Scottish Hydro Electric Transmission plc

Directors report and financial statements

Year ended 31 March 2020

Registered No.: SC213461

Scottish Hydro Electric Transmission plc

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Directors and Other Information

Directors	Gregor Alexander (Non-Executive Director) (Chairman) Stuart Hogarth (Resigned 23/03/20) Colin Nicol Dale Cargill (Resigned 23/01/20) Alistair Borthwick (Resigned 28/06/19) Robert McDonald Rachel McEwen (Non-Executive Director) Katherine Marshall (Non-Executive Director) Mark Rough (Appointed 01/04/20) David Rutherford (Independent Non-Executive Director) Gary Steel (Independent Non-Executive Director)
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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 2020, 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 5,345km of high voltage overhead lines, underground cables and subsea 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 stakeholders and investors.

Business performance overview

The key performance indicators of the Company and the related performance during the year to 31 March 2020 were as follows:

Financial / Operational	**2020**	2019
Capital expenditure - £m	**333.2**	341.3
Operating profit - £m	**214.5**	252.2
Regulated asset value - £m	**3,469.2**	3,275.4

Non-Financial / Management	**2020**	2019
Number of Transmission System Incidents	**2**	2
Average Circuit Unreliability	**0.29%**	0.53%

The Company's operating profit decreased by 14.9% in the year to £214.5m. This is due to a small decrease in regulated revenue as a result of the various factors inputting to the Price Control revenue formula, alongside an increase in operating expenditure, which includes higher maintenance and depreciation charges in the year.

Business performance overview (continued)

The Company's capital expenditure has decreased by 2.4% in the year to £333.2m. The energisation of the Knocknagael to Tomatin and Fort Augustus to Fort William projects resulted in a decrease in capex, which was partially offset by higher spend in the year following commencement of construction on the Rothienorman, New Deer and Argyll developments. Since the start of the RIIO-T1 Price Control in April 2013, the Company's RAV additions and hence investment in the electricity transmission network has totalled over £3.0bn (2019: £2.3bn), playing a pivotal role in supporting the infrastructure required to facilitate the UK's transition to net zero.

The number of Transmission System Loss of Supply Incidents in 2019/20 was low, remaining at 2, in line with the previous year but with a smaller overall volume of power lost. This is due to continued investment and targeted maintenance on the network. Our System Average Circuit Unreliability, which represents unavailability due to functional failures, improved from 0.53% to 0.29%. The decrease in the number of unplanned switch-outs and faults provided a reliability to supply energy of 99.99%. There was no focus on any particular area, with faults occurring for a number of reasons such as equipment failures, wildfires and weather-related events. There were no exceptional events in 2019/20 which impacted the network performance.

In the final year of RIIO-T1, total planned investment of approximately £400m means the business remains on track to increase its RAV to around £3.7bn by 2021.

Maintaining network reliability

The coronavirus pandemic has highlighted the critical importance of electricity network reliability to society, with the people and organisations whose work is crucial to the coronavirus response more dependent than ever on a safe and reliable supply of electricity.

The Company is very focused on its role in maintaining a safe and reliable supply of electricity to the communities it serves and during 2019/20 it continued to maintain impressive network reliability of over 99.99%. Faults that impacted end users led to a loss of demand totalling just 1.15MWh resulting in the Company earning £1.2m through the Energy Not Supplied (ENS) Incentive. This will be reflected in 2021/22 earnings.

The ENS Incentive provides a financial reward or penalty, on a sliding scale, if the volume of energy not supplied to customers due to faults is below (reward) or above (penalty) a pre-determined annual target, which for the Company is 120MWh. The Company expects the ENS incentive to continue with a new target in RIIO-T2, during which the Company has a clear goal to aim for 100% network reliability, where economic to do so.

The Company has an ongoing programme of maintenance, refurbishment and asset replacement to ensure its critical, national infrastructure assets continue to deliver for electricity customers, generators and wider society. This includes the replacement of the existing transmission line from Inveraray to Crossaig, with these major works essential to maintaining security of supply in Argyll and Kintyre. Construction of the first phase of this project, from Inveraray to Port Ann, is under way and remains on track for completion in 2021; with the second phase, from Port Ann to Crossaig, to be delivered in RIIO-T2.

Connecting renewables in pursuit of net zero

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. The Company's north of Scotland operating area is home to some of the UK's greatest resources of renewable electricity.

During 2019/20, the Company increased the renewables capacity supported by its network by connecting 60MW of new electricity generation. This means the installed renewable electricity generation capacity connected to the Company's transmission network has grown from 3.3GW at the start of the RIIO-T1 Price Control in April 2013 to around 6.3GW today.

Despite a slowdown in new onshore wind connections in the final years of RIIO-T1, the Company continues to see strong demand for future grid connections and notes proposed changes in UK Government policy to reintroduce support for onshore wind in future Contract for Difference (CfD) auctions. The next Scotwind leasing round for future offshore wind farm sites in waters off the coast of Scotland is also likely to result in further growth of renewables connecting to the network.

Connecting renewables in pursuit of net zero (continued)

Based on the 'Certain View' of generation growth forecast over the RIIO-T2 period, the Company expects the installed renewable capacity connected to its network in the north of Scotland will increase to at least 10GW, the equivalent of powering 10 million homes, playing a pivotal role in UK net zero targets as well as supporting future earnings and RAV growth. However, following the introduction of net zero emissions legislation, based on the Company's 'Likely View' this could increase to around 12GW, putting the north of Scotland on a clear pathway to net zero.

As the Company plays its part in enabling a net zero economy, it will be guided by its strategy focused on innovative and flexible connections, delivered in greater collaboration with customers and other stakeholders.

Delivering a programme of capital investment

The forecast growth and continued renewal of the Company's network will support future earnings and RAV growth. Progress made on the capital investment programme can be seen in the new 400kV substation at Fort Augustus, which remains on track for completion in 2021. The substation is a key component to support the growth in renewables unlocked by the replacement Beauly to Denny line that was completed by the Company in 2015.

The Fort Augustus substation builds on a number of delivery milestones in 2019/20 including completion, on time and on budget, of the Fort Augustus to Fort William overhead line refurbishment and completion of the 275kV line between Knocknagael and a new substation at Tomatin.

A significant proportion of current and future works are focused on the east coast, building the transmission network infrastructure required to connect and transport the growth in renewable energy. This includes the ongoing construction of new substations at New Deer and Rothienorman, which are progressing well. Both will initially operate at 275kV, increasing to 400kV as part of the wider east coast onshore reinforcements that are scheduled for RIIO-T2, which will see the capacity of the existing east coastline increase to 400kV. These works will also include new substations at Alyth and Peterhead, and an extension to the existing substations at Fetteresso, Kintore and Tealing.

The Company is also working with the other GB Transmission Owners, Scottish Power Energy Networks and National Grid Electricity Transmission, on grid reinforcement proposals to develop a subsea High Voltage Direct Current (HVDC) link from Peterhead substation to Drax substation in the north east of England.

Ready to connect Scotland's island groups

The potential transmission links to the Scottish island's groups provide further potential for future growth. The Company continues to work with stakeholders across the three Scottish island groups to take forward proposals to provide transmission connections to enable the connection of renewable electricity generation. Together, the three links could provide an investment opportunity of up to £1.5bn for the Company.

In July 2020, Ofgem approved the Company's Needs Case for the 600MW Shetland transmission link therefore unlocking over £600m of additional investment in the transmission network. As well as unlocking Shetland's renewable potential, the link will help meet Shetland's future security of supply needs and it is scheduled for energisation in 2024 to connect the Viking windfarm project.

Progress on the 220MW Orkney link as well as the 600MW Western Isles HVDC link has been delayed with both projects moving back into the middle of the 2020s at this stage based on generation developers. The Company will continue to engage constructively for each island link as well as with government and key stakeholders.

Addressing concerns about competition in transmission

The Company remains committed to working constructively with the Electricity System Operator (ESO), Ofgem and other stakeholders as part of the ESO's development of competition for the RIIO-T2 period. It continues to believe that any further extension of competition in onshore transmission should be underpinned by legislation; should only be considered where it can be clearly demonstrated that it does not compromise the security and effective operation of GB's critical national electricity infrastructure; and that it provides demonstrably better value to consumers. As part of Ofgem's RIIO-T2 Draft Determinations, Ofgem have proposed to continue with their most recent policy of introducing the Competition Proxy Model (CPM) or Special Purpose Vehicle (SPV) mechanisms as an alternative to their RIIO-T1 mechanism of Strategic Wider Works (SWW) projects. We will engage with Ofgem over the coming months as part of the consultation process and the development of this policy to ensure it remains in the best interests of consumers.

The stakeholder-led case for A Network for Net Zero

In December 2019, the Company submitted to Ofgem and published its final Business Plan for the RIIO-T2 price control, A Network for Net Zero, following over two years of detailed stakeholder engagement. The evidence-based business plan makes a powerful investment case that a minimum total expenditure of £2.4bn is required over the five-year price control period to maintain and grow the north of Scotland transmission network to meet the needs of current and future electricity generators and customers. This could see the RAV of the Company increase to over £5bn by 2026.

Ofgem published its Draft Determinations on RIIO-T2 in July 2020 outlining their initial views on our Business Plan. We continue to believe this is the right Business Plan that will enable the transition to Net Zero and will engage with Ofgem over the Autumn 2020 as part of the process. At this stage, Ofgem's initial view is that a significant proportion of our investment be allocated under uncertainty mechanisms with the remainder subject to efficiency reductions. Ofgem has also reduced the headline Cost of Capital (WACC) further from their Sector Specific Methodology Decision (SSMD) published in May 2019. We do not believe Ofgem's decision is in the best interest of consumers and will enable the delivery of a Net Zero energy system.

We need to ensure the RIIO-T2 price control provides the flexibility required to manage uncertainty in the speed and scale of future decarbonisation; and will deliver significant local and national economic benefits as part of a post coronavirus green economic recovery. It also must strike the right balance of attracting investment in a globally competitive market for capital while ensuring consumers pay no more than is necessary for the transition to Net Zero or a reliable and secure electricity system. Our Business Plan ensured consumers paid no more than £7 per year for our proportion of the domestic energy bill per year which would be an increase of £2 from the end of RIIO-T1 cost of £5 per customer per year. We believe this represents good value for consumers and wider society where we obtained widespread support from stakeholders in our Business Plan.

The Company will continue to engage constructively with all stakeholders as part of the ongoing price control process and remains committed to deliver the infrastructure investment its ambitious Business Plan will deliver, under an appropriate regulatory financial framework, that is necessary to achieve national net zero targets.

Impact of Coronavirus

At the balance sheet date, the UK was in a period of lockdown caused by the Coronavirus pandemic. The Directors have considered the impact of the pandemic on the Company's future outlook as well as considering the impact on results for the year to 31 March 2020.

As the pandemic happened late in the Company's financial year, the impact for the year ended 31 March 2020 is limited. Looking forward to the financial year ended 31 March 2021, the net effect on profitability or future cash flows is not expected to be material given the predetermined regulated revenue framework.

