Scottish Hydro Electric Power Distribution plc

Directors Report and Regulatory Financial Statements

Year ended 31 March 2016

Registered No.: SC213460

Scottish Hydro Electric Power Distribution plc

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Scottish Hydro Electric Power Distribution plc

Directors and Other Information

Directors	Gregor Alexander (Chairman) Steven Kennedy Stuart Hogarth David Gardner Colin Nicol Robert McDonald Dale Cargill (appointed 28 October 2015) Rachel McEwen (appointed 27 May 2016) David Rutherford (Non-Executive Director) Gary Steel (Non-Executive Director)
Registered office	Inveralmond House 200 Dunkeld Road Perth PH1 3AQ
Secretary	Mark McLaughlin
Auditor	KPMG LLP Chartered Accountants 191 West George Street Glasgow G2 2LJ
Registered number	SC213460

Scottish Hydro Electric Power Distribution plc

Strategic Report

The Strategic Report sets out the main trends and factors underlying the development and performance of Scottish Hydro Electric Power Distribution plc (the "Company") during the year ended 31 March 2016, as well as those matters which are likely to affect its future development and performance.

The business, its objectives and strategy

The Company is a wholly owned subsidiary of SSE plc (the "Group"). The Company distributes electricity to around 758,000 customers in the North of Scotland. It currently has over 47,000 kilometres of electricity mains on commission. The Company also provides electricity connections within the Company's licensed area and owns and operates a number of the out of area electricity networks in the rest of Scotland.

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

The Company's strategy and main objectives are to:

- comply fully with all electricity network safety standards and environmental requirements;
- ensure that the electricity network is managed as efficiently as possible, including maintaining tight controls over operational expenditure;
- provide good performance in areas such as reliability of supply, customer service and innovation and thus earn additional incentive-based revenue under the various Ofgem schemes;
- deliver efficient and innovative capital expenditure programmes, so that the number and duration of power cuts experienced by customers is kept to a minimum;
- grow the Regulated Asset Value ("RAV") of the 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 2016 were as follows (comparisons with the same period to 31 March 2015):

Financial / Operational	**2016**	2015	% change
Capital expenditure - £m	**116.5**	87.6	33.0
Operating profit - £m	**100.4**	128.7	(22.0)
Regulated asset value (RAV) - £bn	**1.0**	1.0	-

Non Financial / Management	**2016**	2015	% change
Customer Minutes Lost	**55**	69	(20.3)
Customer Interruptions - number per 100 customers	**66**	70	(5.7)
Electricity distributed (TWh)	**7.9**	7.8	1.3

The decrease in operating profit is primarily due to the expected reduction in base revenues under the first year of the RIIO-ED1 price control. The profiling of the price control settlement resulted in a significant income reduction in 2015/16. This was set out in Ofgem's Final Determination in November 2014.

If in any year, regulated network companies' revenue is greater (over recovery) or lower (under recovery) than is allowed under the ED1 Price Control, the difference is carried forward and the subsequent prices the companies may charge are adjusted. This particularly impacts Electricity Distribution and during 2014/15 there was an under recovery of approximately £12m. Under the regulatory framework the £12m under recovery in 2014/15 was reflected in customer charges published in December 2015 for 2016/17. In 2015/16 there was a slight over-recovery of approx. £0.6m.

Scottish Hydro Electric Power Distribution plc

Strategic Report (continued)

Business performance overview (continued)

In a year of relatively mild weather which included several periods of high winds, a reduction was achieved in both the number of supply interruptions and the average time each customer was without power. The Company's commitment to minimising the occurrence and duration of customer interruptions saw the Customer Minutes Lost reduce to 55 minutes per customer and for Customer Interruptions to reduce to 66 per 100 customers.

Volume of electricity distributed

The total volume of electricity distributed by the company during 2015/16 was 7.9TWh, compared with 7.8TWh in the previous year. Under the RIIO-ED1, the volume of electricity distributed does not affect the Company's overall allowed revenue (although it does have an impact on the timing of revenue collection).

Investing in network resilience

Capital expenditure was £116.5m in the year to 31 March 2016, the first year of the new price control and was higher than in 2014/15.

The range of capital expenditure includes asset replacement and major refurbishment of key infrastructure assets as well as ongoing investment in rural assets. For example, the Company invested in replacement and reinforcement of overhead lines across Wester Ross and in Sutherland as part of serving rural communities. This is part of an ongoing network resilience programme which includes renewing wood poles where required, installing replacement metal bindings suited to the coastal environment and will ensure customers' electricity supply is more robust during periods of severe weather. This is intended to reduce the impact of future severe weather on the electricity supply to local homes and businesses and help engineers restore power faster if disruption does occur. For example, the Company has invested £260,000 to improve lightning protection, new automation equipment enable faster restoration of power supplies and tree-cutting around key overhead lines.

Putting customers first

During 2015/16, the first year under the incentives based RIIO-ED1 price control, the Company has made significant steps in driving real change in its operations, processes and standards. The introduction of a change programme is ensuring that the business is able to meet the demands of the eight year price control. Its new sustainable business model, built on a combination of customer service and innovation, will bring benefits to customers while ensuring financial targets are achieved and a fair return is delivered to investors. The focus of the new price control is the delivery of efficient operations and the best possible experience for customers; and the business has prioritised its efforts on the incentives built into RIIO-ED1 that are designed to encourage improvements in customer service.

The most financially significant of these are the two measures of loss of electricity supply: Customer Interruptions and Customer Minutes Lost (CIs and CMLs). In the first year of the new price control the Company's adoption of the 'restore first, repair second' method was a driver in bringing down its CIs and CMLs. The continued investment in automation, network reinforcement and tree cutting also delivered improvements to help secure financial incentives. The Company's adoption of a regionalised model across its distribution areas has assigned responsibility and decision making to local teams which has helped to improve the response to power supply disruption during extreme weather events.

The first awards from the £1.3m Resilient Communities Fund, which was established by the Company and its sister company Southern Electric Power Distribution plc (SEPD) to support local communities in their preparation and response to emergencies, were made in 2015/16. The second round of nominations for funding has opened. The fund was established using money remaining from an amount agreed with Ofgem following weather-related electricity supply disruption over the Christmas period in 2013/14.

During the winter of 2015/16 the Company delivered its largest ever customer communications campaign, including advertising on TV, radio and digital outputs. The campaign raised awareness of its contact details in response to storms and to promote the services it provides for customers, including those who may need extra help during a power cut that are registered on its Priority Service Register.

Keeping costs down and improving customer service for RIIO-ED1

The main focus for the Company during RIIO-ED1 is to deliver the outputs outlined in its business plan in an efficient and sustainable manner. In order to meet these challenges the business is transforming continually to ensure that its processes, procedures and supply chain are efficient.

Improving through innovation

Innovation is a key priority at the Company and its projects will play a crucial role in balancing the country's future energy needs, while helping to keep the cost of energy down. Work is undertaken jointly with our sister Company SEPD and there are a pipeline of innovations, at various stages of development, and these are on target to achieve cost savings over the period of the price control while creating direct benefits for customers. Learning on these projects is shared between the Company and SEPD. The innovation projects are funded through Ofgem's incentive schemes, which are designed to help Britain's electricity networks achieve energy efficiencies and become smarter. Projects have included:

- My Electric Avenue project monitored what impact people charging their electric vehicles could have on the electricity network and tested real solutions to allow more to connect with minimal disruption. The trial will help all Distribution Network Operators (DNOs) to safeguard, maintain and develop smarter networks to cope with the increase in electric vehicle usage in the future. This project is now informing work on developing a standard solution for smart charging where networks are heavily loaded, working closely with the other DNOs.
- The findings from the Thames Valley Vision project on energy characterisation and forecasting could revolutionise the way that DNOs manage and effectively maintain the electricity networks of the future.
- Following a number of trials, the Company is seeking to create the first "Constraint Managed Zones (CMZs)" in the Network area. The CMZs ensure that security of supply is met for sections of the network through the use of load variation techniques, such as Demand Side Response, Energy Storage and stand-by generators. The first deployment is deferring capital cost beyond RIIO-ED1 for the Company. Additionally, the Company has deployed Active Network Management (ANM) on the Western Isles to defer the need for network reinforcement through the use of Smart Grid technology.

The Company actively shares the learning from these projects with other networks operators in the UK and across Europe, helping to promote best practice and bring new techniques and technologies into 'business as usual' operation across Britain's electricity network.

