

Southern Electric Power Distribution plc

Directors Report and Regulatory Financial Statements

Year ended 31 March 2016

Registered No.: 04094290

Southern Electric Power Distribution plc

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Southern Electric Power Distribution plc

Directors and Other Information

Directors

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Steven Kennedy
Stuart Hogarth
David Gardner
Colin Nicol
Robert McDonald
Dale Cargill (appointed 28 October 2015)
Rachel McEwen (appointed 27 May 2016)
David Rutherford (Non-Executive Director)
Gary Steel (Non-Executive Director)

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Secretary

Mark McLaughlin

Auditor

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Registered number

04094290

Southern Electric Power Distribution plc

Strategic Report

The Strategic Report sets out the main trends and factors underlying the development and performance of Southern Electric Power Distribution plc (the "Company") during the year ended 31 March 2016, as well as those matters which are likely to affect its future development and performance.

The business, its objectives and strategy

The Company is a wholly owned subsidiary of SSE plc (the "Group"). The Company distributes electricity to 3 million customers in the South of England. It currently has around 77,000 kilometres of electricity mains on commission. The Company also provides electricity connections within the Company's licensed area and owns and operates a number of out of area electricity networks in the rest of England & Wales.

The Company is the subject of incentive-based regulation by the industry regulator, the Office of Gas and Electricity Markets (Ofgem), which sets the prices that can be charged for the use of the electricity network, the capital expenditure and the allowed operating expenditure, within a framework known as the Price Control. In broad terms, Ofgem seeks to strike the right balance between attracting investment in electricity networks, encouraging companies to operate the networks as efficiently as possible and ensuring that prices for customers are no higher than they need to be. Ofgem also places specific incentives on companies to improve their efficiency and quality of service.

The Company's strategy and main objectives are to:

- comply fully with all electricity network safety standards and environmental requirements;
- ensure that the electricity network is managed as efficiently as possible, including maintaining tight controls over operational expenditure;
- provide good performance in areas such as reliability of supply, customer service and innovation and thus earn additional incentive-based revenue under the various Ofgem schemes;
- deliver efficient and innovative capital expenditure programmes, so that the number and duration of power cuts experienced by customers is kept to a minimum;
- grow the Regulated Asset Value ("RAV") of the business and so secure increased revenue; and
- engage constructively with the regulator, Ofgem, to secure regulatory outcomes that meet the needs of customers and investors.

Business performance overview

The key performance indicators of the Company and the related performance during the year to 31 March 2016 were as follows (comparisons with the same period to 31 March 2015):

Financial / Operational	2016	2015	% change
Capital expenditure - £m	247.9	240.1	3.2
Operating profit - £m	239.5	283.2	(15.4)
Regulated asset value (RAV) - £bn	2.2	2.2	-
Non Financial / Management	2016	2015	% change
Customer minutes lost	41	57	(28.1)
Customer interruptions - number per 100 customers	47	60	(21.7)
Electricity distributed - TWh	31.6	31.8	(0.6)

The decrease in electricity distribution operating profit is primarily due to the expected reduction in base revenues under the first year of the RIIO-ED1 price control. The profiling of the price control settlement resulted in a significant income reduction in 2015/16. This was set out in Ofgem's Final Determination in November 2014.

If in any year, regulated network companies' revenue is greater (over recovery) or lower (under recovery) than is allowed under the relevant Price Control, the difference is carried forward and the subsequent prices the companies may charge are adjusted. This particularly impacts Electricity Distribution and during 2014/15 there was an under recovery of approximately £26m. Under the regulatory framework the £26m under recovery in 2014/15 was reflected in customer charges published in December 2015 for 2016/17. The under recovery in 2015/16 was significantly lower, at approximately £4m.

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Strategic Report (continued)

Business performance overview (continued)

In a year of relatively mild weather which included several periods of high winds, a reduction was achieved in both the number of supply interruptions and the average time each customer was without power. The Company's commitment to minimising the occurrence and duration of customer interruptions saw the Customer Minutes Lost reduce to 41 minutes per customer and for Customer Interruptions to reduce to 47 per 100 customers. This is the best-ever performance for the Company.

Volume of electricity distributed

The total volume of electricity distributed by the Company during 2015/16 was 31.6TWh, compared with 31.8TWh in the previous year. Under RIIO-ED1, the volume of electricity distributed does not affect the Company's overall allowed revenue, although it does have an impact on the timing of revenue collection.

Investing in network resilience

Capital expenditure was £247.9m in the year to 31 March 2016, the first year of the new price control and was at a similar level to 2014/15.

The range of capital expenditure includes asset replacement and major refurbishment of key infrastructure assets as well as ongoing investment in rural assets. Other expenditure includes substantial investment in large tree cutting projects to prevent power outages across the area. This is part of a £145m investment programme and will ensure customers' electricity supply is more robust during periods of severe weather.

Putting customers first

During 2015/16, its first year under the incentives based RIIO-ED1 price control, the Company has made significant steps in driving real change in its operations, processes and standards. The introduction of a change programme is ensuring that the business is able to meet the demands of the eight year price control. Its new sustainable business model, built on a combination of customer service and innovation, will bring benefits to customers while ensuring financial targets are achieved and a fair return is delivered to investors. The focus of the new price control is the delivery of efficient operations and the best possible experience for customers; and the business has prioritised its efforts on the incentives built into RIIO-ED1 that are designed to encourage improvements in customer service.

The most financially significant of these are the two measures of loss of electricity supply: Customer Interruptions and Customer Minutes Lost (CIs and CMLs). In the first year of the new price control the Company's adoption of the 'restore first, repair second' method was a driver in bringing down its CIs and CMLs. The continued investment in automation, network reinforcement and tree cutting also delivered improvements to help secure financial incentives. The Company's adoption of a regionalised model across its distribution areas has assigned responsibility and decision making to local teams which has helped to improve the response to power supply disruption during extreme weather events.

The first awards from the £1.3m Resilient Communities Fund, which was established by the Company and its sister company Scottish Hydro Electric Power Distribution plc (SHEPD) to support local communities in their preparation and response to emergencies, were made in 2015/16. The second round of nominations for funding has opened. The fund was established using money remaining from an amount agreed with Ofgem following weather-related electricity supply disruption over the Christmas period in 2013/14.

During the winter of 2015/16 the Company delivered its largest ever customer communications campaign, including advertising on radio and digital outputs. The campaign raised awareness of its contact details in response to storms and to promote the services it provides for customers, including those who may need extra help during a power cut that are registered on its Priority Service Register.

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Strategic Report (continued)

Keeping costs down

The main focus for the Company during RIIO-ED1 is to deliver the outputs outlined in its business plan in an efficient and sustainable manner. In order to meet these challenges the business is transforming continually to ensure that its processes, procedures and supply chain are efficient.

Improving through innovation

Innovation is a key priority at the Company and its projects will play a crucial role in balancing the country's future energy needs, while helping to keep the cost of energy down. Work is undertaken jointly with our sister Company SHEPD and there are a pipeline of innovations, at various stages of development, and these are on target to achieve cost savings over the period of the price control while creating direct benefits for customers. Learning on these projects is shared between the Company and SHEPD. The innovation projects are funded through Ofgem's incentive schemes, which are designed to help Britain's electricity networks achieve energy efficiencies and become smarter. Projects have included:

- My Electric Avenue project monitored what impact people charging their electric vehicles could have on the electricity network and tested real solutions to allow more to connect with minimal disruption. The trial will help all Distribution Network Operators (DNOs) to safeguard, maintain and develop smarter networks to cope with the increase in electric vehicle usage in the future. This project is now informing work on developing a standard solution for smart charging where networks are heavily loaded, working closely with the other DNOs.
- The findings from the Thames Valley Vision project on energy characterisation and forecasting could revolutionise the way that DNOs manage and effectively maintain the electricity networks of the future.
- Following a number of trials the Company has created the first "Constraint Managed Zones (CMZs)" on its network. The CMZs ensure that security of supply is met for sections of the network through the use of load variation techniques, such as Demand Side Response, Energy Storage and stand-by generators. The first deployment is seeking to defer £9m of capital cost beyond RIIO-ED1 for the Company as part of managing a 6MW demand constraint in the area. Additionally, the Company has deployed Active Network Management (ANM) on the Isle of Wight to defer the need for network reinforcement through the use of Smart Grid technology.

The Company actively shares the learning from these projects with other networks operators in the UK and across Europe, helping to promote best practice and bring new techniques and technologies into 'business as usual' operation across Britain's electricity network.

Co-operating with an investigation

On 20 January 2015, SSE plc was notified that the Gas and Electricity Markets Authority opened an investigation into whether SSE plc had infringed Chapter II of the Competition Act 1998 and/or Article 102 Treaty on Functioning of the European Union in respect of the provision of points of connection services in the Company's electricity distribution area.

Following an extensive and detailed investigation into aspects of the Company's provision of non-contestable network connection services, Ofgem proposed to accept binding commitments on 22 June 2016 in order to resolve the investigation. Ofgem will now consult for a 6 week period, ending on 3 August 2016, where interested parties are invited to comment on the proposal prior to Ofgem's final decision on its intention to accept commitments. It is important to note that in accepting binding commitments, there is no finding of infringement of competition law.

