

Scottish Hydro Electric Power Distribution plc

Regulatory Accounts for the year ended 31 March 2009

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Scottish Hydro Electric Power Distribution plc

Corporate Report for the year ended 31 March 2009

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Scottish Hydro Electric Power Distribution plc

Corporate Report: Review of the Year to 31 March 2009

Scottish Hydro Electric Power Distribution plc (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 increasing the level of investment in the network.

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, 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.

During 2008/09, the Company's operating profit increased by 5.0% to £119.2m. During the year, the Company distributed 8.5 TWh of electricity, compared with 8.6TWh in the previous year a reduction of 1.2% reflecting the current economic climate. There was a 1% increase in the number of customers to whom electricity is distributed. This combined with an increase in the price of these units and a continued focus on cost control contributed to the increase in profitability in the year.

Ensuring the reliability of the electricity networks it owns and operates is one of the Company's main priorities and the key measures of reliability are customer minutes lost and customer interruptions. The average number of minutes that customers in the Scottish Hydro Electric Power Distribution area were without supply was 75 (2008: 72), and the number of supply interruptions per 100 customers was 76, compared with 69 in the previous year. The increase in the number of supply interruptions reflects the fact that snow, accompanied by strong winds, was a feature of the weather over an extended period during the winter and resulted in more faults to the network.

Under the current distribution price control arrangements the company has an incentive to earn additional performance based income. Performance-based income covers a number of areas, including the quality of service provided to customers, reducing electrical losses and innovation. As noted above quality of supply performance in respect of both customer minutes lost and customer interruptions was ahead of the targets set by Ofgem under its Quality of Service Incentive Scheme (QSIS). During 2008/09 the company has earned £7.6m in additional performance based income which it will receive over the next 2 financial years.

Electricity Network Investment

The key responsibility of the Company's business is to maintain safe and reliable supplies of electricity and to restore supplies as quickly as possible in the event of interruptions. The Distribution Price Control Review for 2005-10 resulted in substantially increased allowances for capital expenditure to maintain and improve the networks' performance. This will enable the Company to increase its revenue from its networks, and delivery of this enhanced investment programme was one of the Company's priorities for the year. Investment is geared to renewing the company's network, which were largely built in the 1950s and 1960s, and thereby reducing the number and duration of power supply interruptions. It is also geared to providing the infrastructure to accommodate customers' demand for power. 2008/09 was Year 4 of the current Distribution Price Control Review and the level of capital expenditure increased significantly in the year with the continuation of a number of significant schemes and an increase in refurbishment programmes. Capital expenditure was £68.3m during the year, which was 10.5% higher than in 2007/08. In the course of the year, the Company added just over 208km to the length of its networks, taking the total to over 46,000km.

As at 31 March 2009, the Company estimates that, based on Ofgem's methodology for valuing the assets of the Company's distribution business (the Regulated Asset Value or 'RAV') was approximately £840m.

Scottish Hydro Electric Power Distribution plc

Corporate Report: Review of the Year to 31 March 2009 (continued)

Electricity Distribution Priorities in 2008/09

During 2009/10, the Company's first objective will continue to be to maintain safe and reliable supplies of power. In addition a key objective is to ensure that the network operations are managed as efficiently as possible, including maintaining tight controls over operational expenditure and delivering efficient capital expenditure, so that the number and duration of power cuts experienced by customers is kept to a minimum. The Company seeks to earn additional incentive-based revenue under the various Ofgem-sponsored schemes. Over time, the objective is to grow the RAV of the network business and secure increased revenue from it.

Key to this objective is an acceptable outcome to the Distribution Price Control for the 2010 to 2015 period. This means being able to earn a reasonable return on the RAV through: a fair allowed return (currently 4.8% post-tax real) which reflects the current economic and financial environment; and scope for out-performance from the various incentive mechanisms.

Detailed work on the Price Control has been ongoing during 2008/09 and we continue to engage constructively with Ofgem on this project. Ofgem's key priorities include encouraging electricity distribution companies to be more responsive to the needs of customers and ensuring that companies provide secure and more sustainable networks. The Company therefore expects that annual capital expenditure during the next Price Control will be maintained at broadly the 2008/09 level. Having published its third consultation document about the Review for 2010-15 in May 2009, Ofgem will publish its Initial Proposals on each electricity distribution company's revenue requirements in early August 2009 with the final proposals due by December 2009.

It is clear that encouraging electricity companies to be more responsive to the needs of customers will be amongst Ofgem's key priorities for 2010-15, and the Company has in place a programme of continuous improvement initiatives in anticipation of this. The Company is also looking to the longer-term issues, such as the possible impact on its distribution networks of the deployment of a large number of electric vehicles and the development of 'intelligent' networks.

