Scottish Hydro Electric Transmission plc

Directors Report and Financial Statements

Year ended 31 March 2021

Registered No.: SC213461

Scottish Hydro Electric Transmission plc

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Scottish Hydro Electric Transmission plc

Directors and Other Information

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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 2021, 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 the SSEN 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 5,334km 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 now progresses with the RIIO-T2 business plan having reached the end of the RIIO-T1 (Revenue = Incentives + Innovation + Outputs) Price Control period which ran 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 2021 were as follows:

Financial / Operational	**2021**	2020
Capital expenditure - £m	**429.9**	333.2
Operating profit - £m	**217.5**	214.5
Regulated asset value - £m	**3,631.3**	3,469.2

Non-Financial / Management	**2021**	2020
Number of Transmission System Incidents	**3**	2
Average Circuit Unreliability	**0.28%**	0.29%

The Company's operating profit increased by 1.4% in the year to £217.5m. An increase in operational costs and depreciation charges as a result of significant recruitment and capital investment was more than offset by increases in the phasing of allowed revenue and increased connection activity.

Scottish Hydro Electric Transmission plc

Strategic Report *(continued)*

Business performance overview (*continued*)

The Company's capital expenditure has increased by 29% in the year to £429.9m. The increase is largely attributable to spend on the progressing Shetland HVDC (High Voltage Direct Current) link which remains on track for energisation in 2024 and the entering of the construction phase on the Inveraray - Port Anne and Tealing projects. This was partially offset by spend on projects nearing completion in the year, including Knocknagael to Tomatin, Rothienorman and the New Deer 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 nearly £3.5bn *(2020: over £3.0bn)* including approximately £372m in 2021. As such Company's RAV as at March 2021 totals over £3.6bn, thus demonstrating the Company's pivotal role in providing the infrastructure required to facilitate the UK's transition to net zero.

The number of Transmission System Loss of Supply Incidents in 2020/21 was slightly higher than the previous year sitting at 3, but with a smaller overall volume of power lost. This is due to continued investment and targeted maintenance on the network. The Company's System Average Circuit Unreliability, which represents unavailability due to functional failures, improved from 0.29% to 0.28%. The decrease in the number of unplanned switch-outs and faults provided a reliability to supply energy of over 99.9%. 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 2020/21 which impacted the network performance.

Operational delivery

The Company has performed well against its main regulatory outputs for RIIO-T1 and correspondingly the business expects to close out the price control with a modest outperformance, delivering both shareholder and societal value through efficiency savings which will be equally shared with consumers through the totex (total expenditure) Incentive Mechanism.

Performance throughout RIIO-T1 has been built on a strong historic track record for keeping the lights on for the homes and businesses the Company serves, delivering an impressive network reliability of over 99.9%. As a result of its continued strong operational performance during 2020/21, the Company will receive the full reward of £1.2m through the Energy Not Supplied (ENS) Incentive for 2020/21, which will be reflected in revenue in 2022/23.

The RIIO-T1 period has also seen significant growth in the volume of renewables connected to the Company's network, which has more than doubled, from 3.3GW to 6.7GW. This includes growth of 277MW in 2020/21, bringing the total installed generation capacity in the north of Scotland to over 8GW.

This growth has been underpinned by successful delivery of major reinforcements, on time and within allowances. Despite the coronavirus pandemic, the Company made – and continues to make – excellent progress on its capital investment programme, with the continued delivery of several projects carrying over to RIIO-T2, as planned.

This includes reinforcements to upgrade the existing onshore transmission network on the East Coast to 400kV operation, as well as the replacement of the Inveraray to Crossaig transmission line in Argyll. The main construction works for the first phase, between Inveraray and Port Ann, is now complete, with these works a critical component of the wider 275kV Argyll strategy.

Good progress also continues to be made on the Shetland HVDC link, which is currently expected to entail around £650m of investment.

In May 2021, Ofgem published its consultation on the Eastern HVDC project Initial Needs Case, recognising the need and consumer benefit for the reinforcement. The project, which will see the first of two HVDC links planned from Peterhead to England, is required to alleviate current and future constraints on the transmission system and remains on track for energisation in 2029. A Final Needs Case for the link is expected to be submitted to Ofgem later this year.

RIIO-T2 investment programme – the certain view

In December 2020, Ofgem published its Final Determinations for the RIIO-T2 period, which covers the period from April 2021 to March 2026. With totex set at £2.2bn this reflected a significant increase in totex from Ofgem's Draft Determinations and, taken together with the island link to Shetland, which is already in construction, allowable spend across the T2 period is around £2.8bn. The business has chosen not to appeal the investment programme aspect of the Final Determination and is fully focused on delivering its 'Network for Net Zero' business plan.

However, while the bulk of the price control settlement matched the Company's and its stakeholders' collective ambition, the financial parameters did not. Correspondingly, in March 2021, the Company confirmed its intention to appeal certain elements of the settlement to the Competition and Markets Authority.

The appeal is both technical and narrow in scope, focused on areas where Ofgem's decision does not reflect the robust evidence provided throughout the price control process, alongside material errors in the decision. The appeal areas are:

- Cost of equity;
- Outperformance wedge;
- New exposure to transmission charges; and
- Loss of appeals right.

Whilst the Company fully understands the need to minimise customer bills, it also believes the appeal is the right thing to do and is echoed by others in the sector. The Company does not believe the appeal undermines the broader constructive relationship the business has with Ofgem. A conclusion to the appeal is expected by November 2021.

Meanwhile, by focusing on delivering the agreed elements of its business plan, the Company is supporting UK Government's net zero targets and a green recovery from the coronavirus pandemic. Taking the Certain View alone of around £2.8bn totex, Transmission RAV would exceed £5bn by the end of RIIO-T2.

RIIO-T2 – uncertainty mechanisms

With the north of Scotland home to some of the world's greatest resources of renewable energy, the Company is uniquely placed to play a leading role in the transition to net zero and the significant growth opportunities this presents.

During the RIIO-T2 period, the Company expects to progress a number of investments over and above its £2.8bn Certain View. The Company expects to unlock the additional investments required to put the north of Scotland on a pathway to net zero through Ofgem's Uncertainty Mechanisms. These investments include:

- Development and early construction expenditure for the first East Coast HVDC link from Peterhead to the north east of England.
- Upgrading the Argyll transmission network to 275kV operation, as well as the replacement of the Fort-Augustus to Skye transmission line. Initial Needs Cases for both projects are expected to be submitted to Ofgem this year.
- Further expenditure to connect new renewable generation, rail electrification and system security.

These investments could see the total installed generation capacity increase to around 14GW by the end of RIIO-T2, with almost 13GW of this from renewable sources. However, they represent an 'uncertain view' because final investment decisions remain subject to a range of factors, including generator commitment, necessary planning permissions, and, crucially, Ofgem's approval of 'Needs Cases' However, combined, these investments, alongside the Certain View, could bring the total expenditure across the RIIO-T2 period to over £4bn, with the Company's RAV increasing to over £6bn by the end of RIIO-T2.

