Scottish Hydro Electric Transmission plc

Directors report and regulatory financial statements

Year ended 31 March 2018

Registered No.: SC213461

Scottish Hydro Electric Transmission plc

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Scottish Hydro Electric Transmission plc

Directors and Other Information

Directors	Gregor Alexander (Chairman) Steven Kennedy Stuart Hogarth David Gardner Colin Nicol Robert McDonald (Resigned 14/12/17) Dale Cargill Rachel McEwen Katherine Marshall (Appointed 14/12/17) David Rutherford (Non-Executive Director) Gary Steel (Non-Executive Director)
Registered office	Inveralmond House 200 Dunkeld Road Perth PH1 3AQ
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Registered number	SC213461

Scottish Hydro Electric Transmission plc

Strategic Report

The Strategic Report sets out the main trends and factors underlying the development and performance of Scottish Hydro Electric Transmission plc (the "Company") during the year ended 31 March 2018, 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's immediate parent is Scottish and Southern Energy Power Distribution Limited (SSEPD) which is branded as Scottish and Southern Electricity Networks (SSEN). Included within this group are sister companies, Scottish Hydro Electric Power Distribution plc (SHEPD) and Southern Electric Power Distribution plc (SEPD). The Company owns the Electricity Transmission network in the North of Scotland. National Grid is the National Electricity Transmission System Operator, responsible for balancing the supply and demand of electricity across Great Britain. The Company is responsible for maintaining and investing in the transmission network in its area, which comprises around 5,106km of high voltage overhead lines and underground cables covering around 70% of the land mass of Scotland serving remote and, in some cases, island communities. As the licensed transmission company for the area, the Company has to ensure there is sufficient network capacity for those seeking to generate electricity from renewable and other sources.

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

The Company's strategy and main objectives are to:

- comply fully with all electricity network safety standards and environmental requirements;
- ensure that the electricity network is managed as efficiently as possible, including maintaining tight controls over operational expenditure and the delivery of the capital expenditure programme;
- provide good performance in areas such as reliability of supply, customer service and innovation;
- ensure there is sufficient network capacity for those seeking to generate electricity from renewable and other sources within the licensed network area;
- grow the Regulated Asset Value ("RAV") of the 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 2018 were as follows (comparisons with the same period to 31 March 2017):

Financial / Operational	**2018**	2017	% change
Capital expenditure - £m	**429.4**	500.5	(14.2)
Operating profit - £m	**194.8**	261.8	(25.6)
Regulated asset value - £m	**3,069.7**	2,684.3	14.4

Non Financial / Management	**2018**	2017	% change
Number of Transmission System Incidents	**2**	8	(75.0)
Average Circuit Unreliability	**0.29%**	0.32%	(9.4)

The Company's operating profit decreased by in the year to £194.8m. This has been impacted by a higher rates charge in the year following the Company's rates revaluation as well as an increasing depreciation charge, which is in line with a growing asset base. This was further influenced by a revenue reduction of £32.6m being adversely impacted by both the phasing of capital expenditure

Business performance overview (*continued*)

and the total expenditure (totex) underspend in 2015/16. Since the start of the RIIO-T1 Price Control in April 2013, the Company's capital investment has totalled close to £2.3bn, playing a pivotal role in providing the supporting infrastructure required to facilitate the UK's transition to a low carbon economy. With its committed pipeline of investment, the Company expects to increase its RAV from £3.1bn as at March 2018 to over £3.4bn by March 2019.

The number of Transmission System Incidents fell in the year from 8 to 2. The number of incidents in 2017/18 was comparatively low due to continued investment and targeted maintenance on the network. This was also assisted by extended periods where few weather-related problems occurred during the year. There were no exceptional events in 2017/18 that impacted the network performance. Furthermore, Average Circuit Unreliability fell a small amount in 2017/18 due to the reduction in the number of incidents and long term faulted equipment returning.

Operating a rapidly growing network

The Company's first priority is to provide a safe and reliable supply of electricity to the communities it serves. The Company has established a dedicated and experienced team to deliver operational excellence, including improved asset management and timely preparation for the introduction of new types of plant and technology.

During the current period of rapid growth in transmission development, including commissioning of substantial new assets and the connection of large volumes of renewable generation capacity, the Company has maintained an impressive reliability of over 99.9% in 2017/18.

Connecting renewable electricity generation

The Company's strategic priority for the RIIO-T1 period has been to enable the transition to a low carbon economy through building the transmission infrastructure necessary to connect and transport renewable energy.

Since the beginning of RIIO-T1, the installed renewable electricity generation capacity connected to the Company's transmission network has grown significantly, from 3.7GW to over 5GW and is forecast to grow to over 6GW by the end of the current Price Control period. This successful and timely connection of renewable electricity generation is contributing significantly to Government renewable energy and climate change targets.

During 2017/18, generation assets connected to the transmission network included Stronelairg wind farm (228MW) and Aberdeen Offshore wind farm (96MW), both of which were successfully connected during March 2018.

The Company continues to work with its generation customers to provide timely and efficient connections to its network, including Dorenell wind farm (220MW) due to connect in 2018/19; Beatrice Offshore wind farm (588MW) also due to connect in 2018/19; and Moray Offshore Renewable Limited (MORL) (504MW) due to connect in 2020/21.

Investing to provide the infrastructure to support a decarbonised energy system

The Company continues to make progress with the delivery of its Caithness-Moray transmission link. With an agreed allowance of £1.1bn, the project is the largest single investment undertaken by any part of the SSE group to date. Construction progress on most aspects of the project continues to be excellent, although as with any project of this size and complexity there are challenges to overcome in terms of construction risk and quality assurance. The Company continues to work very closely with its key contractors to make the necessary progress in the coming months so that the commissioning and energising of the reinforcement is successful and remains on track for delivery by the end of 2018.

Despite the changes affecting onshore wind policy, the Company still has a healthy pipeline of projects for the remaining three years of the current price control period. This comprises:

- planned projects associated with on- and off-shore wind generation developments; and,
- projects to renew ageing infrastructure dating back to the 1950s and 1960s.

Investing to provide the infrastructure to support a decarbonised energy system (*continued*)

These projects represent a forecast pipeline of investment of around £900m in the next three years and mean the business is on track to increase the RAV to around £3.6bn by the end of the current Price Control period in 2021. This investment pipeline, plus a further £300m of capital and investment expenditure in the period to 2023, means the RAV is forecast to grow to £3.8bn by 2023.

In addition to the base case capital and investment plans of £1.2bn, the Company has visibility on a further £700m of contingent projects that are dependent on the progress of onshore wind developments against a continued uncertain policy regime. This means the timing and ultimate need for them is not yet clear. Several of these relate to potential onshore reinforcements in Argyll and Kintyre and across the Highlands. This list also includes projects which came forward in January 2018, when the System Operator, published its Network Options Assessment (NOA) report, which gave the Company the signal to proceed with plans to reinforce the existing North East and East Coast onshore transmission system.

