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Scottish Hydro Electric Transmission Limited

Financial Statements

Year ended 31 March 2012

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The Operating and Financial Review sets out the main trends and factors underlying the development and performance of the Company during the year ended 31 March 2012, as well as those matters which are likely to affect its future development and performance.

The business, its objectives and strategy
Scottish Hydro Electric Transmission Limited (the "Company") is a wholly owned subsidiary of SSE plc (the "Group"). The Company owns the Electricity Transmission network in the north of Scotland. It currently has 5,300 kilometres of electricity mains on commission. Since the introduction of British Electricity Trading and Transmission Arrangements in April 2005, National Grid has been the National Electricity Transmission System Operator, responsible for balancing the supply and demand of electricity across Great Britain. Scottish Hydro Electric Transmission Limited remains responsible for maintaining and investing in the transmission network in its area, which serves around 70% of the landmass of Scotland.

The Company is the subject of incentive-based regulation by the industry regulator, the Office of Gas and Electricity Markets (Ofgem), which has historically set for periods of five years the revenue that is allowed to be recovered for use of the network, the capital expenditure and the allowed operating expenditure, within a framework known as the Price Control. 2011/12 Financial year was year 5 of the current Transmission Price Control Review Period. 2012/13 will see the Company enter into a 'roll-over' year of the previous price control, and from 2013/14 the Company will operate within Ofgem's new 8-year "RIIO T1" price control. In broad terms, Ofgem seeks to strike the right balance between attracting investment in electricity networks, encouraging companies to operate the networks as efficiently as possible and ensuring that prices for customers are no higher than they need to be. The new RIIO price controls, which will become common to all electricity and gas businesses regulated by Ofgem, will 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.

The Company's strategy and main objectives are to:

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

Business performance overview
Performance during 2011/12 has been encouraging and against a range of measures has continued to be good. The following financial and operational key performance indicators are used by the Company in measuring performance:

a) Operating Profit

Year to March 2012	£71.5m
Year to March 2011	£47.5m
Increase (%)	50.5%

b) Capital Expenditure

Year to March 2012	£228.7m
Year to March 2011	£117.6m
Increase (%)	94.5%

c) Number of Transmission System Incidents

Year to March 2012	19
Year to March 2011	12
Increase (%)	58.3%

Business performance overview (continued)

d) System Availability

Year to March 2012	97.1%
Year to March 2011	97.9%
Decrease (%)	0.8%

Operating profit increased by 50.5% from £47.5m to £71.5m. This reflected the increase in allowed regulated revenue as the asset base of the Company continues to increase. During 2011/12, a total of £228.7m was invested by SHETL in its networks, up from £117.6m in the previous year. As of 31 March 2012, the Company's estimate of Ofgem's valuation of the assets of its electricity transmission business (the Regulated Asset Value, or RAV) was £770m based on Ofgem's methodology. This includes expenditure on network upgrades.

Whilst the number of Transmission System Incidents remains low in absolute terms, they rose during 2011/12 as a result of poor weather during the year. All incidents were quickly resolved. System Availability fell by 0.8% during the year. This is related to the increased level of investment in the network and associated construction work, which at times requires planned system outages in order to carry out works safely.

Upgrading Scotland's electricity transmission network
The Company is responsible for maintaining and investing in the transmission network in its area, which comprises almost 5,300km of high voltage overhead lines and underground cables and which serves around 70% of the land mass of Scotland. As the licensed transmission company for the area, the Company has to ensure there is sufficient network capacity for those within it seeking to generate electricity from renewable and other sources.

A series of major developments designed to ensure the Company meets its obligations is under way, which is transforming the scale and scope of the Company:

- **Knocknagael Substation:** Ofgem authorised £43.8m of investment in this project (at 2009/10 prices) and all major construction works relating to the substation and related overhead lines and underground cables have been completed. The successful completion of the project has increased by 125MW the amount of electricity that can be exported from the north of Scotland.

- **Beauly-Blackhillock-Kintore:** Work on replacing the conductors of the 275kV transmission lines between Beauly and Blackhillock and Blackhillock and Kintore, to allow an increase in the capacity of the network to transmit electricity, is well under way and is expected to be finished in 2015. Ofgem has authorised investment of £81m (at 2009/10 prices) for this development.

- **Dounreay-Beauly:** Work on upgrading and reinforcing the transmission network between Dounreay and Beauly is continuing, including the installation of a second set of conductors to create a double circuit line and development of new and upgraded substations. Ofgem has authorised investment of £73.5m (at 2009/10 prices) for this programme, which should be completed in 2013.