Future growth opportunities

In addition to the opportunities outlined above, the Company continues to work with stakeholders in Orkney and the Western Isles to develop and take forward proposals to enable mainland transmission connections.

Future growth opportunities *(continued)*

Beyond RIIO-T2, the ScotWind leasing round is expected to unlock up to 10GW of new renewable generation which will require significant transmission upgrades both onshore and offshore. This includes a second HVDC link from Peterhead to England, required to deliver 2030 offshore wind targets, supporting future earnings and RAV growth.

Impact of Coronavirus

Coronavirus has had a significant impact across the economy in the UK and Ireland, however, relative to other businesses, the Company has been resilient in the face of the pandemic and it has not prevented the Company from making progress on its long term strategy.

Correspondingly, in line with expectations, the financial performance of the Company has not been significantly adversely impacted by coronavirus.

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. While the long-term economic implications from the coronavirus pandemic are still uncertain, the Company expects a minimal impact to financial performance in 2021/22. Consideration of this alongside principal risks 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 2021/22 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 2021/22 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 in line with the RIIO-T2 business plan;
- 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.

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.

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Strategic Report *(continued)*

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 delivery of 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 (LCP) Governance Framework which is designed to ensure projects are governed, developed, approved and executed in an effective manner. All significant transmission projects are governed by this framework.

Understanding and managing our principal risks

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

The Group Risk Management Policy requires the Managing Director of each Business Unit 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 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 Transmission 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. The Scottish Hydro Electric (SHE) Sub Committee reviews this risk against performance whilst providing support to employees with a significant focus on both technical and behavioural safety training. A dedicated Head of SHE and an Occupational Safety Manager drive a strategy of safety which includes operational safety and occupational health. In addition, crisis management and business continuity plans are in place to manage and recover from any significant events.
- **Regulatory Reform**– 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. The RIIO-T2 License Condition working group ensures appropriate consultation with Ofgem. 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. Potential change in the political and regulatory landscape including, but not limited to, Brexit, re-nationalisation, a second Scottish independence referendum and GB energy policy can materially impact the company's priorities and requirements. The Company will continue to engage with all relevant parties including the EU, Westminster and Holyrood parties as well as Ofgem whilst maintaining plans to ensure that we can continue to serve our customers through building, maintaining and operating our electricity network.

Understanding and managing our principal risks (*continued*)

- **Significant Network Failure and Changes** – The Company has an obligation to maintain and enhance its network and ensure its resilience. Network resilience is constantly reviewed to mitigate the risk of significant network disruption which could occur if key assets were to fail or if the Company failed to adapt to the changes and demands on the network. A robust asset management process is in place to ensure that equipment is of the correct standard and specification to provide a safe, efficient and reliable network now and in the future. The operation of HVDC circuits is new to the Company and will increase over the next few years. Appropriate training of staff and coordination between project delivery and operations teams regularly takes place.
- **New Technologies** – The energy industry is undergoing constant technological 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 operate new specialist equipment, such as HVDC circuits. An HVDC team has been established to work with suppliers, academic institutions and original equipment manufacturers. This further supports the heightened focus on staff training and testing on operations and maintenance.
- **Large Capital Projects Quality and 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 of quality 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.
- **Regulatory Submissions and Price Control Compliance** – The Company needs to close out the requirements of the RIIO-T1 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, and achieving stakeholder satisfaction and environmental outputs). As the Company progresses through RIIO-T2, the price control and regulatory risks converge and the Company seeks to deliver its capex commitments whilst maintaining the quality on all regulatory submissions. 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.
- **IT Data and 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. There is also a risk that IT upgrades do not deliver on time or are afforded adequate scope for consideration. 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 full staff awareness of IT security issues and their importance through mandatory cyber and GDPR training.
- **Shetland HVDC Project** – The Company continues to transition the network to a flexible system which can accommodate international and government net zero carbon economy goals. In order to achieve this the Company must overcome a variety of key challenges on specialist projects such as the Shetland HVDC link, including achieving a feasible project assessment determination and achieving the timely, cost effective delivery of new technology onto the network safely. Failure to properly manage key project interfaces could lead to costly compensation events or delays. The Company mitigates this risk through continuous engagement with the regulator and developers, while the project review board and steering groups monitor all aspects of delivery. In addition to this, Interface and Design Steering Groups are in place to effectively manage the integration of specialist technology onto the network.
- **People and Culture –** In order to support a strong business culture which meets the demands of the RIIO-T2 plan, the Company must continue to significantly 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 Transmission People 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.
- **Stakeholders –** The Company must continue to recognise or react appropriately to stakeholders and local communities' evolving expectations of issues while operating a sustainable business. A failure to recognise could lead to reputational damage while casting doubt on the ability to develop and change quickly to support customer needs in relation to efficient, innovative and flexible services. A dedicated Stakeholder and Communities Director mitigates this risk through the effective delivery of the stakeholder and engagement strategy. Stakeholder training has been rolled out across the entire workforce to improve awareness, while a Sustainability and Strategy team is in close connection with the Group.

Understanding and managing our principal risks (*continued*)

- **Financial Control and Fraud –** The Company must continue to manage the risk of exposure to fraud, bribery and corruption associated with the material increase in capital expenditure across a wide range of activities throughout RIIO-T2. The Company must present sufficient financial and procurement controls which can support the use of a complex global supply chain. The Financial team is actively working to mitigate this risk through the design and implementation of strengthened controls within the business, while mandatory Fraud, Bribery, Corruption and Financial Sanctions training is required of all staff. In addition to this, the Company has a presence on the Group Anti-Financial Crime Steering Group, which involves periodic submissions on Corruption and Anti-Financial crime.

Coronavirus

The coronavirus pandemic continues to impact business in the UK and Ireland and has resulted in the Transmission Executive Committee undertaking an additional assessment of each of the Principal Risks. Completed by the members assigned to oversight committees, the further assessment required consideration of additional key developments based on information collected from the business and re-assessing the risk trends to reflect any identified impact from the virus.

The overall conclusion of this assessment was that the human, social and economic impact of coronavirus has increased the prevalence of a number of the influencing factors detailed against several of the Company's Principal Risks. The impact of Coronavirus on the Company's business is expected to be economically minimal, however continuous consideration is offered to specific coronavirus developments in order to monitor any potential increase in the likelihood of occurrence of the risks; and in some cases the increase in the materiality of their impacts should they occur.

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.

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 9 to 13.

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.

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Strategic Report *(continued)*

Section 172(1) Statement *(continued)*

The Company is represented by the Directors on the Transmission 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 Group 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 the delivery of its' RIIO-T2 business plan.

