

Scottish Hydro Electric Transmission Limited

Regulatory Accounts for the year ended 31 March 2008

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Scottish Hydro Electric Transmission Limited

Corporate Report for the year ended 31 March 2008

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Scottish Hydro Electric Transmission Limited

Corporate Report: Review of the Year to 31 March 2008

Scottish Hydro Electric Transmission Limited (the Company) is a wholly owned subsidiary of Scottish and Southern Energy plc (the Group). The Company's first responsibility is to maintain safe and reliable supplies of electricity and to restore supplies as quickly as possible in the event of interruptions. In line with this it is encouraging that our performance across a range of measures continues to be good. This performance has been achieved while maintaining close control over the operating cost base and confirms that the electricity networks managed by the Group are among the most efficient in the world.

The Company is the subject of incentive-based regulation by the Office of Gas and Electricity Markets (Ofgem), which sets for periods of five years the prices that can be charged for the use of the electricity network, the capital expenditure and the allowed operating expenditure. In broad terms, Ofgem seeks to strike the right balance between attracting investment in the electricity network, encouraging companies to operate the networks as efficiently as possible and ensuring that prices for customers are no higher than they need to be. A new five-year Transmission Price Control was agreed in December 2006 and this financial year has been the first year of this price control. As at 31 March 2008, the Company estimates that based on Ofgem's methodology for valuing the assets of the Company's transmission business (the Regulated Asset Value or 'RAV') was approximately £330m.

Since the introduction of British Electricity Trading and Transmission Arrangements (BETTA) in April 2005, National Grid has been Great Britain System Operator, responsible for balancing the supply and demand of electricity across Great Britain. Scottish Hydro Electric Transmission Limited remains responsible for operating, maintaining and investing in the transmission network in its area, which serves around 70% of the landmass of Scotland.

The year to 31 March 2008 resulted in a decrease in operating profit of £5.3M (14.2%) to £31.9M. The level of revenue decreased by 11.8% during the year, primarily due to the collection in 2006/07 of an under-recovery of regulated revenue in 2005/06 and the impact of the reduction in regulated revenue following the introduction of the new price control. There have also been costs incurred during the year associated with the Beaulieu Denny Public Inquiry and other Beaulieu Denny pre construction costs which have not yet been recovered via regulated revenue. Discussions are ongoing with Ofgem to obtain permission to recover these costs under the Transmission Licence condition covering this project.

The number of transmission system incidents that resulted in a loss of supplies to customers increased to 18, compared with 17 in the previous year. However, the level of system availability increased from 95.7% in 2006/07 to 97.7% in 2007/08.

Electricity Network Investment

The level of investment in the Transmission network increased significantly to £44.2M, an increase of more than 75% from 2006/07 levels. As a result of the new price control the level of capital investment in the Transmission network was forecast to increase significantly and this has happened during 2007/08. This level of investment was within the allowable level of capital expenditure agreed with Ofgem at the price control.

Electricity Transmission Priorities in 2008/09

During 2008/09, the Company's first objective will be to maintain safe and reliable supplies of power and to restore supplies as quickly as possible in the event of interruptions, so performance in terms of transmission system incidents and availability will continue to be critical. This will be supported by delivery of continuous improvement initiatives, following the implementation of a review of internal processes and customer-facing operations that took place during 2007/08.

During 2008/09, important questions will be asked about the reliability of the UK's electricity networks and their fitness for purpose in the context of the need to accommodate output from renewable energy schemes. Key priorities for the Company during the year will include the efficient delivery of the next phase of the major programme of investment in the network. This will be targeted at upgrading the network so as to benefit the greatest number of customers. It will also undertake work in advance of what is hoped to be a successful outcome from the Public Inquiry into the Beaulieu-Denny transmission line proposal.

Scottish Hydro Electric Transmission Limited

Corporate Report: Review of the Year to 31 March 2008

1 Operational Review

1.1 Factors affecting the Business

The Company is responsible for managing an electricity transmission network, serving more than 720,000 customers. Transmission of electricity within specified areas is a monopoly activity and the income earned by charging electricity customers for the use of the system is closely regulated by Ofgem, as is the level of investment which is made.

Against this background, the Company's objective is to manage the consequences of the growth in demand for electricity and ensure the network has the minimum number of faults and the maximum robustness in the face of severe weather and other supply interruption risks. It is also important to automate networks so that when supply is interrupted, it can be restored as soon as possible. The programme of investment is designed with these goals in mind.

