Scottish Hydro Electric Power Distribution plc

Directors report and financial statements

Year ended 31 March 2019

Registered No.: SC213460

Scottish Hydro Electric Power Distribution plc

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Scottish Hydro Electric Power Distribution plc

Directors and Other Information

Directors	Gregor Alexander (Chairman) Steven Kennedy (Resigned 07/09/18) Stuart Hogarth David Gardner (Resigned 31/01/19) Colin Nicol Dale Cargill Alistair Borthwick (Appointed 07/09/18, Resigned 28/06/19) Robert McDonald (Appointed 31/01/19) Rachel McEwen Katherine Marshall David Rutherford (Non-Executive Director) Gary Steel (Non-Executive Director)
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Registered number	SC213460

Scottish Hydro Electric Power Distribution plc

Strategic Report

The Strategic Report sets out the main trends and factors underlying the development and performance of Scottish Hydro Electric Power Distribution plc (the "Company") during the year ended 31 March 2019, as well as those matters which are likely to affect its future development and performance.

The business, its objectives and strategy

The Company is a wholly owned subsidiary of SSE plc (the "Group"). The Company's immediate parent is Scottish and Southern Energy Power Distribution Limited (SSEPD) which is branded as Scottish and Southern Electricity Networks (SSEN). Included within this group are sister companies, Scottish Hydro Electric Transmission plc (SHET) and Southern Electric Power Distribution plc (SEPD). The Company distributes electricity to around 780,000 customers in the North of Scotland. It currently has over 50,000 (*2018: 49,000*) kilometres of electricity mains on commission. The Company also provides electricity connections within the Company's licensed area and owns and operates a number of 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 the prices that can be charged for the use of the electricity network, the allowed capital and 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 is currently within the RIIO-ED1 (Revenue = Incentives + Innovation + Outputs) Price Control period which runs for eight years from 1 April 2015 until 31 March 2023.

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 efficient and innovative capital expenditure programmes, so that the number and duration of power cuts experienced by customers is kept to a minimum;
- grow the Regulated Asset Value ("RAV") of the business and so secure increased revenue;
- engage constructively with the regulator, Ofgem, to secure regulatory outcomes that meet the needs of customers and investors; and
- engage with the wider networks industry and other stakeholders to define and implement the process of distribution companies moving to a Distribution System Operator (DSO) role.

Business performance overview

The key performance indicators of the Company and the related performance during the year to 31 March 2019 were as follows:

Financial / Operational	**2019**	2018	% change
Operating Profit reported - £m	**135.6**	129.1	5.0
Derivative re-measurements - £m	**(4.8)**	-	100.0
Adjusted Operating Profit - £m	**130.8**	129.1	1.3
Capital expenditure - £m	**144.3**	110.7	30.4
Regulated asset value (RAV) - £m	**1,138.5**	1,092.0	4.3

Non-Financial / Management	**2019**	2018	% change
Customer Minutes Lost - number per customer	**59**	55	7.3
Customer Interruptions - number per 100 customers	**69**	57	21.1
Electricity distributed (TWh)	**7.5**	7.1	5.6

Business performance overview *(continued)*

After accounting for the effect of the transition to IFRS 15, the operating profit is broadly in line with the prior year. This is largely due to the small decrease in regulated revenue as a result of the various factors inputting to the Price Control revenue formula, being more than offset by a decrease in operating expenditure, which included close control over operational costs and a reduction in rates charges.

If in any year, regulated network companies' revenue is greater (over recovery) or lower (under recovery) than is allowed under the ED1 Price Control, the difference is carried forward and the subsequent prices the companies may charge are adjusted. Under the regulatory framework, distribution tariffs are set two years in advance which means the over/under recovery built into tariffs is a forecast and will differ from the actual outturn. Any difference is reflected in tariffs two years later meaning any difference in the 2018/19 forecast compared to actual will be fully unwound through revenue by 2023, making this is in essence a four year cycle. In 2018/19 there was a small under recovery of approximately (£0.8m) (2017/18: over recovery of £7.1m) which will be seen through revenue in future years.

During the year, the Company's Customer Minutes Lost (CML) increased to 59 minutes per customer and Customer Interruptions (CI) increased to 69 per 100 customers. Factoring in the slight increase during the year the Company continues to outperform the pre-determined targets set by Ofgem.

Volume of electricity distributed

The total volume of electricity distributed by the Company during 2018/19 was 7.5TWh, compared with 7.1TWh in 2017/18. Under RIIO-ED1, the volume of electricity distributed does not affect the Company's overall allowed revenue. This only has an impact on the timing of revenue collection as any over or under recovery which arises as a result will not be fully unwound until four years later, as described above.

Delivering for customers and investors under the incentive based framework

The Company is now at the mid-point of the RIIO-ED1 Price Control, and has delivered significant changes to its operations, processes and standards to ensure the needs of its customers remain at the forefront of decision making. It aims to be as efficient and effective as possible and earn returns that are fair to customers and shareholders alike, focusing on four key areas:

- Good performance in relation to incentives available within RIIO-ED1;
- Efficient delivery of capital investment;
- Focused delivery of regulatory outputs; and
- Maintaining a leadership position in innovation.

Incentive performance is expected to be £3.4m in 2018/19 compared to £5.1m in 2017/18. There has been a reduction in the return from the Interruptions Incentive Scheme (IIS) alongside no Stakeholder Engagement and Consumer Vulnerability (SECV) being incentive built into the 2018/19 estimate (versus a confirmed reward of £0.3m in the prior year) offsetting marked improvements in connections and customer service incentive performance. Typically, incentive income is collected two years after the performance year.

Targeting performance in interruption incentives

Under the IIS, the Company is incentivised on its performance against the loss of electricity supply through the recording of CI and CML, which include both planned and unplanned supply interruptions.

After a challenging first six months of the year, due in part to the sustained summer heatwave impacting on low voltage network equipment, an improved performance in the second half of the year helped deliver an incentive reward for 2018/19 of £0.2m (2017/18: £2.1m).

Delivering for customers and stakeholders

In 2018/19, the Company's focus on continual improvements in customer service resulted in a total incentive reward of £2.3m against the Customer Satisfaction (or Broad Measure) Incentive, up significantly from £1.7m last year.

Delivering for customers and stakeholders (*continued*)

The Company's commitment to customer service is reflected in its membership of the Institute of Customer Service and performance in UKCSI survey, where it achieved a score of 89.4%, comparing favourably to the UK average of 78.1% and the Utilities average of 74.4%. The Company also achieved compliance with the BSI Inclusive Service Provision standard for the fourth year running, recognising that its policies, procedures and services are accessible and fair to all customers.

Under the Stakeholder Engagement and Consumer Vulnerability Incentive, the Company was awarded £0.4m for 2017/18, up from £0.3m in 2016/17. The outcome of the SECV incentive for 2018/19 will not be known until the second half of 2019.

Driving value from connections

In recent years, the Company has made significant changes and process improvements in its connections business, informed by the needs and expectations of its customers. This progress is reflected by an award of £0.9m under the Average Time to Connect (TTC) Incentive for 2018/19 (2017/18: £0.9m).

In October 2018, Ofgem announced its decision not to penalise the Company under the penalty only Incentive on Connections Engagement (ICE). This is the third consecutive year the Company has avoided a penalty since its introduction at the beginning of the RIIO-ED1 Price Control period.

In line with the RIIO-ED1 regulatory settlement, incentive targets will become harder to achieve in the second half of the price control, but the Company remains confident that it will deliver sustained incentive performance in this area.