1 Operational Review

1.1 Factors affecting the Business

The Company is responsible for managing an electricity distribution network, serving more than 735,000 customers. Distribution of electricity within specified areas is a monopoly activity and the income earned by charging electricity customers for the use of the wires is closely regulated by Ofgem, as is the level of investment which is made in electricity networks. The Company has completed the fourth year of the price controls set for the period up to 31 March 2010.

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.

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 £68.3m was invested in the electricity 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.

In the Scottish Hydro Electric Power Distribution area, the programme to upgrade and refurbish the network continued during 2008/09, with 1,987km of high voltage overhead lines and 218km of low voltage lines refurbished.

The programme of network automation continued, with another 47 new radio-controlled automated switching units in rural areas, allowing for faster restoration of supply to customers.

Scottish Hydro Electric Power Distribution plc

Corporate Report: Review of the Year to 31 March 2009

1 Operational Review (continued)

1.2 Use of Resources and Status of Significant Projects (continued)

The Company continues to ensure that the stewardship of the network is efficient, addresses customer concerns and is robust over the long term. Investment during the year was spread over overhead lines, substations and cables. Network improvements have been driven by targeted investment on automation, refurbishment and replacement. The largest schemes included the completion of an additional overhead line and submarine cable costing £1.7m were installed to provide the island of Mull with a more secure and stable supply of electricity. In addition reinforcement works at Skene substation to accommodate new demand at a cost of £1.5m and Redmoss reinforcement work at a cost of £1.0m were undertaken.

Legislative changes and environmental pressures have required investment in a number of large schemes. Recent modifications to the Electricity, Safety, Quality and Continuity Regulations require us to increase our tree cutting and modify overhead lines to achieve revised clearance requirements. We have, wherever possible, undertaken this work along with our established programmes to minimise costs and ensure we take advantage of duplicate work sites. The total spend on overhead lines was approximately £18m in the year.

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 31% respectively. The company recognises that progress is made due to the professionalism, commitment and teamwork of its employees. For that reason, and to mark the tenth anniversary of the Scottish and Southern Group, of which the Company is part, all eligible employees received a special award comprising an offer, free of charge, of 10 shares in SSE plc; an online voucher worth £200 for Scottish and Southern Energy's retail business, and an additional day's holiday. The company places a strong emphasis on employee communication and involvement. An employee newspaper is 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 is also committed to the continuing employment of, and the arranging of appropriate training for, any employees who become disabled during the course of employment. The Company 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 2009 (refer www.scottish-southern.co.uk).

Scottish Hydro Electric Power Distribution plc

Corporate Report: Review of the Year to 31 March 2009

1 Operational Review (continued)

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 Group Audit Committee and management, ensures that health, safety and environmental policy statements are being adhered to; sets health, safety and environmental targets for the Group; and monitors the performance of the Group against these targets. The Group 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 and the Company continue to be at the forefront of Britain's electricity industry in relation to safety.

1.5 Principal risks and uncertainties

As noted, the Company is responsible for managing a regulated electricity distribution network, based in the North of Scotland. One of the major risks arises from the quinquennial price review, when the future income that the Company may collect from the users of the electricity network is set. The current price control period ends on 31 March 2010 and discussions on the price control arrangements that will be in place from 2010 to 2015 are well underway. Given the importance of the outcome of the price control review process to the establishment of allowable income for the following years, the Company invests considerable management time in constructively engaging with Ofgem to ensure that the correct price control is set.

In March 2008, Ofgem announced plans to review the 20-year old regime governing the regulation of electricity and gas networks. This review is considering whether the current approach will continue to deliver customers reliable, well-run networks with good service at reasonable prices, amid the growing investment challenges faced by the energy networks in the future. This review will not be concluded until 2010. Any changes arising from it will be the subject of consultation and so work on the Distribution Price Control Review for 2010-15 is expected to be largely unaffected.

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

Scottish Hydro Electric Power Distribution plc

Corporate Report: Review of the Year to 31 March 2009

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 2009 on an IAS 19 basis had a surplus of £nil included in the Group accounts, net of deferred tax, (2008 - £61.8m).

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 2009, 84.8% 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 33.5% compared with 31.7% in the previous year, after prior year adjustments. The headline effective tax rate is 26.8% compared with 15.5% 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.

2.5 Borrowings and Facilities

The Company has loans of £484.0m (2008 - £479.0m) of which £300.0m (2008 - £300.0m) is due to other group companies and £184.0m (2008 - £179.0m) is in the form of loans from the European investment Bank and an index-linked bond. Of the total, interest is paid at fixed or inflation-linked rates on £459.0m (2008 - £454.0m).