As the licensed transmission company for the north of Scotland, the Company is required to ensure there is sufficient network capacity for those seeking to generate electricity from renewable sources. In January 2008, the Scottish Government designated electricity network reinforcement to support renewable energy development as one of nine proposed 'National Developments' in the draft second National Planning Framework. Designation as National Developments in the Framework establishes these projects as being in the national interest.

The Company believes the project to replace the electricity transmission line connecting Beauly in the Highlands with Denny in the Central Belt of Scotland is in line with its responsibilities as a licensed transmission company and is also in the national interest. A year-long Public Inquiry into the project was completed in February 2008. The Scottish Minister for Enterprise, Energy and Tourism stated in the Scottish Parliament in September 2007 that Ministers do not expect to receive the report of the Inquiry until late 2008 and that a determination is unlikely before early 2009. It is now likely that the construction of the Company's share of the replacement line will require investment in excess of £300m.

As the UK Business Council for Sustainable Energy said in its paper on implementing the EU renewable energy target in the UK, the consenting and completion of the Beauly-Denny rebuild is essential to releasing the upgrade potential of the existing Scottish transmission system. By rebuilding the weakest part of a north of Scotland transmission ring, it will allow the other elements to that ring to be re-conducted and re-insulated (avoiding any need for new overhead line routes) to increase the capability for renewable energy capacity in the north of Scotland to over 6GW, compared with around 2.2GW currently connected.

The Company has undertaken a public consultation exercise on its draft proposals for the possible development of a new high voltage electricity transmission cable capable of accommodating power from wind farms on Shetland and connecting it to the existing mainland transmission network at Blackhillock in Moray.

The Scottish Government is exploring subsea electricity network options through two offshore transmission studies: the Irish Scottish Links on Energy Study and the North Sea Energy Grid. The Company is well-placed to contribute to the development of new grid options and will continue to work on them with Scottish Ministers and officials and other stakeholders.

In September 2007, the European Commission published its third package of proposals to further liberalise the EU's energy market. The package includes options for electricity and gas transmission networks: the full ownership unbundling of transmission from production and supply in both electricity and gas; or the designation of an independent system operator (ISO) that would operate, maintain and develop the networks, which would make it possible for existing vertically-integrated companies to retain network ownership. The Group believes that the ISO model in Great Britain has worked well and could be successfully replicated elsewhere in the EU. Discussions on this issue are continuing, with a view to EU governments reaching agreement on a way forward later this year.

Scottish Hydro Electric Transmission Limited

Corporate Report: Review of the Year to 31 March 2008

1 Operational Review (continued)

1.2 Use of Resources and Status of Significant Projects

In line with the policies in place to achieve the objectives highlighted at 1.1, a total of £44.2m was invested in the transmission network. Investment of this kind upgrades the electricity network and reinforces the value of the RAV which, in turn, supports the ongoing value of the business.

The most significant electricity transmission project on which work is actually getting under way is the Inveraman substation. Planning consent for this project was obtained in December 2007 and work has now commenced. This project will provide 200MW additional export capacity for electricity generated from renewable sources in Argyll. This is a joint project with Scottish Power Transmission. The Company's investment is around £12m.

1.3 Employees

Employees are encouraged to participate in the businesses of the Group in a variety of ways. In support of the Board's commitment to providing opportunities for employees to become shareholders, the Group offers a Share Incentive Plan and a Sharesave Scheme which is open to all eligible employees. Employee participation in these schemes, over the Group, is around 38% and 37% respectively. The company recognises that its continuing success is closely linked to the performance, skills and individual commitment of its employees. As part of a 2007 employee award, all eligible employees were awarded 20 free shares. The company places a strong emphasis on employee communication and involvement. An employee newspaper is published and distributed to employees. Participation and engagement is encouraged through team meetings, briefings and the intranet where employees are informed of the latest company news from recent media coverage and about developments within the business.

The Group Chief Executive regularly communicates with employees through his blog and receives feedback, in addition to live on-screen question and answer style 'webchats'. During the year, the senior management held a series of roadshows around the Group to present and discuss the Group's vision, values and strategy. The company has in place an extensive range of policies to safeguard the interests of its employees and potential employees. In particular, its equal opportunities policy aims to ensure that all employees and job applicants are no less fairly treated due to age, gender, sexual orientation, race, disability or other reasons not justified in law or relevant to performing their job. The company also aims to ensure that employees have the right skills to deliver the high standards of performance that are necessary to achieve its objectives. Detailed information about the Group's approach to these and related matters is set out in its Corporate Responsibility Report 2008.