Once complete, the reinforcements will provide additional network capacity to facilitate the planned connection of significant offshore wind generation across the north east of Scotland, the increase in transmission entry capacity (TEC) at Peterhead Power Station and the proposed NorthConnect interconnector to Norway.

Preparing to connect Scotland's island groups

The potential transmission links to the Scottish islands groups provide further potential for future growth.

Following confirmation that the UK Government intends to allow remote island onshore wind to complete in the next Contracts for Difference auction in spring 2019, the Company continues to work with its generation customers and other stakeholders across the three island groups to take forward proposals to provide transmission connections to enable the connection of renewable electricity generation.

In March 2018, the Company submitted to Ofgem a Needs Case for the Orkney transmission link. The Company's proposed solution would deliver a phased approach to reinforcement, which will initially deliver a single 220MW subsea cable in October 2022, followed by a second cable of similar specification once further generation has committed and the economic case has been made for the further investment.

The Company also intends to submit Needs Cases for both the Western Isles and Shetland during the second half of 2018 and will continue to engage positively and constructively with developers, Ofgem, Government and other stakeholders to take forward its proposals in a timely manner, as soon as developer commitment and all necessary regulatory and planning approvals are confirmed. Together, these three island links could provide an investment opportunity of around £1.5bn.

Addressing competition in transmission

In January 2018, Ofgem published an update to its plans to introduce competition into onshore electricity transmission for new, separable and high value onshore transmission assets.

With a strong track record for connecting renewable energy developments on time and within budget, the Company believes the experience it has gained both in-house and with its supply chain means that it is well placed to participate in competitive delivery arrangements.

The Company remains supportive in principle of the introduction of competition, where it can be clearly demonstrated that it delivers benefits to energy customers and the wider economy as well as maintaining the efficient delivery of transmission infrastructure. It does, however, have a number of concerns about its implementation. In particular, the Company believes Ofgem's proposals would effectively reopen the current Price Control without following due process. Furthermore, it is not currently underpinned by legislation and would risk delays to the delivery of well-established and advanced projects.

For these reasons, the Company believes competition should not be implemented before the beginning of the next Price Control in order that these material factors be adequately addressed in an open and transparent manner. The Company will continue to engage constructively with Ofgem and other stakeholders as part of this process.

Working with customers and stakeholders

Under the RIIO-T1 price control, Transmission Owners are encouraged to be more responsive to changing customer and stakeholder needs, with financial incentives based on performance in this area. The views of customers and stakeholders have played a key part in the Company's success in electricity transmission under the current price control period and will remain central to its future business plans.

The Company considers its relationship with the community it serves as a core part of its business. The Company has a detailed customer and stakeholder engagement plan in place to ensure that it is sufficiently informed by the community which it serves.

SSEN has established an independent Stakeholder Advisory Panel to work alongside its Board to help scrutinise business performance and effectiveness in meeting its commitments under the RIIO-T1 and RIIO-ED1 Price Controls. The Panel consists of a Chair and six members, recruited to reflect a broad range of external interests, skills, knowledge and experience. Through its work, the Panel brings stakeholder insight and challenge to SSEN's decision-making at the highest level, helping to drive improvement in key processes and outcomes for customers and stakeholders.

Customers and stakeholders have played a major part in the development of the Company's Visual Impact of Scottish Transmission Assets (VISTA) policy, which seeks to mitigate the impacts of existing transmission infrastructure in National Parks and National Scenic Areas. In August 2016, the Company received Ofgem approval for its proposed approach and expects to set out a series of proposed projects to take forward for funding from Ofgem later in 2018.

Innovation continues to play a key role in the development and improvement of the service provided to the Company's customers and, at the same time, help inform the wider industry as it prepares for fundamental changes to the electricity system. The Company has a clear track record in progressing innovation through Ofgem funded structures, securing over £20m in regulatory funding for innovation projects since 2010.

Looking ahead to RIIO-2

On 7 March 2018, Ofgem published a consultation on the regulatory framework for the next Price Control periods, RIIO-2, which will run from April 2021 for electricity transmission.

In its consultation, Ofgem has set out that it expects the range of available returns for network businesses to be lower for the next round of Price Controls, while maintaining high levels of innovation and reliability. It has also set out its strongly "minded to" position to revert to five-year price control periods and confirmed a stronger voice for customers and stakeholders in the development of Price Control business plans through the establishment of independent user groups and panels.

Despite its focus on lower returns, Ofgem has confirmed it is still expected that high performing companies will continue to be rewarded through outperformance of the incentive based regulatory framework. The Company will continue to engage constructively with Ofgem and other stakeholders as the regulator further develops its proposals for RIIO-2, helping to ensure the evidence base is robust, the outcomes are clear and the views of customers, communities, stakeholders and investors are fully considered.

Planning for the RIIO-ET2 price control

Preparations are well under way to gather evidence to support the development of the next transmission business plan. The Company's main focus during 2017/18 has been on future energy scenarios across the north of Scotland, with extensive consultation and engagement with key stakeholders helping the Company to identify the likely network requirements for the next Price Control. This has ranged from future energy trends; the future outlook for electricity generation, including repowering of ageing onshore wind farms; as well as the likely speed and scale of the electrification and decarbonisation of heat and transport.

The Company will undertake further engagement and consultation with key stakeholders in the year ahead, including its Stakeholder Advisory Panel and the soon to be established User Group and Industry Panels, which will form a key component of the RIIO-2 framework. This research and engagement will help the Company to build a credible and evidence-based business plan for submission to Ofgem in 2019.

Electricity Transmission priorities for 2018/19 and beyond

For the Company, the core activity for the rest of this decade will be construction. Against this background, its priorities for the rest of 2018/19 and beyond are to:

- operate safely and meet all compliance requirements;
- provide an excellent service to all customers who rely on their networks and related services;
- deliver required outputs while maintaining tight controls over expenditure;
- maintain good progress in the safe delivery of new assets, including the Caithness Moray project;
- progress innovations that will improve network reliability, efficiency and customer service and inform industry-wide improvements; and
- develop and maintain effective stakeholder relationships and conduct constructive engagement with regulators and legislators, advocating clarity and stability in the regulatory framework.

Values and responsibilities

The Group and the Company believe 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: If it's not safe, we don't do it;
- Service: We are a company customers can rely on;
- Efficiency: We focus on what matters;
- Sustainability: We do things responsibly to add long-term value;
- Excellence: We continually improve the way we do things;
- Teamwork: We work together, respect each other and make a difference.

Factors affecting the business

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

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

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

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 see the Risk Management Frameworks section 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.

