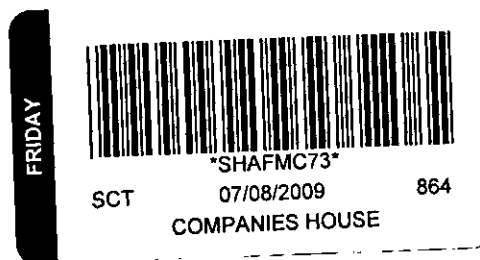


Scottish Hydro Electric Power Distribution plc

Accounts for the year ended 31 March 2009

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Scottish Hydro Electric Power Distribution plc

Report of the Directors

The Directors present their report together with the audited Accounts for the year ended 31 March 2009.

1. Principal Activities

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

2. Business Review

The Company is responsible for managing an electricity distribution network, serving more than 720,000 customers in the North of Scotland. Distribution of electricity and the level of capital investment within the network area is a monopoly activity and is closely regulated by the Office of Gas and Electricity Markets (Ofgem) within a framework known as the Price Control. This is set for a period of 5 years and the current price control runs until April 2010.

On 1st April 2008 the Company transferred the Metering activities undertaken within its Distribution Service Area to another Group Company, SSE Metering Ltd. This transfer followed a change to the regulatory framework of metering that occurred on 1st April 2007. This change opened all new metering activities to competition and these activities are no longer subject to regulatory control.

Review of development and performance of the Company

The year to 31 March 2009 was the fourth year of the current distribution price control period and the operating profit increased by 5% to £119.2M. There was a 1% increase in the number of customers to whom electricity is distributed. This combined with an increase in the price of these units and continued tight focus on cost control contributed to the increase in profitability in the year.

The level of investment in the network has also increased in the year reflecting continuing load growth as well as ongoing asset refurbishment. In 2008/09 the capital expenditure was £68.3M an increase of 10.5% on 2007/08. This level of investment is expected to grow slightly in 2009/10. In 2008/09 a further 208km in length was added to the network and 2,205km were refurbished.

The operational performance of the Company was good with the number of supply interruptions per 100 customers increasing slightly to 76 from a level of 69 in 2007/08. The average number of minutes that customers were without supply during the year was 75, compared with 72 in the previous year. This performance was ahead of the targets set by Ofgem and is expected to contribute, along with other incentive mechanisms established in the price control agreement, towards additional income of approximately £7.6m in the next 2 financial years.

Principal Risks and Uncertainties

As noted, the Company is responsible for managing a regulated electricity distribution network, based in the North of Scotland. One of the major risks arises from the quinquennial price review, when the future income that the Company may collect from the users of the electricity network is set. The current price control period runs from 1 April 2005 to 31 March 2010. The year to 31 March 2009 is the fourth year of the current price review period. In arriving at allowed income, Ofgem assess the revenue and capital expenditure plans of the business and determine an efficient level of expenditure. In addition, they assess the quality of service requirements for the network and determine a cost of capital sufficient to encourage the required investment in the network. Given the importance of the outcome of the price control review process and the agreement of allowed income for the following five years, the Company invests considerable management time to ensure that an equitable price control is agreed. The fifth Distribution Price Control Process (DPCR5) has recently formally commenced and the Company believe that full and proactive engagement with Ofgem is essential during this two year process.

Scottish Hydro Electric Power Distribution plc

Report of the Directors (continued)

2. Business Review (continued)

Principal Risks and Uncertainties (continued)

The key responsibility of the Company is to maintain safe and reliable supplies of electricity and to restore supplies as quickly as possible in the event of interruptions. In the long term this is done by ensuring the correct level of investment in the network. In the short term the electricity network can be subject to damage, and potentially major disruption, by the weather. Storms caused by winter weather fronts, winter snow fall and lightning storms at any time of year can damage the electricity distribution network and result in customers' supply of electricity being interrupted. To mitigate the effects of these events, weather forecasts are closely monitored and staff deployed in advance of foreseeable major weather events. Arrangements are in place to use resources from contractors and other electricity distribution network operators in the event of major interruptions and contracts are in place with suppliers of materials and services which can be brought into action at short notice in the event of severe weather.

