REGISTERED NO.
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Scottish Hydro Electric Power Distribution plc

Regulatory Accounts

Year ended 31 March 2011

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Operating and Financial Review

The Operating and Financial Review sets out the main trends and factors underlying the development and performance of the Company during the year ended 31 March 2011, as well as those matters which are likely to affect its future development and performance.

The business, its objectives and strategy

Scottish Hydro Electric Power Distribution plc (the Company) is a wholly owned subsidiary of Scottish and Southern Energy plc (the Group). The Company distributes electricity to over 747,000 customers in the North of Scotland. It currently has 46,859 kilometres of electricity mains on commission. The Company assumed the Scottish operations of its related party, S+S Limited, from 1 April 2010. This included the electricity connections business within the Company's licensed area and the out of area electricity networks in the rest of Scotland.

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

The Company's strategy and main objectives are to :

- comply fully with all electricity network safety standards and environmental requirements;
- ensure that the electricity network is managed as efficiently as possible, including maintaining tight controls over operational expenditure;
- provide good performance in areas such as reliability of supply, customer service and innovation and thus earn additional incentive-based revenue under the various Ofgem schemes;
- deliver capital expenditure programmes, so that the number and duration of power cuts experienced by customers is kept to a minimum;
- grow the RAV of the networks business and so secure increased revenue; and
- engage constructively with the regulator, Ofgem.

Business performance overview

Performance during 2010/11 has been encouraging and against a range of measures has continued to be good. The following financial and operational key performance indicators are used by the Company in measuring performance:

a) Operating Profit (£m)

Year to March 2011	£103.7m
Year to March 2010	£102.7m
Increase (%)	1.0%

b) Capital Expenditure (£m)

Year to March 2011	£61.7m
Year to March 2010	£76.1m
Decrease (%)	18.9%

c) Electricity Distributed (TWh)

Year to March 2011	8.5 TWh
Year to March 2010	8.4 TWh
Decrease (%)	1.2%

d) Customer Minutes Lost

Year to March 2011	78
Year to March 2010	74
Increase	5.4%

Operating and Financial Review (continued)

Business performance overview (continued)

e) Customer Interruptions – number per 100 customers

Year to March 2011	74
Year to March 2010	78
Decrease	5.1%

The small increase in operating profit needs to be considered after removal of the £7.6m contribution from the acquired business. The underlying decrease of £6.6m reflects a number of increased costs incurred in the year. There were 3 submarine cable faults during the course of the year. In particular there was a prolonged fault on the submarine cable connecting the islands of Isaly & Jura. These types of faults are time consuming and costly to repair and in 2010/11 these costs, including the back up island diesel generation costs, were £4.0m higher than in the previous year. In addition the cost of operating on Shetland in the year was £8.9m more than in 2009/10 primarily due to increased fuel and diesel prices in the year. Following the introduction of the British Electricity Trading and Transmission Arrangements (BETTA) in 2005, SHEPD acts as system operator on Shetland on behalf of National Grid and special regulatory provisions are in place to cover the associated costs. These costs increases were offset by an increase in the price of units distributed under the Distribution Price Control for the 2010-15 period.

Performance in respect of customer interruptions was ahead of the targets set by Ofgem under its Quality of Service Incentive Scheme (QSIS), which gives financial benefits to distribution network operators that deliver good performance for customers. The position on customer minutes lost was negatively affected by severe weather experienced in the north of Scotland in early March 2011. Performance based income covers a number of issues, including the quality of service provided to customers and innovation. For 2010/11 performance-based additional income of £5.5m is expected to be earned. Over the five year period of Distribution Price Control 4 that ended in March 2010 the Company earned additional revenue of £22.5m in nominal prices for its performance in respect of Customer Interruptions and Customer Minutes Lost. On this measure, the Company was ranked fourth amongst the 14 electricity distribution companies in Great Britain. This reflects effective investment in the automation of the networks and effective operational responses to electricity supply interruptions.

Efficiency is one of the Group and Company's core values, and amongst Ofgem's explicit purposes in setting Price Controls is to keep the costs of providing secure and reliable networks as low as possible. As part of the most recent Price Control Review, in December 2009, Ofgem published analysis which showed that the Company continues to be at the forefront of efficiency for overall operating costs. This value is supported by the Company and Group's straightforward operating model. Under this model:

- customer-facing activities such, as restoring power supplies or providing new connections, are managed from a network of 7 depots in communities throughout North of Scotland mainland and islands;
- network management activities such as, inspections, maintenance and investment, are carried out in Operational Production Groups; and
- there is a strong emphasis on work being in-sourced and carried out by directly-employed people.

This model gives the Company a strong oversight of operations and investment, allows flexibility in responding to changed circumstances and supports a culture of efficiency, teamwork and excellence, including innovation.

Electricity Network Investment

2010/11 was the first year of the Electricity Distribution Price Control for 2010-15. The new Price Control changed the framework for operating and capital expenditure to remove the perceived bias in favour of the latter and to ensure the delivery of not only the investment itself but of agreed outputs from it. The most successful electricity distribution companies, therefore, will be those that apply efficiency and innovation to maximise outputs from agreed expenditure

In response to this, the Company and the Group's other electricity distribution network company (Southern Electric Power Distribution plc) have undertaken a fundamental review of all of the processes around operating and capital expenditure, looking at every step in the value chain, in order to secure the maximum possible outputs from any expenditure. As a result, it has identified a number of solutions and interventions for wider deployment in 2010-15 to ensure its success throughout the Price Control period.

Operating and Financial Review (continued)

Electricity Network Investment (continued)

This means that the two Companies have robust and cost efficient network investment processes that deliver real value for customers. It has also identified a number of technological advancements that are delivering cost savings and minimising disruption.

For example, use of directional drilling units, a method of cable installation, is well established in the two companies. The directional drill burrows underground holes for cables, resulting in minimum disturbance to the highway and thereby reduces disruption to the public and the costs associated with ground reinstatement. This has been taken a stage further with the first use in the UK for underground cable replacement of a 'wash-over' drill head, which injects water at high pressure to loosen soil around cabling. The old cable can then be removed and a new one installed along the same route. The idea was developed and introduced to the 2 companies by an employee under the Group's 'Licence to Innovate' scheme and in 2010/11 reduced open excavations/highway closures by an estimated 620 days between the companies.

Techniques such as these will be more widely deployed and developed during the new Price Control. Their deployment, plus good performance in response to Ofgem's enhanced incentive mechanisms in areas such as customer service should enable the Company to achieve the post-tax real return in excess of 5% which it is targeting in electricity distribution.

Capital expenditure was £61.7m during the year, which was 18.9 % lower than in 2009/10. The timing of the capital expenditure programme for the new price control period is likely to be more evenly phased than during the previous price control period between 2005-10. A significant proportion of the expenditure in the 2005-10 period was incurred in the last 2 years of the period. As at 31 March 2011, the Company's estimate of Ofgem's valuation of the assets of its electricity distribution business (the Regulated Asset Value, or RAV) was £900m based on Ofgem's methodology.