1.4 Safety

The Group believes that all work can be done in such a way that no-one, whether an employee, contractor, customer or member of the community, suffers from its operations. It believes that all injuries are preventable and it aims to provide staff with training, work methods and equipment to achieve that goal.

'Being safe' is a core value in the business. In line with this, the Group's Health, Safety and Environment Manual, which has the status of a work instruction, emphasises that safety will not be compromised for business interest or operational pressures and all injuries, plant damage and near misses will be reported and investigated. The Health, Safety and Environmental Advisory Committee, together with the Audit Committee and management, ensures that health, safety and environmental policy statements are being adhered to; sets health, safety and environmental targets for the Group; and monitors the performance of the Group against these targets. The Director with lead responsibility for Health and Safety is Colin Hood, who chairs the Safety and Health leadership team.

As a result of this commitment to safety, Scottish and Southern Energy plc continues to be at the forefront of Britain's electricity industry in relation to safety.

Scottish Hydro Electric Transmission Limited

Corporate Report: Review of the Year to 31 March 2008

1 Operational Review (continued)

1.5 Principal risks and uncertainties

As noted, the Company is responsible for managing a regulated electricity transmission network, based in the North of Scotland. One of the major risks arises from the quinquennial price review when the future income that the Company may collect from the users of the electricity network is set. A new five-year Transmission Price Control came into effect on 1 April 2007. In arriving at the allowed income Ofgem assess the revenue and capital expenditure plans of the business and determine an efficient level of that expenditure. In addition they assess the quality of service requirements for the network and determine a cost of capital sufficient to encourage the required investment in the network.

In March 2008, Ofgem announced plans to review the 20-year old regime governing the regulation of electricity and gas networks. The review will examine whether the 'current approach will continue to deliver customers reliable, well-run networks with good service at reasonable prices amid growing investment challenges faced by the energy networks in the future'. Ofgem has stated that the range of possible recommendations emerging from the review runs from no change to substantial change, and that where change is recommended, there will be full consultation. Because the review will not report until 2010, and because any proposed changes will be subject to consultation the impact of this review will not impact on the Company until the next Transmission Price Control review in 2012.

2. Financial Review

2.1 Balance Sheet

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.

The majority of employees of the Company are members of the Scottish Hydro-Electric Pension Scheme, which, at 31 March 2008, had a surplus included in the Group accounts, net of deferred tax, of £61.8M (2007 - £89.7M).

2.2 Financial Risk Management

The Company's financial risk is managed as part of the wider group risk management policy.

The Company's operations are financed by a combination of retained profits, bank borrowings, long term debt issuance and inter company loan stocks.

The main financial risks affecting the Group include exposures to fluctuations or changes in interest rates, foreign exchange rates, liquidity, commodity prices and volumes and counterparty creditworthiness. The Group's Risk Committee, which reports to the Board, reviews and agrees policies for addressing each of these risks. At 31 March 2008, 65.7% of the Group's borrowings were at fixed or inflation-linked interest rates, after taking account of interest rate swaps. The Company's main risk area is in relation to interest rates and, as noted, this is managed as part of the Group's risk policies.

2.3 Taxation

The Company's effective current tax rate was 31.4% compared with 32.1% in the previous year, after prior year adjustments. The headline effective tax rate is 20.2% compared with 29.9% in the previous year.

2.4 Dividend

The Company's dividend policy was to distribute up to 50% of surplus cash flow as a dividend for both years.

Scottish Hydro Electric Transmission Limited

Corporate Report: Review of the Year to 31 March 2008

2. Financial Review (continued)

2.5 Borrowings and Facilities

The Company has loans of £158.1m (2007 – £158.1m) of which £133.1m (2007 - £133.1m) is due to other group companies and £25.0m (2007 - £25.0m) is in the form of loans from the European investment Bank. Of the total, interest is paid at fixed or inflation-linked interest rates on £158.1m (2007 - £158.1m).

As at 31 March 2008, the weighted average interest rate payable was 5.94% (2007 – 5.94%) and the weighted average remaining term was 11.66 years (2007 – 12.66 years).

2.6 International Financial Reporting Standards

The application of International Financial Reporting Standards (IFRS) is required for listed companies for accounting periods commencing on or after 1 January 2005. As a result, the Group's financial statements for the year to 31 March 2008 have been prepared in accordance with EU adopted IFRS.