- **Beauly-Denny:** Following consultation, Ofgem approved, in September 2011, an asset value adjusting event to recover additional forecast construction costs arising from the replacement of its part of the line, from Beauly to Wharry Burn, taking the total to £539m (at 2009/10 prices). Full construction work on the replacement line is now under way, including the erection of the first of the new pylons. The replacement line should be completed in 2014.

A total of £173m was invested in these four projects during 2011/12 and their completion is expected to contribute significantly to the expected increase in the Company's RAV from £770m as at 31 March 2012 to around £1.6bn in March 2015.

In addition, in January 2012 the Company submitted to Scottish Ministers an application to construct a replacement 132kV transmission line between Beauly and Mossford to accommodate a higher capacity. Work on a new substation is getting under way. Based on early estimates, the two parts of the project are likely to require total investment of around £45-50m.

Achieving a 'fast track' to Price Control agreement
In January 2012 Ofgem announced that it was recommending that the Company be 'fast tracked' under the RIIO T1 (Revenue = Incentives + Innovation + Outputs) process for the eight-year transmission Price Control period from April 2013. This was on the basis of the business plan submitted by the Company, *Keeping the lights on and supporting growth,* which set three key objectives for the next decade:

- keep the lights on for customers;
- invest for a greener future; and
- minimise as far as possible the impact on the environment.

Ofgem said the business plan provided good evidence of how significant benefits will be delivered to consumers through 'greater efficiency, enhanced consumer engagement and investment'.

Ofgem adopted the new RIIO framework during 2011, and it is designed to incentivise companies to deliver investment while providing value for money for customers. RIIO T1 is the first Price Control to be conducted under the new process. As Ofgem stated, fast-tracked companies can 'benefit from the swiftness of the process and concentrate on delivering efficient network improvements for consumers'.

Following consultation, Ofgem published Final Proposals for RIIO T1 in April 2012 featuring:

- an allowed cost of equity of 7.0%;
- a new index for determining companies' debt costs;
- depreciation based on 20 years for existing assets; and
- depreciation for new assets (except Beauly-Denny) moving to 45 years over the course of two Price Control periods.

The Company is now developing a full implementation plan for the new Price Control period, which will be shared with stakeholders later this year, much earlier in the process than would have been possible had it not been 'fast tracked'. This should be of benefit to the Company and its stakeholders.

Keeping the lights on and supporting growth in the long term
The central case of the Company's business plan is a £1.1bn capital investment programme, with flexibility to increase this by up to a further £4bn if required, to upgrade the transmission network during 2013-21. Projects currently being developed and which could be constructed during the period include:

- **Western Isles:** In October 2010, the Company concluded that the lack of financial underwriting from electricity generators (attributed to the level of transmission charges) relating to the proposed link from the Western Isles to the mainland meant it would not be able to conclude a contract for the supply of the necessary electricity cable. As a result, it withdrew its request to Ofgem for authorisation to make the investment. Developers of wind farms on the Western Isles are now conveying greater confidence about the deliverability of their projects, which means that the case for the Western Isles link has been renewed and a request for authorisation to make the investment has been submitted to Ofgem. Detailed work is being undertaken to ensure that the final scheme design for the link meets the needs of the developers and, over the coming months, work will resume on placing the relevant contracts and undertaking environmental and other studies.

- **Caithness to Moray**: The Company is now planning to develop a subsea electricity cable between Caithness, where consent has been secured for a new substation at Spittal, and Moray, where it is proposed to upgrade the existing substation at Blackhillock, to transmit the large volume of existing and planned electricity from renewable sources in the north of Scotland. The cable will be capable of transmitting around 1,200MW of electricity. This proposal to develop a subsea cable retains the flexibility to accommodate generation developments in the north of Scotland as and when the need to do so arises. An investment case has now been submitted to Ofgem.

- **Shetland:** The Company has now secured consent for converter stations associated with the proposed subsea/onshore underground high voltage direct current (HVDC) transmission link between the Shetland Islands and the Scottish mainland to accommodate renewable energy developments in Shetland. The link would also connect properties in Shetland to the mainland electricity network for the first time and could be installed in the second half of this decade.

Keeping the lights on and supporting growth in the long term (continued)
Based on current estimates (although these will inevitably be revised) these developments could require investment of around £1.4bn and would form part of the £4bn investment programme that is additional to the £1.1bn central case of the Company's business plan.

Electricity transmission priorities in 2012/13
During 2012/13, the Company's first objective will be to maintain safe and reliable supplies of power and to restore supplies as quickly as possible in the event of interruptions, so performance in terms of transmission system incidents and availability will continue to be critical.

SHETL is a fast-growing and fast-changing business, where the core activity for much of the next decade will be construction. Against this background, its priorities for 2012/13 and beyond are to:

- complete successfully the remaining stages of the RIIO T1 price control process;
- meet key milestones in projects under construction, in a way that is consistent with all safety and environmental requirements;
- make progress with projects in development; and
- ensure it has the people, skills, resources, supply chain and stakeholder relationships that will be necessary to support growth on a significant scale.