One of the key outcomes of the current Price Control period is the focus on investment to promote the development of "smart" electricity networks. Although there is no standard definition, the European Technology Platform for the Electricity Networks of the Future defines smart grids as 'electricity networks that can intelligently integrate the behaviour and actions of all users connected to it - generators, consumers and those that do both – in order to efficiently deliver sustainable, economic and secure electricity supplies'. During the year the Company submitted a bid under Ofgem's Low Carbon Network Fund for a project to support smart grid development. Unfortunately, this project, the Northern Isles New Energy Solutions (NINES) in Shetland, did not receive funding under this scheme. However, this project was commended by Ofgem and it was agreed that the project had potential to contribute to the long term issues of securing a long term generation solution on Shetland. In August 2011 Ofgem issued a consultation on this project including the provision of sufficient funding of the project under the current price control framework. The NINES project features: installing 'smart' storage heaters and hot water tanks in up to 1,000 homes which can help balance the electricity network; adding a new electric boiler to the existing district heating system, which will be associated with the proposed medium-scale Gremista wind farm; deploying new technology on the network that will allow more small scale renewable generators to connect to the network; introducing new commercial arrangements to encourage businesses to change the times at which they use most energy; and installing a 1MW battery, part-funded by the Department for Energy and Climate Change, at Lerwick Power Station

Factors & risks affecting the Business

The Company is responsible for managing an electricity distribution network, serving more than 747,000 customers. Distribution of electricity within specified areas is a monopoly activity and the income earned by charging electricity customers for the use of the wires is closely regulated by Ofgem, as is the level of investment which is made in electricity networks. In December 2009 Ofgem published their final proposals document for the Distribution Price Control Review Period 5.

Operating and Financial Review (continued)

Factors & risks affecting the Business (continued)

The Company decided, on balance, to accept Ofgem's final proposals for the Price Control for the five years from 1 April 2010. Ofgem's final proposals were assessed against the combined impact of three key criteria:

- the scope to earn additional revenue through operational efficiency and excellence;
- the treatment of ongoing pension costs; and
- the allowed return for shareholders as measured by the weighted average cost of capital.

During 2011/12, the Company's first objective will continue to be to maintain safe and reliable supplies of power and to restore supplies as quickly as possible in the event of interruptions. The Company will also ensure that the network operations are managed as efficiently as possible, including maintaining tight controls over operational expenditure and successfully delivering the capital investment plans, so that the number and duration of power cuts experienced by customers is kept to a minimum. In addition, as a result of the Distribution Price Control Review, the Company aims to respond effectively to the new arrangements in the electricity distribution price control for allocating costs between support activities and network operating costs and also in deploying innovative techniques to maximise returns from good performance of the electricity network.

Safety

The Company believes that all work can be done in such a way that no-one, whether an employee, contractor, customer or member of the community, suffers from its operations. It believes that all injuries are preventable and it aims to provide staff with training, work methods and equipment to achieve that goal. 'Being safe' is a core value within the Group. In line with this, the Group's Health, Safety and Environment Manual, which has the status of a work instruction, emphasises that safety will not be compromised for business interest or operational pressures and all injuries, plant damage and near misses will be reported and investigated. The Group Health, Safety and Environmental Advisory Committee, together with the Group Audit Committee and management, ensures that: health, safety and environmental policy statements are being adhered to; sets health, safety and environmental targets for the Group; and monitors the performance of the Group against these targets. The Group Director with lead responsibility for Health and Safety is Colin Hood, who chairs the Safety and Health leadership team.

As a result of this commitment to safety, both the Group and the Company continue to be at the forefront of Britain's electricity industry in relation to safety.

Employees

The Group believes that there is a commonality of interest between employees, customers and shareholders. To reinforce this it provides opportunities for employees to become and remain shareholders in the Group through a Share Incentive Plan and a Sharesave Scheme. Employee participation in these schemes is now 44% and 35% respectively across the Group.

Within the Group, employee participation is encouraged through adherence to the Company's Teamwork value, which states: 'We support and value our colleagues and enjoy working together in an open and honest way.' The appraisal process for employees, including the senior management team, specifically evaluates their performance in Teamwork, along with performance in respect of the Group's other core values: Safety, Service, Efficiency, Sustainability and Excellence. In keeping with these values, the Group produced and distributed to all employees in March 2010 a comprehensive code of business practice, 'Doing the right thing'. It highlights, summarises and complements a range of ethics-related policies which the Group has in place.

In addition to a wide range of internal communication media and events, employee participation in the Group is also encouraged through the Chief Executive's blog, inter-active online forums, division and subject-specific employee surveys, Director-led regional roadshows and the Licence to Innovate scheme, which enables employees to research, review and test-trial new ideas.

Operating and Financial Review (continued)

Capital Structure

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

Treasury Policy, Objectives and Financial Risk Management

The Company's operations are generally financed by a combination of retained profits, bank borrowings, long term debt issuance and inter company loan balances. As a matter of policy, a minimum of 50% of the Company's debt is subject to fixed or inflation linked rates of interest. Within this policy framework, the Company borrows, as required, on different interest bases, with derivatives and forward rate agreements being used to achieve the desired out-turn interest rate profile. Borrowings of the company are mainly made in Sterling to reflect the underlying currency denomination of assets and cashflows within the Company. Further details of the Company's borrowings can be found in note 14 of the notes to the financial statements.

The Company's financial risk is managed as part of the wider Group risk management policy. For more information regarding this please visit the Group's 2011 Annual Report at www.SSE.com.

The main financial risks affecting the Group, and therefore the company, include exposures to fluctuations or changes in interest rates, foreign exchange rates, liquidity, commodity prices and volumes and counterparty creditworthiness.

The Group's Risk and Trading Committee, which reports to the Group Board, reviews and agrees policies for addressing each of these risks. At 31 March 2011, 76.1% of the Group's borrowings were at fixed or inflation-linked interest rates, after taking account of interest rate swaps. The Company's main risk area is in relation to interest rates and, as noted, this is controlled as part of the Group's risk management policies.

Liquidity

The Company's exposure to liquidity risk is managed centrally by the Group's Treasury function. Short term liquidity is reviewed daily by Treasury, while the longer term liquidity position is reviewed on a regular basis by the Management Board. In relation to the Group's liquidity risk, the Group's and therefore Company's policy is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. It does this by ensuring that the Group has available committed borrowings and facilities equal to at least 105% of forecast borrowings over a rolling 12 month period.

Taxation

The Company's effective current tax rate was 25.8% compared with 33.5% in the previous year after prior year adjustments. The headline effective tax rate, which includes the impact of substantively enacted changes in the UK corporation tax rate, is 15.9% compared with 31.0% in the previous year.

Dividend

The Company's normal dividend policy has been to distribute up to 50% of surplus cash flow as a dividend for both years. After consideration by the Directors, a dividend of £10.0m (2010 – £5.0m) was declared, approved and paid in the year.

Operating and Financial Review (continued)

Borrowings and Facilities

The Company has loans of £487.7m (2010 – £482.6m) of which £300.0m (2010 – £300.0m) is due to other Group companies and £187.7m (2010 – £182.6m) is in the form of loans from the European Investment Bank and an index-linked bond. Of the total, interest is paid at fixed or inflation-linked rates on £462.7m (2010 – £457.6m).

As at 31 March 2011, the weighted average interest rate payable was 4.75% (2010 – 4.77%) and the weighted average remaining term was 17.32 years (2010 – 18.32 years).

Pensions

The majority of employees of the Company are members of the Scottish Hydro-Electric Pension Scheme, which, at 31 March 2011 on an IAS 19 basis adjusted for IFRIC 14 had a deficit, net of deferred tax, of £177.5m included in the Group accounts (2010 – £180.8m).

International Financial Reporting Standards

The application of International Financial Reporting Standards (IFRS) is required for listed companies for accounting periods commencing on or after 1 January 2005. As a result, the Group's financial statements for the year to 31 March 2011 have been prepared in accordance with EU adopted IFRS. The financial statements of Scottish Hydro Electric Power Distribution plc have been prepared in accordance with applicable UK Generally Accepted Accounting Principles (UK GAAP).