Delivering a major programme of capital investment

The Company continues to undertake a major capital investment delivery programme across its distribution licenced network which will deliver significant improvements for its customers as well as contributing to sustained and fair returns and increased RAV.

During 2018/19, the Company's RAV additions and hence investment in the electricity distribution network was £115.3m bringing the total RAV additions since the beginning of the RIIO-ED1 Price Control to over £0.4bn. This is part of a forecast investment of £0.7bn throughout the RIIO-ED1 period, supporting future earnings through RAV growth.

Responding to change in marine planning policy with subsea cable reopener

Following a change in Scottish Marine Planning policy, the costs associated with the ongoing maintenance and replacement of the Company's subsea cable assets have increased and the Company submitted a 'reopener' to Ofgem for the additional allowance required to support its subsea cable replacement programme.

The Company has requested an additional £59m (2012/13 prices) over the RIIO-ED1 period to manage the increased associated costs. These include the requirements for additional surveys, cable protection and decommissioning. Subject to regulatory approval, the responsible and evidenced based approach the Company has adopted to inform its subsea cable replacement programme will deliver RAV growth, whilst minimising the cost impact to its customers.

Further, the Company has requested an additional £30m (2012/13 prices) under the High Value Project (HVP) reopener for the Pentland Firth East cable as inspection of the cable has demonstrated the need for the full replacement of the asset. This cable is integral to providing security of supply to the Company's customers in Orkney. It also allows renewable energy to be exported to the Scottish mainland. We plan to replace this subsea cable in April 2020, with the additional funding requested covering the costs of decommissioning and removal of the existing cable and protection of the replacement cable. Investment in this area will have the benefit of retaining security of supply in Orkney.

Progressing a whole system recommendation for Shetland

In November 2018, the Company submitted to Ofgem a 'whole system' recommendation for Shetland's future energy needs through the sharing of, and financial contribution towards, the proposed transmission link to Shetland. The Company has proposed making a financial contribution of £251m towards the transmission link, which is based on the value of services the link would provide to its local distribution network. A formal response from Ofgem to the Company's proposal is expected shortly.

Leading the way in the flexibility transition

The Company is playing a leading role in the transition from a Distribution Network Operator (DNO) to a Distribution Systems Operator (DSO).

In December 2018, the Company adopted a 'Flexibility First Commitment' setting out that it will consider flexible solutions in all scenarios where traditional network reinforcement may have been required. This commitment, which is now hard-coded into the Company's connection process, has been supported by a partnering with Piclo, a flexibility platform provider, to seek to register and procure flexibility across its distribution area, ahead of potential network constraints.

Understanding the impact of electrification

The Company expects electrification of heat and transport to lead to an increased role for the electricity networks. As well as playing a key role in developing its networks to support an increased load in the future, the Company's Electric Vehicle Strategy is built on a proactive 'readiness' approach with informed anticipative investment where the evidence, network characteristics and stakeholder engagement show it is required. This focus on enabling electric vehicles is in line with the goals for 2030 adopted by the Group in March 2019. The Company plans to develop scenarios for the growth of new sources of demand and distributed generation in its licence area later this year.

Looking ahead to RIIO-2

On 30 July 2018, Ofgem published its framework decision for the next round of price controls, RIIO-2, which will run from April 2023 for electricity distribution.

In its decision, Ofgem set out a lower range of available returns for network operators during RIIO-2, while proposing the retention of a package which drives innovation and efficiency. The decision set out a default length of price control at five years, which is a reduction from the eight year period of RIIO-1. Ofgem maintained the stance from its Framework Consultation in March 2018 of attempting to simplify the price control alongside enhancing engagement with consumers through the establishment of Customer Engagement and User Groups at the Company level and a central RIIO-2 Challenge Group. Despite its focus on lower returns, Ofgem has confirmed it is still expected that high performing companies will continue to be rewarded through outperformance of the incentive based regulatory framework. The Sector Methodology Consultation for RIIO-ED2 is expected in summer 2020 when more insight as to Ofgem's plans for the RIIO-ED2 period will be gained.

SSEN will continue to engage constructively with Ofgem and other stakeholders as the regulator further develops its proposals for RIIO-2, helping to ensure the evidence base is robust, the outcomes are clear and the views of customers, communities, stakeholders and investors are fully considered.

Electricity Distribution priorities

The Company's priorities in 2019/20 and beyond are to:

- operate safely and meet all compliance requirements;
- provide an excellent service to all customers who rely on their networks and related services;
- deliver required outputs while maintaining tight controls over expenditure;
- maintain good progress in the safe delivery of new assets including submarine cables;
- continue to work with stakeholders in developing a sustainable long term energy solution for Shetland;
- progress innovations that will improve network reliability, efficiency and customer service and inform industry-wide improvements;

Electricity Distribution priorities (*continued*)

- develop and maintain effective stakeholder relationships and conduct constructive engagement with regulators and legislators, advocating clarity and stability in the regulatory framework, including getting ready for RIIO-ED2; and
- progress the transition towards operating in a DSO environment.

Values and responsibilities

The Group and the Company believe that the behaviours and culture of an organisation should be guided by its values, and that an organisation's values should be at its core. The Group has six core values which seek to bind the behaviour and attitude of its employees and those it works with. They are:

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

Understanding and managing our principal risks

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

The Group Risk Management Policy requires the Managing Director of each Division to implement a Divisional Risk Approach to support their business in identifying, understanding and managing its key risks. Each division carries out an annual Assurance Evaluation with key Group policies, with the output and any areas of required improvement reported to the Group's Chief Executive.

The risks faced by the Company have been considered by the Company Board during the financial year. These have been reviewed in line with the Group's approach to risk. Risk workshops have been attended by the Networks Management Committee and Company's Board members during the year in order to aid identification of the risks specific to the business. As a result of this process, the main risks were identified which have the potential to threaten the business model, future performance, solvency or liquidity of the Company. An overview of these risks and the mitigating actions are as follows:

- **Safety, Health and Environment** – The Company's operations are in many cases undertaken in hazardous environments and involve working with high voltage electricity in a wide variety of locations. Some of our operations require the storage of a significant volume of fuel, oil and other chemicals, and any uncontrolled release of these could result in injury to our staff, contractors or members of the public and damage to the environment. Safety is the number one value and priority for the Group and Company. There is a Safety Management System in place to support people at work and ensure their safety and significant focus on both technical and behavioural safety training. In addition, crisis management and business continuity plans are in place to manage and recover from any significant events.
- **Regulation, Legislation and Compliance** – Regulation, legislation and compliance affecting the Company is complex and fast-moving. Changes, either explicit or indirect, can lead to additional obligations and can have a significant effect on the profitability of our asset base. This risk is mitigated jointly by Company management and staff along with the Group's dedicated Corporate Affairs, Regulation, Legal and Compliance departments which provide advice to the Company on the interpretation of political and regulatory change. In addition, there is proactive engagement with regulators, politicians, officials and other stakeholders on these issues.
- **Politics and Compliance** – **Politics and Compliance –** The Labour Party's support for state control of energy networks has been well known for some time and details of its plans to pass a Nationalising Bill emerged in a policy document in mid-May 2019. The Group and Company believe that Labour's goal of community-focussed and decarbonised energy systems is already being delivered through economically regulated private sector companies that work in the public interest. The Group has taken part in numerous meetings with MPs, MSPs and stakeholders in order to better understand Labour's proposals. This has involved making the case for private ownership and operation of energy networks and setting out proposals for future reform. There is regular engagement with the Group Board and Executive Committee on political and

Understanding and managing our principal risks (*continued*)

regulatory developments which may impact the Company's operations or strategy in relation to nationalisation. There continues to be uncertainty relating to Brexit and, as part of our risk management process, we monitor political and regulatory risks, which includes the impact of Brexit on our operations. We have considered the risks associated with a no-deal Brexit and, in doing so, have certain contingency plans in place to ensure that we can continue to serve our customers through building, maintaining and operating our electricity network.