The Directors acknowledge that they have responsibility for the Company's systems of internal control and risk management and for monitoring their effectiveness. The purposes of these systems are to manage, rather than eliminate, the risk of failure to achieve business objectives, to 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 and to the relative costs and benefits of implementing specific controls.

Key Performance Indicators

The following financial and operational key performance indicators are used by the Company in measuring performance:

Financial

a) Operating Profit (£M)

Year to March 2008	£113.5M
Year to March 2009	£119.2M
Increase (%)	5.0%

b) Capital Expenditure (£M)

Year to March 2008	£61.8M
Year to March 2009	£68.3M
Increase (%)	10.5%

Operational

c) Electricity Distributed (TWh)

Year to March 2008	8.6 TWh
Year to March 2009	8.5 TWh
Decrease (%)	1.2%

Scottish Hydro Electric Power Distribution plc

Report of the Directors (continued)

2. Business Review (continued)

Key Performance Indicators (continued)

d) Customer Minutes Lost

Year to March 2008	72
Year to March 2009	75
Increase (%)	4.2%

e) Customer Interruptions – number per 100 customers

Year to March 2008	69
Year to March 2009	76
Increase (%)	10.1%

3. Results and Dividends

The profit for the financial year amounted to £70.0m (2008 - £81.3m). A final dividend of £16.0m (2008 - £15.0m) was declared, approved and paid during the year.

4. Directors

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

Gregor Alexander
Colin Hood
Steven Kennedy
Mark Mathieson

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

The Company complies with the CBI Prompt Payment Code. The main features of the Code are that payment terms are agreed at the outset of a transaction and are adhered to; that there is a clear and consistent policy that bills are paid in accordance with the contract; and that there are no alterations to payment terms without prior agreement. Copies of the Code are available on application to the Company Secretary. The number of suppliers' days represented by trade creditors was 39 days at 31 March 2009.

Scottish Hydro Electric Power Distribution plc

Report of the Directors (continued)

8. Auditors

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

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

ON BEHALF OF THE BOARD



Lilian Manderson
Company Secretary
24 July 2009

Scottish Hydro Electric Power Distribution plc

Statement of directors' responsibilities in respect of the Directors' Report and the Accounts

The directors are responsible for preparing the Directors' Report and the Accounts in accordance with applicable law and regulations.

Company law requires the directors to prepare Accounts for each financial year. Under that law they have elected to prepare the Accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The Accounts are required by law to 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 Accounts, 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 Accounts; and
- prepare the Accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its Accounts comply with the Companies Act 1985. 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.

Scottish Hydro Electric Power Distribution plc

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

We have audited the Accounts of Scottish Hydro Electric Power Distribution plc for the year ended 31 March 2009 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movement in Shareholders' Funds and the related notes. These Accounts have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors

The directors' responsibilities for preparing the Accounts in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 5.

Our responsibility is to audit the Accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Accounts.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Accounts.

Opinion

In our opinion:

- the Accounts give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2009 and of its profit for the year then ended;
- the Accounts have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Accounts.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Edinburgh
24 July 2009

Scottish Hydro Electric Power Distribution plc

Profit and Loss Account for the year ended 31 March 2009

	Note	2009 £M	2008 £M
Turnover		233.0	235.6
Cost of sales		(21.8)	(27.7)
Gross profit		211.2	207.9
Distribution costs		(86.0)	(88.3)
Administrative costs		(6.0)	(6.1)
Operating profit	2	119.2	113.5
Net interest payable	5	(23.6)	(17.3)
Profit on ordinary activities before taxation		95.6	96.2
Tax on profit on ordinary activities	6	(25.6)	(14.9)
Profit for the financial year	16	70.0	81.3

The above results are derived from continuing activities.

The accompanying notes are an integral part of these Accounts.