Corporate Governance Statement

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

The Group's corporate governance policies are described in the Scottish and Southern Energy plc's annual report and accounts 2011 under corporate governance on pages 47 to 76.

The Board of Scottish and Southern Energy plc considers that it complied in full with the combined code during 2010/11.

Scottish and Southern Energy plc Group ("The Group")

The Board is accountable to the Group's shareholders for the good conduct of the Group's affairs. Throughout the year the Group monitors developments in corporate governance best practice. Due regard is also given to the policy guidelines of organisations representing major institutional investors. In addition, internal procedures are regularly reviewed and updated by the Board and the various Board committees. The Group's core purpose is to provide the energy people need in a reliable and sustainable way while abiding by its core values: safety; service; efficiency; sustainability; excellence; and teamwork. The Board continues to be committed to ensuring that the highest standards of corporate governance are maintained and the Board confirms that throughout the year, the Group complied with all provisions set out in Section 1 of the Code.

The Board consists of a non-Executive Chairman, four Executive Directors and five independent non-Executive Directors. This gives the Board an appropriate balance of independence and experience, ensuring that no one individual or group of individuals has undue influence over the Board's decision-making. The composition of the Board and its committees is regularly reviewed to ensure that this balance and mix of skills and experience is maintained and appropriate.

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

Board of Directors

The Board consists of seven Directors, two of whom are Directors of the Group. None of the Directors are Directors of Group Companies involved in supply or generation activities. Company Board meetings and sub committee meetings were held on 7 occasions during the course of the year. There are no non-executive or independent directors. The Board does not have a separately appointed chairman. Meetings are chaired by a member of the Board, usually one of the Directors of the Group. The Company does not have a Nominations, Remuneration or Audit Committee. These functions are dealt for the Company in conjunction with the relevant committee of the Scottish and Southern Energy plc ('the Group') Board.

The Group has an Audit Committee, a Remuneration Committee, an Executive Committee, a Risk and Trading Committee, a Health, Safety and Environmental Advisory Committee and a Nomination Committee and details of the appointees and work undertaken by these committees are included in the published Corporate Governance Statement of the Group (see www.sse.com).

The independence of the Company's auditors is reviewed annually by the Group audit committee. KPMG Audit Plc has been the external auditor of the Group since 1999. Under its terms of reference, the Audit Committee has responsibility for recommending to the Board the appointment, re-appointment and removal of the external Auditors. The Audit Committee considers that the relationship with the Auditors is working well and remains satisfied with their effectiveness. There are no contractual obligations restricting the Company's choice of external auditor. The external Auditors are required to rotate the audit partners responsibility for the Group audit every five years and the current lead partner has been in place for two years.

Attendance at meetings of the Board during 2010/11, expressed as a number of meetings attended out of number eligible to attend is set out below:

Corporate Governance Statement (continued)

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

Board of Directors

Director	Attendance
Gregor Alexander	7 of 7
Colin Hood	1 of 6
Steven Kennedy	7 of 7
Mark Mathieson	6 of 7
Ian Funnell	6 of 6
Robert McDonald	6 of 6
Aileen McLeod	1 of 1
Stuart Hogarth	1 of 1

Internal Control

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

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

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

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

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

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

Environment

The Group manages a wide range of environmental issues. Operating the power systems network is recognised as a priority area and formal environmental management systems have been developed . The systems have five main elements, based on the established management cycle of (1) setting policy, (2) planning, (3) implementing and operating, (4) checking and correcting and (5) reviewing.

The system exists to enable managers to deliver the Group's environmental policies through procedures and work instructions. It reflects an integrated, Group-wide health and safety and environmental management system.

Going Concern

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

Report of the Directors

The Directors present their report together with the audited Financial Statements for the year ended 31 March 2011.

1. Principal Activities

The Company's principal activity during the year was the regulated distribution of electricity.

2. Business Review

The Company is responsible for managing an electricity distribution network, serving more than 747,000 customers in the North of Scotland. Distribution of electricity and the level of capital investment within the network area is a monopoly activity and is closely regulated by the Office of Gas and Electricity Markets (Ofgem) within a framework known as the Price Control. From 1 April 2010, the Company also carries out the business of provision of new electrical connections services within its licensed area and the construction and management of out-of-area electricity networks in Scotland. A full review of the year is contained within the Operating and Financial Review section of these Accounts.

3. Results and Dividends

The profit for the financial year amounted to £63.5m (2010 - £55.0m). A final dividend of £10.0m (2010 - £5.0m) was declared, approved and paid by the Board during the year.

4. Directors

The Directors who served during the year were as follows: -

Gregor Alexander
Colin Hood
Steven Kennedy
Mark Mathieson
Ian Funnell
Rob McDonald (resigned 21 January 2011)
Aileen McLeod (appointed 24 January 2011)
Stuart Hogarth (appointed 24 January 2011)

5. Political and Charitable Donations

During the year, no charitable or political donations were made.

6. Employment Policies

Staff are actively encouraged to be involved in Company affairs in a wide variety of ways. These include monthly team meetings, briefing documents and internal videos. Policies on such matters as Equal Opportunities and Health and Safety are regularly communicated to staff and involvement is supported through local committees. New staff joining the Company receive induction training.

It is Company policy, where possible, to provide employment opportunities for disabled people. Staff who become disabled are supported in continuing employment through identification of suitable jobs and the provision of necessary retraining.

7. Supplier Payment Policy

It is the Group and Company's policy that payment terms are agreed at the outset of a transaction and are adhered to; that bills are paid in accordance with the contract; and that there are no alterations to payment terms without prior agreement. The number of suppliers days represented by trade creditors was 39 days at 31 March 2011.

Report of the Directors (continued)

8. Auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that ought to have been taken as a director to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

ON BEHALF OF THE BOARD

Lilian Manderson

Lilian Manderson
Company Secretary
16 September 2011

Statement of directors' responsibilities in respect of the Directors' Report and the Financial statements

The Directors are responsible for preparing the Financial Statements and the Regulatory Financial statements in accordance with applicable law and regulations. Standard Licence Condition 44 of the Regulatory Licence requires the Directors to prepare Regulatory Financial statements, for each regulatory year, which present fairly the assets, liabilities, reserves and provisions of, or reasonably attributable to the Company and of revenues, costs and cash flows of, or reasonably attributable to, the Company for that period. Regulatory Accounts contain the same content and format as the Company's Statutory Accounts. In preparing the Regulatory Financial statements, the Directors are required to:

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and Standard Licence Condition 44 as applicable. They are also responsible for the system of internal control, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

We have audited the Regulatory Financial statements of Scottish Hydro Electric Power Distribution plc ("the Company") set out on pages 14 to 35 which comprise: the Profit and Loss Account, Balance Sheet, Reconciliation of Movements in Shareholders' Funds, Statement of Total Recognised Gains and Losses, Cash Flow Statement and the related notes to the Regulatory Financial statements. These Regulatory Financial statements have been prepared under the accounting policies set out therein.

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

Basis of preparation

The Regulatory Financial statements have been prepared under the historical cost convention and in accordance with Standard Condition 44 of the Regulatory Licence and the accounting policies set out in the statement of accounting policies.

The Regulatory Financial statements are separate from the statutory Financial statements of the Company. There are differences between United Kingdom Generally Accepted Accounting Principals (UK GAAP) and the basis of preparation of information provided in the regulatory financial statements because the Standard Condition 44 of the Regulatory Licence specify alternative treatment or disclosure in certain respects. Where Standard Condition 44 of the Regulatory Licence does not specifically address an accounting issue, then it requires UK GAAP to be followed. Financial information other than that prepared wholly on the basis of UK GAAP may not necessarily represent a true and fair view of the financial performance or financial position of the Company as shown in Financial statements prepared in accordance with the Companies Act 2006.

