REGISTERED NO.
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Scottish Hydro Electric Transmission Limited

Regulatory Accounts

Year ended 31 March 2011

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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 Transmission Limited (the Company) is a wholly owned subsidiary of Scottish and Southern Energy plc (the Group). The company owns the Electricity Transmission network in the north of Scotland. It currently has 4,913 kilometres of electricity mains on commission. Since the introduction of British Electricity Trading and Transmission Arrangements in April 2005, National Grid has been the National Electricity Transmission System Operator, responsible for balancing the supply and demand of electricity across Great Britain. Scottish Hydro Electric Transmission Limited remains responsible for maintaining and investing in the transmission network in its area, which serves around 70% of the landmass of Scotland.

The Company is the subject of incentive-based regulation by the industry regulator, the Office of Gas and Electricity Markets (Ofgem), which has historically set for periods of five years the revenue that is allowed use of the network, the capital expenditure and the allowed operating expenditure, within a framework known as the Price Control. 2010/11 Financial year was year 4 of the current Transmission Price Control Review Period. 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 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 capital expenditure;
- 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 RAV of the networks business and so secure increased revenue; and
- engage constructively with the regulator, Ofgem, to secure regulatory outcomes that meet the needs of customers and investors.

Business performance overview
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	£47.5m
Year to March 2010	£35.8m
Increase (%)	32.7%

b) Capital Expenditure (£M)

Year to March 2011	£117.6m
Year to March 2010	£59.6m
Increase (%)	97.3%

c) Number of Transmission System Incidents (Number)

Year to March 2011	12
Year to March 2010	34
Decrease (%)	64.7%

d) System Availability (%)

Year to March 2011	97.9%
Year to March 2010	97.3%
Increase (%)	0.6%

Business performance overview (continued)

The increase in Operating Profit from the 2010/11 was due to increased allowed regulated revenue following the commencement of construction on a number of larger capital projects such as Beauly Denny and the 3 Ofgem approved Transmission infrastructure upgrade projects. In addition there has been continued tight control of operational costs. During the year, following an Ofgem consultation, approval was received to recover costs of £5.9m that had been incurred in previous financial years associated with pre construction activities on the Beauly Denny transmission upgrade. This income will be collected during the 2011/12 financial year and is not included within these financial statements. A charge of £2.1m was incurred relating to the Company's share of pension deficit payment made by the Group to the Scottish Hydro Electric Pension Scheme (SHEPS).

The decrease in the number of Transmission incidents involving 3 or more customers from 34 in 2009/10 to 12 in 2010/11 was primarily due to two separate weather events in 2009/10 and returning to a more typical number of incidents in 2010/11. The level of system availability increased from 97.3% in 2010/11 to 97.89% in 2011/12.

Electricity Network Investment

2010/11 was Year 4 of the current Transmission Price Control Review period that runs from April 2007 until March 2012. The level of investment in the Transmission network increased significantly during the year This increase of 97% is primarily due to the commencement of construction activities on a number of network upgrade projects (see below) to facilitate the increase in renewable generation with the Company's network area. During the year a total of £68.9m was spent on the 4 Ofgem approved projects. In addition there has been an increase in the expenditure on preconstruction work on future network upgrade projects.

As at 31 March 2011, the Company's estimate of Ofgem's valuation of the assets of its electricity transmission businesses (the Regulated Asset Value, or RAV) was £515m based on Ofgem's methodology. This includes expenditure on network upgrades.

Future Network Development & Investment

The Company is responsible for maintaining and investing in the transmission network in its area. 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 within it. In support of this objective a series of major developments are currently under way and have the potential to transform the scale and scope of the Company's business:

- **Knocknagael, Beauly-Blackhillock-Kintore and Beauly-Dounreay**: Ofgem has authorised construction funding for these three upgrades in the Company's area, which form part of the first phase of transmission projects to help connect renewable energy to the electricity network. These projects commenced construction during the year and will result in a total investment of almost £200m. These should all be completed between 2011 and 2015.