- **Network Resilience and Integrity** – The Company has an obligation to maintain and enhance its network and ensure its resilience. A robust asset management and quality assurance process is in place to ensure that equipment is of the correct standard and specification to provide a safe, efficient and reliable network now and in the future. The impact of adverse weather on our network infrastructure is an annual event and due to perceived impacts of global climate change, it is anticipated that the volume and impact of these events will increase. The Company has many years experience in dealing with these events and there is significant effort directed to forecasting such events and ensuring that there are plans in place to deal with them. This involves early deployment of staff to potentially affected areas and ensuring sufficient staff and other resources are available to effectively deal with any disruption.
- **Networks Change Transformation** – The energy industry is undergoing constant technological and regulatory change. It is important that the Company is able to stay at the forefront of the industry by identifying emerging trends and developing strategies to exploit competitive opportunities. Through the RIIO-ED1 settlement, the Company has proposed significant reductions in the overall cost and improvements in the standard of service that customers can expect to receive. To deliver this successfully, we will need to transform our business and people, delivering major cost efficiencies, new IT systems and improvements in customer service. The Company has installed appropriate governance processes and procedures at Board and Leadership team levels to monitor the transformation process.
- **Supply Chain and Contractor Performance** – The Company continues to deliver its capital investment programme with a number of ongoing network construction and IT projects. It is critical that these projects are delivered on time, on budget and to high standard given the long term nature of the business. The Company will typically manage the development process and organise the delivery of the project by third party contractors, taking a pro-active oversight role during the procurement and construction phase. Whilst this model ensures that the correct skills are leveraged, there is a risk of supplier failures, faulty components and quality defects. The Group-wide Large Capital Projects Governance framework helps to mitigate this risk by ensuring a consistent approach to project development and delivery as well as proactive engagement with the supply chain.
- **Price Control Governance and Management** – The Company needs to meet its RIIO-ED1 published business plan obligations or risk financial penalties and the resultant reputational risk (these deliverables include meeting the Totex (Total Expenditure) project milestones and output measures, ensuring data quality and accuracy, achieving stakeholder satisfaction and environmental outputs and facilitating a new energy solution for Shetland). The structure of the business, management oversight and the governance frameworks in place are designed in order to ensure that this risk is monitored and mitigated.
- **Cyber Security** - With the increased incidence of cyber attacks over recent years there is a risk to the Company's key systems and, as a result, the network could be compromised or rendered unavailable. To mitigate this risk, the Group and Company are investing in a long term security programme including liaising with relevant external stakeholders and ensuring staff awareness of IT security issues and their importance.
- **Alternative Technologies** – Technological developments may identify alternative or more efficient means of distributing electricity. It is important that the business is aware of and keeps pace with the application of these technological improvements in order to improve efficiency and value to the end consumer. The Company has a dedicated team who look at incremental technologies aimed at increasing the reliability and efficiency of network assets as well as converting these new technologies into business as usual.

Employees

The Group and the Company wants to be a great place to work; characterised by the engaged, motivated and committed people who already work throughout the company and an ability to attract a talented and diverse range of new people to meet changing business needs.

The Group is a committed responsible employer and its long-standing ethos of progressing and promoting employees together with a commitment to creating an inclusive culture remains unchanged. A key strand of the inclusion strategy is to create a workplace that allows employees flexibility in how they work. The Group has invested in agile working and has been focused on advertising as many roles as it can under the "happy to talk flexible working" banner.

Employees (*continued*)

In September 2018, the Group celebrated its fifth anniversary of being an accredited Living Wage employer. The Group has taken a leading role in Living Wage Scotland since it was established in 2014. In 2018/19, the Group also joined the UK-wide Living Hours Steering Group to advise the Living Wage Foundation on this new initiative. 'Living Hours' aims to set a new standard to reduce under-employment and insecurity around working hours.

Of all employees in the Company, 83% are men and 17% are women. It is Company policy, where possible, to provide employment opportunities for disabled people. Staff who become disabled are supported in continuing employment through identification of suitable jobs and the provision of necessary re-training.

Rewarding employee contribution

Employees at all levels within the Group are measured against the same framework and the formal bi-annual performance review sessions are designed to feedback to employees on their performance as well as provide structured career conversations which encourage employees to think about their opportunities for personal and professional development. The Group's well established approach to performance management has a structured framework which assesses employee performance against individual agreed objectives as well as alignment to the core values of Safety, Service, Efficiency, Sustainability, Excellence and Teamwork.

- **Employee benefits**: Recognising there are many ways to reward people beyond remuneration, the Group has an extensive range of benefits available for its employees. During 2017, the Group launched new and improved employee benefits, including enhanced maternity, paternity and adoptive pay, Emergency Day Passes, Technology Loans and SSE Advantage which offers savings and cashback deals. Other benefits range from employees being given the opportunity to volunteer a working day each year to good causes, to financial education and advice services, free counselling support sessions, energy discounts, a cycle-to-work scheme and the opportunity to buy up to 10 extra holiday days each year.
- **Saving and investing with SSE**: The Group's employees have the option to participate in the SSE Sharesave scheme and the Share Incentive Plan. A new Sharesave plan was not offered during 2018/19 due to the proposed SSE Energy Services transaction, but is planned to be offered during 2019/20.
- **The Group pension schemes**: At the end of 2018/19, 94.5% of the Group's employees chose to plan and save for their pension, increasing slightly from 94% in 2017/18. The Group believes this is a good indicator of employee commitment to the Group.

Employee participation

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

In June 2018, 78% of the Group's employees participated in the Great Place to Work 'pulse' survey. The Group's 2018 engagement index dropped by 5% compared with 2017, to 68%. This survey was undertaken during one of the biggest changes to the Group's business in over 20 years – the proposed demerger of SSE Energy Services – and so this result was not unexpected. The results of the survey identified many areas of consistency and improvement in teams across the business, which have translated into action taken in 2018/19. For more detail on these actions, see the Group's Sustainability Report 2019 available at www.sse.com.

Social and community issues

The Company considers its relationship with the community it serves as a core part of its operations. Engagement with local users and the wider stakeholder community is essential to the long-term success and sustainability of our business. In recognition of the strategic significance of developing an electricity network business with the public interest at its heart, SSEN's Stakeholder Advisory Panel (The Panel) was established in early 2017 and is now in its second year of term. An Independent Chair has been appointed ensuring transparency. This year, the Panel discussed a range of issues affecting the business including how SSEN can deliver in the public interest, future energy systems, connecting the Scottish Islands, consumer vulnerability strategy, future business planning and performance against current business plans.

In 2018/19 SSEN made a step change in approaching support for vulnerable consumers with the launch of our Consumer Vulnerability Strategy Wheel which identifies four key focus areas which are: drive forward Priority Service Register (PSR) provision and promotion; Ensure our services are inclusive and accessible now and in the future; widen our partnership network and

Social and community issues (*continued*)
collaborative activities; and, expand on fuel poverty and energy efficiency activities. To ensure that the services provided are truly accessible and inclusive, an independently chaired panel formed of experts with a working knowledge of issues relating to inclusion has been formed to challenge thinking, provide innovative suggestions and practical ideas to further improve the inclusive nature of the services offered to SSEN's customers.