Scottish Hydro Electric Power Distribution plc

Balance Sheet as at 31 March 2009

	Note	2009 £M	2008 £M
Fixed Assets			
Tangible assets	8	<u>783.5</u>	<u>756.6</u>
Current assets			
Stocks	9	1.7	1.5
Debtors:			
Amounts falling due within one year	10	344.7	292.2
Amounts falling due after more than one year	10	<u>28.0</u>	<u>28.0</u>
Total debtors		<u>372.7</u>	<u>320.2</u>
Total current assets		<u>374.4</u>	<u>321.7</u>
Creditors			
Amounts falling due within one year	11	<u>(119.8)</u>	<u>(101.1)</u>
Net current assets		<u>254.6</u>	<u>220.6</u>
Total assets less current liabilities		<u>1,038.1</u>	<u>977.2</u>
Creditors:			
Amounts falling due after more than one year	12	(548.5)	(546.8)
Derivative financial liabilities	19	(17.7)	(5.5)
Provisions for liabilities and charges			
Deferred taxation	14	(118.1)	(124.5)
Net assets		<u>353.8</u>	<u>300.4</u>
Capital and reserves			
Called up share capital	15	62.0	62.0
Profit and loss account	16	294.9	240.2
Hedge reserve	16	(3.1)	(1.8)
Shareholders' funds		<u>353.8</u>	<u>300.4</u>

These Accounts were approved by the Directors on 24 July 2009 and signed on their behalf by



Gregor Alexander, Director

Scottish Hydro Electric Power Distribution plc

Statement of Total Recognised Gains and Losses for the year ended 31 March 2009

	2009	2008
	£M	£M
Profit for the financial year	70.0	81.3
Losses on effective portion of cash flow hedges (net of tax)	(1.3)	(0.3)
Total recognised gains and losses relating to the financial year	68.7	81.0

Reconciliation of Movements in Shareholders' Funds as at 31 March 2009

	2009	2008
	£M	£M
Profit for the financial year	70.0	81.3
Dividends	(16.0)	(15.0)
Credit in respect of employee share schemes (net of tax)	0.7	0.8
Purchase of shares to satisfy employee share awards	-	(0.1)
Losses on effective portion of cash flow hedges (net of tax)	(1.3)	(0.3)
Net addition to shareholders' funds	53.4	66.7
Opening shareholders' funds	300.4	233.7
Closing shareholders' funds	353.8	300.4

Scottish Hydro Electric Power Distribution plc

Notes on the Accounts for the year ended 31 March 2009

1. Significant accounting policies

Basis of preparation

The Accounts have been prepared in accordance with all applicable United Kingdom accounting standards. The principal accounting policies are summarised below and have been applied consistently.

Under Financial Reporting Standard 1 (FRS 1), the Company is exempt from the requirement to prepare a cash flow statement on the grounds that the ultimate parent undertaking includes the Company in its own published consolidated Accounts.

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

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

Turnover

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

Research and development

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

Taxation

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

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

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

Scottish Hydro Electric Power Distribution plc

Notes on the Accounts for the year ended 31 March 2009

1. Significant accounting policies (continued)

Tangible fixed assets

(i) Depreciation

Heritable and freehold land is not depreciated.

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

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

(ii) Subsequent expenditure

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

Stocks and work in progress

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

Scottish Hydro Electric Power Distribution plc

Notes on the Accounts for the year ended 31 March 2009

1. Significant accounting policies (continued)

Employee benefit obligations

Pensions

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

Equity and equity-related compensation benefits

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

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

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

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

Dividends on shares presented within shareholders' funds

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

Scottish Hydro Electric Power Distribution plc

Notes on the Accounts for the year ended 31 March 2009

1. Significant accounting policies (continued)

Financial instruments:

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

Accounting policies under FRS 25 and 26

i) Interest Rate Derivatives

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

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

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

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

ii) Cash and cash equivalents

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

iii) Debtors

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

Scottish Hydro Electric Power Distribution plc

Notes on the Accounts for the year ended 31 March 2009

1. Significant accounting policies (continued)

iv) Interest-bearing loans and borrowings

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

v) Share Capital

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

2. Operating profit

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

	2009 £M	2008 £M
Depreciation of tangible fixed assets	35.4	34.0
Operating lease rentals	0.4	0.5
Release of deferred income in relation to customer contributions and capital grants	(3.5)	(3.6)
Research and development	0.3	0.5
Net management fee in respect of services provided by group companies	6.0	6.1

The Company incurred an audit fee of £0.06m in the year (2008 - £0.05m).