Factors affecting the Business
The Company is responsible for managing the electricity transmission net work i n the North of Scotland. Transmission of electricity within specified areas is a monopoly activity and the level of allowed revenue for the use of the system is closely regulated by Ofgem, as is the level of investment which is made.

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

In May 2012, Ofgem set out plans to change the charging arrangements for electricity transmission networks, with greater account being taken of the type of electricity generator seeking to use the networks. This will require the Investment Cost Related Pricing (ICRP) methodology to be improved. Once this is completed, Ofgem will consider the final form of the ICRP and make a final decision on its modification. The impact of the planned changes will have a bearing on the amount of electricity from renewable sources that is developed in Scotland and, therefore, on the way in which the transmission network is upgraded.

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

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

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

Employees
The Group believes that there is a commonality of interest between employees, customers and shareholders. To reinforce this it provides opportunities for employees to become and remain shareholders in the Group through a Share Incentive Plan and a Sharesave Scheme. Employee participation in these schemes is now 43% and 35% respectively across the Group.

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

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

Resources Available
As part of the SSE plc 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 £1bn available to SSE plc which could be made available to the Company as required. The Company also draws upon 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.

The Company has 245 employees which it calls on to maintain its transmission network and carry out investment in future developments. 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. The size of the contracting companies is appropriate to the scale of the projects which the Company undertakes, ensuring that each contractor also has sufficient resources to deploy.

Following Ofgem's announcement of Final Proposals, the Company has undertaken a detailed review of its staffing structure and resourcing requirements. This has identified a requirement to grow the number of employees to meet the significant capital programme which it faces, and a recruitment programme has started in order to meet this. This programme will continue over a number of years as the capital investment programme develops.

Social and Community Issues
The Company considers its relationship with the community it serves as a core part of its operations. Engagement with local users and the wider stakeholder community is a fundamental principle underlying the RIIO T1 price control period, and the Business Plan which the Company submitted to Ofgem as part of that price control details the areas on which stakeholders were consulted, their responses, and how those responses were used to shape our Business Plan and associated capital expenditure projects.

The learning from RIIO T1 process is being turned into an enduring stakeholder engagement strategy which will be used to guide the Company's operations and decisions in the future, and we will be seeking feedback on this in a consultation in summer 2012.

On a wider basis, the Company participates in the Group's programme of community-based schemes, which focus on employee volunteering, visitor facilities in Dorset, Cheshire and Perth, financial support for community programmes, and support for the work of schools through the Eco Schools project. The Group made payments totalling £6.1m to charitable and community programmes in the UK and Ireland in 2011/12.

Key Contractual Arrangements
The Directors consider the Service Level Agreement between the Company and SSE Services plc for the provision of corporate services to be essential for the continuance of the Company's operations in the short-to-medium term.

There are a number of contracts in place for construction of major projects, such as the Beauly-Denny line, 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.

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

Treasury Policy, Objectives and Financial Risk Management
The Company's operations are generally financed by a combination of retained profits, bank borrowings, long term debt issuance and inter company loan balances. A s a matter of policy, a minimum of 50% of the Company's debt is subject to fixed or inflation linked rates of interest. Within this policy framework, the Company borrows, as required, on different interest bases, with derivatives and forward rate agreements being used to achieve the desired out-turn interest rate profile. Borrowings of the Company are mainly made in Sterling to reflect the underlying currency denomination of assets and cashflows within the Company. Further details of the Company's borrowings can be found in note 12 of the notes to the financial statements.

The Company's financial risk is managed as part of the wider Group risk management policy. For more information regarding this please visit the Group's 2012 Annual Report at www.SSE.com.

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

The Group's Risk and Trading Committee, which reports to the Group Board, reviews and agrees policies for addressing each of these risks. At 31 March 2012, over 77% of the Group's borrowings were at fixed or inflation-linked interest rates, after taking account of interest rate swaps. The Company's main risk area is in relation to interest rates and, as noted, this is controlled as part of the Group's risk management policies.

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

Taxation
The Company's effective current tax rate was 10.2% compared with 18.1% in the previous year, after prior year adjustments. The headline effective tax rate is 18.4% compared with 20.4% in the previous year.

Dividend
Following a review of distributable reserves a dividend of £50m (2011 - £30m) was declared and paid in the year.

Borrowings and Facilities
The Company has loans of £338.1m (2011 – £188.1m) of which £313.1m (2011 - £163.1m) is due to other group companies and £25.0m (2011 - £25.0m) is in the form of loans from the European Investment Bank. Of the total, interest is paid at fixed or inflation-linked interest rates on £338.1m (2011 - £188.1m).

