Scottish Hydro Electric Transmission plc

Directors report and financial statements

Year ended 31 March 2019

Registered No.: SC213461

Scottish Hydro Electric Transmission plc

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Scottish Hydro Electric Transmission 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)
Registered office	Inveralmond House 200 Dunkeld Road Perth PH1 3AQ
Secretary	Mark McLaughlin
Auditor	KPMG LLP Chartered Accountants 319 St Vincent Street Glasgow G2 5AS
Registered number	SC213461

Scottish Hydro Electric Transmission plc

Strategic Report

The Strategic Report sets out the main trends and factors underlying the development and performance of Scottish Hydro Electric Transmission plc (the "Company") during the year ended 31 March 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 Power Distribution plc (SHEPD) and Southern Electric Power Distribution plc (SEPD). The Company owns the Electricity Transmission network in the North of Scotland. National Grid is the National Electricity Transmission System Operator, responsible for balancing the supply and demand of electricity across Great Britain. The Company is responsible for maintaining and investing in the transmission network in its area, which comprises around 5,320km of high voltage overhead lines, underground cables and subsea cables covering around 70% of the land mass of Scotland serving remote and, in some cases, island communities. As the licensed transmission company for the area, the Company has to ensure there is sufficient network capacity for those seeking to generate electricity from renewable and other sources.

The Company is the subject of incentive-based regulation by the industry regulator, the Office of Gas and Electricity Markets (Ofgem), which sets the revenue that is allowed to be recovered for use of the network, the allowed capital and operating expenditure, within a framework known as the Price Control. The Company is currently in RIIO-T1 (Revenue = Incentives + Innovation + Outputs) Price Control period which runs for eight years from 1 April 2013 until 31 March 2021. In broad terms, Ofgem seeks to strike the right balance between attracting investment in electricity networks, encouraging companies to operate the networks as efficiently as possible and ensuring that prices for customers are no higher than they need to be. The RIIO price controls, which are common to all electricity and gas businesses regulated by Ofgem, see additional emphasis placed on innovation, incentives and outputs, and require regulated businesses to take on additional risk and reward mechanisms, with the possibility of outperformance resulting in additional income or underperformance resulting in penalties.

The Company's strategy and main objectives are to:

- comply fully with all electricity network safety standards and environmental requirements;
- ensure that the electricity network is managed as efficiently as possible, including maintaining tight controls over operational expenditure and the delivery of the capital expenditure programme;
- provide good performance in areas such as reliability of supply, customer service and innovation;
- ensure there is sufficient network capacity for those seeking to generate electricity from renewable and other sources within the licensed network area;
- grow the Regulated Asset Value ("RAV") of the business, and so, secure increased revenue; and
- engage constructively with the regulator, Ofgem, to secure regulatory outcomes that meet the needs of stakeholders and investors.

Business performance overview

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

Financial / Operational	**2019**	2018	% change
Capital expenditure - £m	**341.3**	429.4	(20.5)
Operating profit - £m	**252.2**	194.8	29.5
Regulated asset value - £m	**3,275.4**	3,069.7	6.7

Non Financial / Management	**2019**	2018	% change
Number of Transmission System Incidents	**2**	2	-
Average Circuit Unreliability	**0.53%**	0.29%	82.8

The Company's operating profit increased by 29.5% in the year to £252.2m. This was mainly due to the increase in Transmission regulated revenue year on year together with the phasing of income recovery, which included a one-off payment relating to Beauly-Denny as part of the post construction review.

Strategic Report *(continued)*

Business performance overview (*continued*)

The Company's capital expenditure has decreased by 20.5% in the year to £341.3m. A factor of the decrease was the energisation of Caithness Moray, Stronelairg and Melgarve, with spend in the final year of construction being lower than the previous year. Since the start of the RIIO-T1 Price Control in April 2013, the Company's RAV additions and hence investment in the electricity transmission network has totalled over £2.3bn (2018 - £2.1bn), playing a pivotal role in providing the supporting infrastructure required to facilitate the UK's transition to a low carbon economy.

The number of Transmission System Loss of Supply Incidents in 2018/19 was low, remaining at 2 as per the previous year. This is due to continued investment and targeted maintenance on the network. However, Average Circuit Unreliability increased to 0.53% from 0.29%. This was due to the increase in the number of unplanned switch-outs and faults that did not impact on supply. They were not focused on any particular area but occurred for a range of reasons such as equipment failures, wild fires and weather-related events. There were no exceptional events in 2018/19 that impacted the network performance.

Maintaining network reliability

The Company's first priority is to provide a safe and reliable supply of electricity to the communities it serves. The Company has established a dedicated and experienced team to deliver operational excellence, including improved asset management and timely preparation for the introduction of new types of plant and technology. Despite the current period of rapid growth in transmission development, the Company continues to maintain an overall reliability of supply of over 99.9%.