Internal control

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

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

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

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

Environment

At the very heart of both the Group and Company's strategy is a commitment to developing, operating and owning the assets that create lasting value and are vital to the low-carbon transition. Electricity networks are critical enablers of a low-carbon economy. The Company's distribution networks are central to the electrification of transport and accommodating increasing numbers of electric vehicles on the system over the coming years offers the opportunity for sustainable growth.

The low carbon energy transition is underway, bringing with it new economic opportunities and greater scope for communities to manage their energy at local level. Significant investment has been made across the Company's distribution network providing vital infrastructure which is essential to improving service and reliability for customers. As a responsible developer, the Company has a responsibility to protect and promote the natural environment in a sustainable manner whilst also delivering cleaner, greener energy now and for the benefit of future generations.

More information on the Group's approach to managing our environmental impact is contained in the 2018/19 Annual Report, available at www.sse.com.

Key contractual arrangements

The Directors consider the Service Level Agreement in place between the Company and SSE Services plc for the provision of corporate services to be essential for the continuance of the Company's operations in the short-to-medium term. Due to the fact that it is provided by a fellow subsidiary of SSE plc, the risk of this contract being terminated is low.

There are a number of contracts with both internal and external parties for the provision of services to maintain and develop the Company's distribution network. It is not believed that any of these contracts are of sufficient size or concentration to result in a dependence on any one external supplier.

Operational resources available

The Company has 1,365 employees which it calls on to maintain its distribution network and carry out investment in future developments. The Company also draws upon Group shared services covering central functions such as finance, HR, regulation, health and safety, company secretarial and insurance services. All such services are provided under an appropriate Service Level Agreement. In addition to these employees, the services of key contractors are called upon in a number of large capital projects to ensure that these projects are delivered on time and on budget.

Capital structure

The Company regards its capital as comprising its equity, cash and borrowings. Its objective in managing capital is to maintain a strong balance sheet and credit rating so as to maintain investor, creditor and market confidence and to sustain future development of the business.

Treasury policy, objectives and financial risk management

The Group's treasury policy is designed to be prudent and flexible. In line with that, cash from operations is first used to finance regulatory and maintenance capital expenditure and then dividend payments, with capital and investment expenditure for growth generally financed by a combination of cash from operations, bank borrowings and bond issuance.

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 in note 19.

The Company's financial risk is managed as part of the wider Group risk management policy. For more information regarding the Group's approach to financial risk management, please see the 2018/19 Annual Report available at www.sse.com.

Liquidity, borrowings and financial resources available

The Group's Treasury function acts on behalf of the Company and is responsible for managing the banking and liquidity requirements of the Group, risk management relating to interest rate and foreign exchange exposures and managing the credit risk relating to the banking counterparties with which it transacts. Short term liquidity is reviewed daily by Treasury, while the longer term liquidity position is reviewed on a regular basis by the Board. The department's operations are governed by policies determined by the Board and any breaches of these policies are reported to the Tax and Treasury Committee and Audit Committee.

As part of the Group, the Company has significant resources which it can draw upon to meet its service commitments. The Company benefits from Group-wide treasury management functions in order to provide adequate financing, with undrawn facilities totalling £1.5bn available to the Group at 31 March 2019 which could be made available to the Company if required. During the year the Group extended its £1.3bn revolving credit facility with the facility now maturing in March 2024. The £0.2bn bilateral facility matures in November 2022. As at 31 March 2019, they were undrawn.

The Company has loans of £442.4m (2018 – £437.7m) of which £300.0m (2018 – £300.0m) is due to other Group companies and £142.4m (2018 – £137.7m) is in the form of an index-linked bond. Of the total, interest is paid at fixed rates on £300.0m (2018 - £300.0m) and inflation-linked rates on £142.4m (2018 – £137.7m).

As at 31 March 2019, the weighted average interest rate payable was 4.66% (2018 – 4.67%) and the weighted average remaining term was 14.13 years (2018 – 14.88 years).

Taxation

The headline effective tax rate, which includes the impact of substantively enacted changes in the UK corporation tax rate, is 18.4% compared with 16.6% in the previous year.

Dividend

Following a review of distributable reserves, the Directors declared, approved and paid a dividend of £20.0m (2018 – £20.0m) in the year.

Pensions

10% (2018 - 13%) of employees of the Company are members of the Scottish Hydro Electric Pension Scheme, which, at 31 March 2019 on an IAS 19 basis adjusted for IFRIC 14 had a surplus, net of deferred tax, of £349.5m included in the Group financial statements (2018 - £371.9m).

On behalf of the board

Gregor Alexander
Director
22 July 2019

Scottish Hydro Electric Power Distribution plc

Corporate Governance Statement

As a subsidiary company of SSE 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 UK Corporate Governance Code and has not voluntarily applied the UK Corporate Governance Code. The information below, therefore, is in relation to the Group only and is included solely for information.

The Group's corporate governance policies are described under Governance in the Group's 2018/19 Annual Report available at www.sse.com.

The Board of the Group considers that it complied in full with the UK Corporate Governance Code 2016 during 2018/19.

SSE plc Group ("the Group")

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

The Group's core purpose is to provide the energy people need in a reliable and sustainable way while abiding by its core values: safety; service; efficiency; sustainability; excellence; and teamwork.

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

For 2018/19 the Board is reporting against the 2016 version of the Code and confirm compliance with its provisions in full. The new UK Corporate Governance Code comes into effect for the Group from 1 April 2019. The Board has already implemented many of its provisions and will continue to develop these over the next year.

There are five principal Board committees; an Audit Committee, a Remuneration Committee, a Safety, Health and Environment Advisory Committee, a Nomination Committee and a newly established Energy Markets Risk Committee – whose principal purpose is to oversee implementation of a new Energy Portfolio Management (EPM) approach. The details of the appointees and work undertaken by these committees are included in the published annual report of the Group, which is available at www.sse.com.

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

The Audit Committee and the Safety, Health and Environmental Advisory Committee receive reports in respect of the Company's business performance and the relevant findings of these committees will be advised to the Company Board where appropriate.

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

The following comments on the arrangements for the Company.

Board of Directors

During the year the Board consisted of eight Executive Directors, one of whom is an Executive Director of the Group and a member of the Group's Energy Markets Risk Committee and two of whom are members of the Safety, Health and Environment Advisory Committee. None of the Directors are Directors of Group Companies involved in Retail or Wholesale activities. The Group Executive Director is the Chairman of the Board. Company Board meetings were held on eight occasions during the course of the year. The Company does not have a Nomination, Remuneration or Audit Committee. These functions are dealt with in conjunction with the relevant committee of the Group Board. There were two independent Non-Executive Directors on the Board during the course of the financial year as required under the terms of Standard Condition 43A of the Company's regulatory licence.

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

Attendance at meetings of the Board during 2018/19, expressed as a number of meetings attended out of number eligible to attend is set out below:

Director	**Attendance**
Gregor Alexander (Chairman)	8 of 8
Steven Kennedy (Resigned 07/09/18)	2 of 2
Stuart Hogarth	6 of 8
David Gardner (Resigned 31/01/19)	6 of 6
Colin Nicol	7 of 8
Dale Cargill	7 of 8
Alistair Borthwick (Appointed 07/09/18, Resigned 28/06/19)	6 of 6
Robert McDonald (Appointed 31/01/19)	2 of 2
Rachel McEwen	8 of 8
Katherine Marshall	8 of 8
David Rutherford (Non-Executive Director)	8 of 8
Gary Steel (Non-Executive Director)	7 of 8

Board evaluation

Formal and informal evaluations are carried out on a regular basis with the results used to develop actions and agree areas for improvement for the effective functioning and operations of the Board. This process was designed to confirm the areas where the Board was performing well and identify areas where improvements could be made. These improvements have been implemented throughout the course of the current reporting year and an updated evaluation process is now underway and will be completed by December 2019.