Respective responsibilities of the regulator, the directors and auditor

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

As described in the Statement of Directors' Responsibilities on page 11, the Company's directors are responsible for the preparation of the Regulatory Financial statements in accordance with Standard Condition 44 of the Regulatory Licence.

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

We report to you our opinion as to whether the Regulatory Financial statements are properly prepared in accordance with Standard Condition 44 of the Regulatory Licence and the accounting policies set out on pages 18 to 20 of the Regulatory Financial statements. We also report to you if, in our opinion, the Company has not kept proper accounting records or if, in our opinion, we have not received all the information and explanations we require for our audit.

We read the other information contained in the Regulatory Financial statements, including any supplementary schedules on which we do not express an audit opinion, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Regulatory Financial statements. The other information comprises the Corporate Report, review of the year and Corporate Governance Statement. Our responsibilities do not extend to the other information.

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board except as noted below. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Regulatory Financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Regulatory Financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Regulatory Financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. However, as the nature, form and content of Regulatory Financial statements are determined by the Regulator, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under those auditing standards.

Our opinion on the Regulatory Financial statements is separate from our opinion on the statutory financial statements of the company on which we report, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the company (our "statutory" audit) was made solely to the company's members, as a body, in accordance with chapter 3 of part 16 of the Companies Act 2006. Our statutory audit work was undertaken so that we might state to the company those matters which we are required to state to them in a statutory auditors' report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the company's members, as a body, for our statutory audit work, for our statutory audit report, or for the opinions we have formed in respect of that statutory audit.

Opinion

In our opinion the Regulatory Financial statements of the Company for the year ended 31 March 2011 are properly prepared, in accordance with Standard Condition 44 of the Regulatory Licence and the accounting policies set out on pages 18-20 of the Regulatory Financial statements.

John Luke

John Luke (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

16 September 2011

Profit and Loss Account
for the year ended 31 March 2011

	Note	Continuing activities £m	Acquired activities £m	2011 £m	2010 £m
Turnover		**254.5**	**47.4**	**301.9**	247.2
Cost of sales		**(38.8)**	**(31.3)**	**(70.1)**	(28.1)
Gross profit		**215.7**	**16.1**	**231.8**	219.1
Distribution costs		**(107.6)**	**(8.5)**	**(116.1)**	(113.2)
Administrative costs		**(12.0)**	**-**	**(12.0)**	(3.2)
Operating profit	2	96.1	7.6	**103.7**	102.7
Net interest payable	5			**(28.2)**	(23.0)
Profit on ordinary activities before taxation				**75.5**	79.7
Tax on profit on ordinary activities	6			**(12.0)**	(24.7)
Profit for the financial year	17			**63.5**	55.0

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

Statement of Total Recognised Gains and Losses for the year ended 31 March 2011

	2011 £m	2010 £m
Profit for the financial year	**63.5**	55.0
Gain on effective portion of cash flow hedges (net of tax)	**1.1**	0.4
Total recognised gains and losses relating to the financial year	**64.6**	55.4

Reconciliation of Movements in Shareholders' Funds as at 31 March 2011

	2011 £m	2010 £m
Profit for the financial year	**63.5**	55.0
Dividends	**(10.0)**	(5.0)
Credit in respect of employee share schemes (net of tax)	**0.9**	1.1
Gain/(loss) on effective portion of cash flow hedges (net of tax)	**1.1**	0.4
Deferred tax recognised directly in equity	**-**	(0.6)
Net addition to shareholders' funds	**55.5**	50.9
Opening shareholders' funds	**404.7**	353.8
Closing shareholders' funds	**460.2**	404.7

Balance Sheet
as at 31 March 2011

	Note	2011 £m	2010 £m
Fixed Assets			
Tangible assets	9	**854.9**	822.6
Current assets			
Stocks	10	**1.7**	1.4
Debtors:			
Amounts falling due within one year	11	**420.7**	375.5
Amounts falling due after more than one year	11	**22.4**	28.0
Total debtors		**443.1**	403.5
Total current assets		**444.8**	404.9
Creditors			
Amounts falling due within one year	12	**(144.1)**	(149.0)
Net current assets		**300.7**	255.9
Total assets less current liabilities		**1,155.6**	1,078.5
Creditors:			
Amounts falling due after more than one year	13	**(575.4)**	(543.7)
Derivative financial liabilities	20	**(10.8)**	(13.4)
Provisions for liabilities and charges			
Deferred taxation	15	**(109.2)**	(116.7)
Net assets		**460.2**	404.7
Capital and reserves			
Called up share capital	16	**62.0**	62.0
Profit and loss account	17	**399.8**	345.4
Hedge reserve	17	**(1.6)**	(2.7)
Shareholders' funds		**460.2**	404.7

These Financial Statements were approved by the Directors on 16 September 2011 and signed on their behalf by

Gregor Alexander, Director

Scottish Hydro Electric Power Distribution plc, Registered No. 213460

Cash Flow Statement
for the year ended 31 March 2011

	Note	2011 £m	2010 £m
Net cash inflow from operating activities	22	**101.4**	128.1
Interest received		**1.9**	1.7
Interest paid		**(25.8)**	(23.7)
Returns on investments and servicing of finance		**(23.9)**	(22.0)
Corporation tax paid		**(28.7)**	(29.6)
Taxation		**(28.7)**	(29.6)
Cash received on assumption of business from related party	8	**23.0**	-
Purchase of tangible fixed assets		**(61.8)**	(71.5)
Capital expenditure and financial investment		**(38.8)**	(71.5)
Equity dividends paid	7	**(10.0)**	(5.0)
Net cash inflow before management of liquid resources and financing		**-**	-
Repayment of borrowings		**-**	-
New borrowings		**-**	-
Financing		**-**	-
Increase/(decrease) in cash in the year		**-**	-

Notes on the Financial statements for the year ended 31 March 2011

1. Significant accounting policies

Basis of preparation
The Regulatory Financial Statements have been prepared under the historical cost convention and in accordance with UK generally accepted accounting standards (UK GAAP) and as required by Standard Condition 44, Regulatory Financial statements, of the Electricity Distribution Licence. The principal accounting policies are summarised in the Notes to the Financial statements and have been applied consistently.

As the Company is a wholly owned subsidiary of Scottish and Southern Energy plc (SSE plc), it has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the Scottish and Southern Energy Group (the Group).

It has also taken advantage of the exemption contained in FRS 29 and has therefore not prepared the disclosures relating to financial instruments and capital as full disclosure is provided in Group financial statements.

Turnover
Turnover comprises the value of electricity distribution services and facilities provided during the year. Turnover includes an estimate of the value of the distribution of electricity on behalf of customers between the date of the last meter reading and the year-end. In addition, turnover is also recognised on the value of new connection and rechargeable services provided in the period.

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

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

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

Deferred taxation arises in respect of all items where there are timing differences between their treatment for accounting and taxation purposes. This is recognised where an obligation to pay more tax in the future has originated but not reversed at the balance sheet date. A deferred tax asset is recognised only when it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Tangible fixed assets

(i) Depreciation
Heritable and freehold land is not depreciated.