Engaging stakeholders in decision making

A key feature of the Company's first year in the price control is making sure its stakeholders have a say in its business decisions. This influence allows them to hold the Company to account and it has been vital to maintaining the Company's reputation.

This has included a consultation launched in 2015/16 to give stakeholders the opportunity to nominate the undergrounding of up to 90km of overhead lines in Areas out Outstanding Natural Beauty across National Parks in the North of Scotland (a proportion of the 90km undergrounding being consulted upon will cover National Scenic Areas in central southern England).

The network includes 111 subsea distribution cables which are critical to serving customers in 59 island communities. During 2015/16 the Company has extensively consulted with all interested parties on the development of Scotland's National Marine Plan to ensure that marine licensing arrangements for submarine cables recognise the interests of electricity customers in a secure and cost efficient energy network serving the islands. This included the development of a detailed Cost Benefit Analysis that will inform the debate with the licencing authority, Marine Scotland and Ofgem to establish the future strategy for laying and possible burial of cables. Due to the ongoing discussion on the legislation that will impact future strategy and costs, this was an issue identified in RIIO-ED1 as being uncertain and there is a regulatory reopener mechanism in May 2018 that will deal with the future funding of any costs.

Stakeholder engagement will continue to play a vital role at the Company and is a requirement for further regulated incentives during the price control.

Securing Future Energy for Shetland

The Company has been working closely with Ofgem to operate open competitive process to obtain from the market the lowest cost and most efficient solution to meet the future energy needs of customers on its network in Shetland from 2020. The future solution will take into account learning and enduring elements from the Northern Isles News Energy Solutions (NINES) project, which was developed to reduce maximum demand and enable the connection of more renewable energy generators in the context of the isolated island network. The Company is also working with Ofgem to determine the best approach in considering the timing and potential impact of a mainland transmission cable link.

An invitation to tender was issued in April 2016. The Company is committed to working with Ofgem, communities and interested parties to conduct the required process and to deliver long-term, timely arrangements to meet the future needs of its Shetland customers.

Electricity Distribution priorities

The Company's priorities in the year and ongoing are to:

- comply fully with all safety standards and environmental requirements;
- place customers' needs at the centre of plans for the networks, particularly by improving reliability so that the number and duration of power cuts is kept to a minimum;
- ensure that the networks are managed as efficiently as possible, delivering required outputs while maintaining tight controls over day-to-day operational expenditure;
- implement the changes required to deliver the cost efficiencies, network and customer service improvements to deliver a fair return to investors under the RIIO-ED1 price control;
- ensure that there is adequate capacity to meet challenging demand on the electricity system; and
- continue progress on the deployment of innovative technology.

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.
- 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

To help ensure it is able to provide the energy people need and deliver value over the long term, the Group has continued to develop its Risk Management Framework, including its Principal Risks and its Risk Appetite Statement. For further detail on how the Group manages risk please see the supplementary Group Risk Report in the SSE plc Annual Report (www.sse.com).

The Group Risk Management Policy requires the Managing Director of each Division to implement a Divisional Risk Approach to support their business in identifying, understanding and managing its key risks. Each division carries out an annual Assurance Evaluation with key Group policies, with the output and any areas of required improvement reported to the Group's Chief Executive.

Understanding and managing our principal risks (continued)

The risks faced by the Company have been considered by the Company Board during the financial year. These have been reviewed in line with the Group approach to risk. Risk workshops have been attended by the Networks Leadership Team and Company's Board members during the year in order to aid identification of the risks specific to the business. As a result of this process, seven principal risks were identified which have the potential to threaten the business model, future performance, solvency or liquidity of the Company. An overview of these risks and the mitigating actions are as follows:

- **Safety, Health and Environment** – The Company's operations are in many cases undertaken in hazardous environments and involve working with high voltage electricity in a wide variety of 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 number one value in the Group, with a Safety Management System in place to support people at work and ensure their safety. In addition crisis management and business continuity plans are in place to manage and recover from any significant events.
- **Regulation, Legislation and Compliance** – Regulation, legislation and compliance affecting the Company is complex and fast-moving. 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. The Company is aware that the UK's decision to leave the European Union (EU) brings additional political risk. This risk has been considered by the Directors and is being monitored through the Group's Brexit Committee.
- **Network Management** – The Company has an obligation to maintain and enhance its network. A robust design and quality assurance process is in place to ensure that capital projects and equipment are of the correct standard and specification to provide a safe, efficient and reliable network. 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. As the network ages and the conditions in which we operate become more difficult, particularly with the expected trend towards more extreme weather as a result of climate change, there is an increasing pressure to become more efficient in our operations. The impact of storms on our network infrastructure is an annual event and due to perceived impacts of global climate change, it is anticipated that the volume and impact of storm events will increase. 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.
- **Networks Change Transformation** – The energy industry is undergoing constant technological improvement. It is important that the Company is able to stay at the forefront of the industry by identifying emerging trends and developing strategies to exploit competitive opportunities. Through the ED1 settlement, the Company has proposed significant reductions in the overall cost and improvements in the standard of service that customers can expect to receive. To deliver this successfully, we will need to transform our business, delivering major cost efficiencies and improvements in customer service. The projects to deliver these business transformations are large and complex. These projects will draw on resources from across the business and poor management of these resources, poor integration or inadequate scoping of project requirements and benefits could impact on business as usual activities, increase project costs and adversely affect service standards. The Company has installed appropriate governance processes and procedures at Board and Leadership team levels to monitor the transformation process.
- **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.

Understanding and managing our principal risks (continued)

- **Business Plan Obligations** – The Company needs to meet its RIIO-ED1 published business plan obligations or risk financial penalties and the resultant reputational risk (these deliverables include meeting the capex project milestones and output measures, achieving stakeholder satisfaction and environmental outputs). The structure of the business, management oversight and the governance frameworks in place are designed in order to ensure that this risk is monitored and mitigated
- **Alternative technologies** – Technological developments may identify alternative or more efficient means of 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 as well as converting these new technologies into business as usual.

Employees

The Group and 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, 86% are men and 14% are women. 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.

The ability to grow and develop a career is the most important driver of employee retention, and with this in mind the Group and Company has expanded the opportunity for employees to create their own personal development plans, supported by line managers with a growing set of online resources to enable self-led learning. There is a comprehensive approach to performance management designed to enable individuals to fulfil their potential at the same time as contributing to business goals. Alongside assessing performance against agreed objectives, the process assesses the extent to which each individual, including the senior management team, demonstrate their support for the Group's core values of Safety, Service, Efficiency, Sustainability, Excellence and Teamwork

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 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.

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Employee benefits (continued)

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 64% 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 has been an enduring value that guides employees in their day-to-day working lives.

The Group continues to undertake a regular survey of employee opinion, with the 2015/16 survey achieving an 89% response rate. The benchmark employee engagement index rose four points to 77%. The survey provides important evidence from which the Group's leadership is able to gauge the depth of overall engagement, but importantly, it highlights strengths and weaknesses on particular priority areas.

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 2016 which could be made available to the Company as required.

During the year the Group extended, on cheaper terms, £1.5bn of bank facilities that were due to mature in 2018 to 2020 with two, one year options that would take these facilities out to 2022.

The Company has 1,281 employees which it calls on to maintain its distribution network and carry out investment in future developments. The Company also draws upon shared services covering central functions such as finance, HR, regulation, health and safety, company secretarial and insurance services. All such services are provided under an appropriate Service Level Agreement. In addition to these employees, the services of key contractors are called upon in a number of large capital projects to ensure that these projects are delivered on time and on budget. Where possible and economically efficient for the Company, these contractors are provided by other group companies, reducing reliance on external companies.

On 1 April 2015, an associated company, SSE Contracting Limited, wholly owned by the Group, transferred 359 employees to the Company to undertake network based activities for which they were already performing on a contracted basis.

Social and community issues

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

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.

Social and community issues (continued)

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.

Following the storms of December 2013 which caused severe disruption across the UK network, the Company, along with its sister company SEPD, created a new Resilient Communities fund, to support communities in its network distribution areas in preparing for future emergency weather events. 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 fund accepts applications for grant funding across the North of Scotland and seeks to distribute between £500 and £20,000 for each application. For example, during the year, the Company contributed to a new backup generator and battery at the local community centre at Dunaverty Hall, the provision of an emergency generator, satellite equipment and other emergency provisions for Shieldaig Community Council, and provided similar support for parts of the Isle of Skye and for Uist Radio.

