	**1,486**	4,900	1,409
Exercisable at end of year	**2,626**	**1,322**	-	1,327

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

The fair value of the annual incentive scheme 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 and is based on the 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.

(iv) Performance Share Plan

	2015 Shares	2015 Price (pence)	2014 Shares	2014 Price (pence)
Outstanding at start of year	**44,323**	**1,408**	40,086	1,246
Granted	**15,868**	**1,545**	16,009	1,496
Forfeited	**-**	**1,350**	(5,739)	1,140
Exercised	**(2,042)**	**1,342**	(6,033)	1,079
Outstanding at end of year	**58,149**	**1,477**	44,323	1,408

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

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

Notes to the Regulatory Financial Statements for the year ended 31 March 2015

19. Employee share-based payments (continued)

(iv) Long Term Incentive Plan

	2015 Shares	**2015 Price (pence)**	2014 Shares	2014 Price (pence)
Outstanding at start and end of year	**21,051**	**1,350**	21,051	1,350

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

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

20. Commitments and contingencies

(i) Capital commitments

Capital expenditure:

	2015 £m	2014 £m
Contracted for but not provided	**760.6**	296.0

(ii) Operating lease commitments
Leases as lessee:

	2015 £m	2014 £m
Amount included in the profit and loss account relating to the current year leasing arrangements	**0.6**	0.2

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

	2015 £m	2014 £m
Within one year	**1.0**	0.9
Between two and five years	**0.7**	1.1
After five years	**0.1**	-
	1.8	2.0

(iii) Guarantees

The Company has provided a guarantee in relation to £300m Eurobonds held by the Group.. This guarantee has been provided jointly with Scottish Hydro Electric Power Distribution plc.

Notes to the Regulatory Financial Statements for the year ended 31 March 2015

21. Reconciliation of operating profit to operating cash flows

	2015 £m	2014 £m
Reconciliation of operating profit to operating cash flows		
Operating profit	**182.0**	133.8
Depreciation	**32.6**	25.2
Customer contributions and capital grants released	**(1.8)**	(1.8)
(Increase)/decrease in debtors	**(21.8)**	2.2
Increase/(decrease) in creditors	**52.6**	(2.6)
(Decrease)/increase in provisions	**(0.9)**	0.9
Movement in intercompany	**(249.8)**	77.2
Charge in respect of employee share awards	**0.3**	0.2
Net cash inflow from operating activities	**(6.8)**	235.1

22. Net debt

Reconciliation of net cash flow to movement in net debt

	2015 £m	2014 £m
Cash inflow from increase in cash	**14.4**	2.2
Cash (inflow)/outflow from (increase)/decrease in debt and lease financing	**(450.0)**	(150.0)
Movement in net debt in the year	**(435.6)**	(147.8)
Net debt at 1 April	**(459.6)**	(311.8)
Net debt at 31 March	**(895.2)**	(459.6)

Analysis of net debt

	As at 1 April 2014 £m	Increase in cash(i) £m	Increase in debt £m	As at 31 March 2015 £m
Cash at bank and in hand	3.5	14.4	-	**17.9**
Net borrowings due within one year	3.5	14.4	-	**17.9**
Net borrowings due after more than one year	(463.1)	-	(450.0)	**(913.1)**
Net debt	(459.6)	14.4	(450.0)	**(895.2)**

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

Notes to the Regulatory Financial Statements for the year ended 31 March 2015

23. Regulatory Segmental Analysis

In accordance with standard licence condition B1, 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 2015:

	Transmission Owner £m	Excluded Services (i) £m	De Minimis (ii) £m	**Total £m**
Revenue	217.5	14.9	0.2	**232.6**
Operating Costs*	(14.3)	(3.7)	-	**(18.0)**
Depreciation	(30.3)	(2.3)	-	**(32.6)**
Operating Profit	**172.9**	**8.9**	**0.2**	**182.0**
Capital additions	**447.4**	**19.8**	**-**	**467.2**

For the year to 31 March 2014:

	Transmission Owner £m	Excluded Services (i) £m	De Minimis (ii) £m	**Total £m**
Revenue	175.9	8.0	0.2	**184.1**
Operating Costs*	(25.1)	-	-	**(25.1)**
Depreciation	(24.0)	(1.2)	-	**(25.2)**
Operating Profit	**126.8**	**6.8**	**0.2**	**133.8**
Capital additions	**332.0**	**17.2**	**-**	**349.2**

*Operating costs includes £0.6m Cost of Sales for the year ended 31 March 2014.

(i) Excluded services includes Post Betta connection revenue.
(ii) De Minimis activities primarily relate to activities undertaken on behalf of other SSE plc Group companies.

24. Regulated Related Party Disclosure

For the year to 31 March 2015:

Type of transaction	Ultimate parent (SSE plc) £m	Immediate parent (SSEPD) (i) £m	Other SSE plc Group companies £m
Sales and provision of services	-	-	0.2
Purchases and receipt of services	-	-	(25.9)
Distribution of dividends	-	-	-
Finance income (note 6)	-	-	-
Finance costs (note 6)	(33.9)	-	-

Notes to the Regulatory Financial Statements for the year ended 31 March 2015

24. Regulated Related Party Disclosure (continued)

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	-	-	0.2
Purchases and receipt of services	-	-	(16.5)
Distribution of dividends	-	-	-
Finance income (note 6)	-	-	-
Finance costs (note 6)	(30.3)	-	-

(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 9, 11, 12, and 13 to these Regulatory Financial Statements.

25. Ultimate parent company

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