Director induction, training and development

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

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

Corporate Governance Statement *(continued)*

Going Concern

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

Viability Statement

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

In doing so, the Board has assessed the prospects of the Company over the next 3 financial years to 31 March 2022. The Directors have determined that as this time horizon aligns with the Company's strategy planning period and committed networks resilience projects, a reasonable degree of confidence over the forecasting assumptions modelled can be established.

This statement is included solely for information.

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

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

Upon the basis of the analysis undertaken, and on the assumption that the fundamental regulatory and statutory framework in which the Company operates does not substantively change, the Directors have a reasonable expectation that the Company will be able to continue to meet its liabilities as they fall due in the period to 31st March 2022.

Scottish Hydro Electric Power Distribution plc

Directors' Report

The Directors present their report together with the audited financial statements for the year ended 31 March 2019.

Reporting requirements on the Company's principal activities and future developments, its principal risks and uncertainties and its key performance can be found in the Strategic Report.

1 Principal activities

The Company is responsible for managing an electricity distribution network, serving around 780,000 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 Ofgem within a framework known as the Price Control. 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 Strategic Report section of these Financial statements.

2 Results and Dividends

The profit for the financial year amounted to £82.2m (2018 - £75.0m). A final dividend of £20.0m (2018 - £20.0m) was declared, approved and paid by the Board during the year.

3 Directors

The Directors and Secretary who served during the year are as listed on page 1. In accordance with the Articles of Association of the Company the Directors are not required to retire by rotation.

4 Corporate governance

The Corporate Governance statement for the Company is outlined on page 12.

5 Auditor

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

In accordance with Section 489 of the Companies Act 2006, the Group's Audit Committee confirmed that Ernst and Young LLP will be appointed External Auditor for the Group for the year ending 31 March 2020. It is the intention of the Directors to appoint Ernst & Young LLP as External Auditor of the Company, following their appointment as External Auditor of the Group.

On behalf of the Board:

Gregor Alexander
Director
22 July 2019

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

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

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

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

We confirm that to the best of our knowledge:

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

On behalf of the Board:

Gregor Alexander
Director
22 July 2019

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

1 Our opinion is unmodified

We have audited the financial statements of Scottish Hydro Electric Power Distribution plc (“the Company”) for the year ended 31 March 2019 which comprise the Profit and Loss account, Balance sheet, Statement of changes in equity and Cash flow statement, and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:
- give a true and fair view of the state of Company’s affairs as at 31 March 2019 and of the its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework* and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”) and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors in 2002. The period of total uninterrupted engagement is for the 17 financial years ended 31 March 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matter (unchanged from 2018), in arriving at our audit opinion above, together with our key audit procedures to address this matter and, as required for public interest entities, our results from those procedures. This matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently is incidental to that opinion, and we do not provide a separate opinion on this matter.

The risk		Our response
Carrying value of the Company’s network assets ***(£1.3bn; 2018: £1.2bn)*** *Refer to page 26 (accounting policy) and page 31 (financial disclosures).*	The Company’s network assets are significant and there can, to an extent, be judgement in ascertaining whether proposed additions are capital in nature. The depreciation period is determined by management. The effect of these matters is that, as part of our risk assessment, we determined that the company’s networks assets are quantitatively the most significant amount on the Company’s balance sheet and is the most significant area of audit effort.	Our procedures included: — **Control design and operation:** Including authorisation and monitoring controls over capital spend — **Testing additions:** Testing additions to network assets to supporting documentation on a sample basis ensuring these have been appropriately authorised and appropriately capitalised in line with the Company’s capitalisation policy; — **Benchmarking assumptions:** Comparing the Company’s assumptions on depreciation to those applied by other distribution network operators and using our historical knowledge to challenge the rates applied and calculation thereof; — **Assessing transparency:** Assessing whether the Company’s disclosures are in line with those required by accounting standards. **Our results** — We found the carrying values of the assets be acceptable *(2018: acceptable).*

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

3 Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £4.8 million (2018: £4.5 million), determined with reference to a benchmark of profit before taxation of which is represents 5% (2018: 5%). We reported to management any corrected or uncorrected misstatements identified exceeding £0.2 million (2018: £0.2 million), in addition to any other identified misstatements that warranted reporting on qualitative grounds. This level was selected and agreed with management as, given the nature and scale of operations, adjustments under this level were not deemed to be of specific interest to them. The Company is comprised of one component which we audited in its entirety.

4 We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Company's available financial resources over this period were:

- The availability of ongoing funding
- The ability of the company to generate positive cash flows

As these were risks that could potentially cast significant doubt on the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Company's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit and the erosion of customer or supplier confidence, which could result in a rapid reduction of available financial resources.

Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5 We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

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

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

Strategic report and directors' report

Based solely on our work on the other information:
- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities
As explained more fully in their statement set out on page 16, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect
We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the company's licence to operate. We identified the following areas as those most likely to have such an effect: health and safety and the requirements of operating licences set by the Gas and Electricity Markets Authority recognising the financial and regulated nature of the company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and

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

legal correspondence, if any. Through these procedures, we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

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

26 July 2019

Scottish Hydro Electric Power Distribution plc

Profit and Loss Account
for the year ended 31 March 2019

	Note	2019 £m	2018 £m
Turnover	**2**	**319.0**	371.5
Cost of sales		**(43.7)**	(48.4)
Gross profit		**275.3**	323.1
Distribution costs		**(122.1)**	(179.0)
Administrative costs		**(17.6)**	(15.0)
Operating profit	**3**	**135.6**	129.1
Interest receivable and similar income	**5**	**-**	10.9
Interest payable and similar charges	**6**	**(34.9)**	(50.1)
Profit before taxation		**100.7**	89.9
Tax on profit	**7**	**(18.5)**	(14.9)
Profit for the financial year		**82.2**	75.0

Continuing operations

The above results are derived from continuing activities.

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

Total other comprehensive income

The Company had no other comprehensive income in the current or prior financial years.

Scottish Hydro Electric Power Distribution plc

Balance Sheet
as at 31 March 2019

	Note	**2019**	2018
		£m	£m
Non current assets			
Tangible fixed assets	**9**	**1,257.4**	1,159.5
Intangible assets	**10**	**23.0**	17.7
Derivative financial assets		**4.8**	-
		1,285.2	1,177.2
Current assets			
Stocks	**11**	**2.3**	6.0
Debtors:			
amounts falling due within one year	**12**	**55.4**	51.4
Total current assets		**57.7**	57.4
Current liabilities			
Creditors: amounts falling due within one year	**13**	**(105.9)**	(156.2)
Net current liabilities		**(48.2)**	(98.8)
Total assets less current liabilities		**1,237.0**	1,078.4
Creditors: amounts falling due after more than one year	**14**	**(858.6)**	(766.5)
Derivative financial liabilities	**19**	**(7.0)**	(6.3)
Deferred taxation	**16**	**(70.2)**	(68.1)
Net assets		**301.2**	237.5
Capital and reserves			
Called up share capital	**17**	**62.0**	62.0
Profit and loss account		**239.8**	176.1
Hedge reserve		**(0.6)**	(0.6)
Equity Shareholders' funds		**301.2**	237.5

These financial statements were approved by the Directors on 22 July 2019 and signed on their behalf by:

Gregor Alexander
Director
Company registered number: SC213460

Scottish Hydro Electric Power Distribution plc

Statement of Changes in Equity
for the year ended 31 March 2019

	Share capital £m	Retained earnings £m	Hedge reserve £m	Total equity £m
Balance at 1 April 2017	**62.0**	**119.6**	**(0.6)**	**181.0**
Profit for the financial year	-	75.0	-	**75.0**
Credit in respect of employee share awards	-	1.5	-	**1.5**
Dividends paid (note 8)	-	(20.0)	-	**(20.0)**
Balance at 31 March 2018	**62.0**	**176.1**	**(0.6)**	**237.5**
Balance at 1 April 2018	**62.0**	**176.1**	**(0.6)**	**237.5**
Profit for the financial year	-	82.2	-	**82.2**
Credit in respect of employee share awards	-	1.5	-	**1.5**
Dividends paid (note 8)	-	(20.0)	-	**(20.0)**
Balance at 31 March 2019	**62.0**	**239.8**	**(0.6)**	**301.2**

Scottish Hydro Electric Power Distribution plc

Cash Flow Statement
for the year ended 31 March 2019

	Note	2019 £m	2018 £m
Cash flows from operating activities			
Profit for the year		**82.2**	75.0
Add back: taxation		**18.5**	14.9
Add back: net finance costs		**34.9**	39.2
Operating profit		**135.6**	129.1
Depreciation on tangible fixed assets		**46.4**	85.6
Amortisation of intangible assets		**2.2**	1.7
Impairment of intangible assets		**-**	1.6
Customer contribution and capital grants released		**(3.2)**	(3.3)
Decrease in stocks		**3.7**	4.5
(Increase)/Decrease in debtors		**(4.6)**	0.8
Increase/(Decrease) in creditors		**17.9**	(27.5)
Movement in intercompany		**20.9**	5.4
Charge in respect of employee share awards		**1.5**	1.5
Market to market movement in operating derivatives		**(4.8)**	-
Net cash inflow from operating activities		**215.6**	199.4
Interest paid		**(30.9)**	(44.6)
Returns on investments and servicing of finance		**(30.9)**	(44.6)
Corporation tax paid		**(16.0)**	(15.7)
Taxation		**(16.0)**	(15.7)
Purchase of tangible fixed assets		**(141.1)**	(110.8)
Expenditure on intangible assets		**(7.6)**	(8.3)
Capital expenditure and financial investment		**(148.7)**	(119.1)
Equity dividends paid	**8**	**(20.0)**	(20.0)
Net cash inflow before management of liquid resources and financing		-	-
Reconciliation of net cash flow to movement in net funds			
Increase/(decrease) in cash in the year		**-**	-
Net funds at start of the year		**-**	-
Net funds at end of the year		**-**	-

1 Significant accounting policies

The Company is a public company incorporated, domiciled, and registered, in Scotland. Its registration number is SC213460, and registered office is Inveralmond House, 200 Dunkeld Road, Perth, PH1 3AQ.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis of preparation
The financial statements have been prepared in accordance with all applicable United Kingdom accounting standards. The principal accounting policies are summarised below and have been applied consistently.

In preparing these financial statements, the Company has applied the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ('Adopted IFRS'), but has made amendments, where necessary, in order to comply with the Companies Act 2006 and has set out below where advantages of the FRS 101 disclosure exemptions has been taken.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:
- The effect of new, but not yet effective, IFRSs;
- Related party disclosures; and
- Comparative period reconciliations for tangible fixed assets, intangible assets and share capital.

As the consolidated financial statements of SSE plc include the equivalent disclosure, the Company has also taken advantage of the exemptions, under FRS 101, available in respect of the following disclosures:
- Certain disclosures, required by IAS 36 *Impairment of assets,* in respect of the impairment of goodwill and intangible assets; and
- Certain disclosures, required by IFRS 13 *Fair Value Measurement* and IFRS 7 *Financial Instruments Disclosure.*

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

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

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

Turnover

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

Electricity distribution revenue recognised is based on the volume of electricity distributed "over time", as use of the distribution service is determined by the customer, and the set customer tariff. Where this revenue differs from the allowed revenue, there may be an over- or under-recovery of revenue which will be reflected in future financial year's allowed revenue as set out in the regulatory licence. No accounting adjustments are therefore made for over- or under-recoveries in the year that they arise.

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

1 Significant accounting policies (*continued*)

Foreign currencies
Transactions in foreign currencies are translated to the Company's functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the profit and loss account except for differences arising on the retranslation of qualifying cash flow hedges, which are recognised in other comprehensive income.

Research
Expenditure on research activities is recognised in the profit and loss account as an expense as incurred.

Taxation
Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Tangible fixed assets
Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. The estimated useful lives are as follows:

	Years
Network assets	5 to 80
Non-operational assets:	
Fixtures, equipment, plant and machinery, vehicles and mobile plant	5 to 10

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

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

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

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

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

1 Significant accounting policies *(continued)*

Capitalised interest
Interest directly attributable to the acquisition, construction or production of major capital projects, which are projects that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use, and depreciated as part of the total cost over the useful life of the asset.

Customer contributions
Customer contributions towards construction or acquisition of new Out-of-Area networks, and capital grants received pre 1 April 2014, are recorded as deferred income and released to the profit and loss account over the estimated life used in calculating contributions. Deferred income also includes outstanding balances of customer contributions on new connections to existing networks pre business separation in 2001. From the 2018/19 finance year onwards, deferred income further includes customer contributions towards new connections which are released to the profit and loss account over the estimated useful economic life of the connection asset.

Operating leases
Payments made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease.

Stocks
Stocks are stated at the lower of cost and net realisable value.

Pensions
Some of the Company's employees are members of a group wide defined benefit pension plan. As there is no contractual agreement or stated group policy for charging the net defined benefit cost of the plan to participating entities, the net defined benefit cost of the pension plan is recognised fully by the sponsoring employer, which is another member of the group. The Company then recognises a cost equal to its contribution payable for the period. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

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

The exercise prices of the sharesave scheme are set at a discount to market price at the date of the grant. The fair value of the sharesave scheme option granted is measured at the grant date by use of an option pricing model. The fair value of the options granted is recognised as an expense on a straight-line basis over the period that the scheme vests. Estimates are updated at each balance sheet date with any adjustment in respect of the current and prior years being recognised in the profit and loss account. The costs associated with the other main employee schemes, the Share Incentive Plan and the Deferred Bonus Scheme, are recognised over the period to which they relate.

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

Derivative financial instruments and hedging
Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

2 New accounting policies and reporting changes

IFRS 9 'Financial Instruments'

The adoption of IFRS 9 had no impact on the presentation of the financial statements for the year ended 31 March 2019.

IFRS 15 'Revenue from contracts with customers'

The standard replaces IAS 18 'Revenue' and IFRIC 18 'Transfers of Assets from Customers' as previously adopted by the Company. The core principle of IFRS 15 is that an entity recognises revenue that reflects the expected consideration for goods or services provided to a customer under contract, over the performance obligations they are being provided. The standard has introduced a five-step model as the framework for applying that core principle.

Transition approach

The Company has applied the 'Modified Retrospective' transition approach as adopted by the Group, whereby prior periods are not restated to reflect the above changes in accounting policies, with the cumulative effect of initially applying IFRS 15 recognised from 1 April 2018 instead. The Company has also elected to take advantage of the practical expedient whereby contracts that have been completed under the previous accounting policies at the beginning of the earliest period are not restated.