In line with the above, the Transmission 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 the Group Board of Directors. For example, during the financial year, as set out in the prior year Financial Statements, the Company has committed to delivering the Shetland HVDC link to mainland GB. During the year the Company also accepted the majority of the price control decision for RIIO-T2 while electing to challenge those specific items mentioned already within the Strategic Report. The Company has also submitted an 'Initial Needs Case' (INC) for the Eastern HVDC link and had an initial response from Ofgem supporting the INC since the Balance Sheet date. The Company has also latterly initiated a change programme to underpin the delivery of the RIIO-T2 obligations and facilitate a transition to a Network for NetZero as set out in our RIIO-T2 Business Plan.

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 (non- governmental organisations), 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.

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.

Stakeholder engagement *(continued)*

In preparation for the RIIO-T2 price control, the Company developed a stakeholder-led business plan over an 18-month period. The plan, A Network for Net Zero, covers the period from April 2021 to March 2026.

In order to develop its objectives contained within the business plan, the Company worked closely with a broad range of stakeholders, including consumer advocacy agencies such as Citizens Advice and Citizens Advice Scotland, to ensure delivery of a responsible and sustainable business plan that was reflective of the current and future needs of customers and GB consumers. This was led by a thorough action plan and set out how the Company plans to engage with stakeholders. It described key engagement principles and mapped the multiple stakeholders that use or have an interest in the business' strategy and objectives, such as but not limited to generation customers, the supply chain, consumer groups, and communities who host the Company's infrastructure.

Based on feedback received, the final plan aimed to support both the UK and Scottish Governments' net zero emissions target and meet the needs and expectations expressed by stakeholders through five clear, ambitious goals:

- Transport the renewable electricity that powers 10m homes;
- Aim for 100% transmission network reliability for homes and businesses;
- Every connection delivered on time;
- One third reduction in greenhouse gas emissions; and
- £100m in efficiency savings from innovation.

In delivering this plan, the Company recognises the importance of creating benefit to society through a just transition. While its first priority is to safely deliver a robust, efficient and reliable network to customers in the north of Scotland, the Company also has a responsibility to customers, employees, communities and shareholders to ensure this essential service is met in the most responsible way possible.

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 2020/21 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.

From March 2020, the Group and Company's immediate safety and health priority was the management of the coronavirus crisis and associated risks. This demonstrated why a robust health and safety culture is so important, with the Company able to build on existing approaches to ensure it took care of employees and was able to quickly implement new measures and provide new guidance.

The Group and Company has emphasised the importance of parity of focus between mental and physical health, with initiatives including Mental Health First Aiders, employee assistance counselling, partnership counselling with Nuffield Health, and access to a range of wellbeing programmes, as well as muscular-skeletal treatments and a range of subsidised and participatory physical exercise programmes.

In response to the potential increase in stress levels and isolation as a result of the majority of employees working from home on a full-time basis, new initiatives were also introduced over 2020/21 for employees. This includes online workout sessions, online learning with topics ranging from mental health to resilience and coping with change, mindfulness conference calls and weekly virtual wellbeing cafes.

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, including a company car/allowance and private medical insurance, the Group offers a comprehensive suite of non-contractual voluntary benefits to all employees. The Company also offers all-employee flexible working arrangements, share plans, health benefits, gym membership, childcare vouchers, a holiday purchase scheme and technology loans. The Group has recently rolled out CarPlus, a new salary sacrifice car scheme open to all employees.

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.

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, however these were run more regularly during the coronavirus crisis period to capture employee sentiment on a number of key themes, including communication, strategy, leadership and wellbeing. This feedback has influenced employee focused decisions on ways of working, communication and wellbeing. SSE's September 2020 employee engagement survey had a Company specific participation rate of 95% and an engagement score of 88%. This is 8% above the utilities sector benchmark and 14% above the UK benchmark. Overall Group participation rate was 82% with an engagement score of 82%. This represents a position 3% above the utility sector benchmark and 8% above the UK benchmark.

Over the past year, SSE has enhanced its employee voice strategy with the addition of exit surveys. The exit survey aligns to SSE's overall approach to gathering employee engagement insights through its employee engagement survey, and therefore allows a comparison of top/bottom scoring answers for ex-employee sentiment on the Group and Company. The results are enabling SSE to gather meaningful and robust insights into why people leave, informing actions which aim to improve the employee experience. 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 the Group'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 deliver 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.

Stakeholder engagement *(continued)*

Customers (continued)

The Company's comprehensive engagement approach to strategic planning is demonstrated by the positive influence this had on the RIIO-T2 final business plan, including the careful balancing of consumer interests to the creation of local flexible electricity grids that engage all users. 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 Group. This includes the Group's in-year development of a new Sustainable Procurement Code and linked Supplier Guidance document which aligns to those UN Sustainable Development Goals material to the Company and Group's business. 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 seek to quantify and enhance the social value of major project investment which during 2020/21 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 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 2020/21, the Company continued to extensively liaise with regulatory officials and responded to all material regulatory 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 following the co-creation of the business plan: A Network for Net Zero. 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 continuously reviews its engagement strategies in in order to identify 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. Throughout the coronavirus pandemic, methods of community liaison were adapted, with new digital platforms implemented to engage effectively with stakeholders remotely. Feedback has demonstrated improved inclusion of communities who may have struggled to attend in-person events due to childcare, distance or work commitments. These methods include attendance at community meetings and public information days as well as Company publications.

Environment

The Group and the Company continue to strive in supporting both the UK and Scottish Government's world leading climate targets. The RIIO-T2 Business Plan is now underway, entitled 'A Network for Net Zero' which commits to delivering on five clear goals which place sustainability at the heart of the Plan. The Company is also led by the responsibility to be environmentally conscious whilst creating benefit for communities and the environment. This is underpinned by the RIIO-T2 Business Plan and associated commitments and regulatory outputs (Price Control Deliverables or PCDs) set out in the regulatory licence for the RIIO-2 period.

The Consumer Value Proposition rewards in the recent RIIO-T2 final determination process praised the Company's commitment to biodiversity net gain through the construction and operation of projects, and the Company's pledge to deliver the actions required to meet its ambitious science-based target. In August 2020, the Company's own series of carbon targets were approved by the Science Based Target initiative (SBTi), making it the first electricity networks company globally to receive external accreditation for a science based target in line with a 1.5°C pathway.

The Company believes there is scope to go further and has also signed up to support the UN's Race to Zero initiative. It continues to invest in innovative "greener grid" technology and has been confirmed as a leading energy sponsor of COP26 through the Group's endorsement.

Building on the stakeholder-led Sustainability Strategy and the good progress made in RIIO-T1, the Company will continue to enable the transition to a low carbon economy during RIIO-T2 and beyond. Going forward, the Company believes achieving "Leadership in Sustainability" will play a key role, which promotes being a trusted partner of customers and communities, realising long term benefit for society, the economy and the environment.

The transition to net zero requires a focus on being responsible in all that the Company does in order that society benefits from the Company's strategic investments. The Company will continue to seize further opportunities to achieve this. More information on the Group's approach to managing our environmental impact can be found in the 2020/21 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. During the year, the Committee stood up a project team to assess the financial reporting control environment in anticipation of a SOX style framework being introduced in the UK. The Committee will continue to monitor regulatory developments and will receive regular updates from the project team. Following the Committee's review and recommendation, the Group Board agreed that the Group's System of Internal Control (including risk management) continues to be effective.