Depreciation is provided on tangible fixed assets to write off cost, less residual values, on a straight-line basis over their estimated operational lives. The estimated operational lives are as follows:

			Years
Distribution assets			10 to 40
Non-operational assets:			
Buildings	-	freehold	Up to 60
	-	leasehold	Lower of lease period and 60
Fixtures, equipment, plant and machinery, vehicles and mobile plant			4 to 10

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

Notes on the Financial statements for the year ended 31 March 2011

1. Significant accounting policies (continued)

Stocks and work in progress
Stocks are valued at the lower of cost and net realisable value. The valuation of work in progress is based on the cost of labour, plus appropriate overheads and the cost of materials. Progress invoices are deducted in arriving at the amounts stated.

Employee benefit obligations
Pensions
The Scottish and Southern Energy Group operates a number of pension schemes on behalf of employees. The amounts charged represent the contributions payable to the schemes in the year and are charged directly to the profit and loss account as incurred.

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

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

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

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

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

Financial instruments:
The Company adopted FRS 25 and FRS 26 with effect from 1 April 2005. FRS 26 requires that financial instruments are initially recognised and subsequently measured at fair value. Financial assets and liabilities are recognised when the Company becomes a party to the provisions of the instrument.

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

Notes on the Financial statements for the year ended 31 March 2011

1. Significant accounting policies (continued)

Accounting policies under FRS 25 and 26

i) Interest Rate Derivatives
Financial derivative instruments are used by the Company to hedge interest rate exposures. All such derivatives are recognised at fair value and are re-measured to fair value in each reporting period. Certain derivative financial instruments are designated as being held for hedging purposes. The designation of the hedge relationship is established at the inception of the contract and procedures are applied to ensure the derivative is highly effective in achieving its objective and that the effectiveness of the hedge can be reliably measured. The treatment of gains and losses on re-measurement is dependent on the classification of the hedge and whether the hedge relationship is designated as either a 'fair value' or 'cash flow' hedge. Derivatives that are not designated as hedges are treated as if held for trading, with all fair value movements attributable to the risk being hedged recorded through the profit and loss account.

A derivative classified as a 'fair value' hedge recognises gains and losses from re-measurement immediately in the profit and loss account. Loans and borrowings are measured at cost except where they form the underlying transaction in an effective fair value hedge relationship. In such cases, the carrying value of the loan or borrowing is adjusted to reflect fair value movements with the gain or loss being reported in the profit and loss account.

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 period in which the forecast transaction actually occurs.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the forecast transaction occurs. If the transaction is no longer expected to occur, the cumulative gain or loss recognised in equity is recognised in the profit and loss account.

ii) Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

iii) Debtors
Debtors do not carry any interest and are measured at cost (less an appropriate allowance for irrecoverable balances).

iv) Interest-bearing loans and borrowings
All such loans and borrowings are initially recognised at fair value including transaction costs and are subsequently measured at amortised cost, except where the loan or borrowing is the hedged item in an effective fair value hedge relationship.

v) Share Capital
Ordinary shares are accounted for as equity. Costs associated with the issue of new shares are deducted from the proceeds of issue.

Notes on the Financial statements for the year ended 31 March 2011

2. Operating profit

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

	2011 £m	2010 £m
Depreciation of tangible fixed assets	**39.6**	37.0
Operating lease rentals	**0.5**	0.6
Release of deferred income in relation to customer contributions and capital grants	**(3.4)**	(3.3)
Research and development	**2.4**	0.4
Net management fee in respect of services provided by group companies	**12.0**	3.2

The Company incurred an audit fee of £0.06m (2010 - £0.06m) in the year.

3. Staff costs and numbers

	2011 £m	2010 £m
Staff costs:		
Wages and salaries	**25.4**	25.0
Social security costs	**2.3**	2.2
Share based remuneration	**1.0**	1.1
Other pension costs (note 19)	**22.5**	20.9
	51.2	49.2
Less capitalised as tangible fixed assets	**(18.3)**	(17.2)
	32.9	32.0

Employee numbers

	2011 Number	2010 Number
Numbers employed at 31 March	**711**	710

	2011 Number	2010 Number
The monthly average number of people employed by the Company during the year	**706**	706

4. Directors' remuneration

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

	2011 £m	2010 £m
Remuneration as executives	**0.4**	0.4

Notes on the Financial statements for the year ended 31 March 2011

5. Net interest payable

	2011 £m	2010 £m
Interest receivable:		
Interest due from group companies	1.9	1.7
	1.9	1.7
Interest payable:		
Bank loans and overdrafts	(13.7)	(10.8)
Interest due to group companies	(17.9)	(17.8)
	(31.6)	(28.6)
Movement on financing derivatives	1.5	3.9
Net interest payable	(28.2)	(23.0)

6. Taxation

	2011 £m	2010 £m
Current tax:		
UK corporation tax on profits of the year	24.2	29.5
Adjustments in respect of prior years	(4.7)	(2.8)
	19.5	26.7
Deferred tax:		
Origination and reversal of timing differences	(2.9)	(7.1)
Effect of tax rate change	(8.4)	-
Adjustment in respect of previous year	3.8	5.1
Total Deferred Tax	(7.5)	(2.0)
Total tax on profit on ordinary activities	12.0	24.7

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

	2011 £m	2010 £m
Profit before tax	75.5	79.7
Tax on profit on ordinary activities at standard UK corporation tax rate of 28% (2010 - 28%)	21.1	22.3
Effects of:		
Depreciation in excess of capital allowances	4.0	3.6
IBA's permanent differences	0.1	0.1
Share based remuneration	0.1	3.4
Other timing differences	(1.1)	0.1
Adjustments in respect of prior years	(4.7)	(2.8)
Current tax charge for year	19.5	26.7

(i) The Emergency Budget on 22 June 2010 announced that the UK corporation tax rate will reduce from 28% to 24% over a period of four years from 2011. The first change from 28% to 27% was substantially enacted in July 2010 and applies from 1 April 2011. The March 2011 Budget accelerated reduced the tax rate from 1 April 2011 further to 26%. This was substantively enacted on 29 March 2011. These changes will reduce the Company's future current tax charge accordingly. As this rate change has been substantively enacted it has the effect of reducing the Company's net deferred tax liabilities recognised at 31 March 2011 by £8.4m. It has not yet been possible to quantify the full anticipated effect of the announced further 3% rate reduction (the rate now being reduced to 23%) due to legislation not being enacted, although this will further reduce the company's future current tax charge and reduce the company's deferred tax liabilities accordingly.

Notes on the Financial statements for the year ended 31 March 2011

7. Dividends

	2011 £m	2010 £m
Amounts recognised as distributions from equity:		
Final dividend of 16.1p (2010 – 8.1p) per share	**10.0**	5.0

The final dividend for the current year, £10m (2010 – £5.0m), was declared and approved on 24 March 2011 and was paid to shareholders on 31 March 2011.

8. Acquired business

On 1 April 2010, the Company acquired the electrical connections business, relating to distribution network connections in the Company's licensed area and the portfolio of out of area electricity networks in the rest of Scotland, both of which were previously owned and managed by S+S Limited, a related company. The transaction was part of a re-organisation within the Scottish and Southern Energy plc Group and was made to conform with the regulatory reporting requirements of the industry regulator, Ofgem. The transfer-of-trade was made at book value between two wholly owned subsidiaries of SSE Power Distribution Limited. The balances were transferred as net liabilities of £23.0m, which is a consequence of the Group cash management process which transfers all cash receipts to the ultimate holding company. The Company therefore received cash for assuming these liabilities from S+S Limited, which became part of the Group indebtedness to the Company.

