

Southern Electric Power Distribution plc

Directors report and financial statements

Year ended 31 March 2017

Registered No.: 04094290

Southern Electric Power Distribution plc

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Southern Electric Power Distribution plc

Directors and Other Information

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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 2017, 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 over 3.1 million customers in the South of England. It currently has around 78,000 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 allowed capital and 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 is currently in RIIO-ED1 (Revenue = Incentives + Innovation + Outputs) Price Control period which runs for eight years from 1 April 2015 until 31 March 2023.

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;
- engage constructively with the regulator, Ofgem, to secure regulatory outcomes that meet the needs of customers and investors; and
- engage with the wider networks industry and other stakeholders to define and implement the process of distribution companies moving to a Distribution System Operator (DSO) role.

Business performance overview

The key performance indicators of the Company and the related performance during the year to 31 March 2017 were as follows (comparisons with the same period to 31 March 2016):

	2017	2016	% change
Financial / Operational			
Capital expenditure - £m	251.6	247.9	1.5
Operating profit - £m	281.6	239.5	17.6
Regulated asset value (RAV) - £bn	2.2	2.2	-
Non Financial / Management			
Customer minutes lost - number per customer	43	41	4.9
Customer interruptions - number per 100 customers	48	47	2.1
Electricity distributed - TWh	31.6	31.6	-

The increase in operating profit is primarily due to an increase in regulated revenue, primarily driven by receipt of income due from the under recovery of revenue in 2014/15 of £27.2m and higher DPCR4 losses incentive income received in the year than was received in 2014/15. This was partially offset by an increase in depreciation and operating costs.

If in any year, regulated network companies' revenue is greater (over recovery) or lower (under recovery) than is allowed under the ED1 Price Control, the difference is carried forward and the subsequent prices the companies may charge are adjusted. Under the regulatory framework, distribution tariffs are set two years in advance which means the over/under recovery built

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Strategic Report (continued)

Business performance overview (continued)

into tariffs is a forecast and will differ from the actual outturn. Any difference is reflected in tariffs two years later meaning any difference in the 2016/17 forecast compared to actual will be fully unwound through revenue by 2021, making this in essence a four year cycle. In 2016/17 there was an over recovery of approximately £7.3m.

During the year, the Company's Customer Minutes Lost increased to 43 minutes per customer and Customer Interruptions increased to 48 per 100 customers. Despite this small rise in both CI and CML metrics, the Company continues to outperform the pre-determined targets set by Ofgem, see the 'Keeping the lights on' section for more details.

Volume of electricity distributed

The total volume of electricity distributed by the Company during 2016/17 was 31.6TWh, compared with 31.6TWh 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 £251.6m in the year to 31 March 2017, the second year of the RIIO-ED1 price control, and was higher than in 2015/16. This is due to a prioritisation on investment in our network, in line with our business plan, during 2016/17 as opposed to a focus on the restructuring of the business during 2015/16.

The range of capital expenditure includes asset replacement and major refurbishment of key infrastructure assets as well as ongoing investment in rural assets. For example, the Company completed the installation of 13km of new underground cable between Cirencester and Fairford as part of its £4.4m project to upgrade and improve the reliability of local electricity supplies in the Swindon area. In addition to making the local electricity infrastructure more robust and minimising the risk of power cuts, the project brings a third benefit to the local area, as it has increased the capacity of the network.

Delivering for customers

Now in the second year of the RIIO-ED1 price control, the Company continues to adapt to the regulatory framework and has delivered significant changes to its operations, processes and standards to ensure the needs of its customers remain at the forefront of decision making.

The outcomes of the incentive based framework within which the Company operates are increasingly dependent on customer opinion and feedback. Financial performance is reflected against: the Interruption Incentive Scheme; Ofgem Customer Satisfaction Measures; Incentive in Connections Engagement; Complaints Performance and Stakeholder Engagement and Customer Vulnerability.

By making the concerted effort to focus on its people and its processes, through an ongoing Business Transformation programme, the Company has made significant changes to ensure it is meeting its customers' needs and delivering against the measures as set by the RIIO-ED1 price control. This has ensured it is able to deliver outputs aligned to the expectations of its customers, stakeholders and the regulator while delivering a fair financial return to investors.

Keeping the lights on

As part of RIIO-ED1, the Company is incentivised on its performance against the loss of electricity supply through the recording of Customer Interruptions (CI) and Customers Minutes Lost (CML), which include both planned and unplanned supply interruptions.

During 2016/17, Customer Interruptions rose to 48 (2015/16: 47) per 100 customers. Customer Minutes Lost rose to 43 minutes (2015/16: 41) per customer.

Despite an increase in extra-high voltage (EHV) faults in the licence area, performance improved in the high voltage (HV) and low voltage (LV) networks reflecting an increased investment in automation schemes and the implementation of improved business processes prioritising customer restoration.

Southern Electric Power Distribution plc

Strategic Report (continued)

Keeping the lights on (continued)

The Company's commitment to providing a safe and secure electricity supply and to minimise unplanned interruptions requires a continuous programme of investment in the network. During 2016/17, the Company's programme of network investment included reinforcements, upgrades to automation and tree cutting. The success of the programme is providing an improved service for customers as well as a fair return for the Company through the incentive mechanism.

The regional operations model, now in its second year, continues to deliver benefits in operational efficiency and in the improved service the Company provides to its customers and communities. This includes faster response times thanks to a focus on speed of fault restoration and targeting investment in key circuits to improve network reliability.

As a result, the Company expects to earn £13.0m (2015/16: £16.0m) in additional incentive revenue from the Interruptions Incentive Scheme (IIS).

Adopting a clear and distinctive identity and increasing customer satisfaction

In September 2016, SSE's three electricity networks businesses, which includes the Company and its sister companies Scottish Hydro Electric Power Distribution plc (SHEPD) and Scottish Hydro Electric Transmission plc (SHET), adopted a common trading name as Scottish and Southern Electricity