3. Staff costs and numbers

	2009 £M	2008 £M
Staff costs:		
Wages and salaries	24.8	26.7
Social security costs	2.1	2.1
Share based remuneration	0.9	0.8
Other pension costs	3.9	4.7
	<u>31.7</u>	<u>34.3</u>
Less charged as capital expenditure	(17.7)	(14.3)
	<u>14.0</u>	<u>20.0</u>

Employee numbers

	2009 Number	2008 Number
Numbers employed at 31 March	<u>697</u>	<u>837</u>

	2009 Number	2008 Number
The monthly average number of people employed by the Company during the year	<u>703</u>	<u>819</u>

Scottish Hydro Electric Power Distribution plc

Notes on the Accounts for the year ended 31 March 2009

4. Directors' remuneration

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

	2009 £M	2008 £M
Remuneration as executives	<u>0.3</u>	<u>0.3</u>

5. Net interest payable

	2009 £M	2008 £M
Interest receivable:		
Interest due from group companies	10.5	13.8
Other interest receivable	<u>0.3</u>	<u>0.6</u>
	10.8	14.4
Interest payable:		
Bank loans and overdrafts	(5.6)	(10.2)
Interest due to group companies	<u>(18.4)</u>	<u>(18.6)</u>
	(24.0)	(28.8)
Movement on financing derivatives	(10.4)	(2.9)
Net interest payable	<u>(23.6)</u>	<u>(17.3)</u>

6. Taxation

	2009 £M	2008 £M
Current tax:		
UK corporation tax on profits of the period	33.9	34.5
Adjustments in respect of prior periods	<u>(1.9)</u>	<u>(4.0)</u>
	32.0	30.5
Deferred tax:		
Origination and reversal of timing differences	(6.9)	(5.6)
Effect of change in UK corporation tax	-	(9.0)
Adjustment in respect of previous year	<u>0.5</u>	<u>(1.0)</u>
Total Deferred Tax	(6.4)	(15.6)
Total tax on profit on ordinary activities	<u>25.6</u>	<u>14.9</u>

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:

	2009 £M	2008 £M
Profit before tax	<u>95.6</u>	<u>96.2</u>
Tax on profit on ordinary activities at standard UK corporation tax rate of 28% (2008 - 30%)	26.8	28.9
Effects of:		
Depreciation in excess of capital allowances	4.1	5.6
Expenses not deductible for tax purposes	0.1	-
Fair value movement on financing derivatives	2.9	-
IBA's permanent difference	0.1	-
Other timing differences	(0.1)	-
Adjustments in respect of prior years	<u>(1.9)</u>	<u>(4.0)</u>
Current tax charge for year	<u>32.0</u>	<u>30.5</u>

Scottish Hydro Electric Power Distribution plc

Notes on the Accounts for the year ended 31 March 2009

6. Taxation (continued)

In the previous financial year, it was confirmed that the corporation tax rate applicable to the Company would change from 30% to 28% from 1 April 2008. Temporary differences which existed at 1 April 2008 would reverse at 28% rather than 30%, which was the basis at 31 March 2007. Consequently, the Company recognised the following credits in respect of this in the period to 31 March 2008:

	£M
Adjustments recognised in the Profit and Loss Account	(9.0)
Adjustments recognised in Equity	-
	<u>(9.0)</u>

7. Dividends

	2009	2008
	£M	£M
Amounts recognised as distributions from equity:		
Final dividend for the current year of 25.8p (2008 – 24.2p) per share	<u>16.0</u>	<u>15.0</u>

The final dividend for the current year, £16.0m (2008 – £15.0m), was declared and approved on 20 March 2009 and was paid to shareholders on 31 March 2009.

8. Tangible fixed assets

	Distribution assets £M	Other land and buildings £M	Vehicles and miscellaneous equipment £M	Total £M
Cost:				
At 1 April 2008	1,257.2	6.1	64.8	1,328.1
Additions	64.9	-	3.4	68.3
Transfers to group company (i)	(6.0)	-	-	(6.0)
At 31 March 2009	<u>1,316.1</u>	<u>6.1</u>	<u>68.2</u>	<u>1,390.4</u>
Depreciation:				
At 1 April 2008	518.4	0.5	52.6	571.5
Charge for the year	34.2	0.4	0.8	35.4
At 31 March 2009	<u>552.6</u>	<u>0.9</u>	<u>53.4</u>	<u>606.9</u>
Net book value:				
At 31 March 2009	<u>763.6</u>	<u>5.2</u>	<u>14.8</u>	<u>783.5</u>
At 31 March 2008	<u>738.8</u>	<u>5.6</u>	<u>12.2</u>	<u>756.6</u>

(i) In the year, assets were transferred to SSE Metering Limited (also part of the Scottish and Southern Energy Group) at book value.