Engaging stakeholders in decision making

A key feature of the Company's first year in the price control is making sure its stakeholders have a say in its business decisions. This influence allows them to hold the DNOs to account and it has been vital to maintaining the Company's reputation.

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Strategic Report (continued)

Engaging stakeholders in decision making (continued)

This has included a consultation launched in 2015/16 to give stakeholders the opportunity to nominate the undergrounding of up to 90km of overhead lines in National Scenic Areas in central southern England (a proportion of the 90km undergrounding being consulted upon will cover National Parks in the North of Scotland).

Stakeholder engagement will continue to play a vital role at the Company and is a requirement for further regulated incentives during the price control.

Electricity Distribution priorities

The Company's priorities in the year and ongoing are to:

- comply fully with all safety standards and environmental requirements;
- place customers' needs at the centre of plans for the networks, particularly by improving reliability so that the number and duration of power cuts is kept to a minimum;
- ensure that the networks are managed as efficiently as possible, delivering required outputs while maintaining tight controls over day-to-day operational expenditure;
- implement the changes required to deliver the cost efficiencies, network and customer service improvements to deliver a fair return to investors under the new RIIO-ED1 price control;
- ensure that there is adequate capacity to meet challenging demand on the electricity system; and
- continue progress on the deployment of innovative technology.

Values and responsibilities

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

- Safety: We believe all accidents are preventable, so we do everything safely and responsibly or not at all.
- Service: We give our customers service we are proud of and make commitments that we deliver.
- Efficiency: We keep things simple, do the work that adds value and avoid wasting money, materials, energy or time.
- Sustainability: Our decisions and actions are ethical, responsible and balanced, helping to achieve environmental, social and economic wellbeing for current and future generations.
- Excellence: We strive to get better, smarter and more innovative and be the best in everything we do.
- Teamwork: We support and value our colleagues and enjoy working together as a team in an open and honest way.

Understanding and managing our principal risks

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

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

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

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Strategic Report (continued)

- **Safety, Health and Environment** – The Company's operations are in many cases undertaken in hazardous environments and involve working with high voltage electricity in a wide variety of locations. Our operations require the storage of a significant volume of water, fuel, oil and other chemicals, and any uncontrolled release of these could result in injury to our staff, contractors or members of the public and damage to the environment. Safety is the number one value in the Group, with a Safety Management System in place to support people at work and ensure their safety. In addition crisis management and business continuity plans are in place to manage and recover from any significant events.
- **Regulation, Legislation and Compliance** – Regulation, legislation and compliance affecting the Company is complex and fast-moving. Changes, either explicit or indirect, can lead to additional obligations and can have a significant effect on the profitability of our asset base. This risk is mitigated jointly by Company management and staff along with the Group's dedicated Corporate Affairs, Regulation, Legal and Compliance departments which provide advice on the interpretation of political and regulatory change. In addition there is proactive engagement with regulators, politicians, officials and other stakeholders on these issues. The Company is aware that the UK's decision to leave the European Union (EU) brings additional political risk. This risk has been considered by the Directors and is being monitored through the Group's Brexit Committee.
- **Network Management** – The Company has an obligation to maintain and enhance its network. A robust design and quality assurance process is in place to ensure that capital projects and equipment are of the correct standard and specification to provide a safe, efficient and reliable network. Whilst all plant and materials must pass manufacturers' specification checks and relevant stress testing, there is a possibility that latent defects or reduced lifespan issues may only appear some time later into operation. As the network ages and the conditions in which we operate become more difficult, particularly with the expected trend towards more extreme weather as a result of climate change, there is an increasing pressure to become more efficient in our operations. The impact of Storms on our network infrastructure is an annual event and due to perceived impacts of global climate change, it is anticipated that the volume and impact of storm events will increase. The Company has many years experience in dealing with these events and there is significant effort directed to forecasting such events and ensuring that there are plans in place to deal with them. This involves early deployment of staff to potentially affected areas and ensuring sufficient staff and other resources are available to effectively deal with any disruption
- **Networks Change Transformation** – The energy industry is undergoing constant technological improvement. It is important that the Company is able to stay at the forefront of the industry by identifying emerging trends and developing strategies to exploit competitive opportunities. Through the ED1 settlement, the Company has proposed significant reductions in the overall cost and improvements in the standard of service that customers can expect to receive. To deliver this successfully, we will need to transform our business, delivering major cost efficiencies and improvements in customer service. The projects to deliver these business transformations are large and complex. These projects will draw on resources from across the business and poor management of these resources, poor integration or inadequate scoping of project requirements and benefits could impact on business as usual activities, increase project costs and adversely affect service standards. The Company has installed appropriate governance processes and procedures at Board and Leadership team levels to monitor the transformation process.
- **Major Projects Quality** – The Company continues to deliver its capital investment programme with a number of ongoing network construction and IT projects. It is critical that these projects are delivered on time, on budget and to high quality standard given the long term nature of the business. The Company will typically manage the development process and organise the delivery of the project by third party contractors, taking a pro-active oversight role during the construction phase. Whilst this model ensures that the correct skills are leveraged, there is a risk of supplier failures, faulty components, and quality defects. The Group-wide Large Capital Projects Governance framework helps to mitigate this risk by ensuring a consistent approach to project development and delivery as well as proactive engagement with the supply chain.
- **Business Plan Obligations** – The Company needs to meet its RIIO-ED1 published business plan obligations or risk financial penalties and the resultant reputational risk (these deliverables include meeting the capex project milestones and output measures, achieving stakeholder satisfaction and environmental outputs). The structure of the business, management oversight and the governance frameworks in place are designed in order to ensure that this risk is monitored and mitigated
- **Alternative technologies** – Technological developments may identify alternative or more efficient means of distributing electricity. It is important that the business is aware of and keeps pace with the application of these technological improvements in order to improve efficiency and value to the end consumer. The Company has a dedicated team who look at incremental technologies aimed at increasing the reliability and efficiency of network assets as well as converting these new technologies into business as usual.

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Strategic Report (continued)

Employees

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

That is why the Group and the Company has clear priorities for how it:

- engages with the people who work for the Group and recognises the different needs they have;
- creates sustainable employment opportunities that attract a talented and diverse range of new people into all levels of the business;
- invests for the future to ensure each individual can perform to the best of their ability; and
- ensures it is constantly seeking to do the right things, particularly in how people are treated throughout the company.

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

The ability to grow and develop a career is the most important driver of employee retention, and with this in mind the Group and Company has expanded the opportunity for employees to create their own personal development plans, supported by line managers with a growing set of online resources to enable self-led learning. There is a comprehensive approach to performance management designed to enable individuals to fulfil their potential at the same time as contributing to business goals. Alongside assessing performance against agreed objectives, the process assesses the extent to which each individual, including the senior management team, demonstrate their support for the Group's core values of Safety, Service, Efficiency, Sustainability, Excellence and Teamwork.

Employee benefits

The Company and the Group aims to support its employees through its employee benefit packages but recognises the different needs across its workforce.

The Group is proud to be one of the UK's largest Living Wage employers, guaranteeing that all employees will receive at least the Living Wage rate, which is independently set to ensure people can cover the basic cost of living in the UK. The Group believes paying the Living Wage makes an important contribution to reducing in-work poverty throughout the UK.

In keeping with the Group's commitment to creating sustainable jobs for the long term, it has taken proactive measures to help employees plan and save for their financial future. It has proactively enrolled all new employees into its pension schemes since 2005. Employee pension contributions attract contributions from the Company and also offer free life cover. These proactive measures have resulted in 97% of employees choosing to look after their future by saving in one of the Group's pension schemes.

The Group offers a range of benefits which help employees share in the ongoing success of the Group. These include both an employee Share Incentive Plan and a Sharesave Scheme. Employee participation in these schemes is now 64 % and 41% respectively.

The Group's full range of employee benefits reflects the differing needs and interests of its employees. Particular focus is given to contributing positively towards employees' wellbeing. Employees have the opportunity to buy additional holidays, medical cover, gym memberships, as well as discounts on products and services for the home and family life. Recognising that employees can require advice and support for a range of personal and professional reasons, a free comprehensive employee assistance programme is also available.

Southern Electric Power Distribution plc

Strategic Report (continued)

Employee participation

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

The Group continues to undertake a regular survey of employee opinion, with the 2015/16 survey achieving an 89% response rate. The benchmark employee engagement index rose four points to 77%. The survey provides important evidence from which the Group's leadership is able to gauge the depth of overall engagement, but importantly, it highlights strengths and weaknesses on particular priority areas.

Resources available

As part of the Group, the Company has significant resources which it can draw upon to meet its service commitments. The Company benefits from Group-wide treasury management functions in order to provide adequate financing, with undrawn facilities totalling £1.5bn available to the Group at 31 March 2016 which could be made available to the Company as required. During the year the Group extended, on cheaper terms, £1.5bn of bank facilities that were due to mature in 2018 to 2020 with two, one year options that would take these facilities out to 2022.

The Company has 2,371 employees which it calls on to maintain its distribution network and carry out investment in future developments. 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. 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. Where possible and economically efficient for the Company, these contractors are provided by other group companies, reducing reliance on external companies.