- **Beauly-Denny**: Scottish Ministers granted consents, with associated conditions, in January 2010, to install a 400kV overhead electricity transmission line to replace the existing 132kV overhead transmission line between Beauly and Denny. The existing line will be dismantled. Construction works in line with the £58.8m of initial funding authorised by Ofgem in September 2010 are well under way. Substantive progress has also been made in satisfying conditions associated with Scottish Ministers' consent to replace the line which apply to the Company's section. Proposals were submitted to Ofgem in December 2010 for authorisation of the remainder of the Company's share of the project expenditure (around £500m). Independent consultants appointed by Ofgem have confirmed that the submission represents 'a prudent assessment of efficient costs' and an Ofgem consultation on these costs is currently underway. Subject to that and to continued progress, full construction work on the replacement line, including the erection of new pylons, should begin later this year, with the replacement line being completed in 2014.

- **Beauly-Mossford**: The Company has undertaken public consultations on the proposal to reinforce the existing 132kV electricity transmission infrastructure, including a new substation and a new line to accommodate a higher capacity. An application for consent to undertake the work was submitted to Scottish Ministers in January 2011. Based on early estimates, the two parts of the project are likely to require total investment of around £45m.

- **Western Isles:** In October 2010, the Company concluded that the lack of financial underwriting from electricity generators (attributed to the level of transmission charges) relating to the link from the Western Isles to the mainland meant it would not be able to conclude a contract for the supply of the necessary electricity cable. As a result, it withdrew its request to Ofgem for authorisation to make the investment. The project remains active and the Company will prepare a new request for authorisation to invest in the link as soon as these issues are resolved. In practice, this is likely to take around one year.

- **Caithness Moray and Shetland:** The Company has now secured consent for converter stations associated with the proposed 320km subsea/25km onshore underground high voltage direct current (HVDC) transmission link between the Shetland Islands and Moray on the Scottish mainland to accommodate renewable energy developments in Shetland. The link would also connect properties in Shetland to the mainland electricity network for the first time. Related to this, in December 2009, the European Commission announced that SSE had been successful in securing a capital grant of up to €74m under the European Energy Programme for Recovery. The grant is towards the incremental cost of including an intermediate offshore HVDC hub off Caithness on the route of the proposed Shetland link and increasing the capacity of the southern section to Moray. The hub is at the centre of a potential, innovative three-ended 'Y' configuration, with legs from Caithness and Shetland to accommodate substantial planned renewable energy developments in the far north east of Scotland and the Northern Isles and could be the first step towards an offshore 'super grid'.

Based on current estimates (although these will inevitably be revised) the Shetland and Western Isles links could require investment of around £900m.

The charging arrangements for electricity and gas transmission networks are currently the subject of an Ofgem-sponsored independent review named Project TransmiT which was launched in September 2010. It is designed to ensure that the framework for transmission charging promotes security of supply and a low carbon future, while keeping the cost of transmission to customers under control. The outcome of Project TransmiT will have a bearing on the amount of electricity from renewable sources that is developed in Scotland and, therefore, on the way in which the transmission network is upgraded.

Looking to the longer term, the Company has participated in the Electricity Networks Strategy Group, sponsored by Ofgem and the UK Department of Energy and Climate Change and involving all of the transmission companies in Great Britain. It has identified a potential need for sub-sea cable links between Scotland and England known as 'bootstraps'. The Company expects to be a major participant in this and other transmission developments over the next decade and beyond.

'Keeping the lights on and supporting growth'

'Keeping the lights on and supporting growth' was the name given to two public consultation documents issued by the Company in February and June 2011 through which it sought the views of customers and other stakeholders on the key activities and investments that should be included in its business plan for the new electricity Transmission Price Control (RIIO-T1) that is due to run for eight years from 1 April 2013.