As at 31 March 2012, the weighted average interest rate payable was 5.50% (2011 – 5.90%) and the weighted average remaining term was 9.43 years (2011 – 9.99 years).

Pensions
30% of employees of the Company are members of the Scottish Hydro-Electric Pension Scheme, which, at 31 March 2012, based on an IAS 19 accounting basis, had a deficit included in the Group financial statements, net of deferred tax, of £149.1m (2011 - £177.5m).

International Financial Reporting Standards
The application of International Financial Reporting Standards (IFRS) is required for listed companies for accounting periods commencing on or after 1 January 2005. As a result, the Group's financial statements for the year to 31 March 2012 have been prepared in accordance with EU adopted IFRS.

The Regulatory financial statements of Scottish Hydro Electric Transmission Limited have been prepared in accordance with applicable UK Generally Accepted Accounting Principles (UK GAAP).

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

The Group's corporate governance policies are described in the SSE plc's annual report and accounts 2012 under How the Board works on pages 61 to 64.

SSE plc Group ("The Group")
The Board is collectively responsible to the Group's shareholders for the long-term success of the Group and for its overall strategic direction, its values and its governance. It provides the leadership necessary for the Group to meet its business objectives whilst ensuring that a sound system of internal control and risk management is in place.

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

The Board continues to be committed to ensuring that the highest standards of corporate governance are maintained. The Board confirms that it has, throughout the period under review, complied with all provisions set out in the Code, except in respect of Code Provision D.2.1 for a short period. More details of this can be found in SSE plc's annual report on page 61.

The Board comprises the Chairman, three Executive Directors 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.

There are four principal Board committees; an Audit Committee, a Remuneration Committee, a Health, Safety and Environmental Advisory Committee and a Nomination Committee and details of the appointees and work undertaken by these committees are included in the published Annual Report of the Group, a copy of which is on the Group website (www.sse.com).

Following a competitive tender, KPMG Audit Plc has been the external auditor of the enlarged Group since 1999. Under its terms of reference, the Audit committee has responsibility for recommending to the Board removal of the external Auditors. The Audit Committee considers that the relationship with the Auditors is working well and remains satisfied with their effectiveness. Accordingly, it has not considered it necessary to require the firm to tender for the audit work. There are no contractual obligations restricting the Company's choice of external auditor. The external Auditors are required to rotate the audit partner's responsible for the Group audit every five years and the current lead partner has been in place for three years.

Scottish Hydro Electric Transmission Limited ("The Company")

Board of Directors
The Board consists of six Directors, one of whom is a Director of the Group. None of the Directors are Directors of Group Companies involved in Retail or Wholesale activities. Company Board meetings and sub committee meetings were held on 9 occasions during the course of the year. There are no non-executive or independent directors. The Board does not have a separately appointed chairman. Meetings are chaired by a member of the Board. The Board of the Company does not have a Nominations, Remuneration or Audit Committee. These functions are dealt for the Company in conjunction with the relevant committee of the SSE plc ('the Group') Board.

Attendance at meetings of the Board during 2011/12, expressed as a number of meetings attended out of number eligible to attend is set out below:

Board of Directors (continued)

Director	Attendance
Gregor Alexander	9 of 9
Colin Hood (resigned 15/09/11)	1 of 3
Steven Kennedy	9 of 9
Mark Mathieson	8 of 9
Ian Funnell	6 of 8
Aileen McLeod	9 of 9
Stuart Hogarth	6 of 7

Internal Control

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

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

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

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

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

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

Environment

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

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

Going Concern

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

The Directors present their report together with the audited Financial statements for the year ended 31 March 2012.

1. Principal Activities

The Company's principal activity during the year was the regulated transmission of electricity in the north of Scotland.

2. Business Review

The Company is part of the 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 Operating and Financial Review section of these Accounts.

3. Results and Dividends

The profit for the financial year amounted to £51.9m (2011 - £31.4m). A dividend of £50.0m (2011 - £30.0m) was declared approved and paid during the year.

4. Directors

The Directors who served during the year were as follows:

Gregor Alexander
Ian Funnell
Steven Kennedy
Mark Mathieson
Aileen McLeod
Stuart Hogarth
Colin Hood (resigned 15 September 2011)

5. Political and Charitable Donations

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

6. Employment Policies

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

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

7. Supplier Payment Policy

It is the Company's policy that payment terms are agreed at the outset of a transaction and are adhered to; that bills are paid in accordance with the contract; and that there are no alterations to payment terms without prior agreement. The number of suppliers days represented by trade creditors was 37 days at 31 March 2012.

8. Auditors

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

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

ON BEHALF OF THE BOARD

L Manderson

Lilian Manderson
Company Secretary
20 July 2012

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

The directors are responsible for preparing 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).