On 1 April 2015, an associated company, SSE Contracting Limited, wholly owned by the Group, transferred 726 employees to the Company to undertake network based activities for which they were already performing on a contracted basis.

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-ED1 price control, and the Company has a detailed stakeholder engagement plan in place to ensure that it is sufficiently informed by its customers and the community which it serves. The Business Plan which the Company submitted to Ofgem as part of that price control detailed 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 Group continues to make a positive impact across a wide range of local communities. Group employees are empowered to 'Be the difference' for the causes, charities and communities they care about. The Company's employees fully participate in these social and community activities.

Following the storms of December 2013 which caused severe disruption across the UK network, the Company, along with its sister company SHEPD, created a new Resilient Communities fund, to support communities in its network distribution areas in preparing for future emergency weather events. It will fund initiatives that will improve community resilience in dealing with extreme weather events. The fund is expected to distribute £1.3m over the next two years. The fund accepts applications for grant funding across central southern England and seeks to distribute between £500 and £20,000 for each application. For example, during the year, the Company committed £12,000 to Datchet's flood defence system, where significant damage was caused to homes and businesses in early 2014. The fund also contributed £20,000 to South Sussex Radio Amateurs' Emergency Network (RAYNET) to build a mobile hub that will be used in the event of severe storms and major incidents where communications may be required.

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Strategic Report (continued)

Social and community issues (continued)

The Group's matched funding programme enables employees to support charities and local groups by matching their fundraising efforts with a donation from the Group. The programme, launched in October 2014, has provided matched funds of almost £25,000 across a variety of national causes and many local sports clubs and community groups.

Internal Control

The Group's Board performs a review of the effectiveness of the system of internal control annually across the Group. This review is supported by a report from the Director of Group Risk, Audit and Insurance detailing the activity and operation of the system during the year. For further detail on the outcome of the review please see the Directors' Report on page 78 of the Group's Annual Report (www.sse.com).

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 is to manage, rather than eliminate, the risk of failure to achieve business objectives, and provide reasonable assurance as to the quality of management information and to maintain proper control over the income, expenditure, assets and liabilities of the Company.

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

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 electricity 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.

More information on the Group's approach to managing our environmental impact is contained in the Annual Report, on page 28 (www.sse.com).

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Strategic Report (continued)

Key contractual arrangements

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

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

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 Group's treasury policy is designed to be prudent and flexible. In line with that, its operations and investments are generally financed by a combination of cash from operations, bank borrowings and bond issuance.

As a matter of policy, a minimum of 50% of the Group's debt is subject to fixed rates of interest. Within this policy framework, the Group borrows as required on different interest bases, with financial instruments being used to achieve the desired out-turn interest rate profile. At 31 March 2016, 87.1% of the Group's borrowings were at fixed rates.

Borrowings are mainly made in Sterling and Euros to reflect the underlying currency denomination of assets and cashflows within the Group. All other foreign currency borrowings are swapped back into either Sterling or Euros.

Transactional foreign exchange risk arises in respect of procurement contracts and long-term service agreements for plant.

The Group's policy is to hedge any material transactional foreign exchange risks through the use of forward currency purchases and/or financial instruments. Translational foreign exchange risk arises in respect of overseas investments, and hedging in respect of such exposures is determined as appropriate to the circumstances on a case-by-case basis.

The Company's financial risk is managed as part of the wider Group risk management policy. For more information regarding this, please see page 20 of the Group's 2016 Annual Report at www.sse.com.

Liquidity

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

In relation to the Group's liquidity risk, the Group'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 Group's reputation.

During the year, the Group's approach to managing liquidity was to seek to ensure that the Group had available committed borrowings and facilities equal to at least 105% of forecast borrowings over a rolling 6 month period.

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Strategic Report (continued)

Borrowings and facilities

The Company has loans of £1,193.7m (2015 – £1,192.3m) of which £400.0m (2015 – £400.0m) is due to other Group companies. Of the total, interest is paid at fixed rates on £1,074.0m (2015 – £1,073.9m). The remaining loan amounts to £119.7m (2015 - £118.4m) and is an index-linked bond.

As at 31 March 2016, the weighted average interest rate payable was 4.74% (2015 – 4.74%) and the weighted average remaining term was 15.57 years (2015 – 16.56 years).

Taxation

The Company's effective current tax rate was 18.6% compared with 19.5% in the previous year after prior year adjustments. The headline effective tax rate, which includes the impact of substantively enacted changes in the UK corporation tax rate, is 9.8% compared with 20.3% in the previous year.

Dividend

Following a review of distributable reserves, the Directors declared, approved, and paid a dividend of £200.0m (2015 – £200m).

Pensions

25% (2015 - 38%) of employees of the Company are members of the Southern Electric Pension Scheme, which, at 31 March 2016, had a deficit included in the Group Financial Statements, net of deferred tax, of £331.9m (2015 – £426.9m) on an IAS 19 basis.

Financial Reporting Standards 101 (FRS 101)

The Regulatory Financial Statements of the Company have been prepared in accordance with applicable UK Generally Accepted Accounting Principles under FRS 101 for the financial year ended 31 March 2016. The comparative figures, with the transitional date being 1 April 2014, have been restated accordingly as set out in the notes to the Regulatory Financial Statements.

On behalf of the board



Gregor Alexander
Director
21 July 2016

Southern Electric Power Distribution plc

Corporate Governance Statement

As a subsidiary company of SSE plc (“The Group”), Southern Electric Power Distribution plc (“The Company”) operates within the Group’s corporate governance framework. The Company does not have listed shares and therefore is not subject to the UK Corporate Governance Code.

The Group’s corporate governance policies are described in the Group’s Annual Report and Accounts 2016 under Governance on pages 70 to 79 available at www.sse.com.

The Board of the Group considers that it complied in full with the UK Corporate Governance Code 2012 during 2015/16, with the exception of the provision C3.7, relating to audit tender. A detailed explanation of the non-compliance, along with the anticipated timeline for the tender of the external audit contract can be found in the Audit Committee report on pages 84 to 89 of the Group’s annual report to 31 March 2016. The Company has not complied with provision C.2.2 of the UK Corporate Governance Code as no assessment has been undertaken specifically on the Company. This provision has been complied with by the Group as a whole as at May 2016 and the consolidated position therefore includes the Company although no specific viability analysis has been done on the Company as a standalone entity. The Group Viability Statement can be found on page 17 of the Group’s annual report. The Board considers the regulatory nature of the business means that any assessment would conclude that the Company will continue to be viable for the next three years

The Group also announced in June 2015 the appointment of Crawford Gillies as Senior Independent Director of the Group with effect from 1 August 2015. It was highlighted at the Group’s AGM in July that a timing issue between the change in Chairman and the appointment of Crawford Gillies would give rise to a short period of non-compliance with certain provisions of the Code. An explanation of the steps taken to mitigate these areas of non-compliance, such that the standards of corporate governance remained unaffected, can be found in the Group’s annual report and accounts 2016 from page 70. The Group has complied with all other provisions of the Code.

SSE plc Group (“the Group”)

The Group 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 Group is fully supportive of the “comply or explain” model outlined in the Code as it provides organisations with flexibility and the opportunity to adapt governance practices that are appropriate in supporting the effective operation of the business

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, out with the exception noted above.

There are four principal Board committees; an Audit Committee, a Remuneration Committee, a Safety, Health and Environment 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).

The Board comprises the Chairman, two Executive Directors, a Senior Independent Director and five independent non-Executive Directors. This gives the Board a good balance of independence and experience, ensuring that no one individual or group of individuals has undue influence over the Board’s decision making.

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

Southern Electric Power Distribution plc

Corporate Governance Statement (continued)

Southern Electric Power Distribution plc ("The Company")

Board of Directors

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

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

Attendance at meetings of the Board during 2015/16, expressed as a number of meetings attended out of number eligible to attend is set out below:

Director	Attendance
Gregor Alexander	8 of 8
Steven Kennedy	8 of 8
Stuart Hogarth	7 of 8
David Gardner	8 of 8
Colin Nicol	8 of 8
Robert McDonald	8 of 8
Dale Cargill (appointed 28 October 2015)	5 of 5
Rachel McEwen (appointed 27 May 2016)	0 of 0
David Rutherford (Non-Executive Director)	8 of 8
Gary Steel (Non-Executive Director)	8 of 8

Board evaluation

The Board and the individual Directors participate in an annual evaluation of performance. The Board evaluation is an objective, formal and rigorous process and includes a feedback mechanism, ensuring that leadership of the Company remains effective. The evaluation strives to assess not only the mix of skills, experience and knowledge in Board and Committee composition but also diversity in approach to key issues.

Director induction, training and development

On joining the Board, Non-Executive Directors received a comprehensive induction course tailored to their individual requirements. A two day programme was completed following appointment.

Directors are encouraged to develop and refresh their knowledge and skills on an ongoing basis with developmental needs being reviewed as part of the annual Board evaluation process, and the necessary resources are made available should any Director wish additional training.

Southern Electric Power Distribution plc

Corporate Governance Statement (continued)

Going Concern

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

Southern Electric Power Distribution plc

Directors' Report

The Directors present their report together with the audited Regulatory Financial Statements for the year ended 31 March 2016.