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.

Internal control

The Group's Board performs a review of the effectiveness of the system of internal control annually across the Group. This review is supported by a report from the Director of Group Risk, Audit and Insurance detailing the activity and operation of the system during the year. For further detail on the outcome of the review please see the Directors' Report on page 78 of the Group's Annual Report (www.sse.com).

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

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

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

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

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

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

Environment

The Group manages a wide range of environmental issues. Operating the electricity 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.

More information on the Group's approach to managing our environmental impact is contained in the Annual Report, on page 28 (www.sse.com).

Key contractual arrangements

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

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

Capital structure

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

Treasury policy, objectives and financial risk management

The 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 cash from operations, 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 2016, 87.1% of the Group's borrowings were at fixed rates.

Borrowings are mainly made in Sterling and Euros 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.

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 see page 20 of the Group's 2016 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 £430.4m (2015 – £429.0m) of which £300.0m (2015 – £300.0m) is due to other Group companies and £130.4m (2015 – £129.0m) is in the form of an index-linked bond. Of the total, interest is paid at fixed rates on £300.0m (2015 - £300.0m) and inflation-linked rates on £130.4m (2015 – £129.0m).

As at 31 March 2016, the weighted average interest rate payable was 4.67% (2015 – 4.68%) and the weighted average remaining term was 16.4 years (2015 – 17.4 years).

Taxation

The Company's effective current tax rate was 20.9% compared with 20.2% in the previous year after prior year adjustments. The headline effective tax rate, which includes the impact of substantively enacted changes in the UK corporation tax rate, is 9.3% compared with 19.6% in the previous year.

Dividend

Following a review of distributable reserves, the Directors declared, approved and paid a dividend of £50.0m (2015 – £250.0m) in the year.

Pensions

30% (2015 - 44%) of employees of the Company are members of the Scottish Hydro Electric Pension Scheme, which, at 31 March 2016 on an IAS 19 basis adjusted for IFRIC 14 had a surplus, net of deferred tax, of £82.0m included in the Group accounts (2015 – deficit £104.9m).

Scottish Hydro Electric Power Distribution plc

Strategic Report (continued)

Financial Reporting Standards 101 (FRS 101)

The Regulatory Financial Statements of the Company have been prepared in accordance with applicable UK Generally Accepted Accounting Principles under FRS 101 for the financial year ended 31 March 2016. The comparative figures, with the transitional date being 1 April 2014, have been restated accordingly as set out in the notes to the Regulatory Financial Statements.

On behalf of the board

Gregor Alexander
Director
21 July 2016

Scottish Hydro Electric Power Distribution plc

Corporate Governance Statement

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

The Group's corporate governance policies are described in the Group's Annual Report and Accounts 2016 under Governance on pages 70 to 79 available at www.sse.com.

The Board of the Group considers that it complied in full with the UK Corporate Governance Code 2012 during 2015/16, with the exception of the provision C3.7, relating to audit tender. 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 89 of the Group's annual report to 31 March 2016. The Company has not complied with provision C.2.2 of the UK Corporate Governance Code as no assessment has been undertaken specifically on the Company. This provision has been complied with by the Group as a whole as at May 2016 and the consolidated position therefore includes the Company although no specific viability analysis has been done on the Company as a standalone entity. The Group Viability Statement can be found on page 17 of the Group's annual report. The Board considers the regulatory nature of the business means that any assessment would conclude that the Company will continue to be viable for the next three years

The Group also announced in June 2015 the appointment of Crawford Gillies as Senior Independent Director of the Group with effect from 1 August 2015. It was highlighted at the Group's AGM in July that a timing issue between the change in Chairman and the appointment of Crawford Gillies would give rise to a short period of non-compliance with certain provisions of the Code. An explanation of the steps taken to mitigate these areas of non-compliance, such that the standards of corporate governance remained unaffected, can be found in the Group's annual report and accounts 2016 from page 70. The Group has complied with all other provisions of the Code.

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.

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 five independent non-Executive Directors. This gives the Board a good balance of independence and experience, ensuring that no one individual or group of individuals has undue influence over the Board's decision making.

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.

Scottish Hydro Electric Power Distribution plc ("The Company")

Board of Directors

During the year the Board consisted of seven 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 Executive Director is the Chairman of the Board. Company Board meetings were held on eight occasions during the course of the year. The Company does not have a Nomination, Remuneration or Audit Committee. These functions are dealt with in conjunction with the relevant committee of the Group Board. There were two Non-Executive Directors on the Board during the course of the financial year as required under the terms of Standard Condition 43A of the Company's regulatory licence.

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 2015/16, expressed as a number of meetings attended out of number eligible to attend is set out below:

Director	Attendance
Gregor Alexander	8 of 8
Steven Kennedy	8 of 8
Stuart Hogarth	7 of 8
David Gardner	8 of 8
Colin Nicol	8 of 8
Robert McDonald	8 of 8
Dale Cargill (appointed 28 October 2015)	5 of 5
Rachel McEwen (appointed 27 May 2016)	0 of 0
David Rutherford (Non-Executive Director)	8 of 8
Gary Steel (Non-Executive Director)	8 of 8

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.

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.

Directors are encouraged to develop and refresh their knowledge and skills on an ongoing basis with developmental needs being reviewed as part of the annual Board evaluation process, and 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.

Scottish Hydro Electric Power Distribution plc

Directors' Report

The Directors present their report together with the audited Regulatory Financial Statements for the year ended 31 March 2016.

Reporting requirements on the Company's principal activities and future developments, its principal risks and uncertainties and its key performance can be found in the Strategic Report.

1 Principal activities

The Company is responsible for managing an electricity distribution network, serving around 758,000 customers in the North of Scotland. Distribution of electricity and the level of capital investment within the network area is a monopoly activity and is closely regulated by the Office of Gas and Electricity Markets (Ofgem) within a framework known as the Price Control. The Company also carries out the business of provision of new electrical connections services within its licensed area and the construction and management of out-of-area electricity networks in Scotland. A full review of the year is contained within the Strategic Report section of these Accounts.

2 Results and Dividends

The profit for the financial year amounted to £61.7m (2015 - £80.8m). A final dividend of £50.0m (2015 - £250.0m) was declared, approved and paid by the Board during the year.

3 Directors

The Directors and secretary who served during the year are as listed on page 1. In accordance with the Articles of Association of the Company the Directors are not required to retire by rotation.

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 of the Group.

On behalf of the Board:

Mark McLaughlin
Company Secretary
21 July 2016

Scottish Hydro Electric Power Distribution plc

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

The Directors are responsible for preparing the Strategic 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) including FRS 101 Reduced Disclosures Framework.

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 year. In preparing these Regulatory Financial Statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the 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 2016

Independent Auditor's Report to Scottish Hydro Electric Power Distribution plc and to Gas and Electricity Markets Authority (the "Regulator")

We have audited the Regulatory Financial Statements of Scottish Hydro Electric Power Distribution plc (the "Company") for the year ended 31 March 2016 which comprise: the Profit and Loss Account, the Statement of Other Comprehensive Income, the Balance Sheet, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes to the Regulatory Financial Statements. These Regulatory Financial Statements have been prepared under the accounting policies set out therein.

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

Basis of preparation

In forming our opinion on the Regulatory Financial Statements, which is not modified, we draw attention to the fact that the Regulatory Financial Statements have been prepared under the historical cost convention and in accordance with Standard Condition 44 of the Regulatory Licence and the accounting policies set out in the statement of accounting policies.

The Regulatory Financial Statements are separate from the statutory Financial Statements of the Company. There are differences between United Kingdom Generally Accepted Accounting Principles (UK GAAP) (including Financial Reporting Standard 101 Reduced Disclosure Framework) and the basis of preparation of information provided in the Regulatory Financial Statements because the Standard Condition 44 of the Regulatory Licence specifies alternative treatment or disclosure in certain respects. Where Standard Condition 44 of the Regulatory Licence does not specifically address an accounting issue, then it requires UK GAAP (including Financial Reporting Standard 101 Reduced Disclosure Framework) 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 44 of the Regulatory Licence.