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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the Regulatory Financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping 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 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.

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

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

We have audited the financial statements of Scottish Hydro Electric Transmission Limited for the year ended 31 March 2012 as set out on pages 14 to 28. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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.

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

John Luke

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

31 July 2012

Profit and Loss Account
for the year ended 31 March 2012

	Note	2012 £m	2011 £m
Turnover		**107.8**	79.0
Cost of sales		**(0.5)**	-
Gross profit		**107.3**	79.0
Distribution costs		**(31.8)**	(27.9)
Administrative costs		**(4.0)**	(3.6)
Operating profit	2	**71.5**	47.5
Net interest payable	5	**(7.9)**	(8.1)
Profit on ordinary activities before taxation		**63.6**	39.4
Tax on profit on ordinary activities	6	**(11.7)**	(8.0)
Profit for the financial year	15	**51.9**	31.4

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

The above results are derived from continuing activities.

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

Balance Sheet
as at 31 March 2012

	Note	2012 £m	2011 £m
Fixed Assets			
Tangible assets	8	**664.7**	452.9
Current assets			
Debtors	9	**26.7**	0.2
Creditors:			
Amounts falling due within one year	10	**(184.5)**	(87.6)
Net current liabilities		**(157.8)**	(87.4)
Total assets less current liabilities		**506.9**	365.5
Creditors:			
Amounts falling due after more than one year	11	**(347.4)**	(213.2)
Provisions for liabilities and charges			
Deferred taxation	13	**(43.8)**	(38.6)
Net assets		**115.7**	113.7
Capital and reserves			
Called up share capital	14	**4.3**	4.3
Profit and loss account	15	**111.4**	109.4
Shareholders' funds		**115.7**	113.7

These Financial statements were approved by the Directors on 20 July 2012 and signed on their behalf by

Gregor Alexander, Director

Scottish Hydro Electric Transmission Limited, Registered No. SC213461

Reconciliation of Movement in Shareholders' Funds as at 31 March 2012

	Note	2012 £m	2011 £m
Profit for the financial year		**51.9**	31.4
Dividends paid to shareholders	7	**(50.0)**	(30.0)
Credit in respect of employee share awards		**0.1**	0.1
Net addition to shareholders' funds		**2.0**	1.5
Opening shareholders' funds		**113.7**	112.2
Closing shareholders' funds		**115.7**	113.7

Cash Flow Statement
for the year ended 31 March 2012

	Note	2012 £m	2011 £m
Net cash inflow from operating activities	19	**133.0**	116.3
Interest received		**-**	-
Interest paid		**(11.6)**	(9.5)
Returns on investments and servicing of finance		**(11.6)**	(9.5)
Corporation tax paid		**(7.0)**	(5.6)
Taxation		**(7.0)**	(5.6)
Purchase of tangible fixed assets		**(214.4)**	(101.2)
Capital expenditure and financial investment		**(214.4)**	(101.2)
Equity dividends paid		**(50.0)**	(30.0)
Net cash (outflow)/inflow before management of liquid resources and financing		**(50.0)**	(30.0)
Repayment of borrowings		**-**	-
New borrowings		**150.0**	30.0
Financing		**150.0**	30.0
Increase/(decrease) in cash in the year		**-**	-

1. Significant accounting policies

Basis of preparation
The financial statements have been prepared under the historical cost convention and in accordance with UK generally accepted accounting standards (UK GAAP). The principal accounting policies are summarised in the Notes to the Financial statements and have been applied consistently.

The Company's balance sheet at 31 March 2012 shows a net current liability position of £157.8m (2011 – net current liabilities of £87.4m). The parent company has confirmed that it will continue to provide financial support to the Company and in particular will not seek repayment of the amounts currently made available. On this basis, the directors believe that the Company will be in a position to meet its liabilities as they fall due and that the financial statements are appropriately prepared on a going concern basis.

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

It has also taken advantage of the exemption contained in FRS29 and has therefore not prepared the disclosures relating to financial instruments and capital as full disclosure is provided in the Group financial statements.

Turnover
Turnover comprises the value of electricity transmission services and facilities provided during the year.

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

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

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

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

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

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

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

			Years
Transmission assets			10 to 80
Non-operational assets			
Buildings	-	freehold	Up to 60
	-	leasehold	Lower of lease period and 60
Fixtures, equipment, plant and machinery, vehicles and mobile plant			4 to 10

1. Significant accounting policies (continued)

Tangible fixed assets (continued)

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

Customer contributions
Customer contributions and capital grants are recorded as deferred income and released to the profit and loss account over the estimated useful life of the related fixed assets.