During 2018/19, the Company earned the maximum reward of £1.2m through the Energy Not Supplied (ENS) Incentive. The ENS Incentive provides a financial reward, on a sliding scale, if the volume of energy not supplied to customers due to faults is below a pre-determined annual target, which for the Company is 120MW. If the target is exceeded, a financial penalty is applied.

As its transmission assets reach the end of their operational life, the Company has an ongoing programme of maintenance and refurbishment to ensure its critical, national infrastructure assets continue to deliver for electricity customers, generators and wider society.

Successfully energising the Caithness-Moray transmission link

In December 2018, the Company successfully energised the Caithness-Moray subsea transmission link, which remains the largest single investment ever undertaken by both the Group and Company. Total spend for the project is forecast to be around £970m (2013/14 prices) which is below allowance.

Delivering the transition to a low-carbon economy

The Company's strategic priority for the RIIO-T1 period has been to enable the transition to a low carbon economy through building the transmission infrastructure necessary to connect and transport renewable energy.

During 2018/19, the Company increased the renewables capacity supported by its network by over 1GW, in what was another record year for renewable connections to the Company's transmission network. This means the installed renewable electricity generation capacity connected to the Company's transmission network has grown from 3.3GW at the start of the RIIO-T1 Price Control in April 2013 to over 6GW and is forecast to grow to over 6.5GW by the end of the current price control period in 2021.

The Company will continue to work collaboratively with its connection customers to deliver timely and efficient connections to its network. In the remaining years of the RIIO-T1 Price Control, the Company has a healthy pipeline of transmission projects. With a total planned investment of over £600m, the transmission business remains on track to increase its RAV to around £3.6bn by 2021.

Ready to connect Scotland's island groups

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

With all three island link Needs Cases with Ofgem for consideration and the project development for each island link at an advanced stage, the Company will continue to engage constructively to take forward its proposals in a timely manner, as soon as developer commitment and all necessary regulatory and planning approvals are confirmed.

Highlighting concerns about implementation of competition in Transmission

The Company continues to have a number of significant concerns about Ofgem's implementation of competition in transmission, particularly the Competition Proxy Model (CPM) and Special Purpose Vehicle (SPV) delivery models currently in development.

The Company believes Ofgem's current proposals effectively reopen the RIIO-T1 Price Control; are justified on unproven customer benefits; are not underpinned by legislation or a regulatory framework; and risk delays to the delivery of well-established and advanced projects. The Company is also increasingly concerned that the introduction of competition in the way envisaged will result in a fragmentation of responsibility, risking network reliability and introducing safety concerns.

Whilst the Company will continue to engage constructively with Ofgem and other stakeholders as part of this process, it will also consider all options available to ensure the integrity of the Price Control is maintained and the development of existing projects continues, including the potential for legal challenge.

Contributing to the development of RIIO-2

In December 2018, Ofgem published its RIIO-2 Sector Specific Methodology consultation for electricity transmission. The Company remains concerned that Ofgem has failed to give appropriate weight to benefits delivered to customers and stakeholders during RIIO-T1 and has instead proposed a RIIO-T2 framework which blunts existing efficiency incentives in a desire to secure a predictable outcome. In its response to the consultation, the Company set out a number of areas where the regulatory mechanisms of RIIO-T1 have delivered material stakeholder benefits, encouraging Ofgem to ensure these remain in place. These mechanisms are:

- an output incentive package large enough to allow a high performing network to reach the upper return range;
- a strong totex incentive, to ensure networks continue to drive efficiency;
- a strong and equitable business plan incentive that allows networks to realise potential in the knowledge that they will share in the benefits;
- an innovation stimulus which supports solutions to current as well as future network challenges; and
- a fair financial package for investors that recognises current and future risk.

In May 2019, Ofgem published its RIIO-2 Sector Specific Decision for electricity transmission. The Company retains its concern, as set out in its response to Ofgem's Sector Specific Methodology consultation, that the proposed framework fails to fully balance stakeholder and consumer needs with the requirement to provide investor confidence and attract the significant investment needed to enable the clean energy transition. There remains much to be decided and final proposals are not due until late 2020. During that time, the Company will continue to advocate constructively and robustly for a regulatory framework that strikes the right balance between ensuring efficiency and affordability with maintaining the necessary investment to improve services for consumers and drive further progress towards a low carbon, flexible energy system.

Preparing the first RIIO-T2 draft business plan

In February 2019, informed by extensive stakeholder engagement over the previous 18 months, the Company published its 'Emerging Thinking' paper which set out the Company's understanding of what electricity customers, local communities and wider stakeholders require from the electricity transmission network in the first half of the next decade. The 'Emerging Thinking' paper and subsequent stakeholder feedback formed the basis of the Company's first draft business plan 'A Network for Net Zero', which

Preparing the first RIIO-T2 draft business plan (*continued*)

was published for consultation on 29 June 2019. The business plan was also submitted to Ofgem on 1 July 2019 for consideration by their RIIO-2 Challenge Group.