Strategic Report *(continued)*

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 Management Committee 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, the main 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. Some of our operations require the storage of a significant volume of 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 and priority for the Group and Company. There is a Safety Management System in place to support people at work and ensure their safety and significant focus on both technical and behavioural safety training. 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 to the Company on the interpretation of political and regulatory change. In addition there is proactive engagement with regulators, politicians, officials and other stakeholders on these issues.
- **Network Resilience and Integrity** – The Company has an obligation to maintain and enhance its network and ensure its resilience. A robust asset management and quality assurance process is in place to ensure that equipment is of the correct standard and specification to provide a safe, efficient and reliable network now and in the future. The operation of HVDC circuits is new to the Company and will increase over the next few years. Appropriate training of staff and coordination between project delivery and operations team takes place.
- **Networks Change Transformation** – The energy industry is undergoing constant technological and regulatory change. 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 ET1 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 and people, delivering major cost efficiencies, new IT systems 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.
- **Supply Chain and Contractor Performance** – 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 a high 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 procurement and 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.
- **Price Control Governance and Management** – The Company needs to meet its RIIO-ET1 published business plan obligations or risk financial penalties and the resultant reputational risk (these deliverables include meeting the Total Expenditure (Totex) project milestones and output measures, ensuring data quality and accuracy, 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.
- **Cyber Security** - With the increased incidence of cyber attacks over recent years there is a risk to the Company's key systems and, as a result, the network could be compromised or rendered unavailable. To mitigate this risk, the Group and Company are investing in a long term security programme including liaising with relevant external stakeholders and ensuring staff awareness of IT security issues and their importance.

Understanding and managing our principal risks (*continued*)

- **Alternative Technologies** – Technological developments may identify alternative or more efficient means of transmitting 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 the Company wants to be a great place to work; characterised by the engaged, motivated and committed people who already work throughout the company and an ability to attract a talented and diverse range of new people to meet changing business needs.

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

- engage with the people who work for the Group and recognise the different needs they have;
- create sustainable employment opportunities that attract a talented and diverse range of new people into all levels of the business;
- invest for the future to ensure each individual can perform to the best of their ability; and
- ensure they are constantly seeking to do the right things, particularly in how people are treated.

Of all employees in the Company, 80% are men and 20% 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 re-training.

Rewarding employee contribution

The Group and Company have a well-established approach to performance management with a structured framework which assesses employee performance against individual agreed objectives as well as alignment to the core values of Safety, Service, Efficiency, Sustainability, Excellence and Teamwork. Employees at all levels in the organisation are measured against the same framework, and performance review sessions are designed to allow employees to provide feedback and think about their opportunities for personal and professional development.

The opportunity to grow and develop a career has the greatest impact on employee commitment but it is also understood that employee benefits make an important contribution to both employee engagement and the attractiveness of the Group as a place to choose to work.

- **Employee benefits**: Following on from the sector-leading parental pay and support benefits introduced on 1 April 2017, the Group introduced a series of further measures to benefit all employees and consolidated its existing benefits. New benefits include 'Nudge for SSE', an external financial education tool to help employees better understand and manage their personal finances, 'SSE Advantage' which offers savings and cashback deals, and 'Back to Health', a pilot programme with Nuffield Health to provide additional support and specialist care for employees with anxiety, depression, stress or musculoskeletal problems.
- **Sharing success**: The Group actively encourages it employees to own SSE shares, offering both an employee Share Incentive Plan (SIP) and a Sharesave scheme.
- **The Group pension schemes**: In 2017/18, the Group moved its employee pension scheme from its GPPP+ to a new Pension+ offering which provides improved value for employees and reduced management charges. 94% of the Group's employees chose to plan and save for their financial future with the Group in 2017/18.

Strategic Report *(continued)*

Employee participation

The Group's long-established teamwork value has been an enduring value that guides employees in their day-to-day working lives.

Engagement is a good indicator of how connected employees are to an organisation and how committed they are to helping it to achieve its goals. SSE measures employee engagement through its full Great Place to Work survey every two years with a shorter 'pulse' survey on every alternate second year. The last full Great Place to Work survey was conducted with ORC International in July 2017. To promote transparency internally and externally around the results of the survey, in 2017/18 the Group published a short report with the results of the July 2017 survey and the company's action plan in response to its findings.

Internal control

The Group's Board performs a review of the effectiveness of the system of internal control annually across the Group.

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 Company has invested close to £2.3bn since the Transmission price control period began in 2013 in new electricity transmission infrastructure. In 2017/18, around 400MW of new renewable generation capacity was connected.

The Group's scope 2 Carbon emissions fell by nearly 20% compared to 2016/17 and accounted for less than 4% of total carbon emissions in 2017/18. This reduction is mainly a result of lower electricity losses on SSE's electricity networks and changes in carbon emission factors due to decarbonisation of the UK grid.

While the Company plays its part to mitigate climate change, it must also adapt its business to the impacts of rising global temperatures. Extreme weather events are a material climate adaptation risk that impacts the resilience of the Company's transmission network. As a result the Company has invested in maintenance and emergency response solutions. This includes new technology that identifies faults on lines; tree cutting along networks; resilience funds for local communities to support climate adaptation initiatives; and emergency response procedures to ensure the lights are kept on.

More information on the Group's approach to managing our environmental impact is contained in the 2017/18 Annual Report, on page 72 at www.sse.com.

Key contractual arrangements

There are a number of contracts in place for construction of major projects, such as the Caithness Moray project, upon which the Company is dependent for delivery of these projects. Appropriate terms have been included within these contracts to ensure that the services provided and the costs charged are clearly agreed, and to provide an appropriate long-term relationship. However, the nature of these projects is such that there is no monopoly on provision of the required services, and the Directors believe that they would be able to replace the incumbent providers should there be any requirement to do so. The Directors consider the Service Level Agreement between the Company and SSE Services plc for the provision of corporate services to be essential for the continuance of the Company's operations in the short-to-medium term. Due to the fact that it is provided by a fellow subsidiary of SSE plc, the risk of this contract being terminated is low.

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 2018 which could be made available to the Company as required. During the year the Group extended its existing £1.5bn revolving credit and bilateral facilities by invoking the second of the two one year extension options with the facilities now maturing in July 2022 (£1.3bn) and November 2022 (£0.2bn). As at 31 March 2018, they were undrawn.

The Company has 456 employees which it calls on to maintain its transmission network and carry out investment in future developments. The Company also draws upon Group 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.

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 Directors believe that Group and Company both continue to maintain one of the strongest balance sheets in the global utility sector. The directors consider that 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, cash from operations is first used to finance regulatory and maintenance capital expenditure and then dividend payments, with capital and investment expenditure for growth generally financed by a combination of: cash from operations; bank borrowings and bond issuance.

Transactional foreign exchange risk arises in respect of procurement contracts. Exposure to currency 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 in note 18.

The Company's financial risk is managed as part of the wider Group risk management policy. For more information regarding financial risk management, please see page 217 of the Group's 2018 Annual Report at www.sse.com.

Liquidity

The Group's Treasury function acts on behalf of the Company and is responsible for managing the banking and liquidity requirements of the Group, 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 Tax and Treasury Committee and Audit Committee.

Borrowings and facilities

The Company has loans of £1,812.8m (2017 – £1,712.8m) of which £1,063.1m (2017 - £1,063.1m) is due to other group companies and £749.7m (2017 - £649.7m) is in the form of loans from the European Investment Bank. Of the total, interest is paid at fixed interest rates on £1,562.8m (2017 - £1,562.8m) with the interest paid at floating rates on a £250.0m (2017 - £150.0m) loan from the European Investment Bank.