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

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 Report of the Group. These schemes enable Group employees to acquire shares of the ultimate parent company. The employees of the Company are entitled, where applicable, to participate in these schemes. The Company has not been charged with the cash cost of acquiring shares on behalf of its employees, this cost is borne by the Ultimate Parent Company. Where the fair value of the options granted has been measured, the Company has recognised the expense as if the share based payments related to the Company's own shares.

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

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

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

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

2. Operating profit

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

	2012 £m	2011 £m
Depreciation of tangible fixed assets	**16.9**	13.4
Release of deferred income in relation to customer contributions and capital grants	**(1.4)**	(0.8)
Research and development	**0.5**	0.6
Net management fee in respect of services provided by group companies	**4.2**	3.5

The Company incurred an audit fee of £0.01m (2011 - £0.01m) in the year.

3. Staff costs and numbers

	2012 £m	2011 £m
Staff costs:		
Wages and salaries	**9.4**	3.8
Social security costs	**1.0**	0.4
Share-based remuneration	**0.1**	0.1
Other pension costs (note 16)	**3.7**	3.1
	14.2	7.4
Less capitalised as tangible fixed assets	**(12.2)**	(3.8)
	2.0	3.6

Included within the above costs is a charge recognised under FRS 20 of £73,772 (2011 - £119,184).

Employee numbers

	2012 Number	2011 Number
Numbers employed at 31 March	**245**	85

	2012 Number	2011 Number
The monthly average number of people employed by the Company during the year	**201**	85

4. Directors' remuneration

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

	2012 £m	2011 £m
Remuneration as executives	**0.2**	-

There were no directors employed by the company during 2011.

5. Net interest payable

	2012 £m	2011 £m
Interest receivable:		
Interest receivable from group companies	-	-
Interest payable and similar charges:		
Bank loans and overdrafts	(1.6)	(1.6)
Interest payable to group companies	(12.9)	(7.9)
	(14.5)	(9.5)
Interest capitalised	6.6	1.4
Net interest payable	(7.9)	(8.1)

6. Taxation

	2012 £m	2011 £m
Current tax:		
UK corporation tax on profits for the year	8.0	7.1
Adjustments in respect of previous years	(1.5)	(0.1)
	6.5	7.0
Deferred tax:		
Origination and reversal of timing differences	8.5	3.9
Effect of change in UK corporation tax (i)	(3.6)	(2.9)
Adjustment in respect of prior years	0.3	-
Total Deferred Tax	5.2	1.0
Total tax on profit on ordinary activities	11.7	8.0

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:

	2012 £m	2011 £m
Profit before tax	63.6	39.4
Tax on profit on ordinary activities at standard UK corporation tax rate of 26% (2011 - 28%)	16.5	11.0
Effects of:		
Capital allowances more than depreciation	(8.4)	(3.8)
Other timing differences	(0.1)	(0.2)
Adjustment in respect of prior periods	(1.5)	-
Current tax charge for year	6.5	7.0

(i) The 2012 Budget on 21 March 2012 announced that the UK corporation tax will reduce to 22% by 2014. A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 3 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. This will reduce the Company's future tax charge accordingly, and further reduce the deferred tax liability at 31 March 2012 (which has been calculated based on the 24% substantively enacted at the balance sheet date) by £3.6m. It has not yet been possible to quantify the full anticipated effect of the announced further 1% rate reduction, although this will further reduce the Company's future tax charge and reduce the Company's deferred tax liability accordingly.

7. Dividends

	2012 £m	2011 £m
Amounts recognised as distributions from equity:		
Final dividend of £11.62 (2011 – £6.98) per share	**50.0**	30.0

The final dividend for the current year, £50.0m (2011 – £30.0m), was declared and approved on 23 March 2012 and was paid to shareholders on 31 March 2012.

8. Tangible fixed assets

	Transmission assets £m	Other land and buildings £m	Vehicles and miscellaneous equipment £m	Total
Cost:				
At 1 April 2011	618.6	3.2	0.3	622.1
Additions	228.7	-	-	228.7
At 31 March 2012	**847.3**	**3.2**	**0.3**	**850.8**
Depreciation:				
At 1 April 2011	168.9	-	0.3	169.2
Charge for the year	16.9	-	-	16.9
At 31 March 2012	**185.8**	**-**	**0.3**	**186.1**
Net book value:				
At 31 March 2012	**661.5**	**3.2**	**-**	**664.7**
At 31 March 2011	449.7	3.2	-	452.9

	2012 £m	2011 £m
Tangible fixed assets include:		
Assets in the course of construction	**282.2**	121.1

9. Debtors

	2012 £m	2011 £m
Amounts falling due within one year:		
Trade debtors	**0.7**	0.2
Amounts owed by group undertakings	**26.0**	-
	26.7	0.2