The business plan shows the ambition, commitment and professionalism that companies need to demonstrate in the years ahead if the UK goal of net zero emissions by 2050 is to be achieved. As part of the development of this business plan, the Company sees a powerful case for investment which could contribute to a Transmission RAV of around £5bn by the end of RIIO-T2 in 2026, excluding any contribution from island links. The Company's plan is based around five clear, ambitious goals and is a blueprint for a sustainable transmission business that works for stakeholders. The Company will continue to refine its business plan in the coming months, taking into account consultation responses and further engagement with stakeholders, in advance of a final plan being submitted to Ofgem in December 2019.

Electricity Transmission priorities for 2019/20 and beyond

For the Company, the core activity for the rest of this decade will be construction. Against this background, its priorities for the rest of 2019/20 and beyond are to:

- operate safely and meet all compliance requirements;
- provide an excellent service to all customers who rely on its network and related services;
- deliver required outputs while maintaining tight controls over expenditure;
- maintain good progress in the safe delivery of new assets;
- progress innovations that will improve network reliability, efficiency and customer service and inform industry-wide improvements;
- continue to progress the case for investment in the Scottish Islands through engagement with key stakeholders while protecting the interest of consumers; and
- develop and maintain effective stakeholder relationships and conduct constructive engagement with regulators and legislators, advocating clarity and stability in the regulatory framework, in particular RIIO-2.

Values and responsibilities

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

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

Factors affecting the business

The Company is responsible for managing the electricity transmission network in the North of Scotland. Transmission of electricity within specified areas is a monopoly activity and the level of allowed revenue for the use of the system is closely regulated by Ofgem, as is the level of investment which is made.

Against this backdrop, the Company's objective is to manage the consequences of the change in demand for electricity, changes to the generation mix and to ensure the network has the minimum number of faults and the maximum robustness in the face of severe weather and other supply interruption risks.

Other factors which would affect the longer term performance of the business include the macroeconomic situation and impact on the Company's funding costs, and the performance of the Company and its contractors on large capital projects. The former is addressed by the Group's treasury policies to ensure that appropriate funding is available to the business. The latter is

Factors affecting the business (*continued*)

addressed by use of the Group's Large Capital Project Governance Framework which is designed to ensure projects are governed, developed, approved and executed in an effective manner. All significant transmission projects are governed by this framework.

To help ensure 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).

Understanding and managing our principal risks

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

The risks faced by the Company have been considered by the Company Board during the financial year. These have been reviewed in line with the Group's approach to risk. Risk workshops have been attended by the 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 –** 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 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 operation of HVDC (High Voltage Direct Current) circuits is new to the Company and will increase over the next few years. Appropriate training of staff and coordination between project delivery and operations team takes place.
- **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-T1 settlement, the Company has proposed significant reductions in the overall cost and improvements in the standard of service that customers can expect to receive. To deliver

Strategic Report *(continued)*

Understanding and managing our principal risks (*continued*)

- 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 a high standard given the long term nature of the business. The Company will typically manage the development process and organise the delivery of the project by third party contractors, taking a pro-active oversight role during the procurement and construction phase. Whilst this model ensures that the correct skills are leveraged, there is a risk of supplier failures, faulty components and quality defects. The Group-wide Large Capital Projects Governance framework helps to mitigate this risk by ensuring a consistent approach to project development and delivery as well as proactive engagement with the supply chain.
- **Price Control Governance and Management** – The Company needs to meet its RIIO-T1 published business plan obligations or risk financial penalties and the resultant reputational risk (these deliverables include meeting the Totex (Total Expenditure) project milestones and output measures, ensuring data quality and accuracy, achieving stakeholder satisfaction and environmental outputs). As we progress through RIIO-2, the price control and regulatory risks converge and we seek to deliver a new business plan in the best interests of consumers. The structure of the business, management oversight and the governance frameworks in place are designed in order to ensure that this risk is monitored and mitigated.
- **Cyber Security** - With the increased incidence of cyber attacks over recent years there is a risk to the Company's key systems and, as a result, the network could be compromised or rendered unavailable. To mitigate this risk, the Group and Company are investing in a long term security programme including liaising with relevant external stakeholders and ensuring staff awareness of IT security issues and their importance.
- **Alternative Technologies** – Technological developments may identify alternative or more efficient means of transmitting electricity. It is important that the business is aware of and keeps pace with the application of these technological improvements in order to improve efficiency and value to the end consumer. The Company has a dedicated team who look at incremental technologies aimed at increasing the reliability and efficiency of network assets as well as converting these new technologies into business as usual.

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.

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, 81% are men and 19% are women. It is Company policy, where possible, to provide employment opportunities for disabled people. Staff who become disabled are supported in continuing employment through identification of suitable jobs and the provision of necessary re-training.

Rewarding employee contribution

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

- **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 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.