During the year the Company's £100m facility with the European Investment Bank was drawn into a 10 year floating rate term loan.

As at 31 March 2018, the weighted average interest rate payable was 3.08% (2017 – 3.15%) and the weighted average remaining term was 6.55 years (2017 – 7.35 years).

Taxation

The headline effective tax rate, which includes the impact of substantively enacted changes in the UK corporation tax rate, is 16.7% compared with 16.5% in the previous year.

Dividend

Following a review of distributable reserves, the Directors declared, approved, and paid a dividend of £110.0m (2017 - £150.0m).

Pensions

7% (2017 - 14%) of employees of the Company are members of the Scottish Hydro-Electric Pension Scheme, which, at 31 March 2018, based on an IAS 19 accounting basis, had a surplus included in the Group financial statements, net of deferred tax, of £371.9m (2017 – surplus of £341.5m).

On behalf of the board

Gregor Alexander
Director
18 July 2018

Scottish Hydro Electric Transmission plc

Corporate Governance Statement

As a subsidiary company of SSE plc ("The Group"), Scottish Hydro Electric Transmission plc ("The Company") operates within the Group's corporate governance framework. The Company does not have listed shares and therefore is not subject to the UK Corporate Governance Code and has not voluntarily applied the UK Corporate Governance Code. The information below, therefore, is in relation to the Group only and is included solely for information.

The Group's corporate governance policies are described in the Group's Annual Report and Accounts 2018 under Governance on pages 86 to 139 available at www.sse.com.

The Board of the Group considers that it complied in full with the UK Corporate Governance Code 2016 during 2017/18.

SSE plc Group ("the Group")

The Group has a responsibility to meet its objectives and operate sustainably for the benefit of all of its stakeholders, which includes upholding the commitments it has made to its shareholders and customers through its financial objective and core purpose. It is the role of the Board to ensure that these are achieved, and this is supported primarily through setting the Group's longer term strategy, providing the leadership and support necessary to ensure that it can be delivered responsibly within accepted levels of risk. Implementation and delivery of this strategy is managed through the careful delegation of authority in line with the Corporate Governance Framework, with oversight being retained through regular reporting, which includes an ongoing dialogue between the Board, the Executive Committee, their respective sub-Committees and other key individuals within the business.

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.

Each year the Group describes how it has applied the Main Principles of the UK Corporate Governance Code and in line with its 'comply or explain' model details any departures from its specific provisions. A departure is only ever made when it is deemed appropriate to do so, and good governance can be achieved by other means.

For 2017/18 the Board is reporting against the 2016 version of the Code and confirm compliance with its provisions in full.

There are four principal Board committees; an Audit Committee, a Remuneration Committee, a Safety, Health and Environment Advisory Committee and a Nomination Committee. The details of the appointees and work undertaken by these committees are included in the published annual report of the Group, which is available at www.sse.com.

There were two new appointments to the Board during the reporting year; one Executive Director and one independent non-Executive Director. The Board now comprises the Chairman, three Executive Directors, a Senior Independent Director and six independent non-Executive Directors. This gives the Board a good balance of independence and experience, ensuring that no one individual or group of individuals has undue influence over the Board's decision making.

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 Transmission plc ("The Company")

The following comments on the arrangements for the Company.

Board of Directors

During the year the Board consisted of eight 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 independent Non-Executive Directors on the Board during the course of the financial year as required under the terms of Standard Condition B22 of the Company's regulatory licence.

Corporate Governance Statement *(continued)*

Board of Directors (*continued*)

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

Attendance at meetings of the Board during 2017/18, expressed as a number of meetings attended out of number eligible to attend is set out below:

Director	Attendance
Gregor Alexander (Chairman)	8 of 8
Steven Kennedy	7 of 8
Stuart Hogarth	6 of 8
David Gardner	7 of 8
Colin Nicol	8 of 8
Robert McDonald (Resigned 14/12/17)	5 of 6
Dale Cargill	5 of 8
Rachel McEwen	7 of 8
Katherine Marshall (Appointed 14/12/17)	2 of 2
David Rutherford (Non-Executive Director)	8 of 8
Gary Steel (Non-Executive Director)	8 of 8

Board evaluation

A formal evaluation was carried out in 2016 and the results were used to develop actions and agree areas for improvement for the effective functioning and operations of the Board. This process was designed to confirm the areas where the Board was performing well and identify areas where improvements could be made. These improvements were implemented throughout the course of the current reporting year. An updated evaluation process is now underway and will be completed by September 2018.

Director induction, training and development

On joining the Board, all non-Executive Directors receive an induction tailored to their individual requirements. The comprehensive programme is facilitated by the Chairman and Company Secretary and involves briefings and meetings with key individuals from each business area and supporting Group functions. During the induction programme each Director is invited to identify areas in which they would like additional meetings or further information.

Throughout the reporting year the Directors develop and refresh their knowledge through various training sessions and a number of internally and externally facilitated engagements, with individual development needs being reviewed as part of the annual Board evaluation process. Directors are encouraged to request additional information and support at any time as required, with the necessary resources being made available to them.

Going Concern

The Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. In making their assessment, the Directors have considered future cash flows and the level of headroom on long-term loans and bonds. The regulatory financial statements are therefore prepared on a going concern basis.

Scottish Hydro Electric Transmission plc

Corporate Governance Statement *(continued)*

Viability Statement

The Board has voluntarily carried out an assessment of the longer term viability of the Company consistent with the assessment and governance approach undertaken at Group level by SSE plc.

In doing so, the Board has assessed the prospects of the Company over the next 3 financial years to 31 March 2021. The Directors have determined that as this time horizon aligns with the Company's strategy planning period and committed networks resilience projects, a reasonable degree of confidence over the forecasting assumptions modelled can be established.

This statement is included solely for information.

In making this statement the Directors have considered the resilience of the Company taking into account its current position, the Principal Risks it faces and the control measures in place to mitigate each of them. In particular, the Directors recognise the significance of the Company's regulated revenue stream, strong balance sheet and access to available resources including the SSE Group's committed lending facilities of £1.5bn.

To support this statement, stress testing of scenarios relating to each of the Principal Risks facing the Company has been undertaken. Examples include failure of critical network technology (for Networks Resilience and Integrity) and failure to implement key system upgrades (for Networks Change Transformation).

Upon the basis of the analysis undertaken, and on the assumption that the fundamental regulatory and statutory framework in which the Company operates does not substantively change, the Directors have a reasonable expectation that the Company will be able to continue to meet its liabilities as they fall due in the period to 31st March 2021.

Scottish Hydro Electric Transmission plc

Directors' report

The Directors present their report together with the audited regulatory financial statements for the year ended 31 March 2018.

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

2 Results and dividends

The profit for the financial year amounted to £131.1m (2017 - £194.6m). A final dividend of £110.0m (2017 – £150.0m) 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 12.

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
18 July 2018

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.