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

1 Principal activities

The Company is responsible for managing an electricity distribution network serving 3 million customers in the South of England. 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. The Company also carries out the business of provision of new electrical connections services within its licensed area and the construction and management of out-of-area electricity networks in England. A full review of the year is contained within the Strategic Report section of these Accounts.

2 Results and dividends

The profit for the financial year amounted to £178.7m (2015 – £185.7m). A final dividend of £200.0m (2015 – £200.0m) was declared, approved and paid by the Board during the year.

3 Directors

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

4 Corporate governance

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

5 Auditor

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

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditors of the Company and Group is to be proposed at the forthcoming Annual General Meeting of the Group.

On behalf of the Board:



Mark McLaughlin
Company Secretary
21 July 2016

Southern Electric Power Distribution plc

Statement of Directors' responsibilities in respect of the Strategic Report, the Directors' Report and the Regulatory Financial Statements

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the Regulatory Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Regulatory Financial Statements for each financial year. Under that law they have elected to prepare the Regulatory Financial Statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice) including FRS 101 Reduced Disclosures Framework.

Under company law the Directors must not approve the Regulatory 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 year. In preparing these Regulatory Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Regulatory Financial Statements; and
- prepare the Regulatory Financial Statements on the 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 Regulatory 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.

On behalf of the Board:



Gregor Alexander
Director
21 July 2016

Independent Auditor's Report to Southern Electric Power Distribution plc and to Gas and Electricity Markets Authority (the "Regulator")

We have audited the Regulatory Financial Statements of Southern Electric Power Distribution plc (the "Company") for the year ended 31 March 2016 which comprise: the Profit and Loss Account, the Balance Sheet, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes to the Regulatory Financial Statements. These Regulatory Financial Statements have been prepared under the accounting policies set out therein.

This report is made, on terms that have been agreed, solely to the Company and the Regulator in order to meet the requirements of Standard Condition 44 of the Company's Regulatory Licence. Our audit work has been undertaken so that we might state to the Company and the Regulator those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under the Company's Regulatory Licence to procure such a report and (b) to facilitate the carrying out by the Regulator of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Regulator, for our audit work, for this report, or for the opinions we have formed.

Basis of preparation

In forming our opinion on the Regulatory Financial Statements, which is not modified, we draw attention to the fact that the Regulatory Financial Statements have been prepared under the historical cost convention and in accordance with Standard Condition 44 of the Regulatory Licence and the accounting policies set out in the statement of accounting policies.

The Regulatory Financial Statements are separate from the statutory Financial Statements of the Company. There are differences between United Kingdom Generally Accepted Accounting Principles (UK GAAP) (including Financial Reporting Standard 101 Reduced Disclosure Framework) and the basis of preparation of information provided in the Regulatory Financial Statements because the Standard Condition 44 of the Regulatory Licence specifies alternative treatment or disclosure in certain respects. Where Standard Condition 44 of the Regulatory Licence does not specifically address an accounting issue, then it requires UK GAAP (including Financial Reporting Standard 101 Reduced Disclosure Framework) to be followed. Financial information other than that prepared wholly on the basis of UK GAAP may not necessarily represent a true and fair view of the financial performance or financial position of the Company as shown in Financial Statements prepared in accordance with the Companies Act 2006.

Respective responsibilities of the Regulator, the Directors and Auditor

The nature, form and content of Regulatory Financial Statements are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly, we make no such assessment.

As described in the Statement of Directors' Responsibilities on page 16 the Company's Directors are responsible for the preparation of the Regulatory Financial Statements in accordance with Standard Condition 44 of the Regulatory Licence.

Our responsibility is to audit and express an opinion on the Regulatory Financial Statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland), except as stated in the "Basis of audit opinion" below and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities'. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Independent Auditor's Report to Southern Electric Power Distribution plc and to Gas and Electricity Markets Authority (the "Regulator") (continued)

Basis of audit opinion

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Financial Statements sufficient to give reasonable assurance that the Regulatory Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed and the reasonableness of significant accounting estimates made by the Directors.

However, the nature, form and content of Regulatory Financial Statements are determined by the Regulator, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under those auditing standards.

We read the other information contained in the Regulatory Financial Statements, including any supplementary schedules on which we do not express an audit opinion, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Regulatory Financial Statements. The other information comprises the Strategic Report and the Corporate Governance Statement. Our responsibilities do not extend to the other information.

Our opinion on the Regulatory Financial Statements is separate from our opinion on the statutory Financial Statements of the Company on which we report, which are prepared for a different purpose. Our audit report in relation to the statutory Financial Statements of the Company (our "statutory" audit) was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our statutory audit work was undertaken so that we might state to the Company those matters which we required to state to them in a statutory auditor's report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the company's members, as a body, for any statutory audit work, for our statutory audit report, or for the opinions we have formed in respect of that statutory audit.

Opinion

In our opinion the Regulatory Financial Statements of the Company for the year ended 31 March 2016 fairly present, in accordance with Standard Condition 44 of the Regulatory Licence and the accounting policies set out on pages 23 to 26, the state of the Company's affairs at 31 March 2016 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with those conditions.



William Meredith
for and on behalf of KPMG LLP
Chartered Accountants
191 West George Street
Glasgow
G2 2LJ

22 July 2016

Southern Electric Power Distribution plc

Profit and Loss Account for the year ended 31 March 2016

	Note	2016 £m	2015 £m
Turnover		623.8	659.4
Cost of sales		(24.9)	(24.5)
Gross profit		598.9	634.9
Distribution costs		(326.1)	(321.1)
Administrative costs		(33.3)	(30.6)
Operating profit	2	239.5	283.2
Interest receivable and similar income	4	21.8	6.7
Interest payable and similar charges	5	(63.1)	(57.0)
Profit on ordinary activities before taxation		198.2	232.9
Tax on profit on ordinary activities	6	(19.5)	(47.2)
Profit for the financial year		178.7	185.7

Continuing operations

The above results are derived from continuing activities.

The accompanying notes are an integral part of these Regulatory Financial Statements.

Total other comprehensive income

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

Southern Electric Power Distribution plc

Balance Sheet
as at 31 March 2016

	Note	2016 £m	2015 £m
Fixed assets			
Tangible assets	8	2,726.9	2,646.0
Intangible assets	9	15.2	2.9
Investments	10	1.2	1.0
		<u>2,743.3</u>	<u>2,649.9</u>
Current assets			
Stock	11	0.1	0.2
Debtors	12	78.8	144.2
Cash at bank and in hand	13	12.9	17.3
Total current assets		<u>91.8</u>	<u>161.7</u>
Current liabilities			
Creditors: amounts falling due within one year	14	(247.8)	(306.3)
Net current liabilities		<u>(156.0)</u>	<u>(144.6)</u>
Total assets less current liabilities		<u>2,587.3</u>	<u>2,505.3</u>
Creditors: amounts falling due after more than one year	15	(1,576.6)	(1,456.9)
Deferred taxation	17	(177.5)	(194.8)
Net assets		<u>833.2</u>	<u>853.6</u>
Capital and reserves			
Called up share capital	18	7.9	7.9
Profit and loss account		825.3	845.7
Equity Shareholders' funds		<u>833.2</u>	<u>853.6</u>

These Regulatory Financial Statements were approved by the Directors on 21 July 2016 and signed on their behalf by:



Gregor Alexander
Director
Company registered number: 04094290

Southern Electric Power Distribution plc

Statement of Changes in Equity for the year ended 31 March 2016

	Share capital £m	Retained earnings £m	Total equity £m
Balance at 1 April 2014	7.9	859.0	866.9
Profit for the financial year	-	185.7	185.7
Dividends paid (note 7)	-	(200.0)	(200.0)
Credit in respect of employee share schemes	-	1.0	1.0
Balance at 31 March 2015	7.9	845.7	853.6
Balance at 1 April 2015	7.9	845.7	853.6
Profit for the financial year	-	178.7	178.7
Dividends paid (note 7)	-	(200.0)	(200.0)
Credit in respect of employee share schemes	-	0.9	0.9
Balance at 31 March 2016	7.9	825.3	833.2

Southern Electric Power Distribution plc

Cash flow statement for the year ended 31 March 2016

	Note	2016 £m	2015 £m
Cash flows from operating activities			
Profit for the year		178.7	185.7
Add back: taxation		19.5	47.2
Add back: net finance costs		41.3	50.3
Operating profit		239.5	283.2
Depreciation on tangible fixed assets		154.4	152.1
Amortisation of intangible assets		0.3	-
Customer contributions and capital grants released		(9.9)	(9.8)
Decrease/(increase) in stock		0.1	(0.1)
Decrease/(increase) in debtors		5.2	(23.0)
Increase in creditors		10.7	29.4
Decrease in provisions		-	(3.0)
Movement in intercompany		121.6	151.2
Charge in respect of employee share awards		0.9	1.0
Net cash inflow from operating activities		522.8	581.0
Returns on investments and servicing of finance			
Interest received		22.8	4.7
Interest paid		(61.3)	(53.7)
Returns on investments and servicing of finance		(38.5)	(49.0)
Corporation tax paid		(40.1)	(50.6)
Taxation		(40.1)	(50.6)
Purchase of tangible fixed assets		(236.0)	(277.8)
Expenditure on intangible assets		(12.6)	(2.9)
Capital expenditure and financial investment		(248.6)	(280.7)
Equity dividends paid	7	(200.0)	(200.0)
Net cash (outflow)/inflow before management of liquid resources and financing		(4.4)	0.7
Reconciliation of net cash flow to movement in net funds			
(Decrease)/increase in cash in the year		(4.4)	0.7
Net funds at start of the year		17.3	16.6
Net funds at end of the year		12.9	17.3

Southern Electric Power Distribution plc

Notes on the Regulatory Financial Statements for the year ended 31 March 2016

1 Significant accounting policies

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

Basis of preparation

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

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

In the transition to FRS 101, the Company has applied IFRS 1 whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. An explanation of how the transition to FRS 101 has affected the reported financial position and financial performance is provided in note 29.