The assets and liabilities acquired were as follows:

	£m
Tangible fixed assets	10.1
Trade debtors	9.2
Accruals and deferred income	(42.3)
	(23.0)

9. Tangible fixed assets

	Distribution assets £m	Other land and buildings £m	Vehicles and miscellaneous equipment £m	Total £m
Cost:				
At 1 April 2010	1,389.1	6.2	71.2	1,466.5
Acquired	10.1	-	-	10.1
Additions	59.6	2.2	-	61.8
At 31 March 2011	**1,458.8**	**8.4**	**71.2**	**1,538.4**
Depreciation:				
At 1 April 2010	588.3	1.5	54.1	643.9
Charge for the year	38.1	0.4	1.1	39.6
At 31 March 2011	**626.4**	**1.9**	**55.2**	**683.5**
Net book value:				
At 31 March 2011	**832.4**	**6.5**	**16.0**	**854.9**
At 31 March 2010	800.8	4.7	17.1	822.6

Notes on the Financial statements for the year ended 31 March 2011

9. Tangible fixed assets (continued)

	2011 £m	2010 £m
Tangible fixed assets include:		
Assets in the course of construction	34.4	40.1

10. Stocks

	2011 £m	2010 £m
Work-in-progress	18.6	-
Less: Payments on account received/receivable	(18.6)	-
Raw materials and consumables	1.7	1.4
	1.7	1.4

11. Debtors

	2011 £m	2010 £m
Amounts falling due within one year:		
Trade debtors	20.7	7.8
Prepayments and accrued income	19.0	19.3
Amounts owed by group undertakings	381.0	348.4
	420.7	375.5
Amounts falling due after more than one year:		
Amounts owed by group undertakings	22.4	28.0
	443.1	403.5

12. Creditors: amounts falling due within one year

	2011 £m	2010 £m
Trade creditors	4.6	3.8
Amounts owed to group undertakings	78.7	91.1
Corporation tax	17.6	26.8
Other creditors	6.0	2.3
Accruals and other deferred income	37.2	25.0
	144.1	149.0

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

	2011 £m	2010 £m
Loans (note 14)	187.7	182.6
Loans due to ultimate parent (note 14)	300.0	300.0
Accruals and other deferred income	87.7	55.5
Amounts owed to group undertakings	-	5.6
	575.4	543.7

Notes on the Financial statements for the year ended 31 March 2011

14. Analysis of borrowings

	Weighted Average Interest rate 2011 %	Weighted Average Interest rate 2010 %	**2011 £m**	2010 £m
Between two and five years				
6.39% European Investment Bank repayable on 24 September 2012	**6.39**	6.39	**50.0**	50.0
Over five years				
Floating rate European Investment Bank repayable on 13 June 2014	**0.78**	0.78	**25.0**	25.0
5.90% Loan Stock repayable to Scottish and Southern Energy plc on 31 March 2022	**5.90**	5.90	**300.0**	300.0
1.429% Index linked bond repayable 20 October 2056	**1.43**	1.57	**112.7**	107.6
			437.7	432.6
			487.7	482.6

15. Deferred taxation

Deferred taxation is provided as follows:

	2011 £m	2010 £m
Accelerated capital allowances	**111.3**	120.1
Other timing differences	**(2.1)**	(3.5)
Share based remuneration	**-**	0.1
Provision for deferred tax	**109.2**	116.7

	31 March 2011 £m
Provision at 1 April 2010	116.7
Charge to profit and loss account	0.9
Change in tax rate	(8.4)
Provision at end of year	**109.2**

Notes on the Financial statements for the year ended 31 March 2011

16. Share capital

	2011	2010
	£m	£m
Authorised:		
62,001,000 ordinary shares of £1 each	**62.0**	62.0
Allotted, called up and fully paid:		
62,000,000 ordinary shares of £1 each	**62.0**	62.0

17. Reserves

	Hedge Reserve	Profit and loss account	Total
	£m	£m	£m
At 31 March 2010	(2.7)	345.4	**342.7**
Retained profit for the year	-	63.5	**63.5**
Dividends	-	(10.0)	**(10.0)**
Credit in respect of employee share awards	-	0.9	**0.9**
Gain on effective portion of cash flow hedges	1.1	-	**1.1**
At 31 March 2011	**(1.6)**	**399.8**	**398.2**

18. Pensions

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

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

The Company's share of the total contribution payable to the pension schemes during the year was £5.7m (2010 – £4.1m). The Company has provided a guarantee to the Scottish Hydro Electric Pension Scheme in respect of 80% of the Scheme's deficit. Should the company operating the Scheme, SSE Services plc, fail to adequately fund the deficit, the Company will provide 80% of the funding required. In relation to this, the Company incurred a further charge, payable to SSE Services plc, of £16.8m (2010 – £16.8m), which related to its share of the Scheme's deficit repair contributions for the year ended 31 March 2011.

Notes on the Financial statements for the year ended 31 March 2011

19. Employee share-based payments

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

(i) Savings-related share option schemes ("Sharesave")

This scheme gives employees the option to purchase shares in the parent Company at a discounted market price, subject to them remaining in employment with the Group for the term of the agreement. Employees may opt to save between £5 and £250 per month for a period of 3 or 5 years and at the end of this period, employees have six months to exercise their options by using the cash saved (including a bonus equivalent to interest). If the option is not exercised, the funds may be withdrawn by the employee and the option expires.

(ii) Share Incentive Plan (SIP)

This scheme allows employees the opportunity to purchase shares in the parent Company on a monthly basis. Employees may nominate an amount between £10 and £125 to be deducted from their gross salary. This is then used to purchase shares ('Partnership shares') in the market on the final business day of each month. These shares are then held in trust for a period of 5 years, at which point they are transferred at no further cost to the employee. These shares may be withdrawn at any point during the 5 years, but tax and national insurance would then be payable on any amounts withdrawn.

In addition to the shares purchased on behalf of the employee, the Group will also match the purchase up to a maximum of 6 (previously 5) shares ('Matching shares') per month. Again these shares are held in trust for the five years until they are transferred to the employee. If an employee leaves during the first three years, or removes his/her 'partnership' shares, these 'matching' shares are forfeited.

In addition to the above, the following special awards of free shares have been made:

Award made	**31 March 2005**	**31 March 2007**	**31 March 2008**
Free shares per employee	50	20	10
Date at which employee must still be employed to receive award (in addition to 31 March)	20 August 2005	30 May 2007	1 August 2008

These awards were made to all employees in recognition of their contribution to the success of the company. Under the arrangements for the awards, the shares will be held in trust for five years, at which point they will be transferred to the employees at no cost to the employee. These shares may be withdrawn at any point during years four and five, but income tax and national insurance would then be payable on any amounts withdrawn.

Notes on the Financial statements for the year ended 31 March 2011

19. Employee share-based payments (continued)

(iii) Deferred bonus scheme

This scheme applied to senior managers and executive directors of the Group. Those eligible were awarded shares based on performance in the year. Shares purchased under this agreement were held in trust on behalf of the employee for a period of three years from the date of grant, at which point the employee became entitled to exercise the award. In addition to shares purchased under the adjusted bonus award, additional shares were also purchased by the Trustee in respect of amounts equivalent to dividends which would have been payable on the shares held by the Trust. If the employee resigned, they forfeit any outstanding awards.

This scheme has been replaced by the current Annual Bonus Scheme. Under this scheme, 25% of all eligible employees' annual bonus is deferred into shares which only vest after three years, subject to continued service. The number of shares awarded is determined by dividing the relevant pre-tax bonus amount by the share price shortly after the announcement of the results for the financial year to which the bonus relates.