Standard Licence Condition B1 requires the Directors to prepare regulatory financial statements for each financial year. Under that licence condition 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 Disclosure Framework*. The directors confirm that these regulatory accounts comply with Standard Licence Condition B1 in all aspects except with respect to the nature of the audit opinion. Ofgem have consented to this having regard to the guidance contained in the Institute of Chartered Accountants in England and Wales (ICAEW) Technical Release TECH02/16AAF.

Under Standard Licence Condition B1 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 its profit or loss of the Company for that period. In preparing the regulatory financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the regulatory financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 its regulatory financial statements comply with the Companies Act 2006 and Standard Condition B1 as applicable. They are responsible for such internal control as they determine is necessary to enable the preparation of regulatory financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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

On behalf of the Board:

Gregor Alexander
Director
18 July 2018

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

Opinion

We have audited the regulatory accounts of Scottish Hydro Electric Transmission Plc ("the Company") for the year ended 31 March 2018 which comprise the Profit and Loss account, Balance Sheet, Statement of Other Comprehensive Income, Statement of Changes in Equity, Cash Flow Statement and related notes, including the accounting policies in note 1.

In our opinion the regulatory accounts of the Company for the year ended 31 March 2018 have been properly prepared, in all material respects, in accordance with Standard Condition B1 of the Company's Regulatory Licence and the special purpose basis of preparation and accounting policies set out in note 1.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and the terms of our engagement letter dated 18 July 2018 and having regard to the guidance contained in ICAEW Technical Release Tech 02/16 AAF 'Reporting to Regulators on Regulatory Accounts' issued by the Institute of Chartered Accountants in England & Wales. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Emphasis of matter – special purpose basis of preparation

We draw attention to Note 1 to the regulatory accounts, which describes their basis of preparation. As explained in that note, the regulatory accounts are prepared to assist the Company in complying with the Company's Regulatory Licence Standard Condition B1. The nature, form and content of regulatory accounts 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.

The regulatory accounts are separate from the statutory financial statements of the Company. There are differences between International Financial Reporting Standards as adopted by the EU and the basis of preparation of the regulatory accounts because Standard Condition B1 of the Regulatory Licence specifies alternative treatment or disclosure in certain respects. Where Standard Condition B1 of the Regulatory Licence does not specifically address an accounting issue, it requires International Financial Reporting Standards as adopted by the EU to be followed. Consequently the regulatory accounts 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. As a result, the regulatory accounts may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the regulatory accounts. We have nothing to report in these respects.

Other information

The directors are responsible for the other information, which comprises the Corporate Governance Statement. Our opinion on the regulatory accounts does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our regulatory accounts audit work, the information therein is materially misstated or inconsistent with the regulatory accounts or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 16, the directors are responsible for: the preparation of the regulatory accounts in accordance with the Standard Condition B1 of the Regulatory Licence and the special purpose basis of preparation and accounting policies as set out in note 1 to the regulatory accounts; such internal control as they determine is necessary to enable the preparation of regulatory accounts that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the regulatory accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) and having regard to the guidance contained in ICAEW Technical Release Tech 02/16 AAF 'Reporting to Regulators on Regulatory Accounts' issued by the Institute of Chartered Accountants in England & Wales will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the regulatory accounts.

As part of an audit in accordance with ISAs (UK) and having regard to the guidance contained in ICAEW Technical Release Tech 02/16 AAF 'Reporting to Regulators on Regulatory Accounts' issued by the Institute of Chartered Accountants in England & Wales, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the regulatory accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.
- Assess the reasonableness of significant accounting estimates and related disclosures made by the directors.

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Standard Condition B1 of the Company's Regulatory Licence. Where Standard Condition B1 of the Company's Regulatory Licence does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the regulatory accounts are consistent with those used in the preparation of the statutory financial statements of the Company. Furthermore, as the nature, form and content of regulatory accounts 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 International Standards on Auditing (UK and Ireland).

The purpose of our audit work and to whom we owe our responsibilities

This report is made, on terms that have been agreed, solely to the Company and the Regulator in order to meet the requirements of Standard Condition B1 of the Company's Regulatory Licence. Our audit work has been undertaken so that we might state to the Company and the Regulator those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under the Companies 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.

Independent auditor’s report to Scottish Hydro Electric Transmission plc and to the Gas and Electricity Markets Authority (“GEMA” or the “Regulator”) (*continued*)

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

Gordon Herbertson (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
319 St Vincent Street
Glasgow
G2 5AS

25 July 2018

Scottish Hydro Electric Transmission plc

Profit and Loss Account
for the year ended 31 March 2018

	Note	2018 £m	2017 £m
Turnover		**325.8**	358.4
Cost of sales		**-**	(5.1)
Gross profit		**325.8**	353.3
Distribution costs		**(118.3)**	(80.5)
Administrative costs		**(12.7)**	(11.0)
Operating profit	2	**194.8**	261.8
Interest receivable and similar income	4	**-**	5.4
Interest payable and similar charges	5	**(37.5)**	(34.2)
Profit before taxation		**157.3**	233.0
Tax on profit	6	**(26.2)**	(38.4)
Profit for the financial year		**131.1**	194.6

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 Transmission plc

Statement of Other Comprehensive Income
for the year ended 31 March 2018

	2018	2017
	£m	£m
Profit for the financial year	**131.1**	194.6
Other comprehensive income		
(Loss)/Gain on effective portion of cash flow hedges	**(2.9)**	7.0
Taxation on cashflow hedges	**0.5**	(1.3)
Other comprehensive income	**(2.4)**	5.7
Total comprehensive income relating to the financial year	**128.7**	200.3

Scottish Hydro Electric Transmission plc

Balance Sheet
as at 31 March 2018

	Note	2018 £m	2017 £m
Fixed assets			
Tangible fixed assets	8	**3,079.3**	2,711.5
Intangible assets	9	**9.1**	5.8
Derivative financial assets	18	**-**	2.3
		3,088.4	2,719.6
Current assets			
Debtors	10	**1.7**	246.1
Restricted cash	11	**14.1**	18.7
Total current assets		**15.8**	264.8
Current liabilities			
Creditors: amounts falling due within one year	12	**(216.4)**	(264.4)
Net current (liabilities) / assets		**(200.6)**	0.4
Total assets less current liabilities		**2,887.8**	2,720.0
Creditors: amounts falling due after more than one year	13	**(1,941.0)**	(1,816.6)
Derivative financial liabilities	18	**(0.6)**	-
Deferred taxation	15	**(138.4)**	(114.8)
Net assets		**807.8**	788.6
Capital and reserves			
Called up share capital	16	**354.3**	354.3
Profit and loss account		**454.0**	432.4
Hedge reserve		**(0.5)**	1.9
Equity Shareholders' funds		**807.8**	788.6

These regulatory financial statements were approved by the Directors on 18 July 2018 and signed on their behalf by:

Gregor Alexander
Director
Company registered number: SC213461

Scottish Hydro Electric Transmission plc

Statement of Changes in Equity
for the year ended 31 March 2018

	Share capital £m	Retained earnings £m	Hedge reserve £m	Total equity £m
Balance at 1 April 2016	**354.3**	**387.2**	**(3.8)**	**737.7**
Profit for the financial year	-	194.6	-	**194.6**
Credit in respect of employee share schemes	-	0.6	-	**0.6**
Dividends paid (note 7)	-	(150.0)	-	**(150.0)**
Other comprehensive income	-	-	5.7	**5.7**
Balance at 31 March 2017	**354.3**	**432.4**	**1.9**	**788.6**
Balance at 1 April 2017	**354.3**	**432.4**	**1.9**	**788.6**
Profit for the financial year	-	131.1	-	**131.1**
Credit in respect of employee share schemes	-	0.5	-	**0.5**
Dividends paid (note 7)	-	(110.0)	-	**(110.0)**
Other comprehensive income	-	-	(2.4)	**(2.4)**
Balance at 31 March 2018	**354.3**	**454.0**	**(0.5)**	**807.8**

Scottish Hydro Electric Transmission plc

Cash Flow Statement
for the year ended 31 March 2018

	Note	2018	2017
		£m	£m
Cash flows from operating activities			
Profit for the year		**131.1**	194.6
Add back: taxation		**26.2**	38.4
Add back: net finance costs		**37.5**	28.8
Operating profit		**194.8**	261.8
Depreciation on tangible assets		**61.6**	52.2
Amortisation of intangible assets		**0.9**	0.5
Impairment of intangible assets		**0.6**	-
Customer contributions and capital grants released		**(2.6)**	(1.3)
Decrease/(increase) in debtors		**30.4**	(20.3)
(Decrease)/increase in creditors		**(6.4)**	17.0
Movement in intercompany		**215.0**	90.7
Charge in respect of employee share awards		**0.5**	0.6
Net cash inflow from operating activities		**494.8**	401.2
Interest paid		**(53.7)**	(40.8)
Returns on investments and servicing of finance		**(53.7)**	(40.8)
Corporation tax paid		**(12.1)**	(24.4)
Taxation		**(12.1)**	(24.4)
Purchase of tangible fixed assets		**(414.2)**	(481.5)
Expenditure on intangible assets		**(4.8)**	(4.5)
Capital expenditure and financial investment		**(419.0)**	(486.0)
Equity dividends paid	7	**(110.0)**	(150.0)
Net cash outflow before management of liquid resources and financing		**(100.0)**	(300.0)
New borrowings	14	**100.0**	300.0
Financing		**100.0**	300.0
Increase/(decrease) in cash in the year		**-**	-
Reconciliation of net cash flow to movement in net funds			
Decrease in cash in the year		**-**	-
Net cash at start of the year		**-**	-
Net cash at end of the year		**-**	-

Scottish Hydro Electric Transmission plc

Notes on the regulatory financial statements for the year ended 31 March 2018

1 Significant accounting policies

The Company is a public company incorporated, domiciled, and registered, in Scotland. Its registration number is SC213461, and registered office is Inveralmond House, 200 Dunkeld Road, Perth, PH1 3AQ.

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 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, intangible assets and share capital.

As the consolidated regulatory 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.

The company has not included employee share based payments disclosures on the basis of materiality.

The accounts have been prepared on a going concern basis. See the Corporate Governance Statement at page 12 for details of the Directors' assessment that the Company has adequate resources for the foreseeable future.

Turnover
Revenue from use of electricity networks is derived from the allowed revenue as defined by the parameters in the electricity transmission licence regulations, which informs the tariffs we set. Revenue is determined in accordance with the regulatory licence, is subject to approval of the industry regulator Ofgem and is charged to National Grid. No accounting adjustment is made for any revenue adjustments assessed by Ofgem in the year that they arise, these are reflected in future financial years' allowed revenue. 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 (through connections), revenues are recognised as the service is performed and amounts billed in advance are treated as deferred income and excluded from current revenue.

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
(i) Depreciation
Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

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

Assets under the course of construction are transferred to the corresponding asset category in the month following expenditure.

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

Intangible assets
Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses.

Included within intangible assets are application software license fees, software development work, software upgrades and purchased PC software packages. Amortisation is over 10 years. The carrying amounts of the Company's intangible assets are reviewed at each reporting date to determine whether there is any indication of impairment. Where indicators of impairment are identified, the carrying value of those assets is compared to the recoverable amount. An impairment loss is recognised where it is considered that recoverable amounts are less than the carrying value of those assets.

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 and capital grants are recorded as deferred income and released to the profit and loss account over the estimated useful life of the related fixed asset, where there is an ongoing service obligation.

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.

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.

Derivative financial instruments and hedging
Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement 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
A derivative classified as a 'cash flow' hedge recognises the portion of gains or losses on the derivative which are deemed to be effective directly in equity in the hedge reserve. Any ineffective portion of the gains or losses is recognised in the profit and loss account. The gains or losses that are recognised directly in equity are transferred to the profit and loss account in the same year in which the forecast transaction actually occurs.

Notes on the regulatory financial statements *(continued)*
for the year ended 31 March 2018

2 Expenses and auditor's remuneration

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

	2018	2017
	£m	£m
Depreciation of tangible fixed assets	**61.6**	52.2
Amortisation of intangible assets	**0.9**	0.5
Impairment of intangible assets	**0.6**	-
Operating lease rentals	**0.8**	1.1
Release of deferred income in relation to customer contributions and capital grants	**(2.6)**	(1.3)
Net management fees in respect of services provided by group companies	**14.6**	12.4
Research costs	**0.8**	1.4

The Company incurred an audit fee of £0.03m *(2017: £0.01m)* and audit-related assurance service fees of £0.04m *(2017: £0.03m)* in the year.

3 Staff costs and numbers

	2018	2017
	£m	£m
Staff costs:		
Wages and salaries	**21.9**	22.0
Social security costs	**2.5**	2.5
Share based remuneration	**0.5**	0.6
Pension costs	**4.9**	4.9
	29.8	30.0
Less charged as capital expenditure	**(19.7)**	(20.9)
	10.1	9.1

Included within the above is a Share-based payment charge of £511,880 *(2017: £574,123)*.