	2009	2008
	£M	£M
Tangible fixed assets include:		
Assets in the course of construction	<u>9.7</u>	<u>8.4</u>

9. Stocks

	2009	2008
	£M	£M
Raw materials and consumables	<u>1.7</u>	<u>1.5</u>

Scottish Hydro Electric Power Distribution plc

Notes on the Accounts for the year ended 31 March 2009

10. Debtors

	2009 £M	2008 £M
Amounts falling due within one year:		
Trade debtors	7.1	6.6
Prepayments and accrued income	15.6	13.6
Amounts owed by group undertakings	322.0	272.0
	<u>344.7</u>	<u>292.2</u>
Amounts falling due after more than one year:		
Amounts owed by group undertakings	28.0	28.0
	<u>372.7</u>	<u>320.2</u>

11. Creditors: amounts falling due within one year

	2009 £M	2008 £M
Trade creditors	2.8	2.8
Amounts owed to group undertakings	76.6	59.0
Corporation tax	29.7	31.0
Taxation and social security	-	1.2
Other creditors	3.6	4.2
Accruals and other deferred income	7.1	2.9
	<u>119.8</u>	<u>101.1</u>

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

	2009 £M	2008 £M
Loans (note 13)	184.0	179.0
Loans due to ultimate parent (note 13)	300.0	300.0
Accruals and other deferred income	58.9	62.2
Amounts owed to group undertakings	5.6	5.6
	<u>548.5</u>	<u>546.8</u>

13. Analysis of borrowings

	Weighted Average Interest rate 2009 %	Weighted Average Interest rate 2008 %	2009 £M	2008 £M
Between two and five years				
6.29% European Investment Bank repayable on 24 September 2012	6.29	6.29	50.0	50.0
Over five years				
Floating rate European Investment Bank repayable on 13 June 2014	1.97	5.88	25.0	25.0
5.90% Loan Stock repayable to Scottish and Southern Energy plc on 31 March 2022	5.90	5.90	300.0	300.0
1.429% Index linked bond repayable 20 October 2056	1.52	5.29	109.0	104.0
			<u>434.0</u>	<u>429.0</u>
			<u>484.0</u>	<u>479.0</u>

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14. Deferred Taxation

Deferred taxation is provided as follows:

	2009 £M	2008 £M
Accelerated capital allowances	123.1	126.3
Other timing differences	-	(0.2)
Derivatives	(5.0)	(1.6)
Provision for deferred tax	118.1	124.5

	31 March 2009
Provision at 31 March 2008	124.5
Credited to profit and loss account	(6.4)
Credited directly to equity in respect of cash flow hedge reserve movements	(0.5)
Charged directly to equity in respect of share based payments	0.5
Provision at 31 March 2009	118.1

15. Share capital

	2009 £	2008 £
Equity:		
Authorised:		
62,001,000 ordinary shares of £1 each	<u>62,001,000</u>	62,001,000
Allotted, called up and fully paid:		
62,000,000 ordinary shares of £1 each	<u>62,000,000</u>	62,000,000

16. Reserves

	Hedge Reserve £M	Profit and loss account £M	Total £M
At 31 March 2008	(1.8)	240.2	238.4
Retained profit for the year	-	70.0	70.0
Dividends	-	(16.0)	(16.0)
Credit in respect of employee share awards	-	0.9	0.9
Deferred tax recognised in equity in respect of share based payments	-	(0.5)	(0.5)
Current tax recognised in equity in respect of share based payments	-	0.3	0.3
Losses on effective portion of cash flow hedges (net of tax)	(1.3)	-	(1.3)
At 31 March 2009	(3.1)	294.9	291.8

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Notes on the Accounts for the year ended 31 March 2009

17. Pensions

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

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

The Company's share of the total contribution payable to the pension schemes during the year was £3.9m (2008 - £4.7m).