In these Regulatory Financial Statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- The effect of new, but not yet effective, IFRSs; and
- Comparative period reconciliations for tangible fixed assets and intangible assets.

As the consolidated Regulatory Financial Statements of SSE plc include the equivalent disclosure, the Company has also taken advantage of the exemptions, under FRS 101, available in respect of the following disclosures:

- Certain disclosures, required by IAS 36 Impairment of assets, in respect of the impairment of goodwill and intangible assets; and
- Certain disclosures, required by IFRS 13 Fair Value Measurement and IFRS 7 Financial Instruments Disclosure.

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

Turnover

Turnover comprises the value of electricity distribution services and facilities provided during the year. Turnover includes an estimate of the value of electricity distribution services provided to customers between the date of the last meter reading and the year end. In addition, turnover is also recognised on the value of customer contributions towards new connections, diversions and modifications to existing networks that occurred in the year.

Where the Company has an ongoing obligation to provide services, revenues are recognised as the service is performed and amounts billed in advance are treated as deferred income and excluded from current revenue. For network connections activity from 1 April 2014, the revenue recognition rules of IFRIC 18 have been applied as a result of the transition to FRS 101. Income is recognised on completion of the associated capital works.

Foreign currencies

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

Southern Electric Power Distribution plc

Notes on the Regulatory Financial Statements (continued) for the year ended 31 March 2016

1 Significant accounting policies (continued)

Research

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

Taxation

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

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

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

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

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

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

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

Assets under the course of construction are transferred to the corresponding asset category at the end of the financial year. All additions to tangible fixed assets are depreciated the financial year after the expenditure has been incurred unless still included within assets under the course of construction at the financial year end.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

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.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described below.

Intangible assets

Included within intangible assets are application software license fees, software development work, software upgrades and purchased PC software packages. Amortisation is over 10 years.

Southern Electric Power Distribution plc

Notes on the Regulatory Financial Statements (continued) for the year ended 31 March 2016

1 Significant accounting policies (continued)

Capitalised interest

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

Operating leases

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

Finance leases

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

Customer contributions

Customer contributions towards construction or acquisition of new Out-of-Area networks, and capital grants received pre 1 April 2014 are recorded as deferred income and released to the profit and loss account over the estimated life used in calculating contributions. Deferred income also includes outstanding balances of customer contributions on new connections to existing networks pre business separation in 2001. Where there is no ongoing service obligation, customer contributions received post 1 April 2014 are taken to income in the period, in line with IFRIC 18 Transfers of assets from customers.

Stocks

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

Pensions

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

Equity and equity-related compensation benefits

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

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

Recognition of profits on contracts

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

Southern Electric Power Distribution plc

Notes on the Regulatory Financial Statements (continued) for the year ended 31 March 2016

1 Significant accounting policies (continued)

Derivative financial instruments and hedging

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

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the profit and loss account.

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.

2 Expenses and auditor's remuneration

Operating profit is arrived at after charging/(crediting):	2016 £m	2015 £m
Depreciation of tangible fixed assets	154.4	152.1
Amortisation of intangible assets	0.3	-
Operating lease rentals - Other	2.9	7.6
Release of deferred income in relation to customer contributions and capital grants	(9.9)	(9.8)
Net management fees in respect of services provided by group companies	27.6	26.5
Research costs	2.3	3.4

The Company incurred an audit fee £0.1m (2015: £0.1m) in the year.

3 Staff costs and numbers

	2016 £m	2015 £m
Staff costs:		
Wages and salaries	86.2	56.8
Social security costs	8.5	5.7
Share based remuneration	0.9	1.0
Pension costs	44.9	51.2
	140.5	114.7
Less charged as capital expenditure	(43.7)	(32.9)
	96.8	81.8

Included within the above is a Share-based Payment charge of £926,825 (2015: £981,343).

Employee numbers

	2016 Number	2015 Number
Numbers employed at 31 March	2,371	1,505

Southern Electric Power Distribution plc

Notes on the Regulatory Financial Statements (continued) for the year ended 31 March 2016

3 Staff costs and numbers (continued)

	2016 Number	2015 Number
The monthly average number of people employed by the Company during the year	<u>2,313</u>	<u>1,491</u>

On 1 April 2015, an associated company, SSE Contracting Limited, wholly owned by the Group, transferred 726 employees to the Company to undertake network based activities for which they were already performing on a contracted basis

	2016 £m	2015 £m
Directors remuneration	<u>0.3</u>	<u>0.3</u>

The aggregate of remuneration of the highest paid director was £0.3m (2015: £0.3m).

	Number of directors	
	2016	2015
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	<u>1</u>	<u>1</u>

4 Interest receivable and similar income

	2016 £m	2015 £m
Interest receivable from group undertakings	-	1.5
Other interest receivable	21.8	4.7
Foreign exchange translation of monetary assets and liabilities	-	0.5
	<u>21.8</u>	<u>6.7</u>

5 Interest payable and similar charges

	2016 £m	2015 £m
Interest payable to group companies	21.9	17.0
Bank loans and overdrafts	41.0	41.9
Foreign exchange translation of monetary assets and liabilities	0.6	-
Interest capitalised	(0.4)	(1.9)
	<u>63.1</u>	<u>57.0</u>

Southern Electric Power Distribution plc

Notes on the Regulatory Financial Statements (continued) for the year ended 31 March 2016

6 Taxation

	2016 £m	2015 £m
UK corporation tax		
Current tax on income for the period	37.6	45.8
Adjustment in respect of prior periods	(0.8)	(0.5)
Total current tax charge	36.8	45.3
Deferred tax (see note 17):		
Origination and reversal of temporary differences	2.3	3.4
Adjustment in respect of prior periods	0.1	(1.5)
Effect of change in tax rate	(19.7)	-
Total deferred tax	(17.3)	1.9
Total tax on profit on ordinary activities	19.5	47.2

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

	2016 £m	2015 £m
Profit before taxation	198.2	232.9
Tax on profit on ordinary activities at standard UK corporation tax rate of 20% (2015: 21%)	39.6	48.9
Effects of:		
Adjustment in respect of previous periods	(0.7)	(2.0)
Expenses not deductible for tax purposes	0.3	0.3
Effect of change in tax rate on deferred tax	(19.7)	-
Total tax charge for year	19.5	47.2

Legislation was introduced in Finance (No 2) Act 2015 to reduce the main rate of corporation tax from 20% to 19% from 1 April 2017 and to 18% from 1 April 2020. As these changes have been substantively enacted at the balance sheet date deferred tax has been calculated accordingly. This has had the effect of reducing the Company's deferred tax liability at 31 March 2016 by £19.7m. A further change to reduce the main rate of corporation tax to 17% from 1 April 2020 has been announced, but has not been substantively enacted at the balance sheet date. The effect of this change, estimated to be £9.9m has not therefore been brought into account in calculating the Company's deferred tax liability.

7 Dividends

	2016 £m	2015 £m
Amounts recognised as distributions from equity:		
Final dividend of 2,547p (2015: 2,547p) per share	200.0	200.0

The final dividend for the current year, £200.0m (2015: £200m), was declared and approved on 17 June 2015 and was paid to shareholders on 30 June 2015. The final dividend for the previous year was approved on 27 March 2015 and paid to shareholders on 30 March 2015.

Southern Electric Power Distribution plc

Notes on the Regulatory Financial Statements (continued)
for the year ended 31 March 2016

8 Tangible fixed assets

	Assets under the course of construction		Vehicles and miscellaneous equipment		Total £m
	Network assets £m	(AUC) £m	Land £m	£m	
Cost:					
At 1 April 2015	4,440.5	10.9	1.6	93.6	4,546.6
Additions	51.1	196.8	-	-	247.9
Transfers from AUC to fully commissioned	177.4	(195.7)	-	18.3	-
Transfers from tangibles to intangibles	(12.6)	-	-	-	(12.6)
Transfers between categories	(7.3)	-	0.1	7.2	-
At 31 March 2016	4,649.1	12.0	1.7	119.1	4,781.9
Depreciation:					
At 1 April 2015	(1,818.2)	-	-	(82.4)	(1,900.6)
Charge for the year	(151.4)	-	-	(3.0)	(154.4)
At 31 March 2016	(1,969.6)	-	-	(85.4)	(2,055.0)
Net book value:					
At 31 March 2016	2,679.5	12.0	1.7	33.7	2,726.9
At 31 March 2015	2,622.3	10.9	1.6	11.2	2,646.0

The above tangible fixed assets include £5.9m (2015: £5.5m) of capitalised interest at 31 March 2016. This is depreciated annually according to the useful economic life of the asset to which the capitalised interest relates.