Our responsibility is to audit and express an opinion on 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'. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Independent Auditor's Report to Scottish Hydro Electric Power Distribution plc and to Gas and Electricity Markets Authority (the "Regulator") (continued)

Basis of audit opinion

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Financial Statements sufficient to give reasonable assurance that the Regulatory Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed and the reasonableness of significant accounting estimates made by the Directors.

However, 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.

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 Report and the Corporate Governance Statement. Our responsibilities do not extend to the other information.

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 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 2016 fairly present, in accordance with Standard Condition 44 of the Regulatory Licence and the accounting policies set out on page 25 to 28, the state of the Company's affairs at 31 March 2016 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with those conditions.

William Meredith
for and on behalf of KPMG LLP
Chartered Accountants
191 West George Street
Glasgow
G2 2LJ

22 July 2016

Scottish Hydro Electric Power Distribution plc

Profit and Loss Account
for the year ended 31 March 2016

	Note	2016 £m	2015 £m
Turnover		**332.3**	368.1
Cost of sales		**(36.9)**	(44.1)
Gross profit		**295.4**	324.0
Distribution costs		**(179.2)**	(180.3)
Administrative costs		**(15.8)**	(15.0)
Operating profit	2	**100.4**	128.7
Interest receivable and similar income	4	**-**	0.6
Interest payable and similar charges	5	**(32.4)**	(28.8)
Profit on ordinary activities before taxation		**68.0**	100.5
Tax on profit on ordinary activities	6	**(6.3)**	(19.7)
Profit for the financial year		**61.7**	80.8

Continuing operations

The above results are derived from continuing activities.

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

Scottish Hydro Electric Power Distribution plc

Statement of Other Comprehensive Income
for the year ended 31 March 2016

	2016 £m	2015 £m
Profit for the financial year	**61.7**	80.8
Other comprehensive income		
Gain on effective portion of cash flow hedges	**0.3**	-
Taxation on cashflow hedges	**(0.1)**	-
Other comprehensive income gain	**0.2**	-
Total other comprehensive income relating to the financial year	**61.9**	80.8

Scottish Hydro Electric Power Distribution plc

Balance Sheet
as at 31 March 2016

	Note	2016 £m	2015 £m
Fixed assets			
Tangible assets	8	**1,040.3**	1,014.7
Intangible assets	9	**7.1**	2.9
		1,047.4	1,017.6
Current assets			
Stock	10	**2.5**	2.2
Debtors:			
amounts falling due within one year	11	**59.6**	84.8
Total current assets		**62.1**	87.0
Current liabilities			
Creditors: amounts falling due within one year	12	**(114.0)**	(117.8)
Net current liabilities		**(51.9)**	(30.8)
Total assets less current liabilities		**995.5**	986.8
Creditors: amounts falling due after more than one year	13	**(751.7)**	(749.5)
Derivative financial liabilities	19	**(15.6)**	(14.7)
Deferred taxation	15	**(70.4)**	(78.2)
Net assets		**157.8**	144.4
Capital and reserves			
Called up share capital	16	**62.0**	62.0
Profit and loss account		**96.1**	82.2
Hedge reserve		**(0.3)**	0.2
Equity Shareholders' funds		**157.8**	144.4

These Regulatory Financial Statements were approved by the Directors on 21 July 2016 and signed on their behalf by:

Gregor Alexander
Director
Company registered number: SC213460

Scottish Hydro Electric Power Distribution plc

Statement of Changes in Equity
for the year ended 31 March 2016

	Share capital £m	Retained earnings £m	Hedge reserve £m	Total equity £m
Balance at 1 April 2014	**62.0**	**250.0**	**0.2**	**312.2**
Profit for the financial year	-	80.8	-	**80.8**
Credit in respect of employee share awards	-	1.4	-	**1.4**
Dividends paid (note 7)	-	(250.0)	-	**(250.0)**
Balance at 31 March 2015	**62.0**	**82.2**	**0.2**	**144.4**
Balance at 1 April 2015	**62.0**	**82.2**	**0.2**	**144.4**
Profit for the financial year	-	61.7	-	**61.7**
Credit in respect of employee share schemes	-	1.5	-	**1.5**
Dividends paid (note 7)	-	(50.0)	-	**(50.0)**
Other comprehensive income	-	0.7	(0.5)	**0.2**
Balance at 31 March 2016	**62.0**	**96.1**	**(0.3)**	**157.8**

Scottish Hydro Electric Power Distribution plc

Cash flow statement
for the year ended 31 March 2016

	Note	2016 £m	2015 £m
Cash flows from operating activities			
Profit for the year		**61.7**	80.8
Add back: taxation		**6.3**	19.7
Add back: net finance costs		**32.4**	28.2
Operating profit		**100.4**	128.7
Depreciation on tangible fixed assets		**86.4**	84.2
Amortisation of intangible assets		**0.3**	-
Customer contribution and capital grants released		**(3.6)**	(3.6)
(Increase)/decrease in stocks		**(0.3)**	1.0
Decrease/(increase) in debtors		**12.8**	(9.0)
(Decrease)/increase in creditors		**(17.5)**	25.9
Decrease in provisions		**-**	(1.8)
Movement in intercompany		**24.9**	215.4
Charge in respect of employee share awards		**1.5**	1.4
Net cash inflow from operating activities		**204.9**	442.2
Returns on investments and servicing of finance			
Interest paid		**(29.1)**	(19.4)
Returns on investments and servicing of finance		**(29.1)**	(19.4)
Corporation tax paid		**(16.7)**	(27.3)
Taxation		**(16.7)**	(27.3)
Purchase of tangible fixed assets		**(104.6)**	(117.6)
Expenditure on intangible assets		**(4.5)**	(2.9)
Capital expenditure and financial investment		**(109.1)**	(120.5)
Equity dividends paid	7	**(50.0)**	(250.0)
Net cash inflow before management of liquid resources and financing		-	25.0
Repayment of borrowings		**-**	(25.0)
Financing		**-**	(25.0)
(Decrease)/increase in cash in the year		**-**	-

Notes on the Regulatory Financial Statements for the year ended 31 March 2016

1 Significant accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's Regulatory Financial Statements.

Basis of preparation
The Regulatory Financial Statements have been prepared in accordance with all applicable United Kingdom accounting standards. The principal accounting policies are summarised below and have been applied consistently.

In preparing these Regulatory Financial Statements, the Company has applied the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ('Adopted IFRS'), but has made amendments, where necessary, in order to comply with the Companies Act 2006 and has set out below where advantages of the FRS 101 disclosure exemptions has been taken.

In the transition to FRS 101, the Company has applied IFRS 1 whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. An explanation of how the transition to FRS 101 has affected the reported financial position and financial performance is provided in note 28.

In these Regulatory Financial Statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- The effect of new, but not yet effective, IFRSs; and
- Comparative period reconciliations for tangible fixed assets and intangible assets.

As the consolidated Financial Statements of SSE plc include the equivalent disclosure, the Company has also taken advantage of the exemptions, under FRS 101, available in respect of the following disclosures:

- Certain disclosures, required by IAS 36 Impairment of assets, in respect of the impairment of goodwill and intangible assets; and
- Certain disclosures, required by IFRS 13 Fair Value Measurement and IFRS 7 Financial Instruments Disclosure.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Regulatory Financial Statements.

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

Where the Company has an ongoing obligation to provide services, revenues are recognised as the service is performed and amounts billed in advance are treated as deferred income and excluded from current revenue. For network connections activity from 1 April 2014, the revenue recognition rules of IFRIC 18 have been applied as a result of the transition to FRS 101. Income is recognised on completion of the associated capital works.

Foreign currencies
Transactions in foreign currencies are translated to the Company's functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the profit and loss account except for differences arising on the retranslation of qualifying cash flow hedges, which are recognised in other comprehensive income.

1 Significant accounting policies (continued)

Research
Expenditure on research activities is recognised in the profit and loss account as an expense as incurred.

Taxation
Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Tangible fixed assets
Tangible fixed assets are stated at cost less accumulated depreciation.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. The estimated useful lives are as follows:

	Years
Network assets	5 to 80
Non-operational assets:	
Fixtures, equipment, plant and machinery, vehicles and mobile plant	5 to 10

An item of property, plant and equipment (PPE) is derecognised on disposal. Where no future economic benefits are expected to arise from the continued use of an item of PPE, the asset is fully written off.

Assets under the course of construction are transferred to the corresponding asset category at the end of the financial year. All additions to tangible fixed assets are depreciated the financial year after the expenditure has been incurred unless still included within assets under the course of construction at the financial year end.