(iv) Performance Share Plan

This scheme applies to Executive Directors and senior executives. The level of these awards are subject to certain performance conditions over the three year performance period, which can be summarised as follows:

Award made		10 June 2008	30 June 2009	02 June 2010
Maximum value of award as a % of base salary		150	150	150
Performance conditions				
Total shareholder return (50% of award) [(i)]	Full vesting	> 75th percentile	> 75th percentile	> 75th percentile
	25% vesting	median	median	median
Earnings per share (50% of award) [(ii)]	Full vesting	RPI + 9%	RPI + 9%	RPI + 9%
	25% vesting	RPI + 3%	RPI + 3%	RPI + 3%
Dividend per share growth [(iii)]	Full vesting	-	-	RPI + 6%
	25% vesting	-	-	RPI + 2%

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

[(i)] Total Shareholder Return (TSR) target relative to other FTSE100 companies (awards granted in 2008 and 2009) and Total Shareholder Return (TSR) target relative to other FTSE100 companies and MSCI Europe Utilities Index (award granted in 2010) over the relevant performance period. Pro rata vesting will take place between the median and 75th percentile, with no vesting if the minimum target is not met.
[(ii)] Under the EPS performance condition, pro rata vesting between the lower and upper level above RPI, with no vesting if the minimum EPS growth target is not achieved.
[(iii)] Under the Dividend per share growth performance condition, pro rata vesting between 2% and 6% above RPI, with no vesting if the minimum dividend per share growth target is not achieved.

As allowed by FRS 20, only options granted since 7 November 2002, which were unvested at 1 January 2005, have been included.

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

Notes on the Financial statements for the year ended 31 March 2011

19. Employee share-based payments (continued)

(i) Savings-related share option scheme

As at 31 March 2011

Award Date	Option Price (pence)	Outstanding at start of year	Outstanding transferred in	Granted	Exercised	Lapsed	**Outstanding at end of year**	Date from which exercisable	Expiry date
16 July 2004	622	210	-	-	-	(210)	-	1 October 2009	31 March 2010
14 July 2005	886	119,071	2,262	-	(98,489)	(1,156)	**21,688**	1 October 2010	31 March 2011
11 July 2006	999	374	-	-	(374)	-	-	1 October 2009	31 March 2010
11 July 2006	999	64,862	496	-	-	(3,992)	**61,366**	1 October 2011	31 March 2012
10 July 2007	1,306	19,885	156	-	-	(3,096)	**16,945**	1 October 2010	31 March 2011
10 July 2007	1,306	60,649	651	-	-	(25,504)	**35,796**	1 October 2012	31 March 2013
17 July 2008	1,274	16,751	259	-	-	(7,187)	**9,823**	1 October 2011	31 March 2012
17 July 2008	1,274	50,927	750	-	-	(23,407)	**28,270**	1 October 2013	31 March 2014
30 June 2009	1,042	32,209	1,739	-	-	(17,451)	**16,497**	1 October 2012	31 March 2013
30 June 2009	1,042	139,348	1,568	-	-	(82,054)	**58,862**	1 October 2014	31 March 2015
30 June 2010	871	-	-	55,230	-	(3,569)	**51,661**	1 October 2013	31 March 2014
30 June 2010	871	-	-	329,516	-	(2,445)	**327,071**	1 October 2015	31 March 2016
		504,286	**7,881**	**384,746**	**(98,863)**	**(170,071)**	**627,979**		

As at 31 March 2010

Award Date	Option Price (pence)	Outstanding at start of year	Outstanding transferred in	Granted	Exercised	Lapsed	**Outstanding at end of year**	Date from which exercisable	Expiry date
16 July 2004	622	128,161	-	-	(123,438)	(4,513)	**210**	1 October 2009	31 March 2010
14 July 2005	886	319	-	-	(209)	(110)	-	1 October 2008	31 March 2009
14 July 2005	886	119,071	-	-	-	-	**119,071**	1 October 2010	31 March 2011
11 July 2006	999	26,357	-	-	(25,917)	(66)	**374**	1 October 2009	31 March 2010
11 July 2006	999	65,499	-	-	-	(637)	**64,862**	1 October 2011	31 March 2012
10 July 2007	1,306	23,767	-	-	-	(3,882)	**19,885**	1 October 2010	31 March 2011
10 July 2007	1,306	80,686	-	-	-	(20,037)	**60,649**	1 October 2012	31 March 2013
17 July 2008	1,274	21,788	-	-	-	(5,037)	**16,751**	1 October 2011	31 March 2012
17 July 2008	1,274	79,045	-	-	-	(28,118)	**50,927**	1 October 2013	31 March 2014
30 June 2009	1,042	-	-	33,635	-	(1,426)	**32,209**	1 October 2012	31 March 2013
30 June 2009	1,042	-	-	140,242	-	(894)	**139,348**	1 October 2014	31 March 2015
		544,693		**173,877**	**(149,564)**	**(64,720)**	**504,286**		

As share options are exercised continuously throughout the period from 1 October to 31 March, the weighted average share price during this period of 1,177p (2010: 1,126p) is considered representative of the weighted average share price at the date of exercise. The weighted average share price of forfeitures is simply the option price to which the forfeit relates.

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

	July 2005		July 2006		July 2007		July 2008		June 2009		June 2010	
	3 Year	5 Year	3 Year	5 Year	3 Year	5 Year	3 Year	5 Year	3 Year	5 Year	3 Year	5 Year
Fair value of option	126p	137p	217p	227p	287p	313p	304p	339p	244p	269p	231p	246p
Expected volatility	15%	15%	19%	19%	25%	25%	28%	28%	35%	35%	19%	19%
Risk free rate	4.1%	4.2%	4.7%	4.7%	5.8%	5.7%	4.9%	5.0%	2.7%	2.9%	1.4%	2.2%
Expected dividends	4.2%	4.2%	4.8%	4.8%	5.3%	5.2%	4.1%	4.2%	4.1%	4.2%	1.7%	2.2%
Term of the option	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5yrs
Underlying price at grant date	967p	967p	1,180p	1,180p	1,460p	1,460p	1,397p	1,397p	1,139p	1,139p	1,089p	1,089p
Strike price	886p	886p	999p	999p	1,306p	1,306p	1,274p	1,274p	1,042p	1,042p	871p	871p

Notes on the Financial statements for the year ended 31 March 2011

19. Employee share-based payments (continued)

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

ii) Share Incentive Plan

Matching shares	2011 Shares	2011 Weighted average price (pence)	2010 Shares	2010 Weighted average price (pence)
Outstanding at start of year	**172,914**	**1,134**	143,909	1,133
Outstanding transferred in	**4,683**	**957**	-	-
Granted	**39,354**	**1,161**	37,190	1,137
Forfeited	**(3,310)**	**1,215**	(1,838)	1,133
Exercised	**(11,662)**	**1,149**	(6,347)	1,125
Outstanding at end of year	**201,979**	**1,133**	172,914	1,134
Exercisable at end of year	**81,817**	**1,060**	81,487	1,021

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

As share options are exercised continuously throughout the year, the weighted average share price during this period of 1,149p (2010: 1,125p) is considered representative of the weighted average share price at the date of exercise.

Shares purchased under this scheme prior to 7 November 2002 have not been included as permitted by the transitional rules under FRS 20.

Free shares

	2011 Shares	2011 Weighted average price (pence)	2010 Shares	2010 Weighted average price (pence)
Outstanding at start of year	**53,567**	**1,160**	55,381	1,159
Outstanding transferred in	**1,020**	**1,212**	-	-
Granted	-	-	-	-
Forfeited	**(140)**	**1,210**	(100)	1,159
Exercised	**(7,294)**	**1,149**	(1,714)	1,125
Outstanding at end of year	**47,153**	**1,163**	53,567	1,160
Exercisable at end of year	**32,673**	**1,076**	26,707	965

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

As share options are exercised continuously throughout the year, the weighted average share price during this period of 1,149p (2010: 1,125p) is considered representative of the weighted average share price at the date of exercise.