Additional modelling and future forecasting has been undertaken by the Company in order to consider sensitivities to future profitability and financing as a result of the pandemic together with the impact this could have throughout the start of the RIIO-T2 price control. Consideration of this as a principal risk is detailed within the Strategic report on page 8. The potential impact the pandemic has on the Company's ability to continue as a going concern is referred to in the Corporate Governance Statement and the Company's Viability Statement on pages 18 and 19.

Electricity Transmission priorities for 2020/21 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 2020/21 and beyond are to:

- operate safely and meet all compliance requirements;
- delivery of a large capital investment programme to facilitate improving network resilience and facilitate growth in electricity generation capacity;
- 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;
- progress innovations that will improve network reliability, efficiency and customer service and inform industry-wide improvements;
- continuing to progress the case for investment in connections including the Scottish Islands through engagement with key stakeholders while protecting the interest of consumers; and
- develop and maintain effective stakeholder relationships and conduct constructive engagement with regulators and legislators, advocating clarity and stability in the regulatory framework in particular RIIO-2.

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.

To help ensure the Company 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).

Scottish Hydro Electric Transmission plc

Strategic Report (continued)

Understanding and managing our principal risks

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.

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's approach to risk. Risk workshops have been attended by the business unit Executive Committee and Company's Board members during the year (separately) 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.
- **Political Change –** Our business continues to be subject to legislative demands which are driven by political uncertainty. The UK has formally left the EU and has now entered a transition period in which trade talks are scheduled to conclude on 31 December 2020. The scale of the task for the UK and EU to reach an agreement on their future relationship within the allotted timeframe means that a 'no-deal' scenario at the end of the year remains a possibility. We continue to monitor Brexit and any potential impact on our operations through our risk management process. The Company will continue to engage with all relevant parties during the transition period whilst maintaining plans to ensure that we can continue to serve our customers through building, maintaining and operating our electricity network.
- **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 (High Voltage Direct Current) 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 regularly takes place.
- **Changing Network Requirements** – 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 RIIO-T1 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 Company has installed appropriate governance processes and procedures at Board and Leadership team levels to monitor the transformation process. We are also preparing for RIIO-T2 and ensure we are able to deliver on our commitments and investment priorities in line with our regulatory settlement.
- **Project Delivery** – 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.

Understanding and managing our principal risks (continued)

- **Price Control Governance and Management** – The Company needs to meet its RIIO-T1 published business plan obligations or risk financial penalties and the resultant reputational risk (these deliverables include meeting the Totex (Total Expenditure) project milestones and output measures, ensuring data quality and accuracy, achieving stakeholder satisfaction and environmental outputs). As we progress through RIIO-2, the price control and regulatory risks converge and we seek to deliver a new business plan in the best interests of consumers. 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, maintaining business continuity plans and disaster recovery sites, and ensuring staff awareness of IT security issues and their importance.
- **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.
- **Sustainability** – The Company continues to transition the network to a flexible system which can accommodate international and government net zero carbon economy goals. Ambitious targets in respect of electric vehicles and smarter electricity systems usage inevitably increase expectations of investors and stakeholders. The Company business strategy remains firm and has hardwired the transition to net zero to its core, building the assets, infrastructure and services to help achieve decarbonisation. The transmission executive committee continues to work to identify, quantify and articulate social and environmental impacts in a way that generates value for society whilst ensuring the network does not fail to achieve the targets set.
- **People and Culture –** In order to support a strong business culture which meets the demands of the customer focused delivery model, the Company must continue to attract, develop and retain a skilled workforce. In order to mitigate the risk of failing to attract talent, the Company continues to enforce a People Strategy which delivers on highlighting the value in attracting an inclusive and diverse workforce. Through the Networks People Sub Committee and its continuous management of talent and execution of an effective recruitment strategy, the operating model will continue to achieve high performance whilst maintaining an inclusive culture.
- **COVID-19 –** The business has established bespoke response teams to address the fast-moving and expansive nature of the Coronavirus pandemic. A strategic team brings together key decision makers from business units and corporate services and key technical specialists. This team meets daily to discuss Government advice, emerging industry issues, the likely impact on people and operations and the best course of action to respond to or anticipate issues. A tactical team exists within each of the business units with the task of managing business continuity plans in each unit. Months of uncertainty and significant challenges lie ahead for our workforce and our project implementation. In order to navigate this crisis, emergency planning and response procedures will ensure continual risk assessment and the implementation of effective mitigation strategies.

Section 172(1) Statement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In furtherance of this, section 172 requires a director to have regard amongst other matters, to the:

- likely consequences of any decisions in the long term;
- interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and environment;
- desirability of the company maintaining a reputation for high standards of business conduct; and
- need to act fairly as between members of the company.

In discharging their section 172 duties, the Directors of the Company, have regard to the factors set out above. They also have regard to other factors which they consider relevant to the decision being made. Those factors, for example, include the Company's applicable regulatory and legal obligations.

Section 172(1) Statement (continued)

The Directors acknowledge that every decision taken will not necessarily result in a positive outcome for all of the Company's stakeholders. However, by considering the Company's purpose and values, together with its strategic priorities, and having agreed processes in place for decision-making, they do aim to ensure that decisions are consistent and appropriate in all circumstances. Details of the mechanisms which are in place to assist the Directors in understanding relevant views, including how these have been considered during the year, are set out on pages 10 to 12.

As is normal for large companies, authority for day-to-day management of the Company is delegated to senior management, with the setting and oversight of business strategy and related policies remaining the responsibility of the Directors. The Company's statement on its corporate governance arrangements on page 16 sets out further details of how this is governed within the SSE Group and the Company.

The Company is represented by the Directors on a business unit Executive Committee which reviews health and safety, financial and operational performance and legal and regulatory compliance at every meeting, in addition to other pertinent areas over the course of the financial year, including:

- the Company's business strategy;
- key risks;
- stakeholder-related matters;
- diversity and inclusion;
- environmental matters;
- corporate responsibility; and
- governance, compliance and legal matters.

This is done through the consideration and discussion of reports which are sent in advance of each meeting and through presentations to the Executive Committee. In accordance with the Company's governance framework, the Board of Directors review the health and safety, financial and operational performance, and legal and regulatory compliance throughout the financial year. Some decisions are reserved matters for the SSE Group's Board of Directors as stipulated within the governance framework for the Company.

The strategic and operational priorities of the Company are compared to its long term targets and obligations to shareholders, the regulatory framework for which it is governed by, and the contribution to society and other key stakeholders. The nature of the Company's principle activity, to invest, maintain and operate the electricity transmission system in the north of Scotland, means it actively engages and promotes societal welfare. The investment in electricity transmission assets, is to improve network resilience, reduce faults, and improve network reliability for the benefit of society. Additionally, there has been significant investment in increasing the capacity of the electricity transmission infrastructure to facilitate the continued growth in renewable energy in the north of Scotland. This contributes to the delivery of government targets on decarbonisation which benefits society as a whole and the Company continues to advocate for investment as part of its RIIO-T2 business plan in these areas.

In line with the above, the business unit Executive Committee, during the financial year, approved several capital investment projects to proceed to full construction as set out in the Company's Financial Authorisation Policy. This included specific projects that required further Financial Approval by the Company's Board of Directors as well as those that required Financial Approval by SSE Group Board of Directors. For example, since the balance sheet date, the Company has committed to delivering the Shetland HVDC link to mainland GB. Additionally, during the financial year, the business unit Executive Committee recommended the approval of the RIIO-T2 Business Plan to be submitted to the regulator, Ofgem, in accordance with its licence and regulatory framework in which it operates.

Stakeholder engagement

The Company's stakeholders are people, communities and organisations with an interest or concern in its purpose, strategy, operations and actions, and who may be affected by them. This includes: shareholders and debt providers; employees; government and regulators; NGOs, communities and civil society; suppliers, contractors and partners; and customers. The perspectives, insights and opinions of stakeholders are recognised as a key factor in the relevant operational, investment and business decisions taken by the Company and its Directors, to ensure that as a whole they are more robust and sustainable.

Stakeholder engagement (continued)

While there are cases where the Directors may judge it appropriate to engage directly with certain stakeholder groups, the size and spread of both the Company's stakeholders and those of the SSE Group, of which the Company sits within, means that stakeholder engagement takes place at many different levels. This includes at SSE Group level, business unit level, company level and operational level. This holistic approach avoids operating in isolation and allows a broader representation and deeper understanding of all stakeholder views and contributes towards a greater outcome for business, environmental, social and governance matters.

The Company continues to adapt and seek improved engagement opportunities with customers, suppliers and other key stakeholders. In doing so, the Company also adheres to the Group's wider stakeholder engagement strategy. For more information regarding the Group's approach to stakeholder engagement, please see the 2019/20 Annual Report available at www.sse.com.

Employees

The Group and the Company's strategy includes being a great place to work; providing an inclusive, fulfilling and high-performing workplace. This means maintaining a healthy business culture; adopting a responsible approach to employee relations; providing good employee benefits; and enabling people to develop their careers.

Coronavirus clearly presents a strategic workforce challenge to every organisation and the Group and Company's first priority is keeping its people safe while fulfilling essential purposes. Looking to the future, focus remains on transitioning to a net-zero economy and the Group and Company are therefore focused on attracting, retaining and developing a talented, diverse and engaged workforce.

Health and wellbeing have been an area of increasing focus and investment for the Group and Company. This has driven a wide number of actions, including the training of Mental Health First Aiders, the introduction of 'Mindful Mondays' and the roll out of programmes with Nuffield Health to provide additional support for those on long-term sick-leave either through mental health issues or musculoskeletal issues. Present efforts are aimed at providing a sophisticated response and greater support for employees to the wider health and wellbeing impacts of the coronavirus.

Of all employees in the Company, 81% are men and 19% 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

Employees at all levels within the Group are measured against the same framework, and the formal bi-annual performance review sessions are designed to feedback to employees on their performance as well as provide structured career conversations which encourage employees to think about their opportunities for personal and professional development. The Group's well-established approach to performance management has 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.

The Group offers a wide range of employee benefits. As well as contractual benefits determined by factors such as seniority and length of service, such as a company car/allowance and private medical insurance, the Group offers a comprehensive suite of non-contractual voluntary benefits to all employees. This includes all-employee share plans, health benefits, gym membership, childcare vouchers, a holiday purchase scheme and technology loans.

The Group's maternity benefits are market-leading with 21 weeks leave at full-pay and gradual return to work policy which offers those returning from maternity leave the opportunity to work 80% of their contractual hours but still receive full pay and benefits for up to six months.

Stakeholder engagement (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.

Each year the Group runs an employee engagement survey to better understand the level of employee engagement. The last survey was carried out in September 2019 by Willis Towers Watson, with a full review of the questions asked undertaken to create a new 'sustainable engagement index'.

The Group achieved a sustainable engagement index score of 76%, with 76% of employees participating in the survey. Whilst the 2019 score was higher than the Group's employee engagement score of 68% in 2018, an effective like-for-like comparison is not possible given SSE Energy Services employees are excluded from the 2019 population. The 2019 results showed that SSE was 2% behind the engagement norm in 2019, compared to 5% behind the benchmark in 2018.