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

Scottish Hydro Electric Transmission Limited

Corporate Governance Statement

Scottish and Southern Energy plc Group ("The Group")

The Board is accountable to the Group's shareholders for the good conduct of the Group's affairs. Throughout the year the Group monitors developments in corporate governance best practice. Due regard is also given to the policy guidelines of organisations representing major institutional investors. In addition, internal procedures are regularly reviewed and updated by the Board and the various Board committees.

The Board continues to be committed to ensuring that the highest standards of corporate governance are maintained. The Group's core purpose is to provide the energy people need in a reliable and sustainable way while abiding by its core values: safety; service; efficiency; sustainability; excellence; and teamwork.

The Board continues to be committed to ensuring that the highest standards of corporate governance are maintained and the Board confirms that throughout the year, the Group complied with all provisions set out in Section 1 of the Code.

The Board consists of a non-Executive Chairman, four Executive Directors and five independent non-Executive Directors. This gives the Board an appropriate balance of independence and experience, ensuring that no one individual or group of individuals has undue influence over the Board's decision-making. The composition of the Board and its committees is regularly reviewed to ensure that this balance and mix of skills and experience is maintained.

Scottish Hydro Electric Transmission Limited ("The Company")

Board of Directors

The Board consists of four Directors, two of whom are Directors of the Group. None of the Directors are Directors of Group Companies involved in Supply or Generation activities. The Group has an Audit Committee, a Remuneration Committee, an Executive Committee, a Risk Committee, a Health, Safety and Environmental Advisory Committee and a Nomination Committee and details of the appointees are included in the published Corporate Governance Statement of the Group. The Company, as a subsidiary entity, has no such Committees.

Internal Control

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

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

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

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

There are 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 internal audit department. Their reports, which include where appropriate relevant action plans, are distributed to senior managers and Directors.

Scottish Hydro Electric Transmission Limited

Corporate Governance Statement

Scottish Hydro Electric Transmission Limited ("The Company") (continued)

Environment

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

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

Going Concern

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

REGISTERED NO.

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Scottish Hydro Electric Transmission Limited

Accounts for the year ended 31 March 2008

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Scottish Hydro Electric Transmission Limited

Report of the Directors

The Directors present their report together with the audited Accounts for the year ended 31 March 2008.

1. Principal Activities

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

2. Business Review

Review of Business

The Company is part of the Scottish and Southern Energy Group (the 'Group') and the key responsibility of the Group's Power Systems businesses, including the Company, is to maintain safe and reliable supplies of electricity and to restore supplies as quickly as possible in the event of interruptions.

Since the introduction of British Electricity Trading and Transmission Arrangements (BETTA) in April 2005, National Grid has been Great Britain System Operator, responsible for balancing the supply and demand of electricity across Great Britain. Scottish Hydro Electric Transmission Limited remains responsible for operating, maintaining and investing in the transmission network in its area, which serves around 70% of the landmass of Scotland. Transmission of electricity, and the level of capital investment within the company's licensed area, is a monopoly activity and is closely regulated by the Office of Gas and Electricity Markets (Ofgem) within a framework known as the Transmission Price Control. This is set for a period of 5 years and the current price control commenced on 1st April 2007.

The year to 31 March 2008 was year 1 of the price control period and resulted in a decrease in operating profit of £5.3M (14.2%) to £31.9M. The level of revenue decreased by 11.8% during the year, primarily due to the collection in 2006/07 of an under-recovery of regulated revenue in 2005/06 and the impact of the reduction in regulated revenue following the introduction of the new price control. There has also been costs incurred associated with the Beaully Denny Public Inquiry and other Beaully Denny pre-construction costs which have not yet been recovered via regulated revenue. Discussions are ongoing with Ofgem to obtain permission to recover these costs under the Transmission Licence condition covering this project.

The level of investment in the Transmission network increased significantly to £44.2M, an increase of more than 75% from 2006/07 levels. As a result of the new price control the level of capital investment in the Transmission network was forecast to increase significantly and this has happened during 2007/08. This level of investment was within the allowable level of capital expenditure agreed with Ofgem at the price control.

As the licensed transmission company for the north of Scotland, the Company is required to ensure there is sufficient network capacity for those seeking to generate electricity from renewable sources. The Company believes the project to replace the electricity transmission line connecting Beaully in the Highlands with Denny in the Central Belt of Scotland is in line with its responsibilities as a licensed transmission company and is also in the national interest. A year-long Public Inquiry into the project was completed in February 2008. The Scottish Minister for Enterprise, Energy and Tourism stated in the Scottish Parliament in September 2007 that Ministers do not expect to receive the report of the Inquiry until late 2008 and that a determination is unlikely before early 2009. It is now likely that the construction of the Company's share of the replacement line will require investment in excess of £300m.