The consultation stemmed from Ofgem's new RIIO (Revenue = Incentives + Innovation + Outputs) model for economic regulation. RIIO is designed to encourage the efficient investment and innovation needed to secure energy supplies and meet environmental targets while delivering long-term value for money for customers.

In March 2011, Ofgem published its strategy for RIIO-T1. The financial package addressed key issues such as:

- the length of time over which assets will be depreciated, with 20 years for existing assets and 45 years for new assets;
- the allowed cost of equity, with an indicative range of 6.0-7.2%; and
- the allowed cost of debt, with the use of an index for determining companies' debt costs.

This package represented a step forward in reaching an acceptable Price Control from previous Ofgem proposals, but extensive engagement with Ofgem and other stakeholders is required to ensure the final settlement fulfils the objectives that have been set for it. The Company is required to develop business plans by the end of

July 2011 for submission to Ofgem, demonstrating how they will 'meet the sustainability challenge, fund network investment and ensure continued safe and reliable operation of the networks and high levels of customer service'.

Electricity Transmission Priorities in 2011/12

During 2011/12, the Company's first objective will be to maintain safe and reliable supplies of power and to restore supplies as quickly as possible in the event of interruptions, so performance in terms of transmission system incidents and availability will continue to be critical.

A key priority for the Company during the year will include the continued efficient delivery of the major programme of investment in the network along with the progression and development of the projects including those mentioned in the section above.

Ofgem announced in January 2010 that a one year rollover price control agreement for 2012/13 financial year will be put in place. During the course of 2010/11 the company has been engaging with Ofgem on the content of this rollover settlement. Discussions are at an advanced stage and Ofgem's initial proposals on this settlement will be published in August 2011. This along with continuing work on RIIO – T1 will be a priority for 2011/12.

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 growth 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.

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. The Group has produced and distributed to all employees 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, regional roadshows and the Licence to Innovate scheme, which enables employees to research, review and test-trial new ideas.

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 11 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, over 70.0% 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 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 18.1% compared with 21.8% in the previous year, after prior year adjustments. The headline effective tax rate is 20.4% compared with 27.8% in the previous year.

Dividend

The Company's normal dividend policy is to distribute up to 50% of surplus cash flow generated in the period as a dividend. No dividend has been declared on this basis for five years. Following a review of the company's financing structure loan stock of £30m was issued in the year by SSE plc. In addition, following a review of distributable reserves a dividend of £30m was declared and paid in the year.

Borrowings and Facilities

The Company has loans of £188.1m (2010 – £158.1m) of which £163.1m (2010 - £133.1m) is due to other group companies and £25.0m (2010 - £25.0m) is in the form of loans from the European Investment Bank. Of the total, interest is paid at fixed or inflation-linked interest rates on £188.1m (2010 - £158.1m).

As at 31 March 2011, the weighted average interest rate payable was 5.90% (2010 – 5.96%) and the weighted average remaining term was 9.99 years (2010 – 9.66 years).

Pensions

A large number of employees of the Company are members of the Scottish Hydro-Electric Pension Scheme, which, at 31 March 2011, based on an IAS 19 accounting basis, had a deficit included in the Group financial statements, net of deferred tax, of £177.5m (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 Regulatory financial statements of Scottish Hydro Electric Transmission Limited have been prepared in accordance with applicable UK Generally Accepted Accounting Principles (UK GAAP).

As a subsidiary company of Scottish and Southern Energy plc,("The Group"), Scottish Hydro Electric Transmission Limited ("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 Transmission Limited ("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 Board of 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:

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.

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 transmission of electricity in the north of Scotland.

2. Business Review

The Company is part of the Scottish and Southern Energy Group (the 'Group') and the key responsibility of the Group's Power Systems 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 Operating and Financial Review section of these Accounts.

3. Results and Dividends

The profit for the financial year amounted to £31.4m (2010 - £19.2m). A dividend of £30.0m (2010 £nil) was declared approved and paid 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 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.

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.

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office.