10. Creditors: amounts falling due within one year

	2012 £m	2011 £m
Loans (note 12)	**25.0**	-
Trade creditors	**3.2**	0.3
Amounts owed to group undertakings	**87.9**	46.1
Corporation tax	**4.0**	4.5
Accruals and other deferred income	**60.3**	35.2
Other creditors	**4.1**	1.5
	184.5	87.6

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

	2012 £m	2011 £m
Loans (note 12)	-	25.0
Loans due to ultimate parent (note 12)	313.1	163.1
Accruals and other deferred income	34.3	25.1
	347.4	213.2

12. Analysis of borrowings

	Weighted Average Interest rate 2012 %	Weighted Average Interest rate 2011 %	2012 £m	2011 £m
Under one year				
6.39% European Investment Bank repayable 24 September 2012	6.39	6.39	25.0	25.0
Over five years				
6.00% Loan Stock repayable to Scottish and Southern Energy plc on 31 March 2021	6.00	6.00	100.0	100.0
5.50% Loan Stock repayable to Scottish and Southern Energy plc on 31 March 2021	5.50	5.50	33.1	33.1
5.00% Loan Stock repayable to Scottish and Southern Energy plc on 31 March 2022	5.00	-	150.0	-
5.625% Loan Stock repayable to Scottish and Southern Energy plc on 31 March 2028	5.63	5.63	30.0	30.0
			338.1	188.1

13. Deferred taxation

Deferred taxation is provided as follows:

	2012 £m	2011 £m
Accelerated capital allowances	43.9	39.0
Other timing differences	(0.1)	(0.4)
Provision for deferred tax	43.8	38.6

	31 March 2012 £m	31 March 2011 £m
Provision at start of year	38.6	37.6
Charged to profit and loss account	5.2	1.0
Provision at 31 March 2012	43.8	38.6

14. Share capital

	2012 £m	2011 £m
Equity:		
Authorised:		
4,301,000 ordinary shares of £1 each	4.3	4.3
Allotted, called up and fully paid:		
4,300,000 ordinary shares of £1 each	4.3	4.3

15. Reserves

	Profit and loss account £m
At start of the year	109.4
Profit for the year	51.9
Dividends	(50.0)
Credit in respect of employee share schemes	0.1
At 31 March 2012	111.4

16. Pensions

30% of the Company's employees are members of the Scottish Hydro-Electric Pension Scheme which provides defined benefits based on final pensionable pay. The Company's contributions to this scheme are set in relation to the current service period only (i.e. these are not affected by any surplus or deficit in the scheme relating to past service of its own employees and any other members of the scheme) and as such are accounted for as if they were contributions to a defined contribution scheme.

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

The Company's share of the total contribution payable to the pension schemes during the year was £1.6m (2011 - £1.0m).

The Company incurred a further charge, payable to SSE Services plc, of £2.1m (2011 – £2.1m), which related to its share of the Scheme's deficit repair contributions for the year ended 31 March 2012.

17. Employee share-based payments

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

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

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

(ii) Share Incentive Plan (SIP)

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

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

17. **Employee share-based payments (continued)**

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

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

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

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

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

(i) Savings-related share option scheme

As at 31 March 2012

Award Date	Option Price (pence)	Outstanding at start of year	Granted	Exercised	Lapsed	Outstanding at end of year	Date from which exercisable	Expiry date
11 July 2006	999	**4,605**	-	(4,605)	-	-	1 October 2011	31 March 2012
10 July 2007	1,306	**532**	-	-	(532)	-	1 October 2010	31 March 2011
10 July 2007	1,306	**2,229**	-	-	(250)	**1,979**	1 October 2012	31 March 2013
17 July 2008	1,274	**1,399**	-	(809)	-	**590**	1 October 2011	31 March 2012
17 July 2008	1,274	**1,530**	-	-	(510)	**1,020**	1 October 2013	31 March 2014
30 June 2009	1,042	**5,481**	-	(642)	(159)	**4,680**	1 October 2012	31 March 2013
30 June 2009	1,042	**8,647**	-	-	-	**8,647**	1 October 2014	31 March 2015
30 June 2010	871	**7,782**	-	(39)	(43)	**7,700**	1 October 2013	31 March 2014
30 June 2010	871	**39,355**	-	-	-	**39,355**	1 October 2015	31 March 2016
29 June 2011	1,105	-	4,045	-	-	**4,045**	1 October 2014	31 March 2015
29 June 2011	1,105	-	14,446	-	-	**14,446**	1 October 2016	31 March 2017
		71,560	**18,491**	**(6,095)**	**(1,494)**	**82,462**		

As at 31 March 2011

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

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

As share options are exercised continuously throughout the period from 1 October to 31 March, the weighted average share price during this period of 1,291p (2011: 1,177p) is considered representative of the weighted

17. Employee share-based payments (continued)

average share price at the date of exercise. The weighted average share price of forfeitures is simply the option price to which the forfeit relates.