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.

Intangible assets
Included within intangible assets are application software license fees, software development work, software upgrades and purchased PC software packages. Amortisation is over 10 years.

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.

1 Significant accounting policies (continued)

Customer contributions
Customer contributions towards construction or acquisition of new Out-of-Area networks, and capital grants received pre 1 April 2014 are recorded as deferred income and released to the profit and loss account over the estimated life used in calculating contributions. Deferred income also includes outstanding balances of customer contributions on new connections to existing networks pre business separation in 2001. Where there is no ongoing service obligation, customer contributions received post 1 April 2014 are taken to income in the period, in line with IFRIC 18 Transfers of assets from customers.

Operating leases
Payments made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease.

Stocks
Stocks are stated at the lower of cost and net realisable value.

Pensions
Some of the Company's employees are members of a group wide defined benefit pension plan. As there is no contractual agreement or stated group policy for charging the net defined benefit cost of the plan to participating entities, the net defined benefit cost of the pension plan is recognised fully by the sponsoring employer, which is another member of the group. The Company then recognises a cost equal to its contribution payable for the period. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

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

The exercise prices of the sharesave scheme are set at a discount to market price at the date of the grant. The fair value of the sharesave scheme option granted is measured at the grant date by use of an option pricing model. The fair value of the options granted is recognised as an expense on a straight-line basis over the period that the scheme vests. Estimates are updated at each balance sheet date with any adjustment in respect of the current and prior years being recognised in the profit and loss account. The costs associated with the other main employee schemes, the share incentive plan and the deferred bonus scheme, are recognised over the period to which they relate.

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

Derivative financial instruments and hedging
Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

Cash flow hedges
Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the profit and loss account.

1 Significant accounting policies (continued)

Cash flow hedges (continued)

Financial derivative instruments are used by the Company to hedge interest rate exposures. All such derivatives are recognised at fair value and are re-measured to fair value in each reporting period. Certain derivative financial instruments are designated as being held for hedging purposes. The designation of the hedge relationship is established at the inception of the contract and procedures are applied to ensure the derivative is highly effective in achieving its objective and that the effectiveness of the hedge can be reliably measured.

2 Expenses and auditor's remuneration

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

	2016 £m	2015 £m
Depreciation of tangible fixed assets	**86.4**	84.2
Amortisation of intangible assets	**0.3**	-
Operating lease rentals - Land and Buildings	**4.6**	4.3
Release of deferred income in relation to customer contributions and capital grants	**(3.6)**	(3.6)
Net management fees in respect of services provided by group companies	**15.0**	14.1
Research costs	**1.2**	1.4

The Company incurred an audit fee of £50,000 (2015: £50,000) in the year.

3 Staff costs and numbers

	2016 £m	2015 £m
Staff costs:		
Wages and salaries	**46.9**	30.3
Social security costs	**4.6**	3.2
Share based remuneration	**1.5**	1.4
Pension costs	**21.4**	26.6
	74.4	61.5
Less charged as capital expenditure	**(20.2)**	(16.3)
	54.2	45.2

Included within the above is a Share-based Payment charge of £1,493,509 (2015: £1,360,272).

Employee numbers

	2016 Number	2015 Number
Numbers employed at 31 March	**1,281**	835

	2016 Number	2015 Number
The monthly average number of people employed by the Company during the year	**1,235**	812

On 1 April 2015, an associated company, SSE Contracting Limited, wholly owned by the Group, transferred 359 employees to the Company to undertake network based activities for which they were already performing on a contracted basis.

	2016 £m	2015 £m
Directors remuneration	**0.8**	1.5

3 Staff costs and numbers (continued)

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid director was £0.6m (2015: £1.3m).

	Number of directors	
	2016	2015
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	**2**	1

4 Interest receivable and similar income

	2016	2015
	£m	£m
Interest receivable from group undertakings	**-**	0.6

5 Interest payable and similar charges

	2016	2015
	£m	£m
Interest payable to group companies	**27.0**	17.6
Bank loans and overdrafts	**4.6**	4.3
Movement on financing derivatives	**1.2**	7.2
Interest capitalised	**(0.4)**	(0.3)
	32.4	28.8

6 Taxation

	2016	2015
	£m	£m
UK corporation tax		
Current tax on income for the period	**14.3**	21.8
Adjustment in respect of prior periods	**(0.1)**	(1.5)
Total current tax charge	**14.2**	20.3
Deferred tax (see note 15):		
Origination and reversal of temporary differences	**(0.7)**	(0.4)
Adjustment in respect of prior periods	**0.6**	(0.2)
Effect of change in tax rate	**(7.8)**	-
Total deferred tax	**(7.9)**	(0.6)
Total tax on profit on ordinary activities	**6.3**	19.7

The difference between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

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Notes on the Regulatory Financial Statements (continued)
for the year ended 31 March 2016

6 Taxation (continued)

	2016 £m	2015 £m
Profit before taxation	**68.0**	100.5
Tax on profit on ordinary activities at standard UK corporation tax rate of 20% (2015: 21%)	**13.6**	21.1
Effects of:		
Adjustment in respect of previous periods	**0.5**	(1.7)
Other items	**-**	0.3
Effect of change in tax rate on deferred tax	**(7.8)**	-
Total tax charge for year	**6.3**	19.7

Legislation was introduced in Finance (No 2) Act 2015 to reduce the main rate of corporation tax from 20% to 19% from 1 April 2017 and to 18% from 1 April 2020. As these changes have been substantively enacted at the balance sheet date deferred tax has been calculated accordingly. This has had the effect of reducing the Company's deferred tax liability at 31 March 2016 by £7.8m. A further change to reduce the main rate of corporation tax to 17% from 1 April 2020 has been announced, but has not been substantively enacted at the balance sheet date. The effect of this change, estimated to be £3.9m has not therefore been brought into account in calculating the Company's deferred tax liability

7 Dividends

	2016 £m	2015 £m
Amounts recognised as distributions from equity:		
Final dividend of 80.6p (2015 – 403.2p) per share	**50.0**	250.0

The final dividend for the current year, £50m (2015: £250m), was declared and approved on 17 June 2015 and was paid to shareholders on 30 June 2015. The final dividend for the previous year was approved on 27 March 2015 and paid to shareholders on 30 March 2015.

8 Tangible fixed assets

	Network assets £m	Assets under the course of construction (AUC) £m	Vehicles and miscellaneous equipment £m	Total £m
Cost:				
At 1 April 2015	1,838.2	2.0	68.5	1,908.7
Additions	37.2	79.3	-	116.5
Transfers from AUC to fully commissioned	73.4	(78.9)	5.5	-
Transfers from tangibles to intangibles	(4.5)	-	-	(4.5)
Transfers between categories	(5.6)	-	5.6	-
At 31 March 2016	**1,938.7**	**2.4**	**79.6**	**2,020.7**
Accumulated depreciation:				
At 1 April 2015	(831.7)	-	(62.3)	(894.0)
Charge for the year	(84.9)	-	(1.5)	(86.4)
At 31 March 2016	**(916.6)**	**-**	**(63.8)**	**980.4**
Net book value:				
At 31 March 2016	**1,022.1**	**2.4**	**15.8**	**1,040.3**
At 31 March 2015	1,006.5	2.0	6.2	1,014.7

8 Tangible fixed assets (continued)

The above tangible fixed assets include £1.0m (2015: £0.6m) of capitalised interest, of which £0.4m was capitalised in the current year (2015: £0.3m). This is depreciated annually according to the useful economic life of the asset to which the capitalised interest relates.

9 Intangible assets

	Intangible Assets £m
Cost:	
At 1 April 2015	2.9
Additions	4.5
At 31 March 2016	**7.4**
Amortisation:	
At 1 April 2015	-
Charge for the year	(0.3)
At 31 March 2016	**(0.3)**
Net book value:	
At 31 March 2016	**7.1**
At 31 March 2015	2.9

10 Stocks

	2016 £m	2015 £m
Raw materials and consumables	**2.5**	2.2

11 Debtors

	2016 £m	2015 £m
Trade debtors	**19.6**	20.2
Prepayments and accrued income	**25.8**	38.0
Amounts owed by group undertakings	**14.2**	26.6
	59.6	84.8

12 Creditors: amounts falling due within one year

	2016 £m	2015 £m
Trade creditors	**2.9**	2.4
Amounts owed to group undertakings	**69.7**	68.8
Other creditors	**9.5**	9.1
Corporation tax payable	**8.3**	10.8
Accruals and deferred income	**23.6**	26.7
	114.0	117.8

13 Creditors: amounts falling due after more than one year

	2016 **£m**	2015 £m
Loans and borrowings (note 14)	**130.4**	129.0
Loans due to ultimate parent (note 14)	**300.0**	300.0
Accruals and deferred income	**141.5**	152.3
Amounts owed to group undertakings	**179.8**	168.2
	751.7	749.5

14 Interest bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest bearing loans and borrowings which are held at amortised cost.