ON BEHALF OF THE BOARD

Lilian Manderson

Lilian Manderson
Company Secretary
21 July 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 B1 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 B1 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 Transmission Limited and to the Gas and Electricity Markets Authority ("The Regulator")

We have audited the Financial information set out on pages 15 to 29 of the Regulatory Financial statements of Scottish Hydro Electric Transmission Limited ("the Company"). The Financial information comprises: the Profit and Loss Account, Balance Sheet, Statement of Recognised Gains and Losses, Reconciliation of Movements in Shareholders' Funds, Cash Flow statement and the related notes to the Regulatory Financial statements. The Financial information has 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 B1 of the Company's Regulatory Licence. Our audit work has been undertaken so that we might state to the Company and the Regulator those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under the 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 Financial information has been prepared under the historical cost convention and in accordance with Standard Condition B1 of the Regulatory Licence and the accounting policies set out in the statement of accounting policies.

The Financial information are separate from the statutory financial statements of the Company. There are differences between United Kingdom Generally Accepted Accounting Principles (UK GAAP) and the basis of preparation of information provided in the regulatory financial statements because Standard Condition B1 of the Regulatory Licence specifies alternative treatment or disclosure in certain respects. Where Standard Condition B1 of the Regulatory Licence does not specifically address an accounting issue, 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 12, the Company's directors are responsible for the preparation of the Financial information in accordance with Standard Condition B1 of the Regulatory Licence.

Our responsibility is to audit, and express an opinion on, the Financial information 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 Financial information has been properly prepared in accordance with Standard Condition B1 of the Regulatory Licence and the accounting policies set out on pages 19 to 21 of the Regulatory Financial statements.

Basis of audit opinion

An audit involves obtaining evidence about the amounts and disclosures in the Financial information sufficient to give reasonable assurance that the Financial information are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's' circumstances and have been consistently applied and adequately disclosed; and the reasonableness of significant accounting estimates made by the directors. However, 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 Regulatory Financial statements, which would have been required if we were to express an audit opinion under International auditing Standards on Auditing (UK and Ireland).

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

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 Operating Financial Review, Corporate Governance Statement and Report of the Directors. Our responsibilities do not extend to the other information.

Our opinion on the Financial information 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's members those matters which we are required to state to them in a statutory auditor's report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Company's members, as a body, for our statutory audit work, for our statutory audit report, or for the opinions we have formed in respect of that statutory audit.

Opinion on Financial information

In our opinion the Financial information of the Company for the year ended 31 March 2011 are properly prepared in accordance with Standard Condition B1 of the Regulatory Licence and the accounting policies set out on pages 19 to 21 of the Regulatory Financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of proper accounting records have not been kept or if, in our opinion, we have not received all the information and explanations we require for our audit.

John Luke (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
Saltire Court
20 Castle Terrace
Edinburgh
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21 July 2011

Profit and Loss Account
for the year ended 31 March 2011

	Note	2011 £m	2010 £m
Turnover		**79.0**	63.7
Cost of sales		**-**	(3.7)
Gross profit		**79.0**	60.0
Distribution costs		**(27.9)**	(20.9)
Administrative costs		**(3.6)**	(3.3)
Operating profit	2	**47.5**	35.8
Net interest payable	5	**(8.1)**	(9.2)
Profit on ordinary activities before taxation		**39.4**	26.6
Tax on profit on ordinary activities	6	**(8.0)**	(7.4)
Profit for the financial year	14	**31.4**	19.2

There are no other recognised gains or losses other than the reported profit above.

The above results are derived from continuing activities.