18. Employee share-based payments

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

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

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

(ii) Share Incentive Plan (SIP)

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

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

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

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

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

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Notes on the Accounts for the year ended 31 March 2009

18. Employee share-based payments (continued)

(iii) Deferred bonus scheme

This scheme applied to senior managers and Executive Directors. Those eligible were awarded shares based on performance in the year. This amount was then used to purchase shares in the market which are held in trust on behalf of the employee for a period of three years, at which point the employee is entitled to exercise the award. In addition to shares purchased using the adjusted bonus award, additional shares will also be purchased using any dividends received on the shares held by the trust. If the employee resigns, they lose all outstanding awards.

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

(iv) Performance Share Plan

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

Award made		27 July 2006	26 July 2007	10 June 2008
Maximum value of award as a % of base salary		100	150	150
Performance conditions				
Total shareholder return (50% of award) ⁽ⁱ⁾	Full vesting	> 75 th percentile	> 75 th percentile	> 75 th percentile
	25% vesting	-	median	median
	30% vesting	median	-	-
Earnings per share (50% of award) ⁽ⁱⁱ⁾	Full vesting	RPI + 8%	RPI + 9%	RPI + 9%
	25% vesting	-	RPI + 3%	RPI + 3%
	30% vesting	RPI + 3%	-	-

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

Date of grant	25 July 2003		16 July 2004		14 July 2005		11 July 2006		10 July 2007		17 July 2008	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Option price (p)	562	562	622	622	886	886	999	999	1,306	1,306	1,274	1,274
Outstanding at start of year	194,524	195,809	129,602	166,396	151,582	154,800	95,075	97,494	108,486	-	-	-
Exercised	(194,031)	-	(574)	(35,633)	(29,386)	(64)	(139)	(219)	-	-	-	-
Granted	-	-	-	-	-	-	-	-	-	109,220	105,364	-
Forfeited	(493)	(1,285)	(867)	(1,161)	(2,806)	(3,154)	(3,080)	(2,200)	(4,033)	(734)	(4,531)	-
Outstanding at end of year	-	194,524	128,161	129,602	119,390	151,582	91,856	95,075	104,453	108,486	100,833	-
Exercisable at end of year	-	-	-	-	319	-	-	-	-	-	-	-

As share options are exercised continuously throughout the period from 1 October to 31 March, the weighted average share price during this period of 1,164p (2008: 1,538p) is considered representative of the weighted average share price at the date of exercise. The weighted average share price of forfeitures is simply the option price to which the forfeit relates.

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Notes on the Accounts for the year ended 31 March 2009

18. Employee share-based payments (continued)

(i) Savings-related share option scheme (continued)

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

Fair value	Jul-2003		Jul-2004		Jul-2005		Jul-2006		Jul-2007		Jul-2008	
	3 Year	5 Year	3 Year	5 Year	3 Year	5 Year	3 Year	5 Year	3 Year	5 Year	3 Year	5 Year
Expected volatility	17%	17%	17%	17%	15%	15%	19%	19%	25%	25%	28%	28%
Risk free rate	4.70%	4.80%	4.70%	4.80%	4.10%	4.20%	4.70%	4.70%	5.80%	5.70%	4.9%	5.0%
Expected dividends	4.60%	4.60%	4.60%	4.60%	4.20%	4.20%	4.80%	4.80%	5.30%	5.20%	4.1%	4.2%
Term of the option	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs
Underlying price at grant date	630p	630p	699p	699p	967p	967p	1,180p	1,180p	1,460p	1,460p	1,397p	1,397p
Strike price	562p	562p	622p	622p	886p	886p	999p	999p	1,306p	1,306p	1,274p	1,274p

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

	2009		2008	
	Shares	Weighted average price (pence)	Shares	Weighted average price (pence)
Outstanding at start of year	125,791	1,097	99,448	973
Granted	31,881	1,260	29,250	1,506
Forfeited	(12,475)	715	(1,415)	1,121
Exercised	(1,288)	1,290	(1,492)	1,484
Outstanding at end of year	143,909	1,133	125,791	1,097
Exercisable at end of year	71,664	819	33,501	733

As share options are exercised continuously throughout the year, the weighted average share price during this period of 1,290p is considered representative of the weighted average share price at the date of exercise.