Employee numbers

	2018	2017
	Number	Number
Numbers employed at 31 March	**456**	454

	2018	2017
	Number	Number
The monthly average number of people employed by the Company during the year	**456**	459

	2018	2017
	£m	£m
Directors remuneration	**0.3**	0.3

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid director was £0.3m *(2017: £0.3m).*

	Number of directors	
	2018	2017
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	**1**	1

4 Interest receivable and similar income

	2018 £m	2017 £m
Foreign exchange translation of monetary assets and liabilities	**-**	(5.4)

5 Interest payable and similar charges

	2018 £m	2017 £m
Interest payable to group companies	**40.7**	35.9
Bank loans and overdrafts	**13.7**	13.0
Foreign exchange translation of monetary assets and liabilities	**2.8**	-
Interest capitalised	**(19.7)**	(14.7)
	37.5	34.2

6 Taxation

	2018 £m	2017 £m
UK corporation tax		
Current tax on income for the period	**4.1**	22.2
Adjustment in respect of prior periods	**(2.0)**	(1.0)
Total current tax charge	**2.1**	21.2
Deferred tax (see note 15):		
Origination and reversal of temporary differences	**26.2**	24.8
Adjustment in respect of prior years	**(2.1)**	(0.9)
Effect of change in tax rate	**-**	(6.7)
Total deferred tax	**24.1**	17.2
Total tax on profit	**26.2**	38.4

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

	2018 £m	2017 £m
Profit before taxation	**157.3**	233.0
Tax on profit at standard UK corporation tax rate of 19% *(2017: 20%)*	**29.9**	46.6
Effects of:		
Depreciation on non-qualifying assets	**0.4**	0.3
Expenses not deductible for tax purposes	**-**	0.1
Adjustment in respect of previous periods	**(4.1)**	(1.9)
Effect of change in tax rate on deferred tax	**-**	(6.7)
Total tax charge for year	**26.2**	38.4

The standard rate of tax applied to reported profit on ordinary activities is 19% (*2017: 20%*). Legislation to reduce the corporation tax rate from 20% to 19% from 1 April 2017 and to 18% from 1 April 2020 was substantively enacted on 26 October 2015. Legislation was substantively enacted on 15 September 2016 to further reduce the corporation tax rate to 17% from 1 April 2020. As these changes were substantively enacted at 31 March 2017 deferred tax was calculated accordingly and has had the effect of reducing the company's deferred tax liability at 31 March 2018 by nil (*2017: £6.7m*).

7 Dividends

	2018	2017
	£m	£m
Amounts recognised as distributions from equity:		
Final dividend of 31.0p *(2017: 42.3p)* per share	**110.0**	150.0

The final dividend for the current year, £110.0m *(2017: £150.0m)*, was declared and approved on 21 September 2017 and was paid to shareholders on 29 September 2017. The final dividend for the previous year was approved on 23 February 2017 and paid to shareholders on 31 March 2017.

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 2017	3,069.4	-	4.0	3,073.4
Additions	-	429.4	-	429.4
Transfers from AUC to fully commissioned	426.7	(429.4)	2.7	-
Transfers between categories	0.3	-	(0.3)	-
At 31 March 2018	**3,496.4**	**-**	**6.4**	**3,502.8**
Depreciation:				
At 1 April 2017	(358.6)	-	(3.3)	(361.9)
Charge for the year	(60.4)	-	(1.2)	(61.6)
Transfers between categories	1.2	-	(1.2)	-
At 31 March 2018	**(417.8)**	**-**	**(5.7)**	**(423.5)**
Net book value:				
At 31 March 2018	**3,078.6**	**-**	**0.7**	**3,079.3**
At 31 March 2017	2,710.8	-	0.7	2,711.5

The above tangible fixed assets include £119.6m *(2017: £99.9m)* of capitalised interest, of which £19.7m was capitalised in the current year *(2017: £14.7m)*. This is depreciated annually according to the useful economic life of the asset to which the capitalised interest relates.

9 Intangible assets

	£m
Cost:	
At 1 April 2017	6.4
Additions	4.8
At 31 March 2018	**11.2**
Amortisation:	
At 1 April 2017	(0.6)
Charge for the year	(0.9)
Impairment charge for the year	(0.6)
At 31 March 2018	**(2.1)**
Net book value:	
At 31 March 2018	**9.1**
At 31 March 2017	5.8

Management performed a review of capitalised IT costs at year end, resulting in a one-off impairment charge within intangible assets of £0.6m (*2016/17: nil*). This impairment was recognised in relation to projects which are no longer providing value to the Company.

10 Debtors

	2018 **£m**	2017 £m
Trade debtors	**1.5**	27.2
Amounts owed by group undertakings	**0.2**	218.9
	1.7	246.1

11 Restricted cash

	2018 **£m**	2017 £m
Restricted cash	**14.1**	18.7

Restricted cash represents amounts received to fund the Multi Terminal Test Environment project, the Modular Approach to Substation Construction project and the New Suite of Transmission Structures project under Network Innovation Competition arrangements. The use of cash is restricted and can only be used for the purpose of the project. Therefore, the balance has not been remitted to SSE plc as part of the Group's central treasury operations. There is also an amount of cash being held in the prior year to settle foreign currency contractual liabilities arising as a result of the capital expenditure of the Company. Any non-restricted cash generated by the Company is remitted to or obtained from the Group or SSE Services plc. This is not considered to be cash and cash equivalents for the purposes of the cash flow statement.

Notes on the regulatory financial statements *(continued)*
for the year ended 31 March 2018

12 Creditors: amounts falling due within one year

	2018	2017
	£m	£m
Trade creditors	**3.8**	7.6
Amounts owed to group undertakings	**81.4**	105.2
Other creditors	**33.8**	30.0
Corporation tax payable	**2.0**	12.0
Accruals and deferred income	**95.4**	109.6
	216.4	264.4

13 Creditors: amounts falling due after more than one year

	2018	2017
	£m	£m
Loans and borrowings (note 14)	**749.7**	649.7
Loans due to ultimate parent (note 14)	**1,063.1**	1,063.1
Amounts owed to group undertakings	**20.2**	-
Accruals and deferred income	**108.0**	103.8
	1,941.0	1,816.6

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 2018	Weighted Average Interest Rate 2017	**2018**	2017
	%	%	**£m**	£m
Creditors: falling due between two and five years				
6.00% Loan Stock repayable to SSE plc on 31 March 2021	**6.00**	6.00	**100.0**	100.0
5.50% Loan Stock repayable to SSE plc on 31 March 2021	**5.50**	5.50	**33.1**	33.1
5.00% Loan Stock repayable to SSE plc on 31 March 2022	**5.00**	5.00	**150.0**	150.0
Floating Rate European Investment Bank repayable 24 September 2021	**1.18**	1.18	**150.0**	150.0
Fixed Rate European Investment Bank repayable 20 October 2022	**2.87**	-	**150.0**	-
			583.1	433.1
Creditors: falling due after more than five years				
5.625% Loan Stock repayable to SSE plc on 31 March 2028	**5.63**	5.63	**30.0**	30.0
2.75% Loan Stock repayable to SSE plc on 31 March 2025	**2.75**	2.75	**300.0**	300.0
3.375% Loan Stock repayable to SSE plc on 25 February 2026	**3.38**	3.38	**450.0**	450.0
Fixed Rate European Investment Bank repayable 3 August 2023	**2.55**	2.55	**50.0**	50.0
Fixed Rate European Investment Bank repayable 20 October 2022	**-**	2.87	**-**	150.0
Fixed Rate European Investment Bank repayable 20 May 2026	**2.08**	2.08	**299.7**	299.7
Floating Rate European Investment Bank repayable 9 March 2028	**1.35**	-	**100.0**	-
			1,229.7	1,279.7
			1,812.8	1,712.8

The Fixed Rate European Investment Bank repayable 20 May 2026 is a £300.0m loan on which a £0.3m arrangement fee has been paid. The arrangement fee will be amortised over the life of the loan to bring the outstanding amount back to £300.0m at maturity.