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

Balance Sheet
as at 31 March 2011

	Note	2011 £m	2010 £m
Fixed Assets			
Tangible assets	7	**452.9**	348.7
Current assets			
Debtors	8	**0.2**	15.2
Creditors:			
Amounts falling due within one year	9	**(87.6)**	(45.1)
Net current liabilities		**(87.4)**	(29.9)
Total assets less current liabilities		**365.5**	318.8
Creditors:			
Amounts falling due after more than one year	10	**(213.2)**	(169.0)
Provisions for liabilities and charges			
Deferred taxation	12	**(38.6)**	(37.6)
Net assets		**113.7**	112.2
Capital and reserves			
Called up share capital	13	**4.3**	4.3
Profit and loss account	14	**109.4**	107.9
Shareholders' funds		**113.7**	112.2

These Financial statements were approved by the Directors on 21 July 2011 and signed on their behalf by

Gregor Alexander, Director

Scottish Hydro Electric Transmission Limited, Registered No. SC213461

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

	2011 £m	2010 £m
Profit for the financial year	**31.4**	19.2
Dividends paid to shareholders	**(30.0)**	-
Credit in respect of employee share awards	**0.1**	0.1
Net addition to shareholders' funds	**1.5**	19.3
Opening shareholders' funds	**112.2**	92.9
Closing shareholders' funds	**113.7**	112.2

Cash Flow Statement
for the year ended 31 March 2011

	Note	2011 £m	2010 £m
Net cash inflow from operating activities	18	**116.3**	78.3
Interest received		-	0.2
Interest paid		(9.5)	(9.4)
Returns on investments and servicing of finance		(9.5)	(9.2)
Corporation tax paid		(5.6)	(7.5)
Taxation		(5.6)	(7.5)
Purchase of tangible fixed assets		(101.2)	(63.0)
Sale of tangible fixed assets		-	1.4
Capital expenditure and financial investment		(101.2)	(61.6)
Equity Dividends paid		(30.0)	-
Net cash (outflow)/inflow before management of liquid resources and financing		(30.0)	-
Repayment of borrowings		-	-
New borrowings		30.0	-
Financing		30.0	-
Increase/(decrease) in cash in the year		-	-

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 Regulatory Financial statements and have been applied consistently.

The Company's balance sheet at 31 March 2011 shows a net current liability position of £87.4m (2010 – net current liabilities of £29.9m). The parent company has confirmed that it will continue to provide financial support to the Company and in particular will not seek repayment of the amounts currently made available. On this basis, the directors believe that the Company will be in a position to meet its liabilities as they fall due and that the financial statements are appropriately prepared on a going concern basis.

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 FRS29 and has therefore not prepared the disclosures relating to financial instruments and capital as full disclosure is provided in the Group financial statements.

Limitation of application of CA06 exemption disclosure

Standard Condition B1 requires the Regulatory Financial statements to be prepared inclusive of all mandatory disclosures which otherwise may have been excluded from the Statutory Financial statements as a result of the application of a CA06 exemption allowance.

However, as the Company is a wholly owned subsidiary of Scottish and Southern Energy plc ("the Group"), the Directors believe certain accounting policies required of listed Companies cannot practicably be applied to the Company. These include, but are not limited to:

- Pensions. The Group operates two Defined Benefit Schemes, one of which, the Southern Electric Pension Scheme, is the main Pension Scheme for the Company. The contributions made to this scheme are treated as contributions to a Defined Contribution scheme. The Defined Benefit Schemes disclosure is published in the financial statements of the Group. The statutory accounts pensions accounting policy is commented upon in the notes to the financial statements.

- Director's Remuneration. The remuneration of the Directors of the Company who are also Executive Directors of the Ultimate Parent is published in the financial statements of the Group.

Furthermore, while it has been mandatory to prepare Financial statements of listed entities in accordance with EU-adopted International Financial Reporting Standards (adopted IFRS) for reporting periods beginning on or after 1 January 2005, the statutory financial statements of all the Group's subsidiary entities continue to be prepared under UK GAAP. As a result, the Directors of the Company, and those of the Group, do not believe it would be reasonably practicable to prepare the Regulatory financial statements of the Company under adopted IFRS.