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

	July 2006		July 2007		July 2008		June 2009		June 2010		June 2011	
	3 Year	5 Year	3 Year	5 Year	3 Year	5 Year	3 Year	5 Year	3 Year	5 Year	3 Year	5 Year
Fair value of option	217p	227p	287p	313p	304p	339p	244p	269p	231p	246p	171p	163p
Expected volatility	19%	19%	25%	25%	28%	28%	35%	35%	19%	19%	18%	18%
Risk free rate	4.7%	4.7%	5.8%	5.7%	4.9%	5.0%	2.7%	2.9%	1.4%	2.2%	1.2%	2.1%
Expected dividends	4.8%	4.8%	5.3%	5.2%	4.1%	4.2%	4.1%	4.2%	1.7%	2.2%	6.1%	6.1%
Term of the option	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs
Underlying price at grant date	1,180p	1,180p	1,460p	1,460p	1,397p	1,397p	1,139p	1,139p	1,089p	1,089p	1,393p	1,393p
Strike price	999p	999p	1,306p	1,306p	1,274p	1,274p	1,042p	1,042p	871p	871p	1,105p	1,105p

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

(ii) Share Incentive Plan

	2012		2011	
	Shares	**Weighted average price (pence)**	Shares	Weighted average price (pence)
Outstanding at start of year	**19,989**	**1,199**	16,193	1,207
Granted	**8,762**	**1,315**	4,714	1,161
Forfeited	**(932)**	**1,194**	-	1,215
Exercised	**(1,236)**	**1,310**	(918)	1,149
Transferred to pool	**(4,178)**	**1,328**	-	-
Outstanding at end of year	**22,405**	**1,214**	19,989	1,199
Exercisable at end of year	**8,962**	**1,214**	10,518	1,186

When shares have been held for a period of 5 years they are transferred to a pooled share account. At this point the holder has an unconditional right to the share, but has chosen not to exercise immediately.

As share options are exercised continuously throughout the year, the weighted average share price during this period of 1,310p (2011: 1,149p) is considered representative of the weighted average share price at the date of exercise.

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

Free shares

	2012		2011	
	Shares	**Weighted average price (pence)**	Shares	Weighted average price (pence)
Outstanding at start of year	**3,532**	**1,168**	4,000	1,166
Exercised	**(120)**	**1,310**	(468)	1,149
Transferred to pool	**(452)**	**1,000**	-	-
Outstanding at end of year	**2,960**	**1,188**	3,532	1,168
Exercisable at end of year	**2,960**	**1,188**	2,872	1,123

17. Employee share-based payments (continued)
As share options are exercised continuously throughout the year, the weighted average share price during this period of 1,310p (2011: 1,149p) is considered representative of the weighted average share price at the date of exercise.

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

18. Commitments and contingencies

(i) Capital commitments

Capital expenditure:

	2012 £m	2011 £m
Contracted for but not provided	**336.6**	368.6

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

19. Reconciliation of operating profit to operating cashflows

	2012 £m	2011 £m
Reconciliation of operating profit to operating cash flows		
Operating profit	**71.5**	47.5
Depreciation	**16.9**	13.4
Customer contributions and capital grants released	**(1.4)**	(0.8)
Increase in debtors	**(0.5)**	(0.2)
Increase in creditors	**30.6**	18.2
Movement in intercompany	**15.8**	38.1
Charge in respect of employee share awards	**0.1**	0.1
Net cash inflow from operating activities	**133.0**	116.3

20. Net debt

Reconciliation of net cash flow to movement in net debt

	2012 £m	2011 £m
Cash inflow from increase in cash*	-	-
Cash (inflow)/outflow from (increase)/decrease in debt and lease financing	**(150.0)**	(30.0)
Movement in net debt in the year	**(150.0)**	(30.0)
Net debt at 1 April	**(188.1)**	(158.1)
Net debt at 31 March	**(338.1)**	(188.1)

20. Net debt (continued)

Analysis of net debt

	As at 1 April 2011 £m	Increase in cash* £m	(Increase)/ decrease in debt £m	**As at 31 March 2012 £m**
Cash at bank and in hand	-	-	-	**-**
Other debt due within one year	-	-	-	**-**
Net borrowings due within one year	-	-	(25.0)	**(25.0)**
Net borrowings due after more than one year	(188.1)	-	(125.0)	**(313.1)**
Net debt	**(188.1)**	-	(150.0)	**(338.1)**

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

21. 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 Corporate Communications, Inveralmond House, 200 Dunkeld Road, Perth PH1 3AQ.