In May 2020, 75% of the Group's employees responded to an engagement survey that sought views on SSE's response to coronavirus, emotional wellbeing and post lockdown working practices. The results of the survey informed the Group's redeployment of people on SSE premises as social distancing was eased. Details of these actions including the Group's support for customers, employees, suppliers and communities can be found at www.sse.com.

The views of Company employees, as gathered through the Group survey, are reviewed at business unit level by the Executive Committee. This data is supplemented by monthly KPIs, tailored business unit led engagement and the work of SSE plc's dedicated non-Executive Director for Employee Engagement, who provides feedback to the Managing Director of each business unit following relevant engagement. The Company also undertakes a standalone engagement survey for employees which performed well and for which there is a clear time-bound action plan to delivery improvements in employee engagement. People strategies and action plans to address employee views are developed and overseen by the business unit Executive Committee/the Directors in response to feedback received.

Customers

The Company has a well-established customer engagement channel to ensure the perspectives of all customers are considered. A significant part of the Company's engagement with the government and the regulator relates to the maintenance and development of reliable and sustainable electricity networks for the benefit of customers, whilst also delivering value for money. Material considerations include adaptation to industry change, particularly throughout the transition into RIIO-T2, ensuring affordability and accessibility of energy as well as providing a quality customer service.

The Company's comprehensive engagement approach to strategic planning is demonstrated by the positive influence this had on the RIIO-T2 final business plan. The Directors continue to monitor overall business direction and customer performance to ensure delivery of an appropriate level of service and investment.

Suppliers, contractors and partners

The Company continues to work closely with suppliers to ensure its values on issues such as environmental protection, safety and modern slavery are upheld throughout its supply chain. The Company facilitates value-adding conversations on subjects like innovation and future growth whilst ensuring relationships are maintained at all levels, from project teams on the front line through to senior management and Directors. To ensure high operational standards, onsite training is held for contractors and quality and health and safety audits are undertaken by the SSE Group. Material considerations include assurances that social and environmental impacts are managed and mitigated, delivery of economic opportunities to local supply chains as well as ensuring innovation relating to the project design and delivery supports the Company in the drive to net-zero transition. Improved engagement with suppliers is demonstrated by major project updates which during 2019/20 include Orkney, Western Isles and Shetland transmission links.

In order to ensure that there has been adequate engagement in fostering the Company's business relationships with suppliers, customers and other relevant parties' representations are made on a regular basis at business unit level by business partners which represent the areas of Procurement, Corporate Affairs and Legal within the Company. Such representations are designed

Stakeholder engagement (continued)

Suppliers, contractors and partners (continued)

to inform the Directors of the current nature of the relationship, the strategic significance that the relationship offers to support the objectives of the business and the prospects or issues associated with the continued fostering of the relationship.

Government and regulators

During 2019/20, the Company continued to extensively liaise with regulatory officials and responded to all material regulator consultations, with dedicated teams working to communicate business strategy and investment decisions. The Company continues to take an active role in the development of regulations and policies which impact upon the Company and its customers.

As part of RIIO-T2, which sets out the price control from April 2021, the Company has engaged extensively with stakeholders to co-create the business plan: A Network for Net Zero, submitted to Ofgem in December 2019. The Directors continue to monitor engagement activity and responses to regulators to ensure that strategic, financial, investment and operating frameworks remain aligned to the external landscape.

Communities

The Company's core purpose is to deliver a safe, reliable and accessible service to the customers and the communities it serves, putting the needs of all consumers at the centre of its activities. The Company refreshed its engagement strategies in 2019/20 introducing new processes and tools to ensure that the delivery of operations continues to be informed by those who use its services.

The Company takes a proactive approach to engaging with communities in the pursuit of environmental protection and decarbonisation. A variety of platforms are used to communicate with local community groups and residents to ensure those that are affected are well informed and have the scope to challenge on any concerns. These methods include attendance at community meetings and public information days as well as Company publications.

Environment

The Company and the Group continue to strive in helping both the UK and Scottish Government achieve net zero emissions. The Company submitted its final RIIO-T2 Business Plan, titled 'A Network for Net Zero' which commits to delivering on five clear goals which place sustainability at the heart of the Plan.

The Company has focussed on progressing its Sustainability Strategy throughout the year and has identified several areas that can be strengthened in order to realise long term benefits for society. Included within this are goals such as mitigating climate change, promoting the natural environment, optimising resources to minimise waste and supporting communities through social and economic benefits.

In order to facilitate the pathway to Net Zero emissions, the Company will continue to adopt a leadership role in sustainability by setting science-based carbon reduction targets, such as sulphur hexafluoride gas (SF6) gas alternatives. During the year the Company became the first UK Transmission Owner to energise SF6 free technology, which provides high level performance whilst eradicating the use of harmful SF6 gases in the transmission process.

Significant investment has been made to develop new and innovative approaches which protect and promote the natural environment. The Company has received UK and International accolades in recognition for embedding biodiversity considerations into every stage of project life cycles, specifically delivering Biodiversity Net Gains on new projects, and the design and application of a first of its kind Biodiversity toolkit. The Company continues to exceed in best practices in making long term enhancements to the environment and for society. Its success is underpinned by the Company's commitment to deliver no Net Loss on projects from 2020 and Biodiversity Net Gains from 2025.

Scottish Hydro Electric Transmission plc

Strategic Report (continued)

Environment (continued)

The Company set ambitions plans to reduce carbon emissions in line with what is required to meet net zero and in August 2020 these carbon reduction commitments have been verified by the Science Based Target initiative, making the Company the world's first electricity networks company to receive external accreditation for a science-based target in line with a 1.5°C global warming pathway.

The Company will continue to work collaboratively with customers and partners across the industry to continue to drive real change and enhance sustainability through introducing and building on further SF6 alternative technologies and biodiversity achievements.

More information on the Group's approach to managing our environmental impact, including the recently published 'greenprint' for a cleaner, more resilient recovery from the economic impact of coronavirus is contained in the 2019/20 Annual Report, available at www.sse.com.

Internal control

The Group's Audit Committee performs a review of the effectiveness of the system of internal control annually across the Group. This covers all material controls including financial, operational and compliance controls. When undertaking the review of the effectiveness of the System of Internal Control, 10 key management control areas are considered together with any planned improvements to enhance existing controls. Following the Committee's review and recommendation, the SSE Board agreed that the Group's System of Internal Control (including risk management) continues to be effective.

Taking into account the actions taken, the SSE Board also confirms that no significant failings or weaknesses have been identified during the year. Processes are in place to ensure that necessary action is taken, and progress is monitored where areas for improvement have been identified.

The Directors of the Company 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.

Key contractual arrangements

There are a number of contracts in place for construction of major projects, 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 effective operation of competitive processes has enable efficiency savings on capital and operational delivery in line with the Company's strategy for shareholders and stakeholders. 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.

Operational resources available

The Company has 516 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.

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 20.

The Company's financial risk is managed as part of the wider Group risk management policy. For more information regarding the Group's approach to financial risk management, please see the 2019/20 Annual Report available at www.sse.com.

Liquidity, borrowings and financial resources available

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.

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 2020 which could be made available to the Company if required. In March 2019 the Group extended its existing £1.3bn revolving credit facility with the facility now maturing in March 2024 (£1.3bn), with an option to extend by two years to 2026. The bilateral facility matures in November 2022 (£0.2bn). As at 31 March 2020, there was £75m drawn which was repaid on 6 April 2020, subsequent to the year end.

The Company has loans of £2,059.7m (2019: £1,812.8m) of which £963.1m (2019: £1,063.1m) is due to other group companies, and £749.8m (2019: £749.7m) is in the form of loans from the European Investment Bank. The remaining loan amounts to £346.8m (2019: nil) and is a fixed rate bond. Of the total, interest is paid at fixed interest rates on £1,809.7m (2019: £1,562.8m) with the interest paid at floating rates on a £250.0m (2019: £250.0m) loan from the European Investment Bank.

As at 31 March 2020, the weighted average interest rate payable was 2.82% (2019: 3.14%) and the weighted average remaining term was 6.54 years (2019: 5.55 years).

Taxation

The headline effective tax rate, which includes the impact of substantively enacted changes in the UK corporation tax rate, is 31.2% compared with 17.8% in the previous year. This is a result of the amendment to the main rate of corporation tax from 17% to 19% which has effect from 1 April 2020.

Dividend

Following a review of distributable reserves, the Directors recommended that no dividend will be declared or paid in the year (2019: £45.0m).

Pensions

5% (2019: 6%) of employees of the Company are members of the Scottish Hydro-Electric Pension Scheme, which, at 31 March 2020, based on an IAS 19 accounting basis, had a surplus included in the Group financial statements, net of deferred tax, of £432.7m (2019: £349.5m).

On behalf of the board

Gregor Alexander
Director
25 August 2020

Scottish Hydro Electric Transmission plc

Corporate Governance Statement

As a subsidiary company of the Group, the corporate governance arrangements which apply to the Company are defined by SSE's Group Governance Framework. This is set out on pages 96 and 97 of the SSE plc Annual Report, with the Company being part of the SSEN Transmission business unit.

The Group Governance Framework is reflective of the Principles and Provisions of the UK Corporate Governance Code (the Code) which apply to the parent company, SSE plc. It defines the delegation of authority and accountability within the Group, enables review and challenge of management performance, is a pillar of SSE's System of Internal Control, and supports the processes by which principal and emerging risks are identified and managed. The Directors of the Company discharge their duties in line with the governance standards and processes agreed at Group level.

The Company itself does not have listed shares and therefore is not subject to the Code. It has not voluntarily applied the Code nor another publicly available corporate governance code and has instead operated within the Group Governance Framework described above and below.

SSE plc's approach to corporate governance and compliance with the Code can be found in the Directors' Report within the SSE plc Annual Report and Accounts 2020 at www.sse.com/reportsandresults.

SSE plc Group ("the Group")

The Group's core purpose is to provide the energy needed today while building a better world of energy for tomorrow. Its vision is to be a leading energy company in a net-zero world. And its strategy is to create value for shareholders and society in a sustainable way through successful development, efficient operation and responsible ownership of energy infrastructure and businesses. All of which are underpinned by the SSE SET of core values: Safety, Service, Efficiency, Sustainability, Excellence and Teamwork; that are designed to guide decisions and actions within SSE and contribute to the overall culture.

The above matters are reserved for, and set by, the SSE plc Board, who ensures that purpose, strategy, values and culture are aligned. Subsequent implementation is a responsibility of the SSE Group Executive Committee. Each business unit, and in turn, subsidiary Company and its Directors is further accountable to executive management and ultimately the SSE plc Board, for executing supporting business strategies within agreed Group parameters and promoting the desired culture. The Directors therefore set the strategic aims of the Company, supervise management, monitor and report on performance, approve investment within delegated levels and are responsible for all statutory and regulatory approvals. These responsibilities are set out in agreed Terms of Reference.

More on the Company's strategy and business objectives can be found from page 2 of the Strategic Report.