Lease plant and machinery included within the net book value of £9.6m (2015: £12.5m) relating to assets held under finance lease agreements. The depreciation charged to the Regulatory Financial Statements in the year in respect of such assets amount to £2.9m (2015: £nil).

9 Intangible assets

	Intangible assets £m
Cost:	
At 1 April 2015	2.9
Additions	12.6
At 31 March 2016	15.5
Amortisation:	
At 1 April 2015	-
Charge for the year	0.3
At 31 March 2016	0.3
Net book value:	
At 31 March 2016	15.2
At 31 March 2015	2.9

Southern Electric Power Distribution plc

Notes on the Regulatory Financial Statements (continued)
for the year ended 31 March 2016

10 Fixed asset investments

	Other investments £m
At 1 April 2015	1.0
Additions	0.2
At 31 March 2016	1.2

Investments held by the Company represent loans to the EA Technology Group Trustees in relation to minimum funding requirements of the ESPS pension scheme.

11 Stocks

	2016 £m	2015 £m
Raw materials and consumables	0.1	0.2

12 Debtors

	2016 £m	2015 £m
Trade debtors	35.3	30.6
Prepayments and accrued income	32.1	42.0
Amounts owed by group undertakings	11.4	71.6
	78.8	144.2

13 Cash and cash equivalents

	2016 £m	2015 £m
Cash at bank and in hand	12.9	17.3

Cash at bank represents amounts received from Distribution Network Operators (DNOs) to fund the Thames Valley Vision (TVV) project, the My Electric Avenue project and the Solvent Achieving Value from Efficiency (SAVE) project, which is set up under Ofgem's Low Carbon Network funding arrangements. The use of the cash is restricted and can only be used for the purpose of the project. Therefore the balance has not been remitted to SSE plc as part of the Group's central treasury operations.

14 Creditors: amounts falling due within one year

	2016 £m	2015 £m
Trade creditors	16.1	4.4
Amounts owed to group undertakings	131.3	179.2
Other creditors	26.1	26.0
Corporation tax payable	20.0	23.3
Accruals and deferred income	52.0	70.6
Obligations under finance leases and hire purchase contracts	2.3	2.8
	247.8	306.3

Southern Electric Power Distribution plc

Notes on the Regulatory Financial Statements (continued) for the year ended 31 March 2016

15 Creditors: amounts falling due after more than one year

	2016 £m	2015 £m
Amounts owed to group undertakings	112.0	2.8
Obligations under finance leases and hire purchase contracts	4.5	6.9
Loans and borrowings (note 16)	1,193.7	1,192.3
Accruals and deferred income	266.4	254.9
	<u>1,576.6</u>	<u>1,456.9</u>

16 Interest bearing loans and borrowings

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

(i) Borrowing facilities

	Weighted Average Interest Rate 2016 %	Weighted Average Interest Rate 2015 %	2016 £m	2015 £m
Creditors: falling due more than five years				
5.50% Eurobond repayable on 19 June 2032	5.50	5.50	350.2	350.2
4.625% Eurobond repayable on 20 February 2037	4.63	4.63	323.8	323.7
4.454% Index Linked Bond repayable on 27 February 2044	4.45	4.45	119.7	118.4
4.25% Loan Stock repayable to SSE on 31 March 2023	4.25	4.25	400.0	400.0
			<u>1,193.7</u>	<u>1,192.3</u>

(ii) Finance lease liabilities

	Minimum lease payments		Present Value of minimum lease payments	
	2016 £m	2015 £m	2016 £m	2015 £m
Amounts payable				
Within one year	2.5	2.9	2.3	2.8
Between one and five years	5.2	7.9	4.5	6.9
	<u>7.7</u>	<u>10.8</u>	<u>6.8</u>	<u>9.7</u>
Less future finance charge	(0.9)	(1.1)	-	-
Present value of lease obligations	<u>6.8</u>	<u>9.7</u>	<u>6.8</u>	<u>9.7</u>

Southern Electric Power Distribution plc

Notes on the Regulatory Financial Statements (continued) for the year ended 31 March 2016

17 Deferred taxation

Deferred tax assets and liabilities are attributable to the following:

	2016 £m	2015 £m
Accelerated capital allowances	177.5	194.5
Share based remuneration	-	0.3
Net tax liabilities	177.5	194.8

	1 April 2015 £m	Recognised in income £m	Recognised in equity £m	31 March 2016 £m
Movement in deferred tax during the year	194.8	(17.3)	-	177.5
	1 April 2014 £m	Recognised in income £m	Recognised in equity £m	31 March 2015 £m
Movement in deferred tax during prior year	193.0	1.8	-	194.8

18 Share Capital

	2016 £m	2015 £m
Equity:		
Allotted, called up and fully paid:		
7,850,000 ordinary shares of £1.00 each	7.9	7.9

19 Pensions

25% (2015: 38%) of the Company's employees are members of the Southern Electric Pension Scheme which provides defined benefits based on final pensionable pay. As there is no contractual agreement or stated group policy for charging the net defined benefit cost of the plan to participating entities, the net defined benefit cost of the pension plan is recognised fully by the sponsoring employer, which is another member of the group

New employees can 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 £14.8m (2015: £13.4m). In addition to this, the Company incurred a further charge, payable to SSE Services plc, of £28.8m (2015: £37.8m), which related to its share of the Scheme's deficit repair contributions for the year ended 31 March 2016.

Southern Electric Power Distribution plc

Notes on the Regulatory Financial Statements (continued) for the year ended 31 March 2016

20 Employee share-based payments

The Group operates a number of share schemes for the benefit of its employees. Details of these schemes, all of which are equity-settled, are as follows:

The majority of the Company's employees are participants in the following Group share schemes:

(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 for the term of the agreement. Employees may opt to save between £5 and £500 per month for a period of 3 or 5 years. At the end of these periods, 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 Company on a monthly basis. Employees may nominate an amount between £10 and £150 to be deducted from their gross salary. This is then used to purchase shares ('Partnership' shares) in the market each month. These shares are then held in trust and become free of liability to income tax and national insurance on their fifth anniversary. 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.

From 1 September 2015, in addition to the shares purchased on behalf of the employee, the Company will also match the purchase up to a maximum of 3 shares ('Matching' shares) per month. These shares are also held in trust and become free of liability to income tax and national insurance on their fifth anniversary. If an employee leaves during the first three years, or removes his/her 'partnership' shares, these 'matching' shares are forfeited. Before 1 September 2015, the Company matched shares purchased up to a maximum of 6 shares per month on the same basis as above.

In addition to the above, an annual free share allocation directly linked to Company performance was introduced in 2015, to ensure all employees benefit from the Group's financial growth. The allocation of free shares is subject to the Group reporting dividend growth of at least RPI for the reporting year and the first allocation will be made to eligible employees in June 2016.

(iii) Deferred annual incentive scheme

This scheme applies to senior managers and Executive Directors. Under this scheme, 25% of all 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. Shares granted under this arrangement vest subject to the attainment of performance conditions over the relevant three year performance period as set out below:

Southern Electric Power Distribution plc

Notes on the Regulatory Financial Statements (continued) for the year ended 31 March 2016

20 Employee share-based payments (continued)

Award made		June 2012	June 2013	June 2014	June 2015
Maximum value of award as a % of base salary		150	150	150	150
Performance conditions					
Total shareholder return (i)	Full vesting	• 75th percentile	• 75th percentile	• 75th percentile	• 75th percentile
	25% vesting	median	median	• 50th percentile	• 50th percentile
Earnings per share (ii)	Full vesting	RPI + 8%	RPI + 8%	RPI + 8%	RPI + 8%
	25% vesting	RPI + 2%	RPI + 2%	RPI	RPI
Dividend per share growth (iii)	Full vesting	RPI + 6%	RPI + 6%	RPI + 4%	RPI + 4%
	25% vesting	RPI + 2%	RPI + 2%	RPI	RPI
Quality of Service (iv)	Full vesting	-	-	First place	First place
	50% vesting	-	-	Second place	Second place

These awards will vest after three years to the extent that the relevant performance conditions are met

- (i) Total Shareholder Return (TSR) target relative to other FTSE100 companies and MSCI Europe Utilities (a dedicated peer group of UK and other European utilities) Index. Pro rata vesting will take place between the 50th and 75th percentile, with no vesting if the minimum target is not met.
- (ii) Under the Earnings per Share (EPS) performance condition, pro rata vesting between the lower and upper level above RPI, with no vesting if the minimum EPS growth target is not achieved and full vesting if RPI +8% is achieved.
- (iii) Under the Dividend per Share (DPS) growth performance condition, pro rata vesting between RPI and 4% above RPI, with no vesting if the minimum DPS growth target is not achieved.
- (iv) The Quality of Service condition relates to the Company's Complaints Ranking. Full vesting will be awarded for first place in the league table, 50% vesting for second place with no vesting for below second place.

Income statement charge for all share schemes

A charge of £0.9m (2015: £1.0m) was recognised in the Income Statement in relation to these schemes.