Taking into account the actions taken, the Group 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

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 the Group, the risk of this contract being terminated is low.

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 a competitive processes has enable efficiency savings on capital and operational delivery in line with the Company's strategy for shareholders and stakeholders.

Operational resources available

The Company has 719 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. In 2020/21 growth was also financed by disposal proceeds.

Transactional foreign exchange risk arises in respect of procurement contracts. Exposure to currency risk arises in the normal course of the Company's business. Derivative financial instruments are entered into to hedge exposure to risk. The objectives and policies for holding or issuing financial instruments and similar contracts, and the strategies for achieving those objectives that have been followed during the year are explained in note 18.

The Company's financial risk is managed as part of the wider Group risk management policy. For more information regarding the Group's approach to financial risk management, please see the 2020/21 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.

Scottish Hydro Electric Transmission plc

Strategic Report *(continued)*

Liquidity, borrowings and financial resources available *(continued)*

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 a cash balance of £1.6bn at 31 March 2021 and undrawn facilities totalling £1.5bn available to the Group at 31 March 2021 which could be made available to the Company if required. These facilities are a £1.3bn revolving credit facility with a March 2026 maturity and a £200m bilateral facility with an October 2025 maturity and an option to extend for a further year to October 2026. As at 31 March 2021, both facilities were undrawn.

The Company has loans of £2,523.8m *(2020: £2,059.7m)* of which £930.0m *(2020: £963.1m)* is due to other group companies, and £749.8m *(2020: £749.8m)* is in the form of loans from the European Investment Bank. Remaining loan balances amount to £844.0m (*2020: £346.8m*) which is a fixed rate bond, and includes a new £500m green bond that the Company took out during the year. Of the total, interest is paid at fixed interest rates on £2,273.8m *(2020: £1,809.7m)* with the interest paid at floating rates on a £250.0m *(2020: £250.0m)* loan from the European Investment Bank.

As at 31 March 2021, the weighted average interest rate payable was 2.52% *(2020: 2.82%)* and the weighted average remaining term was 6.72 years *(2020: 6.54 years).*

Taxation

The headline effective tax rate, which includes the impact of substantively enacted changes in the UK corporation tax rate, is 19.2% compared with 31.2% in the previous year. The prior year rate of 31.2% was a result of a deferred tax charge of £19.1m to reflect the amendment to the main rate of corporation tax from 17% to 19% which became effective in the year.

Dividend

The Directors did not declare a dividend in the year *(2020: £nil).*

Pensions

4% *(2020: 5%)* of employees of the Company are members of the Scottish Hydro-Electric Pension Scheme, which, at 31 March 2021, based on an IAS 19 accounting basis, had a surplus included in the Group Financial Statements, net of deferred tax, of £439.9m *(2020: £432.7m).*

On behalf of the board

Gregor Alexander (Jul 23, 2021 15:50 GMT+1)

Gregor Alexander
Director
23 July 2021

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 102 and 103 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.

The Group'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 2021 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 Group 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 Group 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 8 to 9 of the SSE plc Annual Report and more on culture can be found on page 112.

There are five principal Board committees; 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 2020/21 is set out in the published annual report of the Group, which is available at www.sse.com.

Richard Gillingwater stepped down from the Board and role of Chair on 31 March 2021 and Crawford Gillies stepped down as non-Executive Director and Senior Independent Director on 30 September 2020. The Board approved the appointment of Sir John Manzoni as Chair from April 2021 and as announced in March 2020, 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 five independent non-Executive Directors. This gives the Board a good balance of independence and experience, ensuring that no one individual or group of individuals has undue influence over the Board's decision making.

Corporate Governance Statement *(continued)*

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 seven Executive Directors and five Non-Executive Directors one of whom is the Chair of the Board, 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. 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 49 and 50 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
Colin Nicol (Resigned 04/01/21)	4 of 5 (to date of resignation)
Rob McDonald	8 of 8
Chris Burchell (Appointed 04/01/21)	3 of 3 (since appointment)
Eliane Algaard (Appointed 01/09/20)	6 of 6 (since appointment)
Mark Rough (Appointed 01/04/20)	7 of 8
Sandy Mactaggart (Appointed 23/02/21)	2 of 2 (since appointment)
Maz Alkirwi (Appointed 23/02/21)	2 of 2 (since appointment)
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 2021/22.

Corporate Governance Statement *(continued)*

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.

Remuneration

The Remuneration of the Director's is set in line with overall SSE Group policy and further information can be found in note 4.

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 assess that the Financial Statements should be prepared on a going concern basis. 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 for the period to 31 December 2022.

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 "Significant Network Failure and Change" with specific consideration to significant failures to the major subsea cables on the network and "IT Data and Security" 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 RIIO-T2 price control in assessing the future outlook. Sensitivities considered included changes to the financial metrics and parameters under the new price control as well as the result of a different than expected outcome with regard to the final regulatory settlement on RIIO-T1.

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. In the very unlikely event of not being able to otherwise refinance as may be required, the Company is able to rely on Group support. 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 274 of the 2020/21 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.

Viability Statement

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

In doing so, the Board has assessed the prospects of the Company over the next 3 financial years to 31 March 2024. The Directors have determined that as this time horizon aligns with the Company's capital programme and is within the strategy planning period, a greater 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 impacts of the coronavirus outbreak, 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 undrawn committed lending facilities of £1.5bn.

To support this statement, over the course of the year a suite of severe but plausible scenarios has been developed for each of the Principal Risks facing the Company and stress testing has been undertaken against available forecast financial headroom. Examples include failure of critical network technology (for Significant Network Failure and Changes), critical subsea cable fault (for large capital projects including Shetland) and the impact of the loss of key systems (for IT Data and Cyber Security). Consideration of the coronavirus pandemic has also been considered within the scenario analysis.

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 2024.

Scottish Hydro Electric Transmission plc

Directors' Report

The Directors present their report together with the audited Financial Statements for the year ended 31 March 2021.

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 £135.5m *(2020: £106.3m)*. The Board did not declare or pay a dividend during the current or prior year.

3 Directors

The Directors and Secretary who served during the year are 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 Political donations and expenditure

The Company operates on a politically neutral basis and does not make any donations to political parties, political organisations or independent election candidates. During the year, no political expenditure was incurred and no political donations were made by the Company.

6 Corporate governance

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

7 Accounting policies, financial instruments and risk

Details of the Company's policies with regard to financial instruments and risk, are provided in Note 18 to the Financial Statements.

8 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.

Directors' Report *(continued)*

9 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, whether that means access to appropriate training, development opportunities or job progression. 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.