Principal Risks and Uncertainties

As noted, the Company is responsible for managing a regulated electricity transmission network, based in the North of Scotland. One of the major risks arises from the quinquennial price review when the future income that the Company may collect from the users of the electricity network is set. A new five-year Transmission Price Control came into effect on 1 April 2007. In arriving at the allowed income Ofgem assess the revenue and capital expenditure plans of the business and determine an efficient level of that expenditure. In addition they assess the quality of service requirements for the network and determine a cost of capital sufficient to encourage the required investment in the network.

Scottish Hydro Electric Transmission Limited

Report of the Directors (continued)

2. Business Review (continued)

Principal Risks and Uncertainties (continued)

In March 2008, Ofgem announced plans to review the 20-year old regime governing the regulation of electricity and gas networks. The review will examine whether the 'current approach will continue to deliver customers reliable, well-run networks with good service at reasonable prices amid growing investment challenges faced by the energy networks in the future'. Ofgem has stated that the range of possible recommendations emerging from the review runs from no change to substantial change, and that where change is recommended, there will be full consultation. Because the review will not report until 2010, and because any proposed changes will be subject to consultation the impact of this review will not impact on the Company until the next Transmission Price Control review in 2012.

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

No system of control can, however, provide absolute assurance against material misstatement or loss. Accordingly, the Directors have regard to what controls, in their judgement, are appropriate to the Company's business and to the relative costs and benefits of implementing specific controls.

Key Performance Indicators

The following are the key performance indicators used by the Company for measuring performance:

a) Operating Profit (£M)

Year to March 2007	£37.2M
Year to March 2008	£31.9M
Reduction (%)	14.2%

b) Capital Expenditure (£M)

Year to March 2007	£24.9M
Year to March 2008	£44.2M
Increase (%)	77.5%

c) Number of Transmission System Incidents (Number)

Year to March 2007	17
Year to March 2008	18
Increase (%)	5.9%

d) System Availability (%)

Year to March 2007	95.7%
Year to March 2008	97.7%
Increase (%)	2.1%

The Directors intend the Company to pursue its principal activity of the transmission of electricity in the north of Scotland.

Scottish Hydro Electric Transmission Limited

Report of the Directors (continued)

3. Results and Dividends

The profit for the financial year amounted to £20.6m (2007 - £21.6m). The Directors do not recommend the payment of a dividend and no dividends were paid in the year (2007 – £nil).

4. Directors

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

Gregor Alexander
Colin Hood
Steven Kennedy
Mark Mathieson (appointed 21/11/2007)

5. Political and Charitable Donations

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

6. Employment Policies

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

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

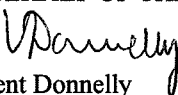
7. Supplier Payment Policy

The Company complies with the CBI Prompt Payment Code. The main features of the Code are that payment terms are agreed at the outset of a transaction and are adhered to; that there is a clear and consistent policy that bills are paid in accordance with the contract; and that there are no alterations to payment terms without prior agreement. Copies of the Code are available on application to the Company Secretary. The number of suppliers' days represented by trade creditors was 42 days at 31 March 2008.

8. Auditors

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

ON BEHALF OF THE BOARD


Vincent Donnelly
Company Secretary
22 July 2008

Scottish Hydro Electric Transmission Limited

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

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

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

The Accounts are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these Accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Accounts; and
- prepare the Accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its Accounts comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The licensee is also required by standard condition B1 of the Company's Electricity Transmission Licence to deliver to the Authority regulatory accounts prepared for each financial year ending on 31 March.

Scottish Hydro Electric Transmission Limited

**Profit and Loss Account
for the year ended 31 March 2008**

	Note	2008 £M	2007 £M
Turnover		54.5	61.8
Cost of sales		(2.6)	(7.3)
Gross profit		51.9	54.5
Distribution costs		(16.5)	(13.2)
Administrative costs		(3.5)	(4.1)
Operating profit	2	31.9	37.2
Net interest payable	5	(6.1)	(6.4)
Profit on ordinary activities before taxation		25.8	30.8
Tax on profit on ordinary activities	6	(5.2)	(9.2)
Profit for the financial year	14	20.6	21.6

The above results are derived from continuing activities.

The accompanying notes are an integral part of these Accounts.