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

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

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Notes on the Accounts for the year ended 31 March 2009

18. Employee share-based payments (continued)

(ii) Share Incentive Plan (continued)

Free shares

	2009		2008	
	Shares	Weighted average price (pence)	Shares	Weighted average price (pence)
Outstanding at start of year	50,610	1,127	36,100	965
Granted	6,960	1,417	15,820	1,484
Forfeited	(780)	1,127	(620)	965
Exercised	(1,409)	1,290	(690)	1,483
Outstanding at end of year	55,381	1,159	50,610	1,127
Exercisable at end of year	28,201	965	Nil	Nil

As share options are exercised continuously throughout the year, the weighted average share price during this period of 1,290p (2008: 1,503p) 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.

(iii) Deferred bonus scheme

	2009		2008	
	Shares	Price (pence)	Shares	Price (pence)
Outstanding at start of year	14,851	1,075	14,125	932
Granted	5,164	1,545	4,058	1,455
Exercised	(5,195)	1,405	(3,332)	1,434
Outstanding at end of year	14,820	1,123	14,851	1,075
Exercisable at end of year	937	1,009	Nil	Nil

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

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

(iv) Performance Share Plan

	2009		2008	
	Shares	Price (pence)	Shares	Price (pence)
Outstanding at start of year	21,419	1,357	7,690	1,220
Granted	19,187	1,545	13,729	1,434
Outstanding at end of year	40,606	1,446	21,419	1,357

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

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

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19. Derivatives and financial instruments

The Company adopted FRS 25 *Financial Instruments: Disclosure and Presentation* and FRS 26 *Financial Instruments: Measurement* with effect from 1 April 2005 in the current year.

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

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

(i) Risk

Interest rate risk

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

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

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

Effective interest rate analysis

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

At 31 March 2009	Effective interest rate %	Total £M	2-5 years £M	More than 5 years £M
Long term bonds	1.4290	109.0	-	109.0
Other bank loans – fixed	5.9557	350.0	50.0	300.0
Other bank loans – floating	1.9680	25.0	-	25.0
Interest rate swaps – fixed	4.7788	100.0	-	100.0

(ii) Fair values

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

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Notes on the Accounts for the year ended 31 March 2009

19. Derivatives and financial instruments (continued)

Summary fair values

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

	2009 Carrying Value £M	2009 Fair Value £M	2008 Carrying Value £M	2008 Fair Value £M
Financial Assets				
Trade and other debtors	357.1	357.1	320.2	320.2
Financial Liabilities				
Trade and other creditors	154.6	154.6	137.9	137.9
Bank loans and overdrafts	75.0	77.3	75.0	77.9
Long-term bonds	109.0	106.0	104.0	105.9
Long-term bonds	300.0	364.5	300.0	329.5
Derivative financial liabilities	17.7	17.7	5.5	5.5

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

Unless otherwise stated, carrying value approximates fair value.

Financial derivative instruments – disclosure

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

The net financial liabilities of £17.7M (2008 - £5.5M) are represented as creditors that are due after more than one year

Basis of determining fair value

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

20. Commitments and contingencies

(i) Capital commitments

Capital expenditure

	2009 £M	2008 £M
Contracted for but not provided	2.3	-

(ii) Operating lease commitments

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

	Other assets	
	2009 £M	2008 £M
After five years	0.4	0.4

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Notes on the Accounts for the year ended 31 March 2009

20. Commitments and contingencies (continued)

(iii) Guarantees

The Company has provided a guarantee in relation to £300m Eurobonds held by Scottish and Southern Energy plc. This guarantee has been provided jointly with Scottish Hydro Electric Transmission plc.

21. Ultimate parent company

The Company is a subsidiary of Scottish and Southern Energy plc, which is the ultimate parent company and is registered in Scotland. The largest and smallest group in which the results of the Company are consolidated is that headed by Scottish and Southern Energy plc. The consolidated accounts of the group (which include those of the Company) are available from Corporate Communications, Inveralmond House, 200 Dunkeld Road, Perth PH1 3AQ.