More on SSE's purpose and strategy can be found on page 6 to 7 of the SSE plc Annual Report and more on culture can be found on page 106.

There are five principal Board committees including a Nomination Committee, an Audit Committee, a Safety, Health and Environment Advisory Committee, an Energy Markets Risk Committee and a Remuneration Committee. Full details of the role of each Committee, membership and work undertaken during 2019/20 is set out in the published annual report of the Group, which is available at www.sse.com.

Dame Angela Strank joined the Board of SSE plc as a new independent non-Executive Director on 1 May 2020. 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.

Scottish Hydro Electric Transmission plc ("The Company")

The following comments on the arrangements for the Company.

Board of Directors

During the year the Board comprised five Executive Directors and five Non-Executive Directors, one of whom is an Executive Director of the Group and member of the Group Executive Committee. None of the Directors are Directors of Group Companies involved in Retail or Wholesale activities. The Group Executive Director is the Chair of the Board. Two of the Non-Executive Directors on the Board during the course of the financial year were Sufficiently Independent Non-Executive Directors as required under the terms of Standard Condition B22 of the Company's regulatory licence. As the Company is a wholly owned operating subsidiary within the SSE Group, the Directors believe that the Board is of an appropriate size in the context of the overall Group Governance Framework.

The Executive Directors are experienced senior business leaders and are deemed to possess the appropriate breadth of knowledge and expertise to discharge their role effectively. The Non-Executive Directors provide an appropriate degree of independent judgement and challenge to ensure balanced and fair decision-making and outcomes. The operation and effectiveness of the Board is the ultimate responsibility of the Chair, who is supported in their role by the Company Secretary. Agreed procedures are in place to manage and mitigate actual or potential conflicts of interest with Board or Company business.

The Board does not have a supporting Nomination, Remuneration or Audit Committee. These functions are dealt with, where required, in conjunction with the relevant committee of the SSE Group Board.

SSE has a Group-wide inclusion and diversity strategy including self-led gender ambitions, details of which can be found on pages 78 and 79 of the SSE plc Annual Report. Any changes and appointments to the Board consider both SSE's approach to inclusion and diversity and the desire to have a Board which is balanced overall and supports the Company's needs.

The Board met eight times during the course of the year and individual Director attendance is set out below.

Director	**Attendance**
Gregor Alexander (Non-Executive Director) (Chairman)	8 of 8
Stuart Hogarth (Resigned 23/03/20)	6 of 8
Colin Nicol	7 of 8
Dale Cargill (Resigned 23/01/20)	6 of 6
Alistair Borthwick (Resigned (28/06/19)	1 of 1
Robert McDonald	8 of 8
Rachel McEwen (Non-Executive Director)	8 of 8
Katherine Marshall (Non-Executive Director)	8 of 8
David Rutherford (Independent Non-Executive Director)	8 of 8
Gary Steel (Independent Non-Executive Director)	8 of 8

Board effectiveness

On appointment all Directors receive induction to the Board and briefings on areas pertinent to their role such as a Director's legal duties. The ongoing effectiveness of the Board is supported by performance evaluation and a commitment to personal development and training by each Director.

Regular Board evaluation is facilitated by the Company Secretary, through which the Director's reflect upon, and agree, areas for improvement based on an objective assessment of the Board's operations. Following such assessments, actions are implemented and tracked in advance of further performance evaluations in 2020/21.

Opportunity, Risk and Internal Control

The long-term sustainable success of the Company, including the opportunities and risks to this, are explicitly considered by the Directors and within strategic decision making. Further details can be found throughout the Strategic Report.

Corporate Governance Statement (continued)

Remuneration

The Remuneration of the Director's is set in line with overall SSE Group policy and further information can be found in note 6.

Stakeholder relationships and engagement

Details of the Company's stakeholders and the associated engagement which takes place can be found throughout the Strategic Report.

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, including sensitivities on future cashflow projections resulting from the coronavirus pandemic, and the level of headroom on long-term loans and bonds.

In making this assessment, the Directors have considered the impact of a number of severe but plausible scenarios as identified by the Business Unit Executive Committee. These are detailed within the Principal Risks outlined in the Company's Strategic Report. As it is highly unlikely that all scenarios could or would manifest in any single financial year, the Directors have considered an extreme combination which assumes that the "Network Resilience and Integrity" with specific consideration to significant failures to the major subsea cables on the network, "Cyber Security" and transition to the new RIIO-T2 price control period risks manifest in the same year – these being the Principal Risks with the greatest financial impacts.

Additional cash flow modelling, including the impact of periods of reduced demand and stressed conditions on the Company's ability to refinance maturing debt, was carried out against which operational and financial mitigants were also considered. This cash flow modelling displays the potential prospective impact on the financial position of the Company for the foreseeable future, based on plausible downside scenarios which may materialise over the coming period. The Directors have also considered the material financial impact on transition into the new price control period under RIIO-T2 in assessing the future outlook. Sensitivities considered included changes to the financial metrics and parameters as a result of a different than expected outcome with regard to the regulatory settlement on RIIO-T2.

As part of the stress testing performed, the Directors have considered future cash flows, including the above-named sensitivities on future cashflow projections resulting from the coronavirus pandemic, and the level of headroom on long-term loans and bonds. The Directors believe that on considering the impacts of the coronavirus pandemic, it is reasonable to assume that access to available Group financing will continue, whilst the significance of the Company's main revenue streams would indicate that a modest drop in revenue could be feasibly determined to have a limited impact on the overall operations of the Company.

The Group have provided a letter of support confirming it can provide support for a period of 12 months from the date of signing of these accounts if required. The Directors are satisfied that the Group has the ability to provide this support, if required. In reaching this conclusion they considered the resources that the Group has in place and available to it and their forecast business plans amidst the current pandemic. For more information regarding the Group's going concern status, please see page 263 of the 2019/20 Annual Report available at www.sse.com.

Through consideration of these scenarios, together with the receipt of a Letter of support received from the Group, the Directors are satisfied that the Financial Statements are prepared on a going concern basis.

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 2 financial years to 31 March 2022. 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 impact of a cyber-attack to our IT network (for Cyber Security).

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 2022.

Scottish Hydro Electric Transmission plc

Directors' report

The Directors present their report together with the audited financial statements for the year ended 31 March 2020.

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 Financial statements.

2 Results and dividends

The profit for the financial year amounted to £106.3m (2019: £166.8m). The Board did not declare or pay a dividend during the year (2019: £45.0m).

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 Indemnification of Directors and insurance

The Directors have the benefit of an indemnity provision contained in the Company's Articles of Association. In addition, the Directors have been granted a qualifying third-party indemnity provision which was in force throughout the financial year and remains in force. Also, throughout the financial year, the Company purchased and maintained Directors' and Officers' liability insurance in respect of itself and for its Directors and Officers.

5 Corporate governance

The Corporate Governance statement for the Company is outlined on page 16.

6 Accounting policies, financial instruments and risk

Details of the Company's policies with regard to financial instruments and risk, are provided in Note 20 to the Financial Statements.

7 Research and development

The Company is involved in a range of innovative projects and programmes which are designed to progressively transform the energy system. A number of these projects and programmes are referred to in the Strategic Report in pages 2 to 15.

8 Employment of disabled people

The Company has a range of employment policies which are designed to ensure that everyone, including those with existing or new disabilities and people of all backgrounds, are dealt with in an inclusive and fair way from the recruiting process on through their career. The Group and Company have a range of employment policies which clearly detail the standards, processes, expectations and responsibilities of its people and the organisation. These policies are designed to ensure that everyone, including those with existing or new disabilities and people of all backgrounds, are dealt with in an inclusive and fair way from the recruiting process on through their career, whether that means access to appropriate training, development opportunities or job progression.

9 Auditor

Each of the Directors who held office at the date of approval of this Directors’ Report confirms that, so far as each Director is aware, there is no relevant audit information of which the Company’s Auditors are unaware and each Director has taken all the steps that ought to have been taken in his or her duty as a Director to make himself or herself aware of any relevant audit information and to establish that the Company’s Auditors are aware of that information.

On behalf of the Board:

Mark McLaughlin
Company Secretary
25 August 2020

Statement of Directors' Responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of its profit or loss for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the 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 financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of 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.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, and Corporate Governance Statement that complies with that law and those regulations.

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company; and
- the strategic report/directors' report includes a fair review of the development and performance of the business and the position of the issuer, together with a description of the principal risks and uncertainties that they face.

We consider the Annual report and financial statements to be fair, balanced and understandable and provides the information necessary for users to assess the Company's position and performance.

On behalf of the Board:

Gregor Alexander
Director
25 August 2020

Independent Auditor's Report to the Members of Scottish Hydro Electric Transmission plc

Opinion

We have audited the financial statements of Scottish Hydro Electric Transmission plc for the year ended 31 March 2020 which comprise the profit and loss account, balance sheet, statement of changes in equity and cash flow statement and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters	• Carrying value of PP&E, specifically risks around incorrect cost capitalisation • Management override of controls, specifically around revenue recognition • Impact of Covid 19, including going concern • First year audit transition
Materiality	• Overall materiality of £7.8m which represents 5% of Profit before tax.

Key audit matters

Key audit matters (KAMs) are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report to the Members of Scottish Hydro Electric Transmission plc (continued)

Risk	Our response to the risk	Key observations communicated to Management
Carrying value of PP&E, specifically risks around incorrect cost capitalisation (PP&E NBV 2020: £3.6bn, PP&E NBV 2019: £3.3bn) Refer to Accounting policies (page 41); and Note 9 of the Financial Statements (page 48) The PP&E balance in Scottish Hydro Electric Transmission plc is quantitatively the most significant. The capitalisation of costs involves a level of judgement and therefore there is a heightened risk of material misstatement in this area. This risk is specifically related to the potential for incorrect capitalisation of costs. The risk is that costs are capitalised that are not capital in nature. Incorrect cost capitalisation could have a significant effect on the carrying value of the Company's Network assets on the balance sheet, which could be overstated, which would overstate income for the year. It is deemed there is a sufficiently high likelihood of misstatement for this to be classified as a key audit matter.	Audit procedures performed: We obtained an understanding of the key controls and processes in place over the capitalisation of costs. We tested selected IT application and manual controls, as well as performing substantive testing over the balance. Controls Testing We have tested controls over the authorisation, monitoring and review of capital expenditure in the Transmission business Additions Testing We selected a sample of PP&E additions in the year and agreed the details to third party evidence to confirm: - The correct amount was capitalised - The cost was capital in nature in line with accounting standards - Assessed and verified the appropriateness of overheads capitalised Board Minute Review We reviewed Board Minutes to identify any unusual or challenging projects that were receiving executive level attention and cross checked this to our additions work to ensure consistency. Disclosure We assessed the accuracy and adequacy of the disclosures in line with IAS 16. All audit work in relation to this key audit matter was undertaken by the SSE Networks audit engagement team.	We conclude that the carrying value of Network assets were materially correct as a result of the procedures we performed over cost capitalisation. We are satisfied with the adequacy of disclosure included in the financial statements.