10 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 (Jul 23, 2021 11:07 GMT+1)

Mark McLaughlin
Company Secretary
23 July 2021

Scottish Hydro Electric Transmission plc

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 (Jul 23, 2021 15:50 GMT+1)

Gregor Alexander
Director
23 July 2021

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 2021 which comprise the Profit and Loss Account, Statement of Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity and cash flow statement and the related notes 1 to 22, 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 2021 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. 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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. In our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting:

- We confirmed our understanding of management's Going Concern process;
- We obtained board approved cashflow forecasts for the company and sensitivities prepared by management to 31 December 2022. We tested the arithmetical accuracy of the models and performed reverse stress testing to understand how plausible the severe downside scenarios would need to be to result in negative liquidity;
- We understood that management have assumed that access to Group financing will continue the Going Concern period and we obtained a letter of support from SSE plc confirming this;
- We have considered the ability of the company to rely on parent company support; and
- We considered whether management's disclosures in the financial statements sufficiently and appropriately reflect the going concern assessment and outcomes.

In considering the ability of the company to rely on the parent company support, the following procedures were performed over the group and parent company's going concern assessment:

- We confirmed that the cash flow forecasts prepared by management were consistent with those considered in the Group Going Concern model;
- We confirmed our understanding of group management's Going Concern process as well as the review controls in place over the preparation of the group's Going Concern model and the memoranda on going concern;
- We confirmed that all expected risks to going concern were included within management's going concern assessment;
- We obtained group management's board approved forecast cash flows, covenant forecasts and sensitivities prepared by management to 31 December 2022. We tested for arithmetical accuracy of the models as well as checking the net debt position at the year-end date which is the starting point for the model;
- We assessed the reasonableness of the cashflow forecast by analysing group management's historical forecasting accuracy and understanding how any anticipated continued impact of COVID-19 had been modelled;

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

- We performed reverse stress testing on group management's forecasts to understand how plausible the severe downside scenarios would need be to result in negative liquidity or a covenant breach. The EY assessment reflects all maturing debt through to 31 March 2023;
- We reviewed group management's assessment of mitigating options potentially available to the company to reduce cash flow spend in the Going Concern period, to determine their plausibility and whether such actions could be implemented by management. We have obtained analysis to determine whether these were within the control of management and evaluated the impact of these mitigations in light of our understanding of the business and its cost structures;
- We performed a detailed review of borrowing facilities to assess their continued availability to the company and to ensure completeness of covenants identified by group management; and
- We 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.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period to 31 December 2022.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

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
Materiality	• Overall materiality of £8.4m which represents 5% of profit before tax.

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.

Key audit matters

Key audit matters 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)*

Key audit matters *(continued)*

Risk	Our response to the risk	Key observations communicated to Management
Carrying value of PP&E, specifically the risk around incorrect cost capitalisation (PP&E NBV 2021: £3.951bn, PP&E NBV 2020: £3.609bn) *Refer to accounting policies (page 37), and Note 8 of the financial statements (page 42)* 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. This could result in overstated assets and income in the year. It is deemed there is a sufficiently high likelihood of misstatement for this to be classified as a key audit matter.	To respond to the risk, 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 relating to the cost capitalisation process. The following procedures were performed: *Controls Testing* We have tested controls over the authorisation, monitoring and review of capital expenditure in the 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 agreed the appropriateness of overheads capitalised *Journal Entry Testing* We performed a search within our journal entries testing, which included the full population of journals posted in the year, for any manual debit journals posted to fixed assets to identify non-standard additions. For any journals identified we agreed to supporting invoices in line with our fixed asset additions testing approach. *Board Minutes Review* We read Board Minutes to identify any unusual or challenging projects that were receiving executive level attention and cross checked this to our additions work to corroborate our findings. *Disclosure Review* We assessed the appropriateness and adequacy of the disclosures in line with relevant accounting standards. All audit work in relation to this key audit matter was undertaken by the Scottish Hydro Electric Transmission plc audit engagement team.	We conclude that the costs capitalised in the year were materially correct as a result of the procedures we 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)*

Risk	**Our response to the risk**	**Key observations communicated to Management**
Management override of controls, specifically around revenue recognition (Revenue 2021: £405m, Revenue 2020: £379m) *Refer to Accounting policies (page 36); and Note 2 of the Financial Statements (page 39)* 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. Scottish Hydro Electric Transmission plc revenue is regulated. All revenue generated from the Ofgem model is recorded by the Scottish Hydro Electric Transmission finance team. 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.	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. *Disclosure Review* We assessed the appropriateness and adequacy of the disclosures in line with relevant accounting standards. All audit work in relation to this key audit matter was undertaken by the Scottish Hydro Electric Transmission plc 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.

In the prior year, our auditor’s report included the following key audit matters:

- Impact of Covid-19, including going concern assessment – we have removed this as KAM in the current year as a result of the continued resilience of Scottish Hydro Electric Transmission plc. Additionally, in line with ISA (UK) 570 revisions, we are now required to disclose going concern separately in our auditor’s report, set out on page 23.

- First year audit transition - This is the second year of auditing the entity and therefore the first year audit transition KAM has been removed.

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.

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

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 £8.4 million (2020: £7.8 million), which is 5% (2020: 5%) of profit before tax. We believe that profit before tax provides us with a consistent measure of underlying year-on-year performance.

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% (2020: 75%) of our planning materiality, namely £6.3m (2020: £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.

We agreed with those charged with governance that we would report to them all uncorrected audit differences in excess of £0.42m (2020: £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 contained within the annual report.

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.

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 course of 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 themselves. 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' report have been prepared in accordance with applicable legal requirements.

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

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.

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- 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 (FRS101, Companies Act 2006 and UK Corporate Governance Code) and relevant tax compliance regulations in the UK. We also determined there was no non-compliance with regulatory requirements.
- 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 confirmed our enquiries through our review of board minutes, regulatory correspondence and papers provided to the SSE plc Audit Committee. 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 they 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 at a group level. Where the risk was considered to be higher, we performed audit procedures to address the identified fraud risk, management override of controls, specifically around revenue recognition.

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

- 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 journals and journals indicating large or unusual transactions based on our understanding of the business and enquiries of legal counsel and management. In addition, we completed procedures to conclude on the compliance of the disclosures in the financial statements and accounts with all applicable requirements.
- We understood the relationship between Scottish Hydro Electric Transmission plc and its regulator, the Office of Gas and Electricity Markets (OFGEM), to understand their scope of authorisation and controls the entity has in place to meet their requirements. We requested copies of any correspondence with the regulator that is relevant to our audit and discussed ongoing regulatory matters with the directors.

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

- Following the recommendation from the SSE plc audit committee we were appointed by the company on 18 July 2019 to audit the financial statements for the year ending 31 March 2020 and subsequent financial periods.

  The period of total uninterrupted engagement including previous renewals and reappointments is 2 years, covering the years ending 31 March 2020 to 31 March 2021.
- 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.
- The audit opinion is consistent with the additional report to those charged with governance.

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.