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

The Company has invested over £2.3bn (2018 - £2.1bn) in RAV additions contributing to new electricity transmission infrastructure since the Transmission price control period began in 2013. This investment is increasing the capacity of the network, allowing the renewable energy generated in the North of Scotland to be transported south to areas of higher demand. In doing this, the Company's network is playing a key role in supporting the UK to achieve its carbon targets. In 2018/19, around 1GW of new renewable generation capacity was connected, bringing the total to over 6GW, up from around 3.3GW in 2013.

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

There are a number of contracts in place for construction of major projects, upon which the Company is dependent for delivery of these projects. Appropriate terms have been included within these contracts to ensure that the services provided and the costs charged are clearly agreed, and to provide an appropriate long-term relationship. However, the nature of these projects is such that there is no monopoly on provision of the required services, and the Directors believe that they would be able to replace the incumbent providers should there be any requirement to do so. The Directors consider the Service Level Agreement between the Company and SSE Services plc for the provision of corporate services to be essential for the continuance of the Company's operations in the short-to-medium term. Due to the fact that it is provided by a fellow subsidiary of SSE plc, the risk of this contract being terminated is low.

Operational resources available

The Company has 477 employees which it calls on to maintain its transmission network and carry out investment in future developments. The Company also draws upon Group shared services covering central functions such as finance, HR, regulation, health and safety, Company secretarial and insurance services. All such services are provided under an appropriate Service Level Agreement. In addition to these employees, the services of key contractors are called upon in a number of large capital projects to ensure that these projects are delivered on time and on budget.

Capital structure

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

Treasury policy, objectives and financial risk management

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

Transactional foreign exchange risk arises in respect of procurement contracts. Exposure to currency risk arises in the normal course of the Company's business. Derivative financial instruments are entered into to hedge exposure to risk. The objectives and policies for holding or issuing financial instruments and similar contracts, and the strategies for achieving those objectives that have been followed during the year are explained in note 17.

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.

Scottish Hydro Electric Transmission plc

Strategic Report *(continued)*

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 £1,812.8m (2018 – £1,812.8m) of which £1,063.1m (2018 - £1,063.1m) is due to other group companies and £749.7m (2018 - £749.7m) is in the form of loans from the European Investment Bank. Of the total, interest is paid at fixed interest rates on £1,562.8m (2018 - £1,562.8m) with the interest paid at floating rates on a £250.0m (2018 - £250.0m) loan from the European Investment Bank.

As at 31 March 2019, the weighted average interest rate payable was 3.14% (2018 – 3.08%) and the weighted average remaining term was 5.55 years (2018 – 6.55 years).

Taxation

The headline effective tax rate, which includes the impact of substantively enacted changes in the UK corporation tax rate, is 17.8% compared with 16.7% in the previous year.

Dividend

Following a review of distributable reserves, the Directors declared, approved, and paid a dividend of £45.0m (2018 - £110.0m).

Pensions

6% (2018 - 7%) of employees of the Company are members of the Scottish Hydro-Electric Pension Scheme, which, at 31 March 2019, based on an IAS 19 accounting basis, had a surplus included in the Group financial statements, net of deferred tax, of £349.5m (2018 - £371.9m).

On behalf of the board

Gregor Alexander
Director
22 July 2019

Scottish Hydro Electric Transmission plc

Corporate Governance Statement

As a subsidiary company of SSE plc ("The Group"), Scottish Hydro Electric Transmission 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 Transmission 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 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

Corporate Governance Statement *(continued)*

Board of Directors (*continued*)

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 B22 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.

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 Transmission 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 part of SSE plc (the 'Group') and the key responsibility of the Group's Network businesses, including the Company, is to maintain safe and reliable supplies of electricity and to restore supplies as quickly as possible in the event of interruptions. The Directors intend the Company to pursue its principal activity of the transmission of electricity in the North of Scotland. A full review of the year is contained within the Strategic Report section of these Financial statements.

2 Results and dividends

The profit for the financial year amounted to £166.8m (2018 - £131.1m). A final dividend of £45.0m (2018 – £110.0m) 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 11.

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

Scottish Hydro Electric Transmission plc

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

The directors are responsible for preparing the Strategic Report, the Directors’ 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 the profit or loss of the company for that period. In preparing these 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 the 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.

On behalf of the Board:

Gregor Alexander
Director
22 July 2019

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

Opinion

We have audited the financial statements of Scottish Hydro Electric Transmission plc (“the company”) for the year ended 31 March 2019, which comprise the Profit and Loss Account, Statement of Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and related notes, including the significant accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company’s affairs as at 31 March 2019 and of 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 have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

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”).

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. In our evaluation of the directors’ conclusions, we considered the inherent risks to the company’s business model, including the impact of Brexit, and analysed how those risks might affect the company’s financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

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.

Strategic report and directors’ report

The directors are responsible for the strategic report and the directors’ report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors’ report 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 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.

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, 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.

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

Directors' responsibilities

As explained more fully in their statement set out on page 15, the directors are responsible for: the preparation of the financial statements and for 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 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 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.