Adoption impact

Revenue relating to Distribution Connections is recognised 'over time' with reference to the ongoing obligation to provide connection access to the Distribution Network, rather than at the point of time the connections was completed under IFRIC 18. The associated cost is now depreciated over the estimated useful economic life of the connection asset. This has resulted in a reduction to the current year depreciation charge. At 31 March 2019 tangible fixed assets are £41.3m higher and deferred income is £42.0m higher than they would have been under historical accounting policies. The Company has recognised £5.7m of contract related receivables at 31 March 2019 following adoption. The adoption of IFRS 15 has resulted in the following revenue and operating profit adjustments being made to the amounts recognised in these Financial Statements:

	Historic revenue policies 2019 £m	**IFRS 15 Adjustments 2019 £m**	**Reported position 2019 £m**
Revenue	361.0	(42.0)	319.0
Cost of Sales	(43.7)	-	(43.7)
Distribution costs	(163.4)	41.3	(122.1)
Administrative costs	(17.6)	-	(17.6)
Operating Profit	**136.3**	**(0.7)**	**135.6**

Disaggregation of revenue

	General use of electricity networks £m	**Network connections services £m**	**Out of area network activity £m**	**Metering income £m**	**Other revenue £m**	**Total £m**
Distribution revenue	302.1	2.1	4.2	1.4	9.2	**319.0**

3 Expenses and auditor's remuneration

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

	2019 £m	2018 £m
Depreciation of tangible fixed assets (note 2)	**46.4**	85.6
Amortisation of intangible assets	**2.2**	1.7
Impairment of intangible assets	**-**	1.6
Operating lease rentals	**1.4**	5.4
Release of deferred income in relation to customer contributions and capital grants	**(3.2)**	(3.3)
Net management fees in respect of services provided by group companies	**14.6**	13.6
Research costs	**0.9**	0.6

The Company incurred an audit fee of £0.05m *(2018: £0.03m)* and audit-related assurance service fees of £0.04m *(2018: £0.04m)* in the year.

4 Staff costs and numbers

	2019 £m	2018 £m
Staff costs:		
Wages and salaries	**53.5**	52.5
Social security costs	**5.8**	5.7
Share based remuneration	**1.5**	1.5
Pension costs	**9.2**	16.2
	70.0	75.9
Less charged as capital expenditure	**(26.5)**	(24.6)
	43.5	51.3

Included within the above is a Share-based payment charge of £1,512,151 *(2018: £1,451,623)*.

Employee numbers

	2019 Number	2018 Number
Numbers employed at 31 March	**1,365**	1,382

	2019 Number	2018 Number
The monthly average number of people employed by the Company during the year	**1,371**	1,374

	2019 £m	2018 £m
Directors remuneration	**4.0**	4.2

The total remuneration received by the Directors for qualifying and non-qualifying services during the year was £4.0m (*2018: £4.2m*). The above value is for 12 Directors (*2018: 11*),8 (*2018: 7*) of whom were remunerated via another Group company in the year. A value of services to the Company for these Directors cannot be determined, therefore the above value reflects the remuneration received for services to the SSE Group as a whole.

4 Staff costs and numbers (*continued*)

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid Director was £1.2m (*2018: £1.7m*) and company pension contributions of £nil (*2018: £nil*) were made to a money purchase scheme on their behalf.

	Number of directors	
	2019	2018
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	**5**	5

5 Interest receivable and similar income

	2019	2018
	£m	£m
Movement on financing derivatives	**-**	10.9

6 Interest payable and similar charges

	2019	2018
	£m	£m
Interest payable to group companies	**27.9**	32.0
Bank loans and overdrafts	**6.3**	18.1
Movement on financing derivatives	**0.7**	-
	34.9	50.1

7 Taxation

	2019	2018
	£m	£m
UK corporation tax		
Current tax on income for the period	**17.5**	17.1
Adjustment in respect of prior periods	**(1.1)**	(2.6)
Total current tax charge	**16.4**	14.5
Deferred tax (see note 16):		
Origination and reversal of temporary differences	**1.8**	0.1
Adjustment in respect of prior periods	**0.3**	0.3
Total deferred tax	**2.1**	0.4
Total tax on profit	**18.5**	14.9

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:

7 Taxation *(continued)*

	2019	2018
	£m	£m
Profit before taxation	**100.7**	89.9
Tax on profit at standard UK corporation tax rate of 19% *(2018: 19%)*	**19.1**	17.1
Effects of:		
Adjustment in respect of previous periods	**(0.8)**	(2.3)
Other items	**0.2**	0.1
Total tax charge for year	**18.5**	14.9

The standard rate of tax applied to reported profit on ordinary activities is 19% (*2018: 19%*). Legislation was substantively enacted on 15 September 2016 to reduce the corporation tax rate to 17% from 1 April 2020. Deferred tax has been calculated accordingly and this has had the effect of reducing the Company's deferred tax liability at 31 March 2019 by nil (*2018: nil*).

8 Dividends

	2019	2018
	£m	£m
Amounts recognised as distributions from equity:		
Final dividend of 32.2p (2018: 32.2p) per share	**20.0**	20.0

The final dividend for the current year, £20.0m (*2018*: *£20.0m*), was declared and approved on 28 February 2019 and was paid to shareholders on 14 March 2019. The final dividend for the previous year was approved on 21 September 2017 and paid to shareholders on 29 September 2017.

9 Tangible fixed assets

	Network Assets	**Assets under the course of construction (AUC)**	**Vehicles and miscellaneous equipment**	**Total**
	£m	**£m**	**£m**	**£m**
Cost:				
At 1 April 2018	2,206.6	39.5	82.4	2,328.5
Additions	-	144.3	-	144.3
Transfers from AUC to fully commissioned	151.7	(152.3)	0.6	-
Transfers between categories	(2.8)	-	2.8	-
At 31 March 2019	**2,355.5**	**31.5**	**85.8**	**2,472.8**
Accumulated depreciation:				
At 1 April 2018	(1,100.8)	-	(68.2)	(1,169.0)
Charge for the year	(42.8)	-	(3.6)	(46.4)
At 31 March 2019	**(1,143.6)**	**-**	**(71.8)**	**(1,215.4)**
Net book value:				
At 31 March 2019	**1,211.9**	**31.5**	**14.0**	**1,257.4**
At 31 March 2018	1,105.8	39.5	14.2	1,159.5

The above tangible fixed assets includes £1.4m (2018: £1.4m) of capitalised interest. No interest was capitalised in either the current or prior year. This is depreciated annually according to the useful economic life of the asset to which the capitalised interest relates.

10 Intangible assets

	Assets in development £m	IT Software £m	Total £m
Cost:			
At 1 April 2018	-	22.6	22.6
Additions	7.5	-	7.5
Transfers from assets in development to fully commissioned	(4.0)	4.0	-
At 31 March 2019	**3.5**	**26.6**	**30.1**
Amortisation:			
At 1 April 2018	-	(4.9)	(4.9)
Charge for the year	-	(2.2)	(2.2)
At 31 March 2019	**-**	**(7.1)**	**(7.1)**
Net book value:			
At 31 March 2019	**3.5**	**19.5**	**23.0**
At 31 March 2018	-	17.7	17.7

11 Stocks

	2019 £m	2018 £m
Raw materials and consumables	**2.3**	1.8
Work in progress	**-**	4.2
	2.3	6.0

12 Debtors

	2019 £m	2018 £m
Trade debtors	**8.4**	9.3
Prepayments and accrued income	**31.6**	31.8
Contract related receivables	**5.7**	-
Amounts owed by group undertakings	**9.7**	10.3
	55.4	51.4

Contract related receivables relate to costs incurred on non-capital networks projects. These projects are performed at the customer's request and are paid for in full directly by the customer. The projects are partially completed at the financial year end, the costs being recognised as contract related receivables and the related income received from the customer being held within deferred income liabilities at the balance sheet date. These items have been reclassified from Stocks (Note 11) under IFRS 15 requirements.