	Weighted Average Interest Rate 2016 %	Weighted Average Interest Rate 2015 %	**2016** **£m**	2015 £m
5.90% Loan Stock repayable to SSE plc 31 March 2022	**5.90**	5.90	**300.0**	300.0
1.4296% Index linked bond repayable 20 October 2056	**1.86**	1.84	**130.4**	129.0
			430.4	429.0

15 Deferred taxation

Deferred tax assets and liabilities are attributable to the following:

	Assets		**Liabilities**		**Net**	
	2016 **£m**	2015 £m	**2016** **£m**	2015 £m	**2016** **£m**	2015 £m
Accelerated capital allowances	**-**	-	**70.3**	78.3	**70.3**	78.3
Share based remuneration	**-**	(0.1)	**-**	-	**-**	(0.1)
Fair value movement on derivatives	**-**	-	**0.1**	-	**0.1**	-
Net tax liabilities	**-**	(0.1)	**70.4**	78.3	**70.4**	78.2

	1 April 2015 **£m**	**Recognised in income** **£m**	**Recognised in equity** **£m**	**31 March 2016** **£m**
Movement in deferred tax during the year	78.2	(7.9)	0.1	**70.4**

	1 April 2014 £m	Recognised in income £m	Recognised in equity £m	31 March 2015 £m
Movement in deferred tax during prior year	78.9	(0.7)	-	78.2

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16 Share capital

	2016	2015
	£m	£m
Equity:		
Allotted, called up and fully paid:		
62,000,000 ordinary shares of £1.00 each	**62.0**	62.0

17 Pensions

30% (2015: 44%) of the Company's employees are members of the Scottish Hydro-Electric Pension Scheme which provides defined benefits based on final pensionable pay. As there is no contractual agreement or stated group policy for charging the net defined benefit cost of the plan to participating entities, the net defined benefit cost of the pension plan is recognised fully by the sponsoring employer, which is another member of the group.

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 £13.0m (2015: £9.8m). In addition to this, the Company incurred a further charge, payable to SSE Services plc, of £8.4m (2015: £16.8m), which related to its share of the Scheme's deficit repair contributions for the year ended 31 March 2016.

18 Employee share-based payments

The Group operates a number of share schemes for the benefit of its employees. Details of these schemes, all of which are equity-settled, are as follows:

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

(i) Savings-related share option schemes ("Sharesave")
This scheme gives employees the option to purchase shares in the parent Company at a discounted market price, subject to them remaining in employment for the term of the agreement. Employees may opt to save between £5 and £500 per month for a period of 3 or 5 years. At the end of these periods, employees have six months to exercise their options by using the cash saved (including a bonus equivalent to interest). If the option is not exercised, the funds may be withdrawn by the employee and the option expires.

(ii) Share incentive plan (SIP)
This scheme allows employees the opportunity to purchase shares in the 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 then 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 then be payable on any amounts withdrawn.

From 1 September 2015, in addition to the shares purchased on behalf of the employee, the Company will also match the purchase up to a maximum of 3 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. Before 1 September 2015, the Company matched shares purchased up to a maximum of 6 shares per month on the same basis as above.

18 Employee share-based payments (continued)

In addition to the above, an annual free share allocation directly linked to Company performance was introduced in 2015, to ensure all employees benefit from the Group's financial growth. The allocation of free shares is subject to the Group reporting dividend growth of at least RPI for the reporting year and the first allocation will be made to eligible employees in June 2016.

(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		June 2012	June 2013	June 2014	June 2015
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	• 50th percentile	• 50th percentile
Earnings per share (ii)	Full vesting	RPI + 8%	RPI + 8%	RPI + 8%	RPI + 8%
	25% vesting	RPI + 2%	RPI + 2%	RPI	RPI
Dividend per share growth (iii)	Full vesting	RPI + 6%	RPI + 6%	RPI + 4%	RPI + 4%
	25% vesting	RPI + 2%	RPI + 2%	RPI	RPI
Quality of Service (iv)	Full vesting	-	-	First place	First place
	50% vesting	-	-	Second place	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 50th and 75th percentile, with no vesting if the minimum target is not met.
(ii) Under the Earnings per Share (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 (DPS) growth performance condition, pro rata vesting between RPI and 4% above RPI, with no vesting if the minimum DPS 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.

18 Employee share-based payments (continued)

(v) 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)		
2012 and 2013	Full vesting (maximum)	RPI + 5%
	40% vesting (threshold)	RPI + 2%
2014 to 2016	Full vesting (maximum)	RPI + 3%
	40% vesting (threshold)	RPI

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

Income statement charge for all share schemes
A charge of £1.5m (2015: £1.4m) was recognised in the Income Statement in relation to these schemes.

Details used in the calculation of these costs 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 2016

Award Date	Option Price (pence)	Outstanding at start of year	Granted	Exercised	Lapsed	Re-instated/ (Transferred)	**Outstanding at end of year**	Date from which exercisable	Expiry date
30 June 2009	1,105	506	-	-	(506)	-	**-**	1 October 2014	31 March 2015
30 June 2010	871	292,716	-	(318,592)	(270)	28,945	**2,799**	1 October 2015	31 March 2016
28 June 2011	1,105	620	-	-	(359)	57,397	**57,658**	1 October 2014	31 March 2015
28 June 2011	1,105	52,631	-	(2,003)	(1,428)	(51,967)	**(2,767)**	1 October 2016	31 March 2017
29 June 2012	1,065	23,058	-	(29,134)	(15)	6,158	**67**	1 October 2015	31 March 2016
29 June 2012	1,065	49,848	-	(178)	(750)	2,816	**51,736**	1 October 2017	31 March 2018
05 July 2013	1,197	40,767	-	(1,806)	(2,413)	4,024	**40,572**	1 October 2016	31 March 2017
05 July 2013	1,197	37,086	-	-	(625)	2,729	**39,190**	1 October 2018	31 March 2019
02 July 2014	1,247	107,148	-	(600)	(11,975)	6,658	**101,231**	1 October 2017	31 March 2018
02 July 2014	1,247	137,041	962	-	(4,402)	13,679	**147,280**	1 October 2019	31 March 2020
03 July 2015	1,288	-	111,629	-	(4,909)	3,023	**109,743**	1 October 2018	31 March 2019
03 July 2015	1,288	**-**	142,409	-	(2,625)	10,119	**149,903**	1 October 2020	31 March 2021
		741,421	**255,000**	**(352,313)**	**(30,277)**	**83,581**	**697,412**		

The re-instated row represents share awards which have moved between SSE companies due to internal movement of staff between companies.

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18 Employee share-based payments (continued)

As at 31 March 2015

Award Date	Option Price (pence)	Outstanding at start of year	Granted	Exercised	Lapsed	Re-instated/ (Transferred)	**Outstanding at end of year**	Date from which exercisable	Expiry date
10 July 2007	1,306	7,303	-	(7,303)	-	-	**-**	1 October 2012	31 March 2014
17 July 2008	1,274	352	-	(352)	-	-	**-**	1 October 2014	31 March 2015
30 June 2009	1,042	54,376	-	(54,209)	(167)	506	**506**	1 October 2012	31 March 2013
30 June 2010	871	54	-	-	(54)	-	**-**	1 October 2014	31 March 2015
30 June 2010	871	307,213	-	(13,761)	(7,537)	6,801	**292,716**	1 October 2015	31 March 2016
28 June 2011	1,105	14,216	-	(13,483)	(113)	-	**620**	1 October 2014	31 March 2015
28 June 2011	1,105	54,359	-	(1,168)	(3,600)	3,040	**52,631**	1 October 2016	31 March 2017
29 June 2012	1,065	25,983	-	(1,079)	(2,380)	534	**23,058**	1 October 2015	31 March 2016
29 June 2012	1,065	50,245	-	(995)	(2,549)	3,147	**49,848**	1 October 2017	31 March 2018
05 July 2013	1,197	40,509	-	(558)	(4,151)	4,967	**40,767**	1 October 2016	31 March 2017
05 July 2013	1,197	40,223	-	(303)	(2,834)	-	**37,086**	1 October 2018	31 March 2019
02 July 2014	1,247	-	109,317	-	(2,169)	-	**107,148**	1 October 2017	31 March 2018
02 July 2014	1,247	-	141,776	(96)	(4,639)	-	**137,041**	1 October 2019	31 March 2020
		594,833	**251,093**	**(93,307)**	**(30,193)**	**18,995**	**741,421**		

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 year of 1,463p (2015: 1,564p) is considered representative of the weighted average share price at the date of exercise. The weighted average share price of forfeitures is simply the option price to which the forfeit relates.