Independent Auditor's Report to the Members of Scottish Hydro Electric Transmission plc (continued)

Risk	Our response to the risk	Key observations communicated to Management
Management override of controls, specifically around revenue recognition (Revenue 2020: £378.6m, Revenue 2019: £395.9m) Refer to Accounting policies (page 40); and Note 3 of the Financial Statements (page 44) Revenue earned by Scottish Hydro Electric Transmission plc relates to billing National Grid for electricity transmission services. Revenue recognition is a particular area of focus for our audit in considering possible areas of management bias and fraud, arising from management override of controls. There is management incentive to post manual credits to revenue to improve Company profitability. Transmission revenue is regulated. Despite this, all revenue generated is recorded by SSE. There are also instances of manual adjustments to revenue figures, and the accuracy and recording of any such material adjustments may represent a fraud risk of material misstatement to revenue.	Audit procedures performed: We obtained an understanding of the key controls and processes in place over revenue recognition and the recording of manual journal entries. We tested selected key IT general controls and performed substantive testing of a sample of revenue transactions and journal entries. We selected a sample of revenue transactions in the year and agreed to sales invoices raised and bank statements showing cash receipts. We performed cut off testing by picking a sample of transactions pre and post year end and inspected support documentation to verify the period the transaction related to. As part of our journal entries testing, we used risk-based filters to test material manual journal entries made to revenue through to supporting third party evidence, to confirm that this revenue recognition was appropriate and had an appropriate business rationale. All audit work in relation to this key audit matter was undertaken by the SSE Networks audit engagement team.	We conclude that revenue recognised in the period is materially correct based on the procedures performed. We are satisfied with the adequacy of disclosure included in the financial statements.

Independent Auditor's Report to the Members of Scottish Hydro Electric Transmission plc (continued)

<table>
<tr><th>Risk</th><th>Our response to the risk</th><th>Key observations communicated to Management</th></tr>
<tr><td>Impact of Covid-19, including going concern assessment

Refer to Accounting policies (page 39); and the Strategic Report

Since early 2020, the COVID-19 pandemic has caused significant disruption to the world's population, business and economic activity and may ultimately impact the businesses future performance and asset values.

Government measures taken to contain the virus have had an impact not only on the way in which businesses operate, but also in the way in which an audit can be performed.

SSE has been designated by the government as an 'essential' services Company and, as such, Scottish Hydro Electric Transmission plc has continued to operate. However, there have been several impacts for the business in the current year and on the short to medium term forecasts.

Our audit focus has been on the following key areas:

1. How the audit would be undertaken given the remote working restrictions and the resulting refinements to our team, approach and procedures;
2. Consideration of the going concern basis of preparation, focusing on forecasting ranges to reflect the impact of the COVID-19 pandemic and resulting liquidity and covenant headroom;
3. Consideration of the increased risks associated with the impact of COVID-19; and
4. The adequacy of the disclosures made in the accounts.</td><td>Our audit procedures covered four key areas:

- Audit logistics
- Going concern
- Other audit matters
- Adequacy of disclosure.

Audit Logistics

Management and EY worked proactively to agree a revised timetable to provide sufficient time for the judgements arising from COVID-19 to be considered fully, disclosures adequately assessed, and to reflect the extended time taken for management to complete the financial statement close process and to reflect the incremental time impact on completing our year end external audit remotely.

We have performed the year-end audit remotely, starting from 13th April 2020. We have engaged with the business throughout this period, using video calls, share-screen functionality, secure encrypted document exchanges and data downloads to avoid any limitation on the audit evidence required. All key meetings, such as the closing meetings, were performed via video conference calls.

We have refined our methods of interaction to ensure appropriate direction by the Partner in Charge throughout the audit, ensuring involvement in key calls throughout the audit both internally and with Scottish Hydro Electric Transmission plc management.

We increased audit team resources and increased the mix of senior audit team members in direct response to the incremental time taken to work remotely and to address the additional audit considerations arising from the impacts of COVID-19 on the financial statements.

Going Concern

We have assessed the Going Concern assumption adopted by the Directors of the Company, which included:

- We have obtained board approved cashflow forecasts for the company up until December 2021 inclusive of covenant calculations</td><td>We have completed our audit in line with our revised plan.

We have confirmed that management's assessment of Going Concern is appropriate and concur with the directors' assessment that there is no Material Uncertainty as there is sufficient headroom in both cash flow forecasts and covenant forecasts after significant plausible downside scenarios have been factored in. We have considered available mitigations if key assumptions were to change.

We conclude that the disclosure on the impact of COVID-19, including on Going Concern, is appropriate.</td></tr>
</table>

Independent Auditor's Report to the Members of Scottish Hydro Electric Transmission plc (continued)

Impact of Covid-19, including going concern assessment (continued)	- We have assessed management's COVID-19 impact assessment on the Company - We have obtained a letter of support from SSE PLC following the below procedures performed at a group wide level. In considering the ability of the company to rely on the parent company support: - We confirmed our understanding of the Going Concern process at a SSE PLC group level and engaged with management to ensure all key matters were considered in their assessment; - We have obtained group management's board approved forecast cash flows and covenant calculation covering the period from the date of signing, with additional cash flow forecasts obtained up until December 2021; - We have performed reverse stress testing on group management's forecasts to understand how plausible the severe downside scenarios would be to result in negative liquidity or a covenant breach. - We have assessed group management's COVID-19 impact assessment on the forecasts, considering past historical accuracy of management's forecasting against the actual impact experienced by SSE in April, May and June 2020; - We have reviewed group management's assessment of options potentially available to the group to reduce cash flow spend in the Going Concern period, to determine whether such actions could be implemented; - We have performed a detailed review of all the group facilities to assess their continued availability to the group and to ensure completeness of covenants identified by management. We have engaged with our debt advisory specialists to support this review. We reviewed the accuracy of group management's covenant forecast model, verifying inputs to board approved forecasts and facility agreement terms;	

Independent Auditor's Report to the Members of Scottish Hydro Electric Transmission plc (continued)

Impact of Covid-19, including going concern assessment (continued)	- We have reviewed market data for indicators of contradictory evidence to challenge the Going Concern assessment, including review of profit warnings within the sector and review of industry analyst reports; and Other Audit Matters As a result of COVID-19 there have been several areas of the audit which have been reassessed and where increased audit focus was applied. We re-assessed materiality and identified no changes, recognising that full year results to 31 March 2020 continued to be in line with previous expectations. The key areas of increased audit risk relate to impairment of assets as a result of lower volumes, going concern assessment as a result of reduction in demand and counterparty credit risk as a result of negative economic trading conditions. We have performed impairment analyses over both intangible and tangible assets within the Company assessing impairment indicators in line with IAS36. We have performed procedures over going concern as mentioned above. Our audit procedures in relation to assessing counterparty credit risk have included: - Understanding the changes to the provision for bad and doubtful debts as a result of COVID-19; and - Assessing actual outturn in April 2020 and May 2020 compared to management's estimates Adequacy of Disclosure We have considered whether management's additional disclosure, included within Note 1, the Strategic Report and Directors Report sufficiently capture the impacts of COVID-19 on Scottish Hydro Electric Transmission plc. All audit work in relation to this key audit matter was undertaken by the SSE Networks audit engagement team and the SSE group audit team.	

Independent Auditor's Report to the Members of Scottish Hydro Electric Transmission plc (continued)

Risk	Our response to the risk	Key observations communicated to those charged with governance
First year audit transition The year ended 31 March 2020 is our first as auditor of Scottish Hydro Electric Transmission plc. We commenced our audit planning procedures subsequent to us being formally appointed by Scottish Hydro Electric Transmission plc on 7 May 2020. Given the significant involvement of the audit team in the audit transition activities we consider this to be a Key Audit Matter.	We have performed procedures since our appointment covering initial transition activities, opening balance sheet procedures and the year end audit requirements. Our transition activities included: • Establishing independence from Scottish Hydro Electric Transmission plc by exiting non-audit services which may impair or be perceived to impair our independence; • Establishing an appropriately resourced and skilled audit team, including specialists; • Holding introductory meetings with Scottish Hydro Electric Transmission plc management; • Establishing an audit approach, with specific amendment of key risks and audit focus based on interim conclusions and resulting prior year adjustments; and • Establishing an IT approach and subsequent refinements after performing additional substantive procedures to gain IT reliance. Our opening balance sheet procedures included, but were not limited to: • Reviewing the previous auditor's 2019 audit files and meeting with the predecessor auditor lead audit partner; • Holding a planning meeting in October 2019 at which members of management briefed senior members of our Group audit on the organisation; • Identifying significant risk and other audit matters to direct our specific testing of opening balances. This testing involved challenging key assumptions and estimations and reviewing the appropriateness of management's prior year conclusions;	We communicated all observations made throughout these first-year audit transition procedures to those charged with governance during our audit planning meeting, post advanced-procedures meeting and audit closing meetings.

Independent Auditor's Report to the Members of Scottish Hydro Electric Transmission plc (continued)

First year audit transition (continued)	• Understanding accounting policies and historic accounting judgments by reviewing accounting policy papers prepared by management on specific accounting topics; and • Performing detailed walkthroughs of key processes. Testing was performed between the SSE Networks audit team and the SSE plc group audit team.	

There were no KAMs disclosed in the prior year financial statements audited by KPMG as Scottish Hydro Electric Transmission plc only listed debt in the current year ended 31 March 2020.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be £7.8 million, which is 5% of profit before tax. We believe that adjusted profit before tax provides us with a consistent measure of underlying year-on-year performance as it excludes the impact of non-recurring items and items as well as recurring items (namely movement on operating and financing derivatives) which can significantly fluctuate year-on-year and do not provide a true picture of the profit benchmark that would affect the decisions of the users of the financial statements.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% of our planning materiality, namely £5.8m. We have set performance materiality at this percentage due to our assessment of the control environment of the entity including the attitude and integrity of management and those charged with governance.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

Independent Auditor's Report to the Members of Scottish Hydro Electric Transmission plc (continued)

We agreed with those charged with governance that we would report to them all uncorrected audit differences in excess of £0.39m, which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' reports have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 22, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for 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 the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Independent Auditor's Report to the Members of Scottish Hydro Electric Transmission plc (continued)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are those that relate to the reporting framework (IFRS, FRS101, the Companies Act 2006 and UK Corporate Governance Code) and the relevant tax compliance regulations in the jurisdictions in which the Company operates. We also considered non-compliance of regulatory requirements, including the Office of Gas and Electricity Markets (Ofgem) and regulations levied by the UK Financial Conduct Authority and Prudential Regulatory Authority.
- We understood how Scottish Hydro Electric Transmission plc is complying with those frameworks by making enquiries of management and those responsible for legal and compliance procedures. We verified our enquiries through our review of board minutes.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by meeting with management to understand where it considered there was susceptibility to fraud. We also considered performance targets and their propensity to influence on efforts made by management to manage earnings. We considered the programmes and controls that the Company has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved: journal entry testing, with a focus on manual topside journals to revenue and journals indicating large or unusual transactions based on our understanding of the business; enquiries of legal counsel, management; and focused testing. In addition, we completed procedures to conclude on the compliance of the disclosures in the accounts with all applicable requirements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the Company on 18July 2019 to audit the financial statements for the year ending 31 March 2020 and subsequent financial periods.