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

Southern Electric Power Distribution plc

Notes on the Regulatory Financial Statements (continued) for the year ended 31 March 2016

20 Employee share-based payments (continued)

(i) Savings-related share option scheme

The movement in savings related share option schemes in the year were as follows:

As at 31 March 2016									
Award Date	Option Price (pence)	Outstanding at start of year	Granted	Exercised	Lapsed	Re-instated/ (Transferred)	Outstanding at end of year	Date from which exercisable	Expiry date
30 June 2009	1,042	59	-	(596)	(535)	1,072	-	1 October 2014	31 March 2015
30 June 2010	871	416,126	-	(457,011)	(958)	49,422	7,579	1 October 2015	31 March 2016
28 June 2011	1,105	441	-	-	(505)	64	-	1 October 2014	31 March 2015
28 June 2011	1,065	90,658	-	(1,331)	(421)	165	89,071	1 October 2016	31 March 2017
29 June 2012	1,065	58,656	-	(67,840)	(729)	10,503	590	1 October 2015	31 March 2016
29 June 2012	1,065	80,571	-	(682)	(2,098)	196	77,987	1 October 2017	31 March 2018
05 July 2013	1,197	70,401	-	(629)	(6,512)	5,830	69,090	1 October 2016	31 March 2017
05 July 2013	1,197	58,959	-	(137)	(4,218)	2,830	57,434	1 October 2018	31 March 2019
02 July 2014	1,247	170,808	-	(1,000)	(18,970)	8,431	159,269	1 October 2017	31 March 2018
02 July 2014	1,247	192,783	240	(80)	(10,903)	1,693	183,733	1 October 2019	31 March 2020
03 July 2015	1,288	-	204,514	-	(17,351)	2,738	189,901	1 October 2018	31 March 2019
03 July 2015	1,288	-	238,731	-	(12,589)	(7,192)	218,950	1 October 2020	31 March 2021
		1,139,462	443,485	(529,306)	(75,789)	75,752	1,053,604		

The re-instated row represents share awards which have moved between SSE companies due to internal movement of staff between companies.

As at 31 March 2015									
Award Date	Option Price (pence)	Outstanding at start of year	Granted	Exercised	Lapsed	Re-instated/ (Transferred)	Outstanding at end of year	Date from which exercisable	Expiry date
10 July 2007	1,306	11,511	-	(11,511)	-	-	-	1 October 2012	31 March 2014
17 July 2008	1,274	277	-	-	(277)	-	-	1 October 2014	31 March 2015
30 June 2009	1,042	34,276	-	(34,276)	-	-	-	1 October 2012	31 March 2013
30 June 2009	1,042	70,552	-	(70,148)	(404)	59	59	1 October 2014	31 March 2015
30 June 2010	871	403,679	-	(19,751)	(7,873)	40,071	416,126	1 October 2015	31 March 2016
28 June 2011	1,105	34,381	-	(33,537)	(403)	-	441	1 October 2014	31 March 2015
28 June 2011	1,105	77,102	-	(1,717)	(1,769)	17,042	90,658	1 October 2016	31 March 2017
29 June 2012	1,065	58,736	-	(2,382)	(3,497)	5,799	58,656	1 October 2015	31 March 2016
29 June 2012	1,065	73,645	-	(1,048)	(3,737)	11,711	80,571	1 October 2017	31 March 2018
05 July 2013	1,197	74,635	-	(1,052)	(5,131)	1,949	70,401	1 October 2016	31 March 2017
05 July 2013	1,197	59,033	-	(20)	(4,033)	3,979	58,959	1 October 2018	31 March 2019
02 July 2014	1,247	-	178,627	(264)	(7,555)	-	170,808	1 October 2017	31 March 2018
02 July 2014	1,247	-	199,800	-	(7,317)	300	192,783	1 October 2019	31 March 2020
		897,827	378,427	(175,706)	(41,996)	80,910	1,139,462		

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 year of 1,463p (2015: 1,564p) is considered representative of the weighted average share price at the date of exercise. The weighted average share price of forfeitures is simply the option price to which the forfeit relates. The fair value of these shares at the grant date, calculated using the Black-Scholes model, and the assumptions made in that model are as follows:

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Notes on the Regulatory Financial Statements (continued) for the year ended 31 March 2016

20 Employee share-based payments (continued)

	July 2009		June 2010		June 2011		June 2012		June 2013		June 2014		June 2015	
	3 Year	5 Year												
Fair value of option	244p	269p	231p	246p	171p	163p	182p	159p	194p	168p	146p	163p	133 p	113-p
Expected volatility	35%	35%	19%	19%	18%	18%	18%	18%	15%	15%	15%	15%	14%	14%
Risk free rate	2.7%	2.9%	1.4%	2.2%	1.2%	2.1%	0.4%	0.9%	0.7%	1.4%	1.2%	1.7%	0.9%	1.4%
Expected dividends	4.1%	4.2%	1.7%	2.2%	6.1%	6.1%	5.9%	5.8%	5.9%	5.9%	5.9%	5.8%	6.0%	5.9%
Term of the option	3 yrs	5 yrs												
Underlying price at grant date	1,139p	1,139p	1,089p	1,089p	1,393p	1,393p	1,391p	1,391p	1,579p	1,579p	1,595p	1,595p	1,558p	1,558-p
Strike price	1,042p	1,042p	871p	871p	1,105p	1,105p	1,065p	1,065p	1,197p	1,197p	1,247p	1,247p	1,288-p	1,288p

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

Matching Shares

	2016		2015	
	Shares	Weighted average price (pence)	Shares	Weighted average price (pence)
Outstanding at start of year	307,648	1,386	296,503	1,297
Granted	84,385	1,515	80,752	1,556
Forfeited	(15,855)	1,515	(13,590)	1,449
Exercised	(15,405)	1,381	(25,031)	1,316
Transferred to pool	(54,572)	1,160	(30,986)	1,137
Outstanding at end of year	306,201	1,467	307,648	1,386
Exercisable at end of year	105,994	1,360	102,066	1,241

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 annual incentive scheme

	2016		2015	
	Shares	Price (pence)	Shares	Price (pence)
Outstanding at start of year	3,227	1,486	4,415	1,409
Granted	1,464	1,624	1,837	1,545
Reinstated/(Transferred)*	6,669	1,383	-	-
Forfeited	-	-	-	-
Exercised	(977)	1,383	(3,025)	1,343
Outstanding at end of year	10,383	1,559	3,227	1,486

*The re-instated / transferred row represents share awards which have moved between SSE companies due to internal movement of staff between companies.

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

Southern Electric Power Distribution plc

Notes on the Regulatory Financial Statements (continued) for the year ended 31 March 2016

20 Employee share-based payments (continued)

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.

(iv) Performance share plan

	2016		2015	
	Shares	Price (pence)	Shares	Price (pence)
Outstanding at start of year	17,926	1,477	16,853	1,408
Granted	12,794	1,624	7,392	1,545
Reinstated/(Transferred)*	13,061	1,383	-	-
Forfeited	(9,355)	1,388	(5,277)	1,350
Exercised	(1,217)	1,383	(1,042)	1,342
Outstanding at end of year	33,209	1,559	17,926	1,477

*The re-instated / transferred row represents share awards which have moved between SSE companies due to internal movement of staff between companies.

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.

21 Derivatives and financial instruments

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

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

(i) Risk

Currency risk

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

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

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

Southern Electric Power Distribution plc

Notes on the Regulatory Financial Statements (continued) for the year ended 31 March 2016

21 Derivatives and financial instruments (continued)

(ii) Fair values

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

Summary fair values

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

	2016 Carrying value £m	2016 Fair Value £m	2015 Carrying value £m	2015 Fair Value £m
Financial Assets				
Trade and intercompany debtors	46.7	46.7	102.2	102.2
Financial Liabilities				
Trade and intercompany creditors	147.4	147.4	183.6	183.6
Long-term intercompany	112.0	112.0	2.8	2.8
Long-term bonds	793.7	1,015.6	792.3	1,046.9
Loan stock	400.0	455.7	400.0	452.3

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

Financial derivative instruments - disclosure

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

Basis of determining fair value

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

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Notes on the Regulatory Financial Statements (continued)
for the year ended 31 March 2016

22 Capital commitments

	2016 £m	2015 £m
Contracted but not provided for	64.0	68.4

23 Operating lease commitments

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

	2016 £m	2015 £m
Operating leases which expire:		
Within one year	6.7	6.7
Between one and five years	14.5	6.8
In more than five years	0.7	0.3
	<u>21.9</u>	<u>13.8</u>

Leases as lessee:

	2016 £m	2015 £m
Amount included in the profit and loss account relating to the current year leasing arrangements	2.9	7.6

24 Net debt

Reconciliation of net cash flow to movement in net debt	2016 £m	2015 £m
Cash (outflow)/inflow from (decrease)/increase in cash(i)	(4.4)	0.7
Other non-cash movement	(1.4)	(2.3)
Movement in net debt in the year	(5.8)	(1.6)
Net debt at 1 April	(1,175.0)	(1,173.4)
Net funds at 31 March	<u>(1,180.8)</u>	<u>(1,175.0)</u>

Analysis of net debt

	As at 1 April 2015 £m	Increase in cash(i) £m	Decrease in debt £m	Non-cash movements £m	As at 31 March 2016 £m
Cash at bank and in hand	17.3	(4.4)	-	-	<u>12.9</u>
Net borrowings due within one year	17.3	(4.4)	-	-	12.9
Net borrowings due after more than one year	(1,192.3)	-	-	(1.4)	<u>(1,193.7)</u>
	<u>(1,175.0)</u>	<u>(4.4)</u>	-	<u>(1.4)</u>	<u>(1,180.8)</u>

(i) Cash generated or required by the Company is remitted to or obtained from the Group or SSE Services plc. As a result the movement in indebtedness from the Group (reflected in the movement in debtor and creditor balances on the balance sheet) can be said to represent the cash generated in the year. The movement recorded above represents cash received from Distribution Network Operators (DNOs) in respect of the Thames Valley Vision (TVV) project, the My Electric Avenue project and the Solvent Achieving Value from Efficiency (SAVE) project (see note 13).