15 Deferred taxation

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2018	2017	**2018**	2017	**2018**	2017
	£m	£m	**£m**	£m	**£m**	£m
Accelerated capital allowances	**-**	-	**138.5**	114.4	**138.5**	114.4
Fair value movement on derivatives	**-**	-	**(0.1)**	0.4	**(0.1)**	0.4
Net tax liabilities	**-**	-	**138.4**	114.8	**138.4**	114.8

	1 April 2017	**Recognised in income**	**Recognised in equity**	**31 March 2018**
	£m	**£m**	**£m**	**£m**
Movement in deferred tax during the year	114.8	24.1	(0.5)	**138.4**

	1 April 2016	Recognised in income	Recognised in equity	31 March 2017
	£m	£m	£m	£m
Movement in deferred tax during prior year	96.3	17.2	1.3	114.8

16 Share capital

	2018	2017
	£m	£m
Equity:		
Allotted, called up and fully paid:		
354,300,000 ordinary shares of £1.00 each	**354.3**	354.3

17 Pensions

7% *(2017: 14%)* 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 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 Aviva.

The Company's share of the total contribution payable to the pension schemes during the year was £4.3m *(2017: £3.9m)*. In addition to this, the Company incurred a further charge, payable to SSE Services plc, of £0.6m *(2017: £1.0m)*, which related to its share of the Scheme's deficit repair contributions for the year ended 31 March 2018.

18 Derivatives and financial instruments

Exposure to currency 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.

18 Derivatives and financial instruments (*continued*)

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 Tax and Treasury Committee and the 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.

The Company presents 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.

(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 debtors and trade creditors, all of which are disclosed separately.

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

	2018 Carrying value £m	**2018 Fair Value £m**	2017 Carrying value £m	2017 Fair Value £m
Financial Assets				
Trade and intercompany debtors	**1.7**	**1.7**	246.1	246.1
Derivative financial assets	**-**	**-**	2.3	2.3
Financial Liabilities				
Trade and intercompany creditors	**85.2**	**85.2**	112.8	112.8
Long-term intercompany	**20.2**	**20.2**	-	-
Loans and borrowings	**749.7**	**762.1**	649.7	675.7
Loans due to ultimate parent	**1,063.1**	**1,101.5**	1,063.1	1,137.6
Derivative financial liabilities	**0.6**	**0.6**	-	-

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 as financing derivatives. The company only utilise financing derivatives in the form of 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.

18 Derivatives and financial instruments (*continued*)

Basis of determining fair value
Closing rate market values have been used to determine the fair values of the foreign currency contracts. Estimates applied reflect management's best estimates of these factors.

19 Capital commitments

	2018	2017
	£m	£m
Contracted but not provided for	**224.5**	265.4

20 Operating lease commitments

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

	2018		2017	
	Land & Buildings	**Other**	Land & Buildings	Other
	£m	**£m**	£m	£m
Operating leases which expire:				
Within one year	**0.1**	**1.0**	0.1	1.1
Between two and five years	**0.1**	**1.4**	0.2	2.1
In more than five years	**-**	**0.1**	-	0.1
	0.2	**2.5**	0.3	3.3

Leases as lessee:

	2018	2017
	£m	£m
Amounts included in the profit and loss relating to current year leasing arrangements	**0.8**	1.1

21 Commitments and contingencies

The Company has provided a guarantee in relation to £300m Euro bonds (expiry 2022) held by the Group. This guarantee has been provided jointly with Scottish Hydro Electric Power Distribution plc.

22 Net debt

Reconciliation of net cash flow to movement in net debt		Restated
	2018	2017
	£m	£m
Net cash inflow from borrowings	**(100.0)**	(300.0)
Movement in net debt in the year	**(100.0)**	(300.0)
Net debt at 1 April	**(1,712.8)**	(1,412.8)
Net debt at 31 March	**(1,812.8)**	(1,712.8)

22 Net debt (*continued*)

Analysis of net debt

	As at 1 April 2017 £m	Increase in debt £m	**As at 31 March 2018 £m**
Net borrowings due after more than one year	(1,712.8)	(100.0)	**(1,812.8)**

23 Regulatory segmental analysis

In accordance with standard licence condition B1, a segmental analysis of the Company's performance has been presented based on the prescribed distribution activities within the licence. The Company does not consider these activities to be segments as defined by IFRS 8 *Operating Segments*.

For the year to 31 March 2018:

	Transmission Owner £m	Excluded Services [i] £m	**Total £m**
Revenue	308.1	17.7	**325.8**
Operating Costs	(70.5)	-	**(70.5)**
Depreciation	(56.9)	(4.7)	**(61.6)**
Amortisation	(0.9)	-	**(0.9)**
Impairment	(0.6)	-	**(0.6)**
Release of deferred income	1.4	1.2	**2.6**
Operating Profit	**180.6**	**14.2**	**194.8**
Capital additions - tangible	**398.3**	**31.1**	**429.4**
Capital additions - intangible	**4.8**	**-**	**4.8**

For the year to 31 March 2017:

	Transmission Owner £m	Excluded Services [i] £m	**Total £m**
Revenue	329.9	28.5	**358.4**
Operating Costs	(39.5)	(5.7)	**(45.2)**
Depreciation	(48.5)	(3.7)	**(52.2)**
Amortisation	(0.5)	-	**(0.5)**
Release of deferred income	0.1	1.2	**1.3**
Operating Profit	**241.5**	**20.3**	**261.8**
Capital additions - tangible	**477.4**	**23.1**	**500.5**
Capital additions - intangible	**4.5**	**-**	**4.5**

(i) Excluded services includes Post Betta connection revenue and diversion activities.

Notes on the regulatory financial statements *(continued)*
for the year ended 31 March 2018

24 Regulated related party disclosure

For the year to 31 March 2018:

Type of transaction	Ultimate parent (SSE plc) £m	Immediate parent (SSEPD) [(i)] £m	Other SSE plc Group companies £m
Sales and provision of services	-	-	1.3
Purchases and receipt of services	-	-	(22.3)
Distribution of dividends	-	(110.0)	-
Finance costs (note 5)	(40.7)	-	-

For the year to 31 March 2017:

Type of transaction	Ultimate parent (SSE plc) £m	Immediate parent (SSEPD) [(i)] £m	Other SSE plc Group companies £m
Sales and provision of services	-	-	0.2
Purchases and receipt of services	-	-	(23.9)
Distribution of dividends	-	(150.0)	-
Finance costs (note 5)	(35.9)	-	-

(i) The immediate parent of the Company is Scottish and Southern Energy Power Distribution Limited (SSEPD).
(ii) Balances outstanding to and from Group companies including the Ultimate and Immediate Parent Companies are disclosed in Notes 10, 12, 13, and 14 to these Regulatory Financial Statements.

25 Ultimate parent company

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