This is our first year audit for Scottish Hydro Electric Transmission plc, year-ending 31 March 2020.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.

Independent Auditor's Report to the Members of Scottish Hydro Electric Transmission plc (continued)

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report 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 Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP.

Annie Graham (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Glasgow
26 August 2020

Notes:

1. The maintenance and integrity of the SSE plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Scottish Hydro Electric Transmission plc

Profit and Loss Account
for the year ended 31 March 2020

	Note	2020 £m	2019 £m
Revenue	**3**	**378.6**	395.9
Distribution costs		**(149.5)**	(130.3)
Administrative costs		**(14.0)**	(13.4)
Loss on disposal of fixed assets		**(0.6)**	-
Operating profit	**4**	**214.5**	252.2
Interest payable and similar charges	**6**	**(60.0)**	(49.3)
Profit before taxation		**154.5**	202.9
Tax on profit	**7**	**(48.2)**	(36.1)
Profit for the financial year		**106.3**	166.8

Continuing operations

The above results are derived from continuing activities.

The accompanying notes are an integral part of these financial statements.

Scottish Hydro Electric Transmission plc

Statement of Other Comprehensive Income
for the year ended 31 March 2020

	2020	2019
	£m	£m
Profit for the financial year	**106.3**	166.8
Other comprehensive income		
Items that will be reclassified subsequently to profit or loss:		
(Loss)/Gain on effective portion of cash flow hedges	**(0.2)**	0.7
Taxation on cashflow hedges	**0.1**	(0.1)
Other comprehensive gain/(loss)	**(0.1)**	0.6
Total comprehensive income relating to the financial year	**106.2**	167.4

Scottish Hydro Electric Transmission plc

Balance Sheet
as at 31 March 2020

	Note	2020 £m	2019 £m
Non-current assets			
Property, plant and equipment	9	**3,609.1**	3,352.3
Intangible assets	10	**11.7**	10.6
Derivative financial assets	20	**-**	0.1
		3,620.8	3,363.0
Current assets			
Debtors	11	**2.7**	17.5
Restricted cash	12	**6.4**	11.3
Total current assets		**9.1**	28.8
Current liabilities			
Creditors: amounts falling due within one year	13	**(244.5)**	(171.0)
Net current liabilities		**(235.4)**	(142.2)
Total assets less current liabilities		**3,385.4**	3,220.8
Creditors: amounts falling due after more than one year	14	**(2,152.7)**	(2,128.1)
Derivative financial liabilities	20	**(0.1)**	-
Deferred taxation	17	**(195.8)**	(162.1)
Net assets		**1,036.8**	930.6
Capital and reserves			
Called up share capital	18	**354.3**	354.3
Profit and loss account		**682.5**	576.2
Hedge reserve		**-**	0.1
Equity Shareholders' funds		**1,036.8**	930.6

These financial statements were approved by the Directors on 25 August 2020 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 2020

	Share capital £m	Retained earnings £m	Hedge reserve £m	Total equity £m
Balance at 1 April 2018	**354.3**	**454.0**	**(0.5)**	**807.8**
Total comprehensive income for the year	-	166.8	0.6	**167.4**
Credit in respect of employee share schemes	-	0.4	-	**0.4**
Dividends paid (note 8)	-	(45.0)	-	**(45.0)**
Balance at 31 March 2019	**354.3**	**576.2**	**0.1**	**930.6**
Balance at 1 April 2019	**354.3**	**576.2**	**0.1**	**930.6**
Effect of adoption of IFRS 16 (i)	-	(0.7)	-	(0.7)
Revised Balance at 1 April 2019	**354.3**	**575.5**	**0.1**	**929.9**
Total comprehensive income for the year	-	106.3	(0.1)	**106.2**
Credit in respect of employee share schemes	-	0.7	-	**0.7**
Balance at 31 March 2020	**354.3**	**682.5**	**-**	**1,036.8**

(i) Opening retained earnings at 1 April 2019 have been reduced following adoption of IFRS 16 (see note 2). The balance above is presented net of deferred tax.

Scottish Hydro Electric Transmission plc

Cash Flow Statement
for the year ended 31 March 2020

	Note	2020 £m	2019 £m
Operating profit		**214.5**	252.2
Depreciation on property, plant and equipment		**77.5**	68.3
Amortisation of intangible assets		**1.4**	1.2
Charge in respect of employee share awards		**0.7**	0.4
Loss on disposal of fixed assets		**0.6**	-
Customer contributions and capital grants released		**(1.5)**	(2.8)
Cash generated from operations before working capital movements		**293.2**	319.3
Decrease/(Increase) in debtors		**21.0**	(12.9)
(Decrease)/Increase in creditors		**(4.2)**	19.4
Movement in intercompany		**(151.4)**	148.3
Cash generated from operations		**158.6**	474.1
Interest paid		**(63.8)**	(57.9)
Taxes paid		**(21.3)**	(7.5)
Net cash from operating activities		**73.5**	408.7
Purchase of property, plant and equipment		**(317.8)**	(361.0)
Purchase of intangible assets		**(2.5)**	(2.7)
Net cash from investing activities		**(320.3)**	(363.7)
Dividends paid to Company's equity holders		**-**	(45.0)
New borrowings		**346.8**	-
Repayment of borrowings		**(100.0)**	-
Net cash from financing activities	**15**	**246.8**	(45.0)
Net Increase/(decrease) in cash and cash equivalents		**-**	-
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		**-**	-

The presentation of the cash flow statement for the comparative year has been amended to comply with the requirements of IAS 7. There has been no change in the net increase/(decrease) in cash as a result of the amendment, although the classifications of the cash flows and the totals and sub-totals within the statement have been amended.

Notes on the Financial statements for the year ended 31 March 2020

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 financial statements.

Basis of preparation
The financial statements have been prepared in accordance with FRS 101 (Reduced Disclosures) ("FRS 101") and its interpretations as issued by the International Accounting Standards Board ("IASB") and adopted by the European Union ("adopted IFRS").

In preparing these 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 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;
- Related party disclosures; and
- Comparative period reconciliations for property, plant and equipment, intangible assets and share capital.

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

- Certain disclosures, required by IAS 36 Impairment of assets, in respect of the impairment of goodwill and intangible assets; and
- Certain disclosures, required by IFRS 13 Fair Value Measurement and IFRS 7 Financial Instruments Disclosure and IFRS 15 Revenue from Contracts from Customers.

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

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

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

In making their assessment the Directors have considered the arms length intercompany funding from other companies with the SSE PLC Group and the Group's commitment not to request repayment of intergroup funding, unless the company has the reserves to do so for a period of at least 12 months from the date of signing these accounts. In managing the liquidity of the Company, the directors look to blend intergroup and external debt to create a balance of maturity, term and rate.

In assessing the financial strength of the Group, the directors considered the committed bank facilities of £1.5bn maintained by the Group, the current commercial paper market conditions, and the assumption the Group will be able to refinance maturing debt, as well as sensitivities on future cashflow projections that reflect the impact of the coronavirus pandemic, the Group's credit rating, and the successful issuance of £9.1bn of medium- to long-term debt and Hybrid equity since February 2012 (including €1.1bn of senior bond issuance in April 2020 during the coronavirus lockdown). The directors also considered mitigating actions available to the Group under downside scenarios including proceeds from the announced divestment programme, non-essential capex postponement and refinancing of maturing debt. In considering these factors, the directors satisfied themselves that the group has sufficient headroom to continue as a going concern.

The company is in a net current liability position of £235.4m as at the financial year end.

1 Significant accounting policies (continued)

Basis of preparation (continued)
The Group have provided a letter of support confirming it will provide support for a period of 12 months from the date of signing of these accounts where required. The Directors are satisfied that the Group has the ability to provide this support, should it be required.

Having reviewed the company's current performance, and the financial strength of the Group, the directors are satisfied that the Group, and the company itself, will remain funded for the foreseeable future. The Directors have concluded it is appropriate for the financial statements to be prepared on a going concern basis.

Further details of the Company's liquidity position and going concern review, including the potential impacts of coronavirus, are provided on page 18.

Revenue
Use of electricity networks
Revenue from use of electricity networks is derived from the allowed revenue as defined by the parameters in the relevant electricity transmission licence, which informs the tariffs we set.

Electricity transmission revenue is determined in accordance with its regulatory licence, based on an Ofgem approved revenue model and is recognised "over time" as charged to National Grid. Any revenue adjustments assessed by Ofgem are reflected in future financial year's allowed revenue.

Network contracted services
Where the Company has an ongoing obligation to provide contracted services (such as for network transmission connections), revenues are recognised "over time" evenly across the expected contractual service period and at the contracted rate in line with the customer receiving and consuming the benefits of that service. Any assets constructed in order to deliver the service are capitalised and depreciated over their useful life. Any payments received from a customer in advance of providing the contracted service are deferred on balance sheet.

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.

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.

1 Significant accounting policies (continued)

Property, plant and equipment
Property, plant and equipment is 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 property, plant and equipment. The estimated useful lives are as follows:

	Years
Network assets:	
Underground and subsea cables, overhead lines	5 to 80
Non-operational assets:	
Fixtures, equipment, plant and machinery, vehicles and mobile plant	5 to 10

Assets held under leasing arrangements are recognised as right-of-use assets and are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

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

Expenditure incurred to replace a component of a property, plant and equipment that is accounted for separately is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits of the 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 charged on a straight line basis over 10 years and is included within distribution costs in the profit and loss account. 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.

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.

Leases
At lease commencement date, the Company recognises a right-of-use-asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability and any lease payments made in advance of the lease commencement date.

The Company depreciates the right-of-use assets on a straight line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the Company's incremental borrowing rate.

1 Significant accounting policies (continued)

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 Policy 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 the cash cost of acquiring shares on behalf of its employees, as 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.

Restricted Cash
Restricted cash represents amounts received in line with annual Ofgem Funding Directions for Innovation projects. The use of the cash is restricted and can only be used for the purpose of the project. The balance has not been remitted to SSE plc as part of the Group's central treasury operations. This is not considered to be cash and cash equivalents.

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 occurs.

Significant judgements and estimates
There are no significant judgements or estimates in the year.

2 New accounting policies and reporting changes

The accounting policies are consistent with those of the prior period, except for the following new standards which became effective for the year beginning 1 April 2019. There are no other new standards or interpretations effective for the year ended 31 March 2020, in addition to the below, which are considered to have a material impact on the Financial Statements of the Company.