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Notes on the Regulatory Financial Statements (continued) for the year ended 31 March 2016

25 Related undertakings

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

Company Name	Relation	Country of incorporation	2016 Holding %	2015 Holding %	Principal activity
Electralink Limited	Associate	United Kingdom	8.79	8.79	Data Transfer Service Operator
Gemserv Limited	Associate	United Kingdom	2.78	2.78	Market Design, Governance and Assurance Service Provider
DCUSA Limited	Associate	United Kingdom	1.69	1.72	Billing Framework Operator
Smart Energy Code Company Limited	Associate	United Kingdom	0.85	1.16	Smart Metering Implementation Management
MRA Service Company Limited	Associate	United Kingdom	0.61	0.76	Metering Point Administration Services Operator

26. Regulatory Segmental Analysis

In accordance with standard licence condition 44, a segmental analysis of the Company's performance has been presented based on the prescribed distribution activities within the licence. The Company does not consider these activities to be segments as defined by IFRS 8 Operating Segments.

For the year to 31 March 2016:

	Distribution (DUoS) £m	Excluded Services ⁽ⁱ⁾ £m	Metering ⁽ⁱⁱ⁾ £m	Out of Area Networks £m	De Minimis ⁽ⁱⁱⁱ⁾ £m	Total £m
Revenue	541.9	59.1	5.7	16.3	0.8	623.8
Operating Costs	(207.1)	(12.3)	-	(9.7)	(0.8)	(229.9)
Depreciation	(99.7)	(51.1)	(0.5)	(3.1)	-	(154.4)
Operating Profit	235.1	(4.3)	5.2	3.5	-	239.5
Capital additions	182.2	51.1	-	14.6	-	247.9

For the year to 31 March 2015:

	Distribution (DUoS) £m	Excluded Services ⁽ⁱ⁾ £m	Metering ⁽ⁱⁱ⁾ £m	Out of Area Networks £m	De Minimis ⁽ⁱⁱⁱ⁾ £m	Total £m
Revenue	575.7	61.0	6.4	15.5	0.8	659.4
Operating Costs	(205.3)	(10.9)	-	(7.1)	(0.8)	(224.1)
Depreciation	(96.1)	(52.7)	(0.5)	(2.8)	-	(152.1)
Operating Profit	274.3	(2.6)	5.9	5.6	-	283.2
Capital additions	226.2	52.7	-	13.9	-	292.8

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Notes on the Regulatory Financial Statements (continued) for the year ended 31 March 2016

26. Regulatory Segmental Analysis (continued)

Note that the Regulatory Segmental Analysis comparatives for the year ended 31 March 2015 have been restated in line with the transition to FRS 101, the main adjustment being the application of IFRIC 18 Transfers of assets from customers.

- (i) Excluded services includes connections, diversions and other excluded services as defined in the licence (ES1, ES3 and ES7).
- (ii) Metering services refer to Legacy MAP only.
- (iii) De Minimis activities primarily relate to activities undertaken on behalf of other SSE plc Group companies.

27. Regulated Related Party Disclosure

For the year to 31 March 2016:

	Ultimate parent (SSE plc)	Immediate parent (SSEPD) ⁽ⁱ⁾	Other SSE plc Group companies
Type of transaction	£m	£m	£m
Sales and provision of services	-	-	154.3
Purchases and receipt of services	-	-	(96.2)
Distribution of dividends	-	(200.0)	-
Finance income (note 4)	-	-	-
Finance costs (note 5)	(21.9)	-	-

For the year to 31 March 2015:

	Ultimate parent (SSE plc)	Immediate parent (SSEPD) ⁽ⁱ⁾	Other SSE plc Group companies (restated) ⁽ⁱⁱ⁾
Type of transaction	£m	£m	£m
Sales and provision of services	-	-	174.1
Purchases and receipt of services	-	-	(137.5)
Distribution of dividends	-	(200.0)	-
Finance income (note 4)	1.5	-	-
Finance costs (note 5)	(17.0)	-	-

- (i) The immediate parent of the Company is Scottish and Southern Energy Power Distribution Limited (SSEPD).
- (ii) Sales and provision of services has been restated for Distribution Use of System income from SSE Energy Supply Limited.
- (iii) Balances outstanding to and from Group companies including the Ultimate and Immediate Parent Companies are disclosed in Notes 12, 14, 15, and 16 to these Regulatory Financial Statements.

28 Ultimate parent company

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

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Notes on the Regulatory Financial Statements (continued) for the year ended 31 March 2016

29 Explanation of transition to FRS 101 from adopted old UK GAAP

As stated in note 1, these are the Company's first Regulatory Financial Statements prepared in accordance with FRS 101.

The accounting policies set out in note 1 have been applied in preparing the Regulatory Financial Statements for the year ended 31 March 2016 and the comparative information presented in these Regulatory Financial Statements for the year ended 31 March 2015.

In preparing its FRS 101 balance sheet, the Company has adjusted amounts reported previously in Regulatory Financial Statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to FRS 101 has affected the Company's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

Nature of adjustments

Computer software, licences and other intangible assets were previously disclosed within tangible fixed assets. These assets are now presented within intangible assets under FRS 101.

The transition to FRS101 has led to the adoption of IFRIC 18 Transfers of assets from customers. Customer contributions arising subsequent to the transition date of 1 April 2014 are recorded as revenue when there are no ongoing performance obligations together with corresponding related costs.

Deferred tax has been provided in respect of assets that previously qualified for Industrial Buildings Allowance (IBA). There has been no deferred tax provided in respect of these assets as IBA was abolished under UK GAAP but is now provided under FRS 101.

Southern Electric Power Distribution plc

Notes on the Regulatory Financial Statements (continued)
for the year ended 31 March 2016

29 Explanation of transition to FRS 101 from adopted old UK GAAP (continued)

	Note	31 March 2015		FRS 101 £m
		Adopted UK GAAP £m	Effect of transition to FRS 101 £m	
Fixed assets				
Tangible assets	8	2,659.1	(13.1)	2,646.0
Intangible assets	9	-	2.9	2.9
Investments	10	1.0		1.0
		2,660.1	(10.2)	2,649.9
Current assets				
Stock	11	0.2	-	0.2
Debtors	12	144.2	-	144.2
Cash at bank and in hand	13	17.3	-	17.3
Total current assets		161.7	-	161.7
Current liabilities				
Creditors: amounts falling due within one year	14	(306.3)	-	(306.3)
Net current liabilities		(144.6)	-	(144.6)
Total assets less current liabilities		2,515.5	(10.2)	2,505.3
Creditors: amounts falling due after more than one year	15	(1,467.1)	10.2	(1,456.9)
Deferred tax liabilities	17	(194.5)	(0.3)	(194.8)
Net assets		853.9	(0.3)	853.6
Capital and reserves				
Called up share capital	18	7.9	-	7.9
Profit and loss account		846.0	(0.3)	845.7
Shareholders' funds		853.9	(0.3)	853.6

FRS 101 Transitional adjustments at the data of transition, being 1 April 2014:

	Note	1 April 2014		FRS 101 £m
		Adopted UK GAAP £m	Effect of transition to FRS 101 £m	
Capital and reserves				
Called up share capital	18	7.9	-	7.9
Profit and loss account		859.3	(0.3)	859.0
Equity Shareholders' funds		867.2	(0.3)	866.9

Southern Electric Power Distribution plc

Notes on the Regulatory Financial Statements (continued)
for the year ended 31 March 2016

29 Explanation of transition to FRS 101 from adopted old UK GAAP (continued)

	Note	Adopted UK GAAP £m	2015 Effect of transition to FRS 101 £m	FRS 101 £m
Turnover		649.2	10.2	659.4
Cost of sales		(77.2)	52.7	(24.5)
Gross profit		<u>572.0</u>	<u>62.9</u>	<u>634.9</u>
Distribution costs		(258.2)	(62.9)	(321.1)
Administrative costs		(30.6)	-	(30.6)
Operating profit	2	<u>283.2</u>	<u>-</u>	<u>283.2</u>
Interest receivable and similar income	4	6.7	-	6.7
Interest payable and similar charges	5	(57.0)	-	(57.0)
Profit on ordinary activities before taxation		<u>232.9</u>	<u>-</u>	<u>232.9</u>
Tax on profit on ordinary activities	6	(47.2)	-	(47.2)
Profit for the financial year		<u>185.7</u>	<u>-</u>	<u>185.7</u>