Nicola McIntyre (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Glasgow
23 July 2021

Scottish Hydro Electric Transmission plc

Profit and Loss Account
for the year ended 31 March 2021

	Note	2021 £m	2020 £m
Revenue	**2**	**404.9**	378.6
Cost of Sales		**(1.0)**	-
Gross Profit		**403.9**	378.6
Distribution costs		**(174.8)**	(149.5)
Administrative costs		**(11.8)**	(14.0)
Gain/(Loss) on disposal of property, plant and equipment		**0.2**	(0.6)
Operating profit	**3**	**217.5**	214.5
Interest receivable and similar income	**5**	**3.2**	-
Interest payable and similar charges	**6**	**(53.0)**	(60.0)
Profit before taxation		**167.7**	154.5
Tax on profit	**7**	**(32.2)**	(48.2)
Profit for the financial year		**135.5**	106.3

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 2021

	2021	2020
	£m	£m
Profit for the financial year	**135.5**	106.3
Other comprehensive income		
Items that will be reclassified subsequently to profit or loss:		
(Loss) on effective portion of cash flow hedges	**(12.3)**	(0.2)
Taxation on cashflow hedges	**2.3**	0.1
Other comprehensive gain/(loss)	**(10.0)**	(0.1)
Total comprehensive income relating to the financial year	**125.5**	106.2

Scottish Hydro Electric Transmission plc

Balance Sheet
as at 31 March 2021

	Note	2021 £m	2020 £m
Non-current assets			
Property, plant and equipment	**8**	**3,951.4**	3,609.1
Intangible assets	**9**	**16.0**	11.7
		3,967.4	3,620.8
Current assets			
Debtors: Amounts falling due within one year	**10**	**204.6**	2.7
Restricted cash	**11**	**2.5**	6.4
Total current assets		**207.1**	9.1
Current liabilities			
Creditors: amounts falling due within one year	**12**	**(412.8)**	(244.5)
Net current liabilities		**(205.7)**	(235.4)
Total assets less current liabilities		**3,761.7**	3,385.4
Creditors: amounts falling due after more than one year	**13**	**(2,375.5)**	(2,152.7)
Derivative financial liabilities	**18**	**(12.4)**	(0.1)
Deferred taxation	**15**	**(210.6)**	(195.8)
Net assets		**1,163.2**	1,036.8
Capital and reserves			
Called up share capital	**16**	**354.3**	354.3
Profit and loss account		**818.9**	682.5
Hedge reserve		**(10.0)**	-
Equity Shareholders' funds		**1,163.2**	1,036.8

These Financial Statements were approved by the Directors on 23 July 2021 and signed on their behalf by:

Gregor Alexander (Jul 23, 2021 15:50 GMT+1)

Gregor Alexander
Director
Company registered number: SC213461

Scottish Hydro Electric Transmission plc

Statement of Changes in Equity
for the year ended 31 March 2021

	Share capital £m	Retained earnings £m	Hedge reserve £m	Total equity £m
Balance at 1 April 2019	**354.3**	**575.5**	**0.1**	**929.9**
Profit for the year	-	106.3	-	106.3
Other comprehensive income	-	-	(0.1)	(0.1)
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**
Balance at 1 April 2020	**354.3**	**682.5**	**-**	**1,036.8**
Profit for the year	-	135.5	-	135.5
Other comprehensive income	-	-	(10.0)	(10.0)
Total comprehensive income for the year	**-**	**135.5**	**(10.0)**	**125.5**
Credit in respect of employee share schemes	-	0.9	-	**0.9**
Balance at 31 March 2021	**354.3**	**818.9**	**(10.0)**	**1,163.2**

Scottish Hydro Electric Transmission plc

Cash Flow Statement
for the year ended 31 March 2021

	Note	2021 £m	2020 £m
Operating profit		**217.5**	214.5
Depreciation on property, plant and equipment		**85.1**	77.5
Amortisation of intangible assets		**2.0**	1.4
Charge in respect of employee share awards		**0.9**	0.7
(Gain) / Loss on disposal of fixed assets		**(0.2)**	0.6
Customer contributions and capital grants released		**(1.5)**	(1.5)
Cash generated from operations before working capital movements		**303.8**	293.2
(Increase) / Decrease in debtors		**(2.8)**	21.0
Increase / (Decrease) in creditors		**13.7**	(4.2)
Movement in intercompany		**(295.0)**	(151.4)
Cash generated from operations		**19.7**	158.6
Interest paid		**(60.4)**	(63.8)
Taxes paid		**(15.3)**	(21.3)
Net cash from operating activities		**(56.0)**	73.5
Purchase of property, plant and equipment		**(404.3)**	(317.8)
Purchase of intangible assets		**(6.3)**	(2.5)
Proceeds from sale of property, plant and equipment		**2.7**	-
Net cash from investing activities		**(407.9)**	(320.3)
New borrowings	**14**	**497.0**	346.8
Repayment of borrowings		**(33.1)**	(100.0)
Net cash from financing activities		**463.9**	246.8
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		**-**	-

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, United Kingdom.

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 (Reduced Disclosures) ("FRS 101") as issued by the Financial Reporting Council.

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*.
- Certain disclosures, required by IFRS 16 *Leases*.

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 period to 31 December 2022. 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 the period to 31 December 2022. 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 cash surplus of £1.6bn at 31 March 2021, the undrawn committed bank facilities of £1.5bn maintained by the Group, the current commercial paper market conditions, the assumption that the Group will be able to refinance maturing debt, the success of the disposal programme 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 £2.5bn of medium- to long-term debt and Hybrid equity during the year. In the very unlikely event of not being able to otherwise refinance as may be required, the Company is able to rely on Group support. The Directors considered mitigating actions available to the Group under downside scenarios including not calling the £1.0bn Hybrid debt instruments due in September 2022, non-essential capex postponement and further cost reductions. 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 £205.7m 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, 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 currency 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 (PPE) 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 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 PPE that is accounted for separately is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits of the PPE 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. For intangible assets with an indefinite life or which are not yet ready for use, the test for impairment is carried out annually in accordance with IAS 36.

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 other significant judgements or estimates in the year than those noted above.

2 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 2021	377.2	22.9	4.3	0.5	**404.9**
Transmission revenue at 31 March 2020	353.3	22.3	2.7	0.3	378.6

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 2026.

3 Expenses and auditor's remuneration

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

	2021 £m	2020 £m
Depreciation of property, plant and equipment	**85.1**	77.5
Amortisation of intangible assets	**2.0**	1.4
(Gain)/Loss on disposal of property, plant and equipment	**(0.2)**	0.6
Lease charges (i)	**0.3**	0.1
Release of deferred income in relation to customer contributions and capital grants	**(2.7)**	(1.5)
Net management fees in respect of services provided by group companies	**10.6**	14.5
Research costs	**4.1**	3.6

(i) Represents the expense of leases with a duration of 12 months or less, leases deemed to be "low value" and variable lease payments which do not depend on an index or rate with £0.3m *(2020: £0.1m)* charged in the current year.