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 Transmission plc

Profit and Loss Account
for the year ended 31 March 2019

	Note	2019 £m	2018 £m
Turnover		**395.9**	325.8
Gross profit		**395.9**	325.8
Distribution costs		**(130.3)**	(118.3)
Administrative costs		**(13.4)**	(12.7)
Operating profit	**2**	**252.2**	194.8
Interest payable and similar charges	**4**	**(49.3)**	(37.5)
Profit before taxation		**202.9**	157.3
Tax on profit	**5**	**(36.1)**	(26.2)
Profit for the financial year		**166.8**	131.1

Continuing operations

The above results are derived from continuing activities.

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

Scottish Hydro Electric Transmission plc

Statement of Other Comprehensive Income
for the year ended 31 March 2019

	2019	2018
	£m	£m
Profit for the financial year	**166.8**	131.1
Other comprehensive income		
Gain/(Loss) on effective portion of cash flow hedges	**0.7**	(2.9)
Taxation on cashflow hedges	**(0.1)**	0.5
Other comprehensive income	**0.6**	(2.4)
Total comprehensive income relating to the financial year	**167.4**	128.7

Scottish Hydro Electric Transmission plc

Balance Sheet
as at 31 March 2019

	Note	2019 £m	2018 £m
Non current assets			
Tangible fixed assets	**7**	**3,352.3**	3,079.3
Intangible assets	**8**	**10.6**	9.1
Derivative financial assets	**17**	**0.1**	-
		3,363.0	3,088.4
Current assets			
Debtors	**9**	**17.5**	1.7
Restricted cash	**10**	**11.3**	14.1
Total current assets		**28.8**	15.8
Current liabilities			
Creditors: amounts falling due within one year	**11**	**(171.0)**	(216.4)
Net current liabilities		**(142.2)**	(200.6)
Total assets less current liabilities		**3,220.8**	2,887.8
Creditors: amounts falling due after more than one year	**12**	**(2,128.1)**	(1,941.0)
Derivative financial liabilities	**17**	**-**	(0.6)
Deferred taxation	**14**	**(162.1)**	(138.4)
Net assets		**930.6**	807.8
Capital and reserves			
Called up share capital	**15**	**354.3**	354.3
Profit and loss account		**576.2**	454.0
Hedge reserve		**0.1**	(0.5)
Equity Shareholders' funds		**930.6**	807.8

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

Gregor Alexander
Director
Company registered number: SC213461

Scottish Hydro Electric Transmission plc

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

	Share capital £m	Retained earnings £m	Hedge reserve £m	Total equity £m
Balance at 1 April 2017	**354.3**	**432.4**	**1.9**	**788.6**
Profit for the financial year	-	131.1	-	**131.1**
Credit in respect of employee share schemes	-	0.5	-	**0.5**
Dividends paid (note 6)	-	(110.0)	-	**(110.0)**
Other comprehensive income	-	-	(2.4)	**(2.4)**
Balance at 31 March 2018	**354.3**	**454.0**	**(0.5)**	**807.8**
Balance at 1 April 2018	**354.3**	**454.0**	**(0.5)**	**807.8**
Profit for the financial year	-	166.8	-	**166.8**
Credit in respect of employee share schemes	-	0.4	-	**0.4**
Dividends paid (note 6)	-	(45.0)	-	**(45.0)**
Other comprehensive income	-	-	0.6	**0.6**
Balance at 31 March 2019	**354.3**	**576.2**	**0.1**	**930.6**

Scottish Hydro Electric Transmission 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		**166.8**	131.1
Add back: taxation		**36.1**	26.2
Add back: net finance costs		**49.3**	37.5
Operating profit		**252.2**	194.8
Depreciation on tangible assets		**68.3**	61.6
Amortisation of intangible assets		**1.2**	0.9
Impairment of intangible assets		**-**	0.6
Customer contributions and capital grants released		**(2.8)**	(2.6)
(Increase)/Decrease in debtors		**(12.9)**	30.4
Increase/(Decrease) in creditors		**19.4**	(6.4)
Movement in intercompany		**148.3**	215.0
Charge in respect of employee share awards		**0.4**	0.5
Net cash inflow from operating activities		**474.1**	494.8
Interest paid		**(57.9)**	(53.7)
Returns on investments and servicing of finance		**(57.9)**	(53.7)
Corporation tax paid		**(7.5)**	(12.1)
Taxation		**(7.5)**	(12.1)
Purchase of tangible fixed assets		**(361.0)**	(414.2)
Expenditure on intangible assets		**(2.7)**	(4.8)
Capital expenditure and financial investment		**(363.7)**	(419.0)
Equity dividends paid	**6**	**(45.0)**	(110.0)
Net cash outflow before management of liquid resources and financing		**(45.0)**	(100.0)
New borrowings	**13**	**-**	100.0
Financing		**-**	100.0
Increase/(decrease) in cash in the year		**-**	-
Reconciliation of net cash flow to movement in net funds			
Decrease in cash in the year		**-**	-
Net cash at start of the year		**-**	-
Net cash at end of the year		**-**	-

Scottish Hydro Electric Transmission plc

Notes on the Financial statements
for the year ended 31 March 2019

1 Significant accounting policies

The Company is a public company incorporated, domiciled, and registered, in Scotland. Its registration number is SC213461, and registered office is Inveralmond House, 200 Dunkeld Road, Perth, PH1 3AQ.