Notes on the Financial statements for the year ended 31 March 2011

19. Employee share-based payments (continued)

(iii) Deferred bonus scheme

	2011 Shares	2011 Price (pence)	2010 Shares	2010 Price (pence)
Outstanding at start of year	**11,337**	**1,152**	14,820	1,123
Granted	**6,318**	**1,079**	6,101	1,174
Exercised	-	-	(9,584)	1,121
Outstanding at end of year	**17,655**	**1,126**	11,337	1,152
Exercisable at end of year	-	-	-	-

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

Shares purchased under this scheme prior to 7 November 2002 have not been included as permitted by the transitional rules under FRS 20.

(iv) Performance Share Plan

	2011 Shares	2011 Price (pence)	2010 Shares	2010 Price (pence)
Outstanding at start of year	**56,504**	**1,369**	40,606	1,446
Granted	**39,990**	**1,079**	23,588	1,174
Forfeited	**(11,505)**	**1,353**	-	-
Exercised	**(2,224)**	**1,076**	(7,690)	1,174
Outstanding at end of year	**82,765**	**1,239**	56,504	1,369

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

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

20. Derivatives and financial instruments

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

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

Notes on the Financial statements for the year ended 31 March 2011

20. Derivatives and financial instruments (continued)

(i) Risk

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

The Company's policy is to manage this risk by stipulating that a minimum of 50% of borrowings be subject to fixed rates of interest, either directly through the debt instruments themselves or through the use of derivative financial instruments. Such instruments include interest rate swaps and options, forward rate agreements and, in the case of debt raised in currencies other than sterling, cross currency swaps.

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 commercial paper issued at interest rates less than LIBOR and cash advances from the European Investment Bank (EIB).

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

At 31 March 2011	**Effective interest rate %**	**Total £m**	2-5 years £m	More than 5 years £m
Long term bonds	**1.6551**	**112.7**	-	112.7
Other bank loans – fixed	**5.9700**	**350.0**	50.0	300.0
Other bank loans – floating	**1.0350**	**25.0**	25.0	-
Interest rate swaps – fixed	**4.8678**	**75.0**	-	75.0

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

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

	2011 Carrying Value £m	**2011 Fair Value £m**	2010 Carrying Value £m	2010 Fair Value £m
Financial Assets				
Trade and other debtors	**424.1**	**424.1**	384.2	384.2
Financial Liabilities				
Trade and other creditors	**107.8**	**107.8**	129.6	129.6
Bank loans and overdrafts	**75.0**	**78.2**	75.0	80.0
Long-term bonds	**112.7**	**115.8**	107.6	110.2
Loan Stock	**300.0**	**322.9**	300.0	314.4
Derivative financial liabilities	**10.8**	**10.8**	13.4	13.4

Fair values have been determined with reference to closing market prices.

Unless otherwise stated, carrying value approximates fair value.

Notes on the Financial statements for the year ended 31 March 2011

20. Derivatives and financial instruments (continued)

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

The net financial liabilities of £10.8m (2010 - £13.4m) are represented as creditors that are due after more than one year.

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

21. Capital commitments

(i) Capital expenditure

	2011 £m	2010 £m
Contracted for but not provided	**11.3**	13.9

(ii) Operating lease commitments
Leases as lessee:

	2011 £m	2010 £m
Amount included in the profit and loss account relating to the current year leasing arrangements	**0.5**	0.6

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

	Other assets 2011 £m	2010 £m
Less than one year	**-**	0.1
Between two and five years	**0.4**	-
After five years	**0.1**	0.4
	0.5	0.5

22. Reconciliation of operating profit to operating cashflows

	2011 £m	2010 £m
Reconciliation of operating profit to operating cash flows		
Operating profit including gains on disposals	**103.7**	102.7
Depreciation	**39.6**	37.0
Customer contributions and capital grants released	**(3.4)**	(3.3)
Decrease/(increase) in stocks	**(0.3)**	0.3
Increase in debtors	**(4.0)**	(4.4)
Decrease in creditors	**(35.1)**	(5.3)
Charge in respect of employee share awards	**0.9**	1.1
Net cash inflow from operating activities	**101.4**	128.1

Notes on the Financial Statements for the year ended 31 March 2011

23. Net debt

Reconciliation of net cash flow to movement in net debt

	2011 £m	2010 £m
Cash inflow/(outflow) from increase/(decrease) in cash[(i)]	-	-
Cash (inflow)/outflow from (increase)/decrease in debt and lease financing	-	-
Fair value adjustment [(ii)]	-	1.4
Movement in net debt in the year	**(5.1)**	1.4
Net debt at 1 April	**(482.6)**	(484.0)
Net debt at 31 March	**(487.7)**	(482.6)

Analysis of net debt

	As at 1 April 2010 £m	Increase in cash[(i)] £m	Increase in debt £m	Non-cash movements[(ii)] £m	**As at 31 March 2011 £m**
Cash at bank and in hand	-	-	-	-	-
Other debt due within one year	-	-	-	-	-
Net borrowings due within one year	-	-	-	-	-
Net borrowings due after more than one year	(482.6)	-	-	(5.1)	**(487.7)**
Net debt	**(482.6)**	-	-	**(5.1)**	**(487.7)**

(i) The Company does not hold cash balances at any time. Cash generated or required by the Company is remitted to or obtained from Scottish and Southern Energy plc or SSE Services plc. As a result the movement in increase of the indebtedness from the Group can be said to represent the cash generated in the year.

(ii) The fair value adjustment relates to the adoption of FRS 26 from 1 April 2005 and is in relation to certain hedged debt balances, which are fair valued in accordance with the fair value hedge accounting requirements under the standard. The Company's policies are explained in the Notes to the Financial statements. Movements in these values are shown as a non-cash item in the analysis of net debt.

24. Regulatory Segmental Analysis

In accordance with standard licence condition 44, a segmental analysis of the Company's performance has been presented based on the prescribed distribution activities within the licence. The Company does not consider these activities to be segments as defined by SSAP 25.

	Distribution (DUoS) £m	Excluded Services [(i)] £m	Metering [(ii)] £m	Out of Area Networks [(iii)] £m	De Minimis £m	**Total £m**
Revenue	247.0	49.3	2.2	1.6	1.8	**301.9**
Operating Costs	(117.9)	(40.4)	-	(2.0)	(1.8)	**(162.1)**
Depreciation	(35.6)	-	(0.4)	(0.1)	-	**(36.1)**
Operating Profit	**93.5**	**8.9**	**1.8**	**(0.5)**	-	**103.7**
Capital additions	**60.0**	-	-	**1.8**	-	**61.8**

Notes on the Financial Statements for the year ended 31 March 2011

24. Regulatory Segmental Analysis (continued)

(i) Excluded services includes connections, diversions and other excluded services as defined in the licence (ES1, ES3 and ES7).
(ii) Metering services refer to Legacy MAP only. The Company does not undertake other metering activities.
(iii) De minimis activities primarily relate to activities undertaken on behalf of other SSE plc Group companies, which are recharged at cost.

25. Ultimate parent company

The Company is a subsidiary of Scottish and Southern Energy 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 Scottish and Southern Energy plc. The consolidated financial statements of the group (which include those of the Company) are available from Corporate Communications, Inveralmond House, 200 Dunkeld Road, Perth PH1 3AQ.