Turnover
Turnover comprises the value of electricity transmission services and facilities provided during the year. Turnover includes an estimate of the value of the transmission of electricity on behalf of customers between the date of the last meter reading and the year-end.

1. Significant accounting policies (continued)

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 substantially enacted, by the balance sheet date.

Deferred taxation arises in respect of 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.

Foreign currencies
Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

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

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

Depreciation is charged to the profit and loss account 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
Transmission assets			10 to 80
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.

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 assets.

Employee benefit obligations
Pensions
Contributions to pension schemes on behalf of the employees of the Company are charged to the profit and loss account in accordance with the contributions incurred in the year.

1. Significant accounting policies (continued)

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.

Applying the transitional provisions of FRS 20, its requirements 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 financial statements.

2. Operating profit

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

	2011 £m	2010 £m
Depreciation of tangible fixed assets	**13.4**	11.5
Release of deferred income in relation to customer contributions and capital grants	**(0.8)**	(0.5)
Research and development	**0.6**	0.5
Net management fee in respect of services provided by parent company	**3.5**	3.4

The Company incurred an audit fee of £0.01m (2010 - £0.01m) in the year.

3. Staff costs and numbers

	2011 £m	2010 £m
Staff costs:		
Wages and salaries	**3.8**	3.5
Social security costs	**0.4**	0.3
Share-based remuneration	**0.1**	0.1
Other pension costs (note 15)	**3.1**	2.8
	7.4	6.7
Less capitalised as tangible fixed assets	(3.8)	(3.2)
	3.6	3.5

Included within the above costs is a charge recognised under FRS 20 of £119,184 (2010 - £94,862).

Employee numbers

	2011 Number	2010 Number
Numbers employed at 31 March	**85**	83

	2011 Number	2010 Number
The monthly average number of people employed by the Company during the year	**85**	83

4. Directors' remuneration

No Director received remuneration in respect of their service to the Company (2010: Nil).

5. Net interest payable

	2011 £m	2010 £m
Interest receivable:		
Interest receivable from group companies	-	0.2
Interest payable and similar charges:		
Bank loans and overdrafts	**(1.6)**	(1.5)
Interest payable to group companies	(7.9)	(7.9)
	(9.5)	(9.4)
Interest capitalised	**1.4**	-
Net interest payable	**(8.1)**	(9.2)

6. Taxation

	2011 £m	2010 £m
Current tax:		
UK corporation tax on profits for the year	7.1	6.0
Adjustments in respect of previous years	(0.1)	(0.2)
	7.0	5.8
Deferred tax:		
Origination and reversal of timing differences	3.9	1.5
Effect of change in UK corporation tax	(2.9)	-
Adjustment in respect of prior years	-	0.1
Total Deferred Tax	1.0	1.6
Total tax on profit on ordinary activities	8.0	7.4

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

	2011 £m	2010 £m
Profit before tax	39.4	26.6
Tax on profit on ordinary activities at standard UK corporation tax rate of 28% (2010 - 28%)	11.0	7.4
Effects of:		
Capital allowances less than depreciation	(3.8)	(1.8)
Other timing differences	(0.2)	0.4
Adjustment in respect of prior periods	-	(0.2)
Current tax charge for year	7.0	5.8

7. Tangible fixed assets

	Transmission assets £m	Other land and buildings £m	Vehicles and miscellaneous equipment £m	Total £m
Cost:				
At 1 April 2010	501.0	3.2	0.3	504.5
Additions	117.6	-	-	117.6
At 31 March 2011	618.6	3.2	0.3	622.1
Depreciation:				
At 1 April 2010	155.5	-	0.3	155.8
Charge for the year	13.4	-	-	13.4
At 31 March 2011	168.9	-	0.3	169.2
Net book value:				
At 31 March 2011	**449.7**	**3.2**	-	**452.9**
At 31 March 2010	**345.5**	**3.2**	-	**348.7**

	2011 £m	2010 £m
Tangible fixed assets include:		
Assets in the course of construction	62.3	57.4