Scottish Hydro Electric Transmission Limited

**Balance Sheet
as at 31 March 2008**

	Note	2008 £M	2007 £M
Fixed Assets			
Tangible assets	7	<u>251.2</u>	215.7
Current assets			
Debtors	8	75.8	82.4
Creditors:			
Amounts falling due within one year	9	(63.4)	(51.8)
Net current assets		<u>12.4</u>	30.6
Total assets less current liabilities		<u>263.6</u>	246.3
Creditors:			
Amounts falling due after more than one year	10	(162.5)	(162.9)
Provisions for liabilities and charges			
Deferred taxation	12	(34.4)	(37.3)
Net assets		<u>66.5</u>	46.1
Capital and reserves			
Called up share capital	13	4.3	4.3
Profit and loss account	14	62.4	41.8
Shareholders' funds		<u>66.7</u>	46.1

These Accounts were approved by the Directors on 22 July 2008 and signed on their behalf by



Gregor Alexander, Director

Scottish Hydro Electric Transmission Limited

**Statement of Total Recognised Gains and Losses
for the year ended 31 March 2008**

	2008 £M	2007 £M
Profit for the financial year	20.6	21.6
Total recognised gains and losses relating to the financial year	20.6	21.6

**Reconciliation of Movement in Shareholders' Funds
as at 31 March 2008**

	2008 £M	2007 £M
Profit for the financial year	20.6	21.6
Credit in respect of employee share awards	-	0.1
Net addition to shareholders' funds	20.6	21.7
Opening shareholders' funds	46.1	24.4
Closing shareholders' funds	66.7	46.1

Scottish Hydro Electric Transmission Limited

Notes on the Accounts for the year ended 31 March 2008

1. Significant accounting policies

Basis of preparation

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

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

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

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

Turnover

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

Taxation

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

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

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

Scottish Hydro Electric Transmission Limited

Notes on the Accounts for the year ended 31 March 2008

1. Significant accounting policies (continued)

Tangible fixed assets

(i) Depreciation

Heritable and freehold land is not depreciated.

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

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

(ii) Subsequent expenditure

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

Employee benefit obligations

Pensions

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

Equity and equity-related compensation benefits

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

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

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

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

Dividends on shares presented within shareholders' funds

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

Scottish Hydro Electric Transmission Limited

**Notes on the Accounts
for the year ended 31 March 2008**

2. Operating profit

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

	2008	2007
	£M	£M
Depreciation of tangible fixed assets	8.7	8.0
Release of deferred income in relation to customer contributions and capital grants	(0.5)	(0.5)
Research and development	0.4	-
Net management fee in respect of services provided by parent company	3.5	4.1

The Company incurred an audit fee of £0.01m (2007 - £0.01m) in the year.

3. Staff costs and numbers

	2008	2007
	£M	£M
Staff costs:		
Wages and salaries	3.0	2.2
Social security costs	0.3	0.2
Other pension costs	0.6	0.5
	3.9	2.9
Less capitalised as tangible fixed assets	(2.8)	(1.2)
	1.1	1.7

Included within the above costs is a charge recognised under FRS 20 of £48,291 (2007 - £33,399).

Employee numbers

	2008	2007
	Number	Number
Numbers employed at 31 March	73	54

	2008	2007
	Number	Number
The monthly average number of people employed by the Company during the year	73	54

4. Directors' remuneration

No Director received remuneration in respect of their service to the Company.

Scottish Hydro Electric Transmission Limited

**Notes on the Accounts
for the year ended 31 March 2008**

5. Net interest payable

	2008 £M	2007 £M
Interest receivable:		
Other interest receivable	3.9	3.5
Interest payable and similar charges:		
Bank loans and overdrafts	(1.6)	(1.6)
Other financing charges	(8.4)	(8.3)
	<u>(10.0)</u>	<u>(9.9)</u>
Net interest payable	<u>(6.1)</u>	<u>(6.4)</u>

6. Taxation

	2008 £M	2007 £M
Current tax:		
UK corporation tax	8.1	9.9
Deferred tax:		
Current year	(0.3)	(0.7)
Effect of change in UK corporation tax	(2.5)	-
Adjustment in respect of prior years	(0.1)	-
Total Deferred Tax	<u>(2.9)</u>	<u>(0.7)</u>
Total tax on profit on ordinary activities	<u>5.2</u>	<u>9.2</u>

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

	2008 £M	2007 £M
Profit before tax	25.8	30.8
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2007 - 30%)	7.8	9.2
Effects of:		
Capital allowances in excess of depreciation	0.3	0.7
Current tax charge for year	<u>8.1</u>	<u>9.9</u>