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

	July 2009		June 2010		June 2011		June 2012		June 2013		June 2014		June 2015	
	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	244p	269p	231p	246p	171p	163p	182p	159p	194p	168p	146p	163p	133 p	113-p
Expected volatility	35%	35%	19%	19%	18%	18%	18%	18%	15%	15%	15%	15%	14%	14%
Risk free rate	2.7%	2.9%	1.4%	2.2%	1.2%	2.1%	0.4%	0.9%	0.7%	1.4%	1.2%	1.7%	0.9%	1.4%
Expected dividends	4.1%	4.2%	1.7%	2.2%	6.1%	6.1%	5.9%	5.8%	5.9%	5.9%	5.9%	5.8%	6.0%	5.9%
Term of the option	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs
Underlying price at grant date	1,139p	1,139p	1,089p	1,089p	1,393p	1,393p	1,391p	1,391p	1,579p	1,579p	1,595p	1,595p	1,558p	1,558-p
Strike price	1,042p	1,042p	871p	871p	1,105p	1,105p	1,065p	1,065p	1,197p	1,197p	1,247p	1,247p	1,288-p	1,288p

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

18 Employee share-based payments (continued)

(ii) Share incentive plan

Matching Shares	2016 Shares	2016 Weighted average price (pence)	2015 Shares	2015 Weighted average price (pence)
Outstanding at start of year	**177,806**	**1,386**	170,345	1,297
Granted	**47,333**	**1,515**	45,750	1,556
Reinstated/(Transferred)*	**(66)**	**1,381**	-	-
Forfeited	**(6,940)**	**1,515**	(5,246)	1,449
Exercised	**(6,318)**	**1,381**	(13,350)	1,316
Transferred to pool	**(29,760)**	**1,160**	(19,693)	1,137
Outstanding at end of year	**182,055**	**1,467**	177,806	1,386
Exercisable at end of year	**62,832**	**1,360**	59,970	1,241

*The re-instated / transferred row represents share awards which have moved between SSE companies due to internal movement of staff between companies

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 these shares is not subject to valuation using the Black-Scholes model. However, the fair value of shares granted in the year is equal to the weighted average price paid for the shares at the grant date as shares are acquired out of the market as at that date to satisfy awards made under the scheme.

(iii) Deferred annual incentive scheme

	2016 Shares	2016 Price (pence)	2015 Shares	2015 Price (pence)
Outstanding at start of year	**4,114**	**1,486**	11,526	1,409
Granted	**5,900**	**1,624**	5,444	1,545
Reinstated/(Transferred)*	**8,426**	**1,383**	-	-
Forfeited	**-**	**1,388**	-	-
Exercised	**(7,647)**	**1,383**	(12,856)	1,343
Outstanding at end of year	**10,793**	**1,559**	4,114	1,486
Exercisable at end of year	**-**	**-**	3,384	1,322

*The re-instated / transferred row represents share awards which have moved between SSE companies due to internal movement of staff between companies

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

The fair value of these shares is not subject to valuation using the Black-Scholes model. However, the fair value of shares granted in the year is equal to the weighted average price paid for the shares at the grant date as shares are acquired in the market as at that date to satisfy awards made under the scheme.

18 Employee share-based payments (continued)

(iv) Performance share plan

	2016		2015	
	Shares	**Price (pence)**	Shares	Price (pence)
Outstanding at start of year	**77,247**	**1,477**	74,205	1,408
Granted	**30,662**	**1,624**	32,409	1,545
Reinstated/(Transferred)*	**7,806**	**1,383**	-	-
Forfeited	**(26,564)**	**1,388**	(23,604)	1,350
Exercised	**(1,149)**	**1,383**	(5,763)	1,342
Outstanding at end of year	**88,002**	**1,559**	77,247	1,477

*The re-instated / transferred row represents share awards which have moved between SSE companies due to internal movement of staff between companies

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.

(v) Long term incentive plan

	2016		2015	
	Shares	**Price (pence)**	Shares	Price (pence)
Outstanding at start of year	**-**	**-**	42,846	1,350
Forfeited in the year	**-**	**-**	(42,846)	1,342
Outstanding at end of year	**-**	**-**	-	-

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 closing market price on the date of grant.

19 Derivatives and financial instruments

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

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

(i) Risk

Currency risk
Exposure to currency rate risk arises in the normal course of the Company's business and derivative financial instruments are entered into to hedge exposure to this risk.

19 Derivatives and financial instruments (continued)

(i) Risk (continued)

Currency risk (continued)
The Company states its Regulatory Financial Statements in Sterling but also conducts business in foreign currencies. As a result, it is subject to foreign currency exchange risk arising from exchange rate movements which will be reflected in the Company's transaction costs.

The Company's policy is to use forward contracts to manage its exposures to foreign exchange risk. All such exposures are transactional in nature and relate primarily to procurement contracts. The policy is to seek to hedge 100% of its currency requirements arising under all committed contracts.

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

The Company's policy is to manage this risk by stipulating that a minimum of 50% of borrowings be subject to fixed rates of interest, either directly through the debt instruments themselves or through the use of derivative financial instruments. The floating rate borrowings are provided by banks including the European Investment Bank (EIB). Such instruments include interest rate swaps. These practices serve to reduce the volatility of the Company's financial performance.

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

The impact of a change in interest rates is dependent on the specific details of the financial asset or liability in question. Changes in fixed rate financial assets and liabilities, which account for the majority of cash, loans and borrowings, are not measured at fair value through the income statement. In addition to this, changes to fixed-to-floating hedging instruments which are recorded under cash flow hedge accounting also do not impact the income statement. Changes in variable rate instruments and hedging instruments and hedged items recorded under fair value hedge accounting are recorded through the income statement. The exposure measured is therefore based on variable rate debt and instruments.

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

At 31 March 2016

	Effective interest rate %	**Total £m**	Within 1 year £m	1 - 2 years £m	2 - 5 years £m	More than 5 years £m
Long term bonds	**1.8645**	**130.4**	-	-	-	130.4
Loan stock	**4.2500**	**300.0**	-	-	-	300.0
Interest rate swaps - fixed	**4.3226**	**15.6**	-	-	-	15.6

(ii) Fair values

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

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19 Derivatives and financial instruments (continued)

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

	2016 Carrying value £m	**2016 Fair Value £m**	2015 Carrying value £m	2015 Fair Value £m
Financial Assets				
Trade and intercompany debtors	**33.8**	**33.8**	46.8	46.8
Financial Liabilities				
Trade and intercompany creditors	**72.6**	**72.6**	71.2	71.2
Long-term intercompany	**179.8**	**179.8**	168.2	168.2
Long-term bonds	**130.4**	**181.0**	129.0	170.9
Loan stock	**300.0**	**369.9**	300.0	372.1
Derivative financial liabilities	**15.6**	**15.6**	14.7	14.7

Fair values have been determined with reference to closing market prices. Unless otherwise stated, carrying value approximates fair value.