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

Basis of preparation
The financial statements have been prepared in accordance with 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 at page 11 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 relevant electricity transmission licence, which informs the tariffs we set.

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

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

1 Significant accounting policies *(continued)*

Transition to IFRS 15
This standard replaces IAS 18 'Revenue' as previously adopted by the Company. The core principal 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 does not materially change the amounts recognised in relation to existing revenue arrangements as previously applied policies already aligned to the core principles of the standard.

Disaggregation of revenue

	General use of electricity networks £m	Network connections services £m	Other network activity £m	Other revenue £m	Total £m
Transmission revenue	369.8	23.5	2.3	0.3	**395.9**

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
(i) Depreciation
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

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

1 Significant accounting policies *(continued)*

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.

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

Customer contributions
Customer contributions and capital grants are recorded as deferred income and released to the profit and loss account over the estimated useful life of the related fixed asset, where there is an ongoing service obligation.

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.

Finance leases
Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

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.

1 Significant accounting policies *(continued)*

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.

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

Cash flow hedges
A derivative classified as a 'cash flow' hedge recognises the portion of gains or losses on the derivative which are deemed to be effective directly in equity in the hedge reserve. Any ineffective portion of the gains or losses is recognised in the profit and loss account. The gains or losses that are recognised directly in equity are transferred to the profit and loss account in the same year in which the forecast transaction actually occurs.

New accounting policies and reporting changes
The adoption of IFRS 9 had no impact on the presentation of the financial statements for the year ended 31 March 2019.

2 Expenses and auditor's remuneration

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

	2019	2018
	£m	£m
Depreciation of tangible fixed assets	**68.3**	61.6
Amortisation of intangible assets	**1.2**	0.9
Impairment of intangible assets	**-**	0.6
Operating lease rentals	**0.7**	0.8
Release of deferred income in relation to customer contributions and capital grants	**(2.8)**	(2.6)
Net management fees in respect of services provided by group companies	**13.0**	14.6
Research costs	**3.3**	0.8

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.

3 Staff costs and numbers

	2019	2018
	£m	£m
Staff costs:		
Wages and salaries	**23.1**	21.9
Social security costs	**2.7**	2.5
Share based remuneration	**0.4**	0.5
Pension costs	**3.7**	4.9
	29.9	29.8
Less charged as capital expenditure	**(19.7)**	(19.7)
	10.2	10.1

Included within the above is a share-based payment charge of £421,686 *(2018: £511,880)*.

3 Staff costs and numbers (*continued*)

Employee numbers

	2019 Number	2018 Number
Numbers employed at 31 March	**477**	456

	2019 Number	2018 Number
The monthly average number of people employed by the Company during the year	**464**	456

	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*), 10 (*2018: 9*) of whom were remunerated via another Group company in the year. A value of services to the Company for these Directors cannot be determined, therefore the above value reflects the remuneration received for services to the SSE Group as a whole.

The aggregate of 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

4 Interest payable and similar charges

	2019 £m	2018 £m
Interest payable to group companies	**42.6**	40.7
Bank loans and overdrafts	**15.8**	13.7
Foreign exchange translation of monetary assets and liabilities	**4.7**	2.8
Interest capitalised	**(13.8)**	(19.7)
	49.3	37.5

Scottish Hydro Electric Transmission plc

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

5 Taxation

	2019	2018
	£m	£m
UK corporation tax		
Current tax on income for the period	**13.5**	4.1
Adjustment in respect of prior periods	**(1.0)**	(2.0)
Total current tax charge	**12.5**	2.1
Deferred tax (see note 14):		
Origination and reversal of temporary differences	**25.6**	26.2
Adjustment in respect of prior years	**(2.0)**	(2.1)
Total deferred tax	**23.6**	24.1
Total tax on profit	**36.1**	26.2

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

	2019	2018
	£m	£m
Profit before taxation	**202.9**	157.3
Tax on profit at standard UK corporation tax rate of 19% *(2018: 19%)*	**38.6**	29.9
Effects of:		
Depreciation on non-qualifying assets	**0.4**	0.4
Expenses not deductible for tax purposes	**0.1**	-
Adjustment in respect of previous periods	**(3.0)**	(4.1)
Total tax charge for year	**36.1**	26.2

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*).

6 Dividends

	2019	2018
	£m	£m
Amounts recognised as distributions from equity:		
Final dividend of 12.7p *(2018: 31.0p)* per share	**45.0**	110.0

The final dividend for the current year, £45.0m *(2018: £110.0m)*, 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.