IFRS 16 'Leases'
This standard replaces IAS 17 'Leases' and related interpretations in setting out the principles for the recognition, measurement, presentation and disclosure of leases. The principal change from the previous standard is the introduction of a single lessee accounting model which requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

(i) Transition approach
The Company has applied the "Modified Retrospective" approach as adopted by the Group, whereby comparative figures are not restated. Instead, the cumulative effect of initially applying IFRS 16 has been recognised as an adjustment to the opening balance of retained earnings as at 1 April 2019. The Company has elected to apply the following practical expedients, as allowed by the standard, on initial application:

- the application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- rely on the assessment of whether leases are onerous through applying IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" immediately prior to transition;
- exclude initial direct costs from the measurement of the right-of-use asset; and
- use hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

The Company did not apply the practical expedient on defining leases, and therefore performed a full reassessment of the lease population under IFRS 16 criteria. Furthermore, the Company has applied the exemptions within the standard whereby both leases with a duration of 12 months or less and leases for assets which are deemed "low value" will continue to be expensed to the income statement on a straight-line basis over the lease term.

In determining whether any break and/or extension clauses should be included within the lease term, the Company has considered that where an internal decision has been made to break or extend the lease agreement, that decision shall be applied in determining the appropriate lease term. Where an internal decision has not been made, and where the non-cancellable element of the lease term has longer than five years remaining, it is considered that any clauses will not be triggered as any decision beyond that date is not reasonably certain. For all leases with less than five years remaining, an assessment is made on a lease-by-lease basis once a significant change in circumstance is noted, as to whether the clause is reasonably certain to be triggered. Reassessment of break and/or extension judgements made in prior periods could result in recalculation of the lease liability and adjustments to associated balances.

Where the interest rate implicit in the lease is not readily determinable, the Company has applied the intercompany borrowing rate which is based on the Company's external medium-term borrowing rates with premia adjustments for any subsidiary specific risk factors.

2 New accounting policies and reporting changes (continued)

IFRS 16 'Leases' (continued)

(ii) Impact of transition at 1 April 2019
On transition to IFRS 16 the Company recognised £1.7m of additional right of use assets (presented within property, plant and equipment), and £2.5m of additional lease liabilities. This resulted in a £0.8m reduction to retained earnings on transition.

The differences between the operating lease commitments under IAS 17 at 31 March 2019 and the lease liability recognised under IFRS 16 at 1 April 2019 relating to the same contracts are explained below:

	1 April 2019 £m
Operating lease commitments as at 31 March 2019	20.3
Recognition exemption for short term and low value leases on date of transition	(1.4)
IAS 17 leases outside the scope of IFRS 16	(1.9)
Non-discounted lease liability under IFRS 16	17.0
Discount effect	(14.5)
Additional lease liability recognised on 1 April 2019	2.5

The weighted average incremental borrowing rate applied to calculate the right of use assets and lease liabilities recognised on transition at 1 April 2019 over the contracted residual term was 4.06%.

(iii) Impact on results for the year ended 31 March 2020
Adoption of IFRS 16 resulted in a reduction in operating costs for the year of £0.2m, offset by £0.2m of additional depreciation charges and £0.1m of additional interest charges, resulting in a £0.1m decrease to profit before tax. At 31 March 2020, including additions during that period, the net value of additional right-of-use assets under IFRS 16 totalled £6.3m with a corresponding lease liability of £7.9m. The revised presentation of lease payments under IFRS 16 has a minimal impact on net cash flows. There is no impact on total cash and cash equivalents.

3 Analysis of Revenue

An analysis of the Company's revenue by business segment is set out below:

	General use of electricity networks £m	**Network connections services £m**	**Other network activity £m**	**Other revenue £m**	**Total £m**
Transmission revenue at 31 March 2020	353.3	22.3	2.7	0.3	**378.6**
Transmission revenue at 31 March 2019	369.8	23.5	2.3	0.3	395.9

The existence of each segment is fundamental to the successful operation of the transmission network. Each segment has similar economic characteristics and therefore the Directors assess that the Company has one reportable operating segment. The Company generates revenue for the construction, maintenance and renovation of the transmission network in the north of Scotland and has one main customer, National Grid. The Company also provides electricity connections providing essential and safe access to the transmission network. The Company continues to operate under the RIIO-T2 price control which runs until 31 March 2021.

4 Expenses and auditor's remuneration

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

	2020	2019
	£m	£m
Depreciation of property, plant and equipment	**77.5**	68.3
Amortisation of intangible assets	**1.4**	1.2
Loss on disposal of fixed assets	**0.6**	-
Lease charges (i)	**0.1**	0.7
Release of deferred income in relation to customer contributions and capital grants	**(1.5)**	(2.8)
Net management fees in respect of services provided by group companies	**14.5**	13.0
Research costs	**3.6**	3.3

(i) Following the adoption of IFRS 16 (note 2) on 1 April 2019, the Company applied the exemptions within the standard whereby both leases with a duration of 12 months or less and leases for assets which are deemed "low value" will continue to be expensed to the income statement on a straight line basis over the lease term with £0.03m charged in the current year. In addition, variable lease payments which are not included within the measurement of lease liabilities as they do not depend on an index or rate of £0.1m were charged in the current year. Lease charges in the prior year relate to operating lease charges under IAS 17.

The Company incurred £0.1m of external audit fees (2019: £0.1m). Included within this are audit related assurance service fees of £0.01m (2019: £0.04m).

5 Staff costs and numbers

	2020	2019
	£m	£m
Staff costs:		
Wages and salaries	**24.4**	23.1
Social security costs	**2.8**	2.7
Share based remuneration	**0.7**	0.4
Pension costs	**4.4**	3.7
	32.3	29.9
Less charged as capital expenditure	**(18.4)**	(19.7)
	13.9	10.2

Employee numbers

	2020	2019
	Number	Number
Customer facing	**41**	36
Support staff	**475**	441
Numbers employed at 31 March	**516**	477

Average employee numbers	**2020**	2019
	Number	Number
Customer facing	**39**	34
Support staff	**460**	430
The monthly average number of people employed by the Company during the year	**499**	464

5 Staff costs and numbers (continued)

	2020	2019
	£m	£m
Directors remuneration	**4.9**	4.0

The total remuneration received by the directors for qualifying and non-qualifying services including amounts paid and receivable under long term incentive schemes during the year was £4.9m (2019: £4.0m). The total attributable to the highest paid director is £1.7m (2019: £1.2m). The above value is for 11 directors (2019: 12), 10 of whom were remunerated via another Group company in the year. A value of services to the Company for these directors cannot be determined, therefore the above value reflects the remuneration received for services to the SSE Group as a whole.

The aggregate of amounts paid and receivable under long term incentive schemes for directors is £1.5m, of which £0.5m (2019: £0.3m) is due to the highest paid director. Total company pension contributions of £nil (2019: £nil) were made to a money purchase scheme on behalf of the directors.

7 directors exercised share options in the parent's shares during the year. The highest paid director exercised and received shares under a long-term incentive scheme in the year.

	Number of directors	
	2020	2019
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	**5**	5

6 Interest payable and similar charges

	2020	2019
	£m	£m
Interest payable to group companies	**39.9**	42.6
Bank loans and overdrafts	**20.9**	15.8
Foreign exchange translation of monetary assets and liabilities	**3.4**	4.7
Lease interest	**0.3**	-
Interest capitalised	**(4.5)**	(13.8)
	60.0	49.3

7 Taxation

	2020	2019
	£m	£m
UK corporation tax		
Current tax on income for the period	**15.2**	13.5
Adjustment in respect of prior periods	**(0.9)**	(1.0)
Total current tax charge	**14.3**	12.5
Deferred tax (see note 17):		
Origination and reversal of temporary differences	**14.8**	25.6
Adjustment in respect of prior years	**-**	(2.0)
Effect of change in tax rate	**19.1**	-
Total deferred tax	**33.9**	23.6
Total tax on profit	**48.2**	36.1

7 Taxation (continued)

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:

	2020 £m	2019 £m
Profit before taxation	**154.5**	202.9
Tax on profit at standard UK corporation tax rate of 19% (2019: 19%)	**29.3**	38.6
Effects of:		
Depreciation on non-qualifying assets	**0.6**	0.4
Expenses not deductible for tax purposes	**0.1**	0.1
Adjustment in respect of previous periods	**(0.9)**	(3.0)
Effect of change in tax rate on deferred tax	**19.1**	-
Total tax charge for year	**48.2**	36.1

The standard rate of tax applied to reported profit on ordinary activities is 19% (2019: 19%). The Finance Bill 2016 reduced the main rate of corporation tax to 17% from 1 April 2020. The Finance Bill 2020 has subsequently amended the main rate of corporation tax to remain at 19% from 1 April 2020 and 1 April 2021. As these changes have been substantively enacted at the balance sheet date, deferred tax has been calculated accordingly and this has had the effect of increasing the Company's deferred tax liability at 31 March 2020 by £19.1m (2019: nil).

8 Dividends

	2020 £m	2019 £m
Amounts recognised as distributions from equity:		
Final dividend of nil (2019: 12.7p per share)	**-**	45.0

The Directors do not recommend the payment of a dividend for the current year. The final dividend of £45m for the previous year was approved on 28 February 2019 and paid to shareholders on 14 March 2019.

9 Property, plant and equipment

	Land and Buildings £m	Network assets £m	Vehicles and miscellaneous equipment £m	Total £m
Cost:				
At 1 April 2019	4.5	3,829.3	10.3	3,844.1
Right of use asset addition on adoption of IFRS 16	1.7	-	-	1.7
Revised balance at 1 April 2019	6.2	3,829.3	10.3	3,845.8
Additions	0.4	325.2	7.6	333.2
Transfers between categories	-	(10.1)	10.1	-
Disposals	-	(0.8)	-	(0.8)
At 31 March 2020	**6.6**	**4,143.6**	**28.0**	**4,178.2**
Depreciation:				
At 1 April 2019	(0.1)	(484.3)	(7.4)	(491.8)
Charge for the year	(0.2)	(75.0)	(2.3)	(77.5)
Disposals	-	0.2	-	0.2
At 31 March 2020	**(0.3)**	**(559.1)**	**(9.7)**	**(569.1)**
Net book value:				
At 31 March 2020	**6.3**	**3,584.5**	**18.3**	**3,609.1**
At 31 March 2019	4.4	3,345.0	2.9	3,352.3

The above property, plant and equipment includes £137.9m (2019: £133.4m) of capitalised interest, of which £4.5m was capitalised in the current year (2019: £13.8m). This is depreciated annually according to the useful economic life of the asset to which the capitalised interest relates.

Included in the above line items are the following right-of use assets:

	Land and Buildings £m
Cost:	
At 1 April 2019	4.5
Right of use asset addition on adoption of IFRS 16	1.7
Revised balance at 1 April 2019	**6.2**
Additions – new lease additions	0.4
At 31 March 2020	**6.6**
Depreciation:	
At 1 April 2019	(0.1)
Charge for the year	(0.2)
At 31 March 2020	**(0.3)**
Net book value:	
At 31 March 2020	**6.3**
At 31 March 2019	4.4

10 Intangible assets

	Assets in development £m	IT Software £m	Total £m
Cost:			
At 1 April 2019	0.8	13.1	13.9
Additions	2.5	-	2.5
Transfers from AUC to fully commissioned	(3.3)	3.3	-
At 31 March 2020	**-**	**16.4**	**16.4**
Amortisation:			
At 1 April 2019	-	(3.3)	(3.3)
Charge for the year	-	(1.4)	(1.4)
At 31 March 2020	**-**	**(4.7)**	**(4.7)**
Net book value:			
At 31 March 2020	**-**	**11.7**	**11.7**
At 31 March 2019	0.8	9.8	10.6

11 Debtors

	2020 £m	2019 £m
Trade debtors	**0.6**	17.2
Amounts owed by group undertakings	**1.6**	0.3
Contracted related receivables	**0.5**	-
	2.7	17.5

12 Restricted cash

	2020 £m	2019 £m
Restricted cash	**6.4**	11.3

Restricted cash represents amounts received to fund the Multi Terminal Test Environment (MTTE) project, the Modular Approach to Substation Construction (MASC) project and the New Suite of Transmission Structures (NESTS) 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. 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.