The Company incurred £0.1m of external audit fees *(2020: £0.1m)*. Included within this are audit related assurance service fees of £0.01m *(2020: £0.01m)*.

4 Staff costs and numbers

	2021 £m	2020 £m
Staff costs:		
Wages and salaries	**32.8**	24.4
Social security costs	**3.7**	2.8
Share based remuneration	**0.9**	0.7
Pension costs	**5.6**	4.4
	43.0	32.3
Less charged as capital expenditure	**(23.1)**	(18.4)
	19.9	13.9

4 Staff costs and numbers *(continued)*

Employee numbers

	2021	2020
	Number	Number
Customer facing	**37**	41
Support staff	**682**	475
Numbers employed at 31 March	**719**	516

Average employee numbers	**2021**	2020
	Number	Number
Customer facing	**36**	39
Support staff	**606**	460
The monthly average number of people employed by the Company during the year	**642**	499

	2021	2020
	£m	£m
Directors remuneration	**6.1**	4.9

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 £6.1m (*2020: £4.9m*). The total attributable to the highest paid director is £2.2m *(2020: £1.7m)*. The above value is for 12 Directors (*2020: 11*), 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 £2.2m *(2020: £1.5m)*, of which £1.1m *(2020: £0.5m)* is due to the highest paid Director. Total company pension contributions of £0.1m (*2020: £nil*) were made to a money purchase scheme on behalf of the Directors.

10 (2020: 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	
	2021	2020
Retirement benefits are accruing to the following number of Directors under:		
Defined benefit schemes	**4**	5

5 Interest receivable and similar income

	2021	2020
	£m	£m
Foreign exchange translation of monetary assets and liabilities	**3.2**	-

6 Interest payable and similar charges

	2021 £m	2020 £m
Interest payable to group companies	**36.3**	39.9
Bank loans and overdrafts	**23.9**	20.9
Foreign exchange translation of monetary assets and liabilities	**-**	3.4
Lease interest	**0.3**	0.3
Interest capitalised	**(7.5)**	(4.5)
	50.3	60.0

7 Taxation

	2021 £m	2020 £m
UK corporation tax		
Current tax on income for the period	**15.4**	15.2
Adjustment in respect of prior periods	**(0.3)**	(0.9)
Total current tax charge	**15.1**	14.3
Deferred tax (see note 15):		
Origination and reversal of temporary differences	**17.1**	14.8
Effect of change in tax rate	**-**	19.1
Total deferred tax	**17.1**	33.9
Total tax on profit	**32.2**	48.2

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:

	2021 £m	2020 £m
Profit before taxation	**167.7**	154.5
Tax on profit at standard UK corporation tax rate of 19% *(2020: 19%)*	**31.9**	29.3
Effects of:		
Depreciation on non-qualifying assets	**0.6**	0.6
Expenses not deductible for tax purposes	**-**	0.1
Adjustment in respect of previous periods	**(0.3)**	(0.9)
Effect of change in tax rate on deferred tax	**-**	19.1
Total tax charge for year	**32.2**	48.2

The standard rate of tax applied to reported profit on ordinary activities is 19% (*2020: 19%*). The Government announced in the Budget on 3 March 2021 that the main rate of corporation tax will increase to 25% for the financial year beginning 1 April 2023. Prior to this date, the rate of corporation tax will remain at 19%. The increase to 25% rate was not substantively enacted at 31 March 2021, therefore the Company has continued to measure deferred tax balances at 19%. The Company has estimated that the increase to 25% would increase the Company's deferred tax liabilities by £66.5m.

Finance Bill 2021 also included draft legislation in respect of Capital Allowance 'Super-deductions' of 130% in respect of General Pool plant and machinery, alongside First Year Allowances of 50% for Special Rate Pool plant and machinery for the two years commencing 1 April 2021. The Company expects these changes, which have not yet been enacted, to significantly increase the deduction for Capital Allowances in the financial years ending 31 March 2022 and 31 March 2023. It is not yet possible to quantify the financial impact of these changes as guidance has yet to be issued by HMRC as to how they will apply.

8 Property, plant and equipment

	Land and Buildings £m	Network assets £m	Vehicles and miscellaneous equipment £m	Total £m
Cost:				
At 1 April 2020	6.6	4,143.6	28.0	4,178.2
Additions	1.0	415.4	13.5	429.9
Disposals	-	(2.6)	-	(2.6)
At 31 March 2021	**7.6**	**4,556.4**	**41.5**	**4,605.5**
Depreciation:				
At 1 April 2020	(0.3)	(559.1)	(9.7)	(569.1)
Charge for the year	(0.2)	(81.1)	(3.8)	(85.1)
Disposals	-	0.1	-	0.1
At 31 March 2021	**(0.5)**	**(640.1)**	**(13.5)**	**(654.1)**
Net book value:				
At 31 March 2021	**7.1**	**3,916.3**	**28.0**	**3,951.4**
At 31 March 2020	6.3	3,584.5	18.3	3,609.1

The above property, plant and equipment includes £145.5m *(2020: £137.9m)* of capitalised interest, of which £7.5m was capitalised in the current year *(2020: £4.5m)*. The weighted average interest rate applied in the year was 2.80% *(2020: 2.99%)*. 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 31 March 2019	4.5
Recognised on adoption of IFRS 16 on 1 April 2019	1.7
Additions	0.4
At 31 March 2020	6.6
Additions	1.0
At 31 March 2021	**7.6**
Depreciation:	
At 31 March 2019	(0.1)
Charge for the year	(0.2)
At 31 March 2020	(0.3)
Charge for the year	(0.2)
At 31 March 2021	**(0.5)**
Net book value:	
At 31 March 2021	**7.1**
At 31 March 2020	6.3

Scottish Hydro Electric Transmission plc

Notes on the Financial Statements *(continued)*
for the year ended 31 March 2021

9 Intangible assets

	IT Software £m
Cost:	
At 1 April 2020	16.4
Additions	6.3
At 31 March 2021	**22.7**
Amortisation:	
At 1 April 2020	(4.7)
Charge for the year	(2.0)
At 31 March 2021	**(6.7)**
Net book value:	
At 31 March 2021	**16.0**
At 31 March 2020	11.7

10 Debtors

	2021 £m	2020 £m
Trade debtors	**7.8**	0.6
Corporation tax debtor	**0.2**	-
Amounts owed by group undertakings	**196.6**	1.6
Contracted related receivables	**-**	0.5
	204.6	2.7

11 Restricted cash

	2021 £m	2020 £m
Restricted cash	**2.5**	6.4

Restricted cash represents amounts received to fund the Multi Terminal Test Environment (MTTE) 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.