7 Tangible Fixed Assets

	Land and Buildings £m	Network assets £m	Assets under construction (AUC) £m	Vehicles and miscellaneous equipment £m	Total £m
Cost:					
At 1 April 2018	-	3,496.4	-	6.4	3,502.8
Additions	-	-	341.3	-	341.3
Transfers from AUC to fully commissioned	4.5	332.9	(341.3)	3.9	-
At 31 March 2019	**4.5**	**3,829.3**	**-**	**10.3**	**3,844.1**
Depreciation:					
At 1 April 2018	-	(417.8)	-	(5.7)	(423.5)
Charge for the year	(0.1)	(66.5)	-	(1.7)	(68.3)
At 31 March 2019	**(0.1)**	**(484.3)**	**-**	**(7.4)**	**(491.8)**
Net book value:					
At 31 March 2019	**4.4**	**3,345.0**	**-**	**2.9**	**3,352.3**
At 31 March 2018	-	3,078.6	-	0.7	3,079.3

The above tangible fixed assets includes £133.4m *(2018: £119.6m)* of capitalised interest, of which £13.8m was capitalised in the current year *(2018: £19.7m)*. This is depreciated annually according to the useful economic life of the asset to which the capitalised interest relates.

Lease land and buildings included within the net book value of £4.3m *(2018: nil)* relates to assets held under finance lease agreements. The depreciation charged to the financial statements in the year in respect of such assets amounted to £0.1m *(2018: nil)*.

8 Intangible assets

	Assets in development £m	IT Software £m	Total £m
Cost:			
At 1 April 2018	-	11.2	11.2
Additions	0.8	1.9	2.7
At 31 March 2019	**0.8**	**13.1**	**13.9**
Amortisation:			
At 1 April 2018	-	(2.1)	(2.1)
Charge for the year	-	(1.2)	(1.2)
At 31 March 2019	**-**	**(3.3)**	**(3.3)**
Net book value:			
At 31 March 2019	**0.8**	**9.8**	**10.6**
At 31 March 2018	-	9.1	9.1

9 Debtors

	2019	2018
	£m	£m
Trade debtors	**17.2**	1.5
Amounts owed by group undertakings	**0.3**	0.2
	17.5	1.7

10 Restricted cash

	2019	2018
	£m	£m
Restricted cash	**11.3**	14.1

Restricted cash represents amounts received to fund the Multi Terminal Test Environment (MTTE) project, the Modular Approach to Substation Construction (MASC) project and the New Suite of Transmission Structures (NESTS) project under Network Innovation Competition arrangements. The use of cash is restricted and can only be used for the purpose of the project. Therefore, the balance has not been remitted to SSE plc as part of the Group's central treasury operations. Any non-restricted cash generated by the Company is remitted to or obtained from the Group or SSE Services plc. This is not considered to be cash and cash equivalents for the purposes of the cash flow statement.

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

	2019	2018
	£m	£m
Trade creditors	**2.4**	3.8
Amounts owed to group undertakings	**57.2**	81.4
Other creditors	**41.9**	33.8
Corporation tax payable	**7.0**	2.0
Accruals and deferred income	**62.4**	95.4
Obligations under finance leases	**0.1**	-
	171.0	216.4

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

	2019	2018
	£m	£m
Loans and borrowings (note 13)	**749.7**	749.7
Loans due to ultimate parent (note 13)	**1,063.1**	1,063.1
Amounts owed to group undertakings	**192.8**	20.2
Accruals and deferred income	**118.1**	108.0
Obligations under finance leases	**4.4**	-
	2,128.1	1,941.0

Scottish Hydro Electric Transmission plc

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

13 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.

(i) Borrowing facilities

	Weighted Average Interest Rate 2019 %	Weighted Average Interest Rate 2018 %	**2019 £m**	2018 £m
Creditors: falling due between two and five years				
6.00% Loan Stock repayable to SSE plc on 31 March 2021	**6.00**	6.00	**100.0**	100.0
5.50% Loan Stock repayable to SSE plc on 31 March 2021	**5.50**	5.50	**33.1**	33.1
5.00% Loan Stock repayable to SSE plc on 31 March 2022	**5.00**	5.00	**150.0**	150.0
Floating Rate European Investment Bank repayable 24 September 2021	**1.73**	1.18	**150.0**	150.0
Fixed Rate European Investment Bank repayable 20 October 2022	**2.97**	2.87	**150.0**	150.0
Fixed Rate European Investment Bank repayable 3 August 2023	**2.65**	-	**50.0**	-
			633.1	583.1
Creditors: falling due after more than five years				
5.625% Loan Stock repayable to SSE plc on 31 March 2028	**5.63**	5.63	**30.0**	30.0
Fixed Rate European Investment Bank repayable 3 August 2023	**-**	2.55	**-**	50.0
2.75% Loan Stock repayable to SSE plc on 31 March 2025	**2.75**	2.75	**300.0**	300.0
3.375% Loan Stock repayable to SSE plc on 25 February 2026	**3.38**	3.38	**450.0**	450.0
Fixed Rate European Investment Bank repayable 20 May 2026	**2.16**	2.08	**299.7**	299.7
Floating Rate European Investment Bank repayable 9 March 2028	**1.70**	1.35	**100.0**	100.0
			1,179.7	1,229.7
			1,812.8	1,812.8

The Fixed Rate European Investment Bank repayable 20 May 2026 is a £300.0m loan on which a £0.3m arrangement fee has been paid. The arrangement fee will be amortised over the life of the loan to bring the outstanding amount back to £300.0m at maturity.