As at 31 March 2009, the weighted average interest rate payable was 4.75% (2008 - 5.81%) and the weighted average remaining term was 19.41 years (2008 - 20.11 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 2009 have been prepared in accordance with EU adopted IFRS.

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

Scottish Hydro Electric Power Distribution plc

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 Power Distribution plc ("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. Company Board Meetings are held on 8 occasions during the course of the year. The Group has an Audit Committee, a Remuneration Committee, an Executive Committee, a Risk and Trading Committee, a Health, Safety and Environmental Advisory Committee and a Nomination Committee and details of the appointees and work undertaken by these committees are included in the published Corporate Governance Statement of the Group (see www.scottish-southern.co.uk). The Company, as a subsidiary entity, has no such Committees but the Group arrangements cover the operations of the Company.

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

Scottish Hydro Electric Power Distribution plc

Corporate Governance Statement

Scottish Hydro Electric Power Distribution plc ("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.

Scottish Hydro Electric Power Distribution plc

Accounts for the year ended 31 March 2009

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Scottish Hydro Electric Power Distribution plc

Report of the Directors

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

1. Principal Activities

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

2. Business Review

The Company is responsible for managing an electricity distribution network, serving more than 735,000 customers in the North of Scotland. Distribution of electricity and the level of capital investment within the network area is a monopoly activity and is closely regulated by the Office of Gas and Electricity Markets (Ofgem) within a framework known as the Price Control. This is set for a period of 5 years and the current price control runs until April 2010.

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

Review of development and performance of the Company

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

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

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

Principal Risks and Uncertainties

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

Scottish Hydro Electric Power Distribution plc

Report of the Directors (continued)

2. Business Review (continued)

Principal Risks and Uncertainties (continued)

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

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

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

Key Performance Indicators

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

Financial

a) Operating Profit (£M)

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

b) Capital Expenditure (£M)

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

Operational

c) Electricity Distributed (TWh)

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

Scottish Hydro Electric Power Distribution plc

Report of the Directors (continued)

2. Business Review (continued)

Key Performance Indicators (continued)

d) Customer Minutes Lost

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

e) Customer Interruptions – number per 100 customers

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

3. Results and Dividends

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

4. Directors

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

Gregor Alexander
Colin Hood
Steven Kennedy
Mark Mathieson

5. Political and Charitable Donations

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

6. Employment Policies

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

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

7. Supplier Payment Policy

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

Scottish Hydro Electric Power Distribution plc


Report of the Directors (continued)

8. Auditors

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

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

ON BEHALF OF THE BOARD



Lilian Manderson
Company Secretary
24 July 2009

Scottish Hydro Electric Power Distribution plc

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

The Directors are responsible for preparing the Accounts and the Regulatory Accounts in accordance with applicable law and regulations. Standard Licence Condition 44 of the Distribution Licence requires the Directors to prepare Regulatory Accounts, for each regulatory year, which present fairly the assets, liabilities, reserves and provisions of, or reasonably attributable to the Company and of revenues, costs and cash flows of, or reasonably attributable to, the Company for that period. In preparing the Regulatory 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the Regulatory Accounts on a 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 which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985 and Standard Licence Condition 44 as applicable. They are also responsible for the system of internal control, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Scottish Hydro Electric Power Distribution plc

**Profit and Loss Account
for the year ended 31 March 2009**

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

The above results are derived from continuing activities.

The accompanying notes are an integral part of these Accounts.

Scottish Hydro Electric Power Distribution plc

Balance Sheet
as at 31 March 2009

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

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


Gregor Alexander, Director

Scottish Hydro Electric Power Distribution plc

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

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

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

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

Scottish Hydro Electric Power Distribution plc

Notes on the Accounts for the year ended 31 March 2009

1. Significant accounting policies

Basis of preparation

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

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

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

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

Turnover

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

Research and development

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

Taxation

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

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

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

Scottish Hydro Electric Power Distribution plc

Notes on the Accounts for the year ended 31 March 2009

1. Significant accounting policies (continued)

Tangible fixed assets

(i) Depreciation

Heritable and freehold land is not depreciated.

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

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

(ii) Subsequent expenditure

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

Stocks and work in progress

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

Scottish Hydro Electric Power Distribution plc

Notes on the Accounts for the year ended 31 March 2009

1. Significant accounting policies (continued)

Employee benefit obligations

Pensions

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

Equity and equity-related compensation benefits

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

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

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

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

Dividends on shares presented within shareholders' funds

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