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

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

20 Capital commitments

	2016 £m	2015 £m
Contracted but not provided for	**6.6**	8.0

21 Operating lease commitments

Total commitments under non-cancellable operating leases are as follows:

	2016 Land & Buildings	**2016** Other	2015 Land & Buildings	2015 Other
	£m	**£m**	£m	£m
Operating leases which expire:				
Within one year	**0.4**	**3.7**	0.5	3.8
Between one and five years	**0.5**	**6.8**	0.7	6.8
In more than five years	**2.3**	**0.2**	1.5	0.3
	3.2	**10.7**	2.7	10.9

Leases as Lessee:

	2016	2015
	£m	£m
Amount included in the profit and loss account relating to the current year leasing arrangements	**4.6**	4.3

22 Commitments and contingencies

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

23 Net debt

	2016	2015
Reconciliation of net cash flow to movement in net debt	**£m**	£m
Net cash inflow from increase in debt and lease financing	**-**	25.0
Other movement	**(1.4)**	(3.1)
Movement in net debt in the year	**(1.4)**	21.9
Net debt at 1 April	**(429.0)**	(450.9)
Net debt at 31 March	**(430.4)**	(429.0)

Analysis of net debt

	As at 1 April 2015	Increase in cash	Decrease in debt	Non-cash movements	**As at 31 March 2016**
	£m	£m	£m	£m	**£m**
Net borrowings due after more than one year	(429.0)	-	-	(1.4)	**(430.4)**
	(429.0)	-	-	(1.4)	**(430.4)**

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Notes on the Regulatory Financial Statements (continued)
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24 Related undertakings

The related undertakings in which the Company has a shareholding are listed below:

Company Name	Relation	Country of incorporation	2016 Holding %	2015 Holding %	Principal activity
Electralink Limited	Associate	United Kingdom	**4.89**	4.89	Data Transfer Service Operator
Gemserv Limited	Associate	United Kingdom	**2.78**	2.78	Market Design, Governance and Assurance Service Provider
DCUSA Limited	Associate	United Kingdom	**1.69**	1.72	Billing Framework Operator
Smart Energy Code Company Limited	Associate	United Kingdom	**0.85**	1.16	Smart Metering Implementation Management
MRA Service Company Limited	Associate	United Kingdom	**0.61**	0.76	Metering Point Administration Services Operator

25. Regulatory Segmental Analysis

In accordance with standard licence condition 44, a segmental analysis of the Company's performance has been presented based on the prescribed distribution activities within the licence. The Company does not consider these activities to be segments as defined by IFRS 8 Operating Segments.

For the year to 31 March 2016:

	Distribution (DUoS) £m	Excluded Services (i) £m	Metering (ii) £m	Out of Area Networks £m	De Minimis (iii) £m	**Total £m**
Revenue	281.2	42.8	1.7	3.2	3.4	**332.3**
Operating Costs	(135.7)	(4.9)	-	(1.5)	(3.4)	**(145.5)**
Depreciation	(48.3)	(37.2)	(0.4)	(0.5)	-	**(86.4)**
Operating Profit	**97.2**	**0.7**	**1.3**	**1.2**	**-**	**100.4**
Capital additions	**76.1**	**37.2**	**-**	**3.2**	**-**	**116.5**

For the year to 31 March 2015:

	Distribution (DUoS) £m	Excluded Services (i) £m	Metering (ii) £m	Out of Area Networks £m	De Minimis (iii) £m	**Total £m**
Revenue	316.0	44.7	2.0	2.1	3.3	**368.1**
Operating Costs	(142.4)	(8.5)	-	(1.0)	(3.3)	**(155.2)**
Depreciation	(46.3)	(37.1)	(0.4)	(0.4)	-	**(84.2)**
Operating Profit	**127.3**	**(0.9)**	**1.6**	**0.7**	**-**	**128.7**
Capital additions	**85.1**	**37.1**	**-**	**2.5**	**-**	**124.7**

25. Regulatory Segmental Analysis (continued)

Note that the Regulatory Segmental Analysis comparatives for the year ended 31 March 2015 have been restated in line with the transition to FRS 101, the main adjustment being the application of IFRIC 18 Transfers of assets from customers.

(i) Excluded services includes connections, diversions and other excluded services as defined in the licence (ES1, ES3 and ES7).
(ii) Metering services refer to Legacy MAP only.
(iii) De Minimis activities primarily relate to activities undertaken on behalf of other SSE plc Group companies.

26. Regulated Related Party Disclosure

For the year to 31 March 2016:

	Ultimate parent (SSE plc)	Immediate parent (SSEPD)(i)	Other SSE plc Group companies
Type of transaction	£m	£m	£m
Sales and provision of services	-	-	96.6
Purchases and receipt of services	-	-	(49.2)
Distribution of dividends	-	(50.0)	-
Finance income (note 4)	-	-	-
Finance costs (note 5)	(27.0)	-	-

For the year to 31 March 2015:

	Ultimate parent (SSE plc)	Immediate parent (SSEPD)(i)	Other SSE plc Group companies (restated)(ii)
Type of transaction	£m	£m	£m
Sales and provision of services	-	-	120.8
Purchases and receipt of services	-	-	(67.9)
Distribution of dividends	-	(250.0)	-
Finance income (note 4)	0.6	-	-
Finance costs (note 5)	(17.6)	-	-

(i) The immediate parent of the Company is Scottish and Southern Energy Power Distribution Limited (SSEPD).
(ii) Sales and provision of services has been restated for Distribution Use of System income from SSE Energy Supply Limited.
(iii) Balances outstanding to and from Group companies including the Ultimate and Immediate Parent Companies are disclosed in Notes 11, 12, 13, and 14 to these Regulatory Financial Statements.

27 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.

28 Explanation of transition to FRS 101 from adopted old UK GAAP

As stated in note 1, these are the Company's first Regulatory Financial Statements prepared in accordance with FRS 101.

The accounting policies set out in note 1 have been applied in preparing the Regulatory Financial Statements for the year ended 31 March 2016 and the comparative information presented in these Regulatory Financial Statements for the year ended 31 March 2015.

In preparing its FRS 101 balance sheet, the Company has adjusted amounts reported previously in Regulatory Financial Statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to FRS 101 has affected the Company's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

Nature of adjustments
Computer software, licences and other intangible assets were previously disclosed within tangible fixed assets. These assets are now presented within intangible assets under FRS 101.

The transition to FRS101 has led to the adoption of IFRIC 18 Transfers of assets from customers. Customer contributions arising subsequent to the transition date of 1 April 2014 are recorded as revenue when there are no ongoing performance obligations together with corresponding related costs.

Scottish Hydro Electric Power Distribution plc

Notes on the Regulatory Financial Statements (continued)
for the year ended 31 March 2016

28 Explanation of transition to FRS 101 from adopted old UK GAAP (continued)

		31 March 2015		
		Adopted UK GAAP	Effect of transition to FRS 101	FRS 101
	Note	£m	£m	£m
Fixed assets				
Tangible assets	8	1,020.3	(5.6)	1,014.7
Intangible assets	9	-	2.9	2.9
		1,020.3	**(2.7)**	**1,017.6**
Current assets				
Stock	10	2.2	-	2.2
Debtors	11	84.8	-	84.8
Total current assets		**87.0**	**-**	**87.0**
Current liabilities				
Creditors: amounts falling due within one year	12	(117.8)	-	(117.8)
Net current liabilities		**(30.8)**	**-**	**(30.8)**
Total assets less current liabilities		**989.5**	**(2.7)**	**986.8**
Creditors: amounts falling due after more than one year	13	(752.2)	2.7	(749.5)
Derivative financial liabilities	19	(14.7)	-	(14.7)
Deferred tax liabilities	15	(78.2)	-	(78.2)
Net assets		**144.4**	**-**	**144.4**
Capital and reserves				
Called up share capital	16	62.0	-	62.0
Profit and loss account		82.2	-	82.2
Hedge reserve		0.2	-	0.2
Shareholders' funds		**144.4**	**-**	**144.4**

28 Explanation of transition to FRS 101 from adopted old UK GAAP (continued)

	Note	Adopted UK GAAP £m	2015 Effect of transition to FRS 101 £m	FRS 101 £m
Turnover		365.4	2.7	368.1
Cost of sales		(81.3)	37.2	(44.1)
Gross profit		**284.1**	**39.9**	**324.0**
Distribution costs		(140.4)	(39.9)	(180.3)
Administrative costs		(15.0)	-	(15.0)
Operating profit	2	**128.7**	**-**	**128.7**
Interest receivable and similar income	4	0.6	-	0.6
Interest payable and similar charges	5	(28.8)	-	(28.8)
Profit on ordinary activities before taxation		**100.5**	**-**	**100.5**
Tax on profit on ordinary activities	6	(19.7)	-	(19.7)
Profit for the financial year		**80.8**	**-**	**80.8**