(ii) Finance lease liabilities

	Minimum lease payments 2019 £m	**Minimum lease payments** 2018 £m	**Present Value of minimum lease payments 2019 £m**	**Present Value of minimum lease payments** 2018 £m
Amounts payable				
Within one year	**0.1**	-	**0.1**	-
Between two and five years	**0.5**	-	**0.5**	-
More than five years	**7.8**	-	**3.9**	-
	8.4	-	**4.5**	-
Less future finance charge	**(3.9)**	-	**-**	-
Present value of lease obligations	**4.5**	-	**4.5**	-

14 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	**-**	-	**162.1**	138.5	**162.1**	138.5
Fair value movement on derivatives	**-**	-	**-**	(0.1)	**-**	(0.1)
Net tax liabilities	**-**	**-**	**162.1**	138.4	**162.1**	138.4

	1 April 2018	**Recognised in income**	**Recognised in equity**	**31 March 2019**
	£m	**£m**	**£m**	**£m**
Movement in deferred tax during the year	**138.4**	**23.6**	**0.1**	**162.1**

	1 April 2017	Recognised in income	Recognised in equity	31 March 2018
	£m	£m	£m	£m
Movement in deferred tax during prior year	114.8	24.1	(0.5)	138.4

15 Share capital

	2019	2018
	£m	£m
Equity:		
Allotted, called up and fully paid:		
354,300,000 ordinary shares of £1.00 each	**354.3**	354.3

16 Pensions

6% *(2018: 7%)* 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 £3.7m *(2018: £4.3m)*. In the current year there was no further charge payable to SSE Services plc *(2018: £0.6m)*, 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.

17 Derivatives and financial instruments

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

The 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

17 Derivatives and financial instruments (*continued*)

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

Currency risk
Exposure to currency rate risk arises in the normal course of the Company's business and derivative financial instruments are entered into to hedge exposure to this risk.

The Company presents its financial statements in Sterling but also conducts business in foreign currencies. As a result, it is subject to foreign currency exchange risk arising from exchange rate movements which will be reflected in the Company's transaction costs.

The Company's policy is to use forward contracts to manage its exposures to foreign exchange risk. All such exposures are transactional in nature and relate primarily to procurement contracts. The policy is to seek to hedge 100% of its currency requirements arising under all committed contracts.

(ii) 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	**17.5**	**17.5**	1.7	1.7
Derivative financial assets	**0.1**	**0.1**	-	-
Financial Liabilities				
Trade and intercompany creditors	**59.6**	**59.6**	85.2	85.2
Long-term intercompany	**192.8**	**192.8**	20.2	20.2
Loans and borrowings	**749.7**	**757.0**	749.7	762.1
Loans due to ultimate parent	**1,063.1**	**1,142.0**	1,063.1	1,101.5
Derivative financial liabilities	**-**	**-**	0.6	0.6

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

Financial derivative instruments - disclosure
For disclosure purposes, derivative financial instruments are classified as financing derivatives. The company only utilise financing derivatives in the form of cash flow foreign exchange hedges and non-hedge accounted (MTM) foreign exchange contracts. Non-hedge accounted contracts are treated as held for trading (MTM). The carrying value is the same as the fair value for all instruments. All balances are stated gross of associated deferred taxation.

Basis of determining fair value
Closing rate market values have been used to determine the fair values of the foreign currency contracts. Estimates applied reflect management's best estimates of these factors.

18 Capital commitments

	2019	2018
	£m	£m
Contracted but not provided for	**290.1**	224.5

19 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	**0.3**	**-**	0.1	1.0
Between two and five years	**1.1**	**-**	0.1	1.4
In more than five years	**18.9**	**-**	-	0.1
	20.3	**-**	0.2	2.5

Leases as lessee:

	2019	2018
	£m	£m
Amounts included in the profit and loss relating to current year leasing arrangements	**0.7**	0.8

20 Commitments and contingencies

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

21 Net debt

Reconciliation of net cash flow to movement in net debt

	2019	2018
	£m	£m
Net cash inflow from borrowings	**-**	(100.0)
Movement in net debt in the year	**-**	(100.0)
Net debt at 1 April	**(1,812.8)**	(1,712.8)
Net debt at 31 March	**(1,812.8)**	(1,812.8)

Analysis of net debt

	As at 1 April 2018	Increase in debt	**As at 31 March 2019**
	£m	£m	**£m**
Net borrowings due after more than one year	(1,812.8)	-	**(1,812.8)**

22 Ultimate parent company

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