13 **Creditors:** amounts falling due within one year

	2019	2018
	£m	£m
Trade creditors	**5.0**	0.9
Amounts owed to group undertakings	**47.4**	52.2
Other creditors	**10.8**	13.5
Corporation tax payable	**9.0**	8.6
Accruals and deferred income	**33.7**	81.0
	105.9	156.2

14 **Creditors:** amounts falling due after more than one year

	2019	2018
	£m	£m
Loans and borrowings (note 15)	**142.4**	137.7
Loans due to ultimate parent (note 15)	**300.0**	300.0
Accruals and deferred income	**154.1**	91.8
Amounts owed to group undertakings	**262.1**	237.0
	858.6	766.5

15 **Interest bearing loans and borrowings**

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

	Weighted Average Interest Rate 2019 %	Weighted Average Interest Rate 2018 %	**2019 £m**	2018 £m
Creditors: falling due between two and five years				
5.90% Loan Stock repayable to SSE plc on 31 March 2022	**5.90**	5.90	**300.0**	300.0
Creditors: falling due more than five years				
1.4296% Index linked bond repayable on 20 October 2056	**2.04**	1.99	**142.4**	137.7
			442.4	437.7

Scottish Hydro Electric Power Distribution plc

Notes on the Financial statements (*continued*)
for the year ended 31 March 2019

16 Deferred taxation

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2019	2018	**2019**	2018	**2019**	2018
	£m	£m	**£m**	£m	**£m**	£m
Accelerated capital allowances	**-**	**-**	**69.4**	68.1	**69.4**	68.1
Fair value movement on derivatives	**-**	**-**	**0.8**	-	**0.8**	-
Net tax liabilities	**-**	**-**	**70.2**	68.1	**70.2**	68.1

	1 April 2018	**Recognised in income**	**Recognised in equity**	**31 March 2019**
	£m	**£m**	**£m**	**£m**
Movement in deferred tax during the year	**68.1**	**2.1**	-	**70.2**

	1 April 2017	Recognised in income	Recognised in equity	31 March 2018
	£m	£m	£m	£m
Movement in deferred tax during prior year	67.7	0.4	-	68.1

No deferred tax arises on derivatives as the accounting base is the same as the tax base.

17 Share capital

	2019	2018
	£m	£m
Equity:		
Allotted, called up and fully paid:		
62,000,000 ordinary shares of £1.00 each	**62.0**	62.0

18 Pensions

10% *(2018: 13%)* of the Company's employees are members of the Scottish Hydro-Electric Pension Scheme which provides defined benefits based on final pensionable pay. As there is no contractual agreement or stated group policy for charging the net defined benefit cost of the plan to participating entities, the net defined benefit cost of the pension plan is recognised fully by the sponsoring employer, which is another member of the group.

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

The Company's share of the total contribution payable to the pension schemes during the year was £9.2m *(2018: £12.6m)*. In the current year there was no further charge payable to SSE Services plc (*2018: £3.6m*), relating to its share of the Scheme's deficit repair contributions for the year ended 31 March 2019 as the scheme is no longer in deficit.

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

(i) Risk

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. The floating rate borrowings are provided by banks including the European Investment Bank (EIB). Such instruments include interest rate swaps. These practices serve to reduce the volatility of the Company's financial performance.

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

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

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 2019

	Effective interest rate %	**Total £m**	Within 1 year £m	1 - 2 years £m	2 - 5 years £m	More than 5 years £m
Long term bonds	**2.035**	**142.4**	-	-	-	142.4
Loan stock	**5.900**	**300.0**	-	-	300.0	-

19 Derivatives and financial instruments (*continued*)

(ii) Fair values

The fair values of the Company's financial assets and financial derivatives, and the carrying amounts in the balance sheet are analysed below. Balances included in the analysis of primary financial assets and liabilities include cash and cash equivalents, loans and borrowings, trade debtors and trade creditors, all of which are disclosed separately.

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

	2019 Carrying value £m	**2019 Fair Value £m**	2018 Carrying value £m	2018 Fair Value £m
Financial Assets				
Trade and intercompany debtors	**18.1**	**18.1**	19.6	19.6
Derivative financial assets	**4.8**	**4.8**	-	-
Financial Liabilities				
Trade and intercompany creditors	**52.4**	**52.4**	53.1	53.1
Long-term intercompany	**262.1**	**262.1**	237.0	237.0
Loans and borrowings	**142.4**	**233.2**	137.7	236.7
Loans due to ultimate parent	**300.0**	**334.9**	300.0	347.0
Derivative financial liabilities	**7.0**	**7.0**	6.3	6.3

Fair values have been determined with reference to closing market prices. Unless otherwise stated, carrying value approximates fair value.

Financial derivative instruments - disclosure
For disclosure purposes, derivative financial instruments are classified into two categories – operating derivatives and financing derivatives. The company utilises financing derivatives in the form of interest rate derivatives. Operating derivatives relate to energy forward purchase contracts for oil stored at the Lerwick Power Station, which are all held at fair value through the profit and loss account. Non-hedge accounted contracts are treated as held for trading (MTM). The carrying value is the same as the fair value for all instruments. All balances are stated gross of associated deferred taxation.

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

20 Capital commitments

	2019 £m	2018 £m
Contracted but not provided for	**11.7**	17.4

21 Operating lease commitments

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

	2019		2018	
	Land & Buildings	**Other**	Land & Buildings	Other
	£m	**£m**	£m	£m
Operating leases which expire:				
Within one year	**0.5**	**-**	0.5	4.4
Between two and five years	**2.0**	**-**	1.9	6.6
In more than five years	**8.7**	**-**	8.0	0.4
	11.2	**-**	10.4	11.4

Leases as Lessee:

	2019	2018
	£m	£m
Amount included in the profit and loss relating to current year leasing arrangements	**1.4**	5.4

22 Commitments and contingencies

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

23 Net debt

	2019	2018
Reconciliation of net cash flow to movement in net debt	**£m**	£m
Other non-cash movement	**(4.7)**	(5.0)
Movement in net debt in the year	**(4.7)**	(5.0)
Net debt at 1 April	**(437.7)**	(432.7)
Net debt at 31 March	**(442.4)**	(437.7)

Analysis of net debt

	As at 1 April 2018	Non-cash movements	**As at 31 March 2019**
	£m	£m	**£m**
Net borrowings due after more than one year	(437.7)	(4.7)	**(442.4)**

Scottish Hydro Electric Power Distribution plc

Notes on the Financial statements *(continued)*
for the year ended 31 March 2019

24 Related undertakings

The related undertakings in which the Company has a shareholding are listed below:

Company Name	Relation	Country of incorporation	Registered address (key)	2019 Holding %	2018 Holding %	Principal activity
Electralink Limited	Investment	England and Wales	B	**4.89**	4.89	Data Transfer Service Operator
Gemserv Limited	Investment	England and Wales	A	**2.78**	2.78	Market Design, Governance and Assurance Service Provider
DCUSA Limited	Investment	England and Wales	B	**1.69**	1.69	Billing Framework Operator
MRA Service Company Limited	Investment	England and Wales	A	**0.42**	0.45	Metering Point Administration Services Operator
Smart Energy Code Company Limited	Investment	England and Wales	A	**0.36**	0.39	Smart Metering Implementation Management

Registered Address Key

Address	Reference
8 Fenchurch Place, London, EC3M 4AJ	A
Northumberland House, 303 - 306 High Holborn, London, England, WC1V 7JZ	B

25 Ultimate parent company

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