13 Creditors: amounts falling due within one year

	2020 **£m**	2019 £m
Trade creditors	**4.3**	2.4
Loans due to ultimate parent (note 15)	**33.1**	-
Amounts owed to group undertakings	**99.9**	57.2
Other creditors	**33.4**	41.9
Corporation tax payable	**-**	7.0
Contract related liabilities (i)	**6.7**	9.3
Accruals	**67.0**	53.1
Obligations under leases (note 16)	**0.1**	0.1
	244.5	171.0

(i) Current contract related liabilities include customer contributions of £2.6m (2019: £3.0m). Revenue recognised in the reporting period of £2.7m was included in contract liabilities at the beginning of the period.

The amounts owed to Group undertakings include amounts advanced to the Company by its ultimate parent SSE plc. Interest on these balances is charged at 4.06% (2019: 4.23%).

14 Creditors: amounts falling due after more than one year

	2020 **£m**	2019 £m
Loans and borrowings (note 15)	**1,096.6**	749.7
Loans due to ultimate parent (note 15)	**930.0**	1,063.1
Amounts owed to group undertakings	**-**	192.8
Contract related liabilities (i)	**118.9**	118.1
Obligations under leases (note 16)	**7.2**	4.4
	2,152.7	2,128.1

(i) Non-current contract related liabilities include customer contributions of £117.2m (2019: £113.4m).

The amounts owed to Group undertakings include amounts advanced to the Company by its ultimate parent SSE plc. Interest on these balances is charged at 4.06% (2019: 4.23%).

Notes on the Financial statements (continued)
for the year ended 31 March 2020

15 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.

Borrowing facilities

	Weighted Average Interest Rate 2020 %	Weighted Average Interest Rate 2019 %	**2020 £m**	2019 £m
Creditors: falling due within one year				
5.50% Loan Stock repayable to SSE plc on 31 March 2021	**5.50**	-	**33.1**	-
Creditors: falling due between two and five years				
6.00% Loan Stock repayable to SSE plc on 31 March 2021	**-**	6.00	**-**	100.0
5.50% Loan Stock repayable to SSE plc on 31 March 2021	**-**	5.50	**-**	33.1
5.00% Loan Stock repayable to SSE plc on 31 March 2022	**5.00**	5.00	**150.0**	150.0
2.75% Loan Stock repayable to SSE plc on 31 March 2025	**2.75**	-	**300.0**	-
Floating Rate European Investment Bank repayable 21 September 2021 (i)	**1.73**	1.73	**150.0**	150.0
Fixed Rate European Investment Bank repayable 20 October 2022	**2.97**	2.97	**150.0**	150.0
Fixed Rate European Investment Bank repayable 3 August 2023	**2.65**	2.65	**50.0**	50.0
			800.0	633.1
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
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 20 May 2026	**2.16**	2.16	**299.8**	299.7
Floating Rate European Investment Bank repayable 9 March 2028 (ii)	**1.70**	1.70	**100.0**	100.0
Fixed Rate Eurobond repayable 27 September 2035	**2.25**	-	**346.8**	-
			1,226.6	1,179.7
			2,059.7	1,812.8

The effective interest rate is equal to the weighted average interest rate for all borrowings except for:

(i) The Floating Rate European Investment Bank repayable 21 September 2021 which has an effective rate of 1.46% at 31 March 2020.

(ii) The Floating Rate European Investment Bank repayable 9 March 2028 which has an effective rate of 1.21% at 31 March 2020.

The 6.00% Loan Stock repayable to SSE plc on 31 March 2021 at a value of £100.0m has been repaid in the year.

The Fixed Rate European Investment Bank repayable on 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.

The Fixed Rate Eurobond repayable on 27 September 2035 is a £350.0m loan on which a £3.2m arrangement fee has been paid. The arrangement fee will be amortised over the life of the loan to bring the outstanding amount back to £350.0m at maturity.

16 Leases

The Company leases a number of properties across the UK. The lease liability includes future obligations in respect of network substations and properties which provide office and storage facilities. The periodic rent is fixed over the lease term.

(i) Lease Liabilities

IFRS 16 was adopted during the year under a Modified Retrospective approach, whereby comparative figures are not restated. Instead, the cumulative effect of initially applying IFRS 16 has been recognised as an adjustment to the opening balance of retained earnings as at 1 April 2019. See Note 2 for further detail on the adoption of IFRS 16.

Lease liabilities in the prior year predominantly consisted of the lease of a subsea cable storage facility, which was categorised as a finance lease under IAS 17. On adoption of IFRS 16, the Company assessed that this lease agreement should continue to be categorised as a lease.

	2020 £m
At 31 March 2019	4.5
Additional lease liability recognised on IFRS 16 adoption	2.5
Additions during the year	0.4
Unwind of discount	0.3
Repayment in the year	(0.4)
At 31 March 2020	**7.3**

	2020 £m
Current	0.1
Non-current	7.2
	7.3

The weighted average incremental borrowing rate applied to lease liabilities during the year was 4.06%.

Right of use assets recognised under lease arrangements are detailed within note 9. The Company has additional lease charges which do not depend on an index or rate of £0.1m at 31 March 2020. These are detailed within note 4.

(ii) Maturity Analysis	**Undiscounted Lease Payments**		**Discounted Lease Payments**	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Within one year	**0.4**	0.1	**0.1**	0.1
Later than one year and not later than five years	**1.9**	0.5	**0.4**	0.5
Later than five years	**19.5**	7.8	**6.8**	3.9
	21.8	8.4	**7.3**	4.5
Future finance charges	**(14.5)**	(3.9)	**-**	-
Present value of lease obligations	**7.3**	4.5	**7.3**	4.5

17 Deferred taxation

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2020	2019	**2020**	2019	**2020**	2019
	£m	£m	**£m**	£m	**£m**	£m
Accelerated capital allowances	**-**	-	**196.0**	162.1	**196.0**	162.1
Other timing differences	**(0.2)**	-	**-**	-	**(0.2)**	-
Fair value movement on derivatives	**-**	-	**-**	-	**-**	-
Net tax liabilities	**(0.2)**	-	**196.0**	162.1	**195.8**	162.1

	1 April 2019	**Opening balance adjustment (i)**	**Recognised in income**	**Recognised in equity**	**31 March 2020**
	£m		**£m**	**£m**	**£m**
Movement in deferred tax during the year	**162.1**	**(0.1)**	**33.9**	**(0.1)**	**195.8**

	1 April 2018	Opening balance adjustment (i)	Recognised in income	Recognised in equity	31 March 2019
	£m		£m	£m	£m
Movement in deferred tax during prior year	138.4	-	23.6	0.1	162.1

(i) An opening balance adjustment totalling £0.1m is made on adoption of IFRS 16 at 1 April 2019.

18 Share capital

	2020	2019
	£m	£m
Equity:		
Allotted, called up and fully paid:		
354,300,000 ordinary shares of £1.00 each	**354.3**	354.3

19 Pensions

5% (2019: 6%) 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 £4.4m (2019: £3.7m).

20 Derivatives and financial instruments

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. Short term liquidity is reviewed daily by the department while longer term liquidity position is reviewed on a regular basis by the Group Board. The department's operations are governed by policies determined by the Group's Board and any breaches of these policies are reported to the Tax and Treasury Committee and the Group's Audit Committee. The Group's policy is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to either the Group or Company's reputation.

The Group holds committed bank facilities of £1.5bn at 31 March 2020 which could be made available to the Company if required. The Directors have considered sensitivities on future cashflow projections resulting from the coronavirus pandemic and given the facilities available, including those held at Group and Company level, the Directors have concluded that the Company has sufficient headroom to continue as a going concern.

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.

(i) Risk

Currency risk

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.

The Company presents its 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) Interest rate risk

Exposure to interest rate risk arises in the normal course of the Company's business. Interest rate risk derives from the Company's exposure to changes in value of an asset or liability or future cash flows through changes in interest rates. Derivative financial instruments are entered into to hedge exposure to risk. The objectives and policies for holding or issuing financial instruments and similar contracts, and the strategies for achieving those objectives that have been followed during the year are explained below.

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

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

20 Derivatives and financial instruments (continued)

(ii) Interest rate risk (continued)

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

(iii) 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:

	2020 Carrying value £m	**2020 Fair Value £m**	2019 Carrying value £m	2019 Fair Value £m
Financial Assets				
Trade and intercompany debtors	**2.2**	**2.2**	17.5	17.5
Derivative financial assets	**-**	**-**	0.1	0.1
Financial Liabilities				
Trade and intercompany creditors	**104.2**	**104.2**	59.6	59.6
Long-term intercompany	**-**	**-**	192.8	192.8
Loans and borrowings	**1,096.6**	**1,112.0**	749.7	757.0
Loans due to ultimate parent	**963.1**	**1,028.6**	1,063.1	1,142.0
Derivative financial liabilities	**0.1**	**0.1**	-	-

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.

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.

21 Capital commitments

	2020 £m	2019 £m
Contracted but not provided for	**236.3**	290.1

Scottish Hydro Electric Transmission plc

Notes on the Financial statements (continued)
for the year ended 31 March 2020

22 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.

23 Net debt

Reconciliation of movements in financing liabilities

		Financing Cash flows			Non cash			
	At 31 March 2019 £m	New Borrowings £m	Repayment of borrowings £m	Repayment of lease creditor £m	Fair Value movement £m	Lease liabilities £m	Reclassification £m	At 31 March 2020 £m
Loan Stock	1,063.1	-	(100.0)	-	-	-	(33.1)	930.0
Fixed Rate EIB	499.7	-	-	-	0.1	-	-	499.8
Floating Rate EIB	250.0	-	-	-	-	-	-	250.0
Fixed Rate Eurobonds	-	346.8	-	-	-	-	-	346.8
Total Long-term liabilities	**1,812.8**	**346.8**	**(100.0)**	**-**	**0.1**	**-**	**(33.1)**	**2,026.6**
Loan Stock	-	-	-	-	-	-	33.1	33.1
Total Short-term liabilities	-	-	-	-	-	-	**33.1**	**33.1**
Lease liabilities	4.5	-	-	(0.4)		3.2	-	7.3
Total loans and borrowings	**1,817.3**	**346.8**	**(100.0)**	**(0.4)**	**0.1**	**3.2**	**-**	**2,067.0**

24 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.