12 Creditors: amounts falling due within one year

	2021	2020
	£m	£m
Trade creditors	**6.4**	4.3
Loans and borrowings (note 14)	**150.0**	-
Loans due to ultimate parent (note 14)	**150.0**	33.1
Amounts owed to group undertakings	**-**	99.9
Other creditors	**22.0**	33.4
Contract related liabilities (i)	**3.7**	6.7
Accruals	**80.4**	67.0
Obligations under leases	**0.3**	0.1
	412.8	244.5

(i) Current contract related liabilities include customer contributions of £2.6m *(2020: £2.6m).* Revenue recognised in the reporting period of £3.1m 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 4.01% *(2020: 4.06%).*

13 Creditors: amounts falling due after more than one year

	2021	2020
	£m	£m
Loans and borrowings (note 14)	**1,443.8**	1,096.6
Loans due to ultimate parent (note 14)	**780.0**	930.0
Contract related liabilities (i)	**143.9**	118.9
Obligations under leases	**7.8**	7.2
	2,375.5	2,152.7

(i) Non-current contract related liabilities include customer contributions of £122.3m *(2020: £117.2m).*

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 4.01% *(2020: 4.06%).*

14 Interest bearing loans and borrowings

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

Borrowing facilities

	Weighted Average Interest Rate 2021 %	Weighted Average Interest Rate 2020 %	**2021 £m**	2020 £m
Creditors: falling due within one year				
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**	-	**150.0**	-
Floating Rate European Investment Bank repayable 21 September 2021	**0.79**	-	**150.0**	-
			300.0	33.1
Creditors: falling due between two and five years				
5.00% Loan Stock repayable to SSE plc on 31 March 2022	**-**	5.00	**-**	150.0
2.75% Loan Stock repayable to SSE plc on 31 March 2025	**2.75**	2.75	**300.0**	300.0
3.375% Loan Stock repayable to SSE plc on 25 February 2026	**3.38**	-	**450.0**	-
Floating Rate European Investment Bank repayable 21 September 2021	**-**	1.73	**-**	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
Fixed Rate European Investment Bank repayable 20 May 2026	**2.16**	-	**299.8**	-
			1,249.8	800.0
Creditors: falling due after more than five years				
3.375% Loan Stock repayable to SSE plc on 25 February 2026	**-**	3.38	**-**	450.0
5.625% Loan Stock repayable to SSE plc on 31 March 2028	**5.63**	5.63	**30.0**	30.0
Fixed Rate European Investment Bank repayable 20 May 2026	**-**	2.16	**-**	299.8
Floating Rate European Investment Bank repayable 9 March 2028	**0.82**	1.70	**100.0**	100.0
Fixed Rate Eurobond repayable 24 March 2028	**1.50**	-	**248.8**	-
Fixed Rate Eurobond repayable 27 September 2035	**2.25**	2.25	**347.0**	346.8
Fixed Rate Eurobond repayable 24 March 2036	**2.13**	-	**248.2**	-
			974.0	1,226.6
			2,523.8	2,059.7

The effective interest rate is equal to the weighted average interest rate for all borrowings at 31 March 2021.

The 5.50% Loan Stock repayable to SSE plc on 31 March 2021 at a value of £33.1m 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.

The Fixed Rate Eurobond repayable on 24 March 2028 is a £250.0m loan on which a £1.2m arrangement fee has been paid. The arrangement fee will be amortised over the life of the loan to bring the outstanding amount back to £250.0m at maturity.

The Fixed Rate Eurobond repayable on 24 March 2036 is a £250.0m loan on which a £1.8m arrangement fee has been paid. The arrangement fee will be amortised over the life of the loan to bring the outstanding amount back to £250.0m at maturity.

15 Deferred tax liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2021	2020	**2021**	2020	**2021**	2020
	£m	£m	**£m**	£m	**£m**	£m
Accelerated capital allowances	**-**	**-**	**213.1**	196.0	**213.1**	196.0
Other timing differences	**(0.2)**	**(0.2)**	**-**	-	**(0.2)**	(0.2)
Fair value movement on derivatives	**(2.3)**	**-**	**-**	-	**(2.3)**	-
Net tax liabilities	**(2.5)**	**(0.2)**	**213.1**	196.0	**210.6**	195.8

	1 April 2020	**Opening balance adjustment (i)**	**Recognised in income**	**Recognised in equity**	**31 March 2021**
	£m		**£m**	**£m**	**£m**
Movement in deferred tax during the year	**195.8**	**-**	**17.1**	**(2.3)**	**210.6**

	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 prior year	162.1	(0.1)	33.9	(0.1)	195.8

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

16 Equity

Share capital

	2021	2020
	£m	£m
Equity:		
Allotted, called up and fully paid:		
354,300,000 ordinary shares of £1.00 each	**354.3**	354.3

Hedge reserve

The hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedge derivative instruments related to hedged transactions that have not yet occurred.

17 Pensions

4% *(2020: 5%)* 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 £5.6m *(2020: £4.4m)*.

18 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 2021 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) 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.

18 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. 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. 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:

	2021 Carrying value £m	**2021 Fair Value £m**	2020 Carrying value £m	2020 Fair Value £m
Financial Assets				
Trade and intercompany debtors	**204.4**	**204.4**	2.2	2.2
Derivative financial assets	**-**	**-**	-	-
Financial Liabilities				
Trade and intercompany creditors	**6.4**	**6.4**	104.2	104.2
Loans and borrowings	**1,593.8**	**1,616.8**	1,096.6	1,112.0
Loans due to ultimate parent	**930.0**	**972.1**	963.1	1,028.6
Derivative financial liabilities	**12.4**	**12.4**	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.

19 Capital commitments

	2021 £m	2020 £m
Contracted but not provided for	**573.4**	236.3

The year on year increase in capital commitments contracted but not provided for is mainly attributable to the contracted commitments for the Shetland HVDC transmission link.

Scottish Hydro Electric Transmission plc

20 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.

21 Net debt

Reconciliation of movements in financing liabilities

			Financing Cash flows			Non cash		
	At 31 March 2020 £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 2021 £m**
Loan Stock	930.0	-	-	-	-	-	(150.0)	780.0
Fixed Rate EIB	499.8	-	-	-	-	-		499.8
Floating Rate EIB	250.0	-	-	-	-	-	(150.0)	100.0
Fixed Rate Eurobonds	346.8	497.0	-	-	0.2	-	-	844.0
Total Long-term liabilities	**2,026.6**	**497.0**	**-**	**-**	**0.2**	**-**	**(300.0)**	**2,223.8**
Loan Stock	33.1	-	(33.1)	-	-	-	150.0	150.0
Floating Rate EIB	-	-	-	-	-	-	150.0	150.0
Total Short-term liabilities	**33.1**	-	(33.1)	-	-	-	**300.0**	**300.0**
Lease liabilities	7.3	-	-	(0.5)		1.3	-	8.1
Total loans and borrowings	**2,067.0**	**497.0**	**(33.1)**	**(0.5)**	**0.2**	**1.3**	**-**	**2,531.9**

Scottish Hydro Electric Transmission plc

Notes on the Financial Statements *(continued)*
for the year ended 31 March 2021

21 Net debt *(continued)*

Reconciliation of movements in financing liabilities *(continued)*

		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

22 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.