8. Debtors

	2011 £m	2010 £m
Amounts falling due within one year:		
Trade debtors	0.2	-
Amounts owed by group undertakings	-	15.2
	0.2	15.2

9. Creditors: amounts falling due within one year

	2011 £m	2010 £m
Trade creditors	0.3	1.3
Amounts owed to group undertakings	46.1	23.2
Corporation tax	4.5	3.0
Accruals and other deferred income	35.2	16.6
Other creditors	1.5	1.0
	87.6	45.1

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

	2011 £m	2010 £m
Loans (note 11)	25.0	25.0
Loans due to ultimate parent (note 11)	163.1	133.1
Accruals and other deferred income	25.1	10.9
	213.2	169.0

11. 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 24 September 2012	6.39	6.39	25.0	25.0
Over five years				
6.00% Loan Stock repayable to Scottish and Southern Energy plc on 31 March 2021	6.00	6.00	100.0	100.0
5.50% Loan Stock repayable to Scottish and Southern Energy plc on 31 March 2021	5.50	5.50	33.1	33.1
5.625% Loan Stock repayable to Scottish and Southern Energy plc on 31 March 2028	5.63	5.50	30.0	-
			188.1	158.1

12. Deferred taxation

Deferred taxation is provided as follows:

	2011 £m	2010 £m
Accelerated capital allowances	39.0	38.0
Other timing differences	(0.4)	(0.4)
Provision for deferred tax	38.6	37.6

	31 March 2011 £m	31 March 2010 £m
Provision at start of year	37.6	36.0
Charged to profit and loss account	1.0	1.6
Provision at 31 March 2011	38.6	37.6

13. Share capital

	2011 £m	2010 £m
Equity:		
Authorised:		
4,301,000 ordinary shares of £1 each	4.3	4.3
Allotted, called up and fully paid:		
4,300,000 ordinary shares of £1 each	4.3	4.3

14. Reserves

	Profit and loss account £M
At start of the year	107.9
Profit for the year	31.4
Dividends	(30.0)
Credit in respect of employee share schemes	0.1
At 31 March 2011	109.4

15. 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. The scheme is managed by Friends Provident.

The Company's share of the total contribution payable to the pension schemes during the year was £1.0m (2010 - £0.9m).

The Company incurred a further charge, payable to SSE Services plc, of £2.1m (2010 – £1.9m), which related to its share of the Scheme's deficit repair contributions for the year ended 31 March 2011.

16. Employee share-based payments

The Group operates a number of share schemes for the benefit of all employees. Details of these schemes are as follows:

(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, and 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 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.

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

16. Employee share-based payments (continued)

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

(i) Savings-related share option scheme

As at 31 March 2011

Award Date	Option Price (pence)	Outstanding at start of year	Granted	Exercised	Lapsed	**Outstanding at end of year**	Date from which exercisable	Expiry date
14 July 2005	886	**10,701**	-	(10,701)	-	-	1 October 2010	31 March 2011
11 July 2006	999	**4,927**	-	-	(322)	**4,605**	1 October 2011	31 March 2012
10 July 2007	1,306	**532**	-	-	-	**532**	1 October 2010	31 March 2011
10 July 2007	1,306	**4,731**	-	-	(2,502)	**2,229**	1 October 2012	31 March 2013
17 July 2008	1,274	**1,458**	-	-	(59)	**1,399**	1 October 2011	31 March 2012
17 July 2008	1,274	**3,877**	-	-	(2,347)	**1,530**	1 October 2013	31 March 2014
30 June 2009	1,042	**6,612**	-	-	(1,131)	**5,481**	1 October 2012	31 March 2013
30 June 2009	1,042	**22,366**	-	-	(13,719)	**8,647**	1 October 2014	31 March 2015
30 June 2010	871	-	7,782	-	-	**7,782**	1 October 2013	31 March 2014
30 June 2010	871	-	39,355	-	-	**39,355**	1 October 2015	31 March 2016
		55,204	47,137	(10,701)	(20,080)	71,560		

As at 31 March 2010

Award Date	Option Price (pence)	Outstanding at start of year	Granted	Exercised	Lapsed	**Outstanding at end of year**	Date from which exercisable	Expiry date
16 July 2004	622	11,558	-	(11,558)	-	-	1 October 2009	31 March 2010
14 July 2005	886	10,701	-	-	-	**10,701**	1 October 2010	31 March 2011
11 July 2006	999	1,230	-	(1,230)	-	-	1 October 2009	31 March 2010
11 July 2006	999	5,293	-	-	(366)	**4,927**	1 October 2011	31 March 2012
10 July 2007	1,306	877	-	-	(345)	**532**	1 October 2010	31 March 2011
10 July 2007	1,306	8,240	-	-	(3,509)	**4,731**	1 October 2012	31 March 2013
17 July 2008	1,274	1,664	-	-	(206)	**1,458**	1 October 2011	31 March 2012
17 July 2008	1,274	12,323	-	-	(8,446)	**3,877**	1 October 2013	31 March 2014
30 June 2009	1,042	-	6,786	-	(174)	**6,612**	1 October 2012	31 March 2013
30 June 2009	1,042	-	22,813	-	(447)	**22,366**	1 October 2014	31 March 2015
		51,886	**29,599**	**(12,788)**	**(13,493)**	55,204		

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

As share options are exercised continuously throughout the period from 1 October to 31 March, the weighted average share price during this 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	3 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	5 yrs
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

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

16. Employee share-based payments (continued)

(ii) Share Incentive Plan

	2011 Shares	2011 Weighted average price (pence)	2010 Shares	2010 Weighted average price (pence)
Outstanding at start of year	16,193	1,207	12,642	1,214
Granted	4,714	1,161	4,606	1,174
Forfeited	-	1,215	(206)	1,214
Exercised	(918)	1,149	(849)	1,125
Outstanding at end of year	19,989	1,199	16,193	1,207
Exercisable at end of year	10,518	1,186	8,895	1,091

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.

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.

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	4,000	1,166	4,050	1,166
Granted	-	-	-	-
Exercised	(468)	1,149	(50)	1,125
Outstanding at end of year	3,532	1,168	4,000	1,166
Exercisable at end of year	2,872	1,123	2,300	965

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.

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.

17. Commitments and contingencies

(i) Capital commitments

Capital expenditure:

	2011 £m	2010 £m
Contracted for but not provided	368.6	87.5

(ii) Guarantees
The Company has provided a guarantee in relation to £300m Eurobonds held by Scottish and Southern Energy plc. This guarantee has been provided jointly with Scottish Hydro Electric Power Distribution plc.

18. Reconciliation of operating profit to operating cashflows

	2011 £m	2010 £m
Reconciliation of operating profit to operating cash flows		
Operating profit	**47.5**	35.8
Depreciation	**13.4**	11.5
Customer contributions and capital grants released	**(0.8)**	(0.5)
(Increase)/decrease in debtors	**(0.2)**	1.1
Increase in creditors	**56.3**	30.3
Charge in respect of employee share awards	**0.1**	0.1
Net cash inflow from operating activities	**116.3**	78.3

19. Net debt

Reconciliation of net cash flow to movement in net debt

	2011 £m	2010 £m
Cash inflow from increase in cash*	**-**	-
Cash (inflow)/outflow from decrease in debt and lease financing	**(30.0)**	-
Movement in net debt in the year	**(30.0)**	-
Net debt at 1 April	**(158.1)**	(158.1)
Net debt at 31 March	**(188.1)**	(158.1)

Analysis of net debt

	As at 1 April 2010 £m	Increase in cash* £m	(Increase)/ decrease in debt £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	(158.1)	-	(30.0)	**(188.1)**
Net debt	(158.1)	-	(30.0)	**(188.1)**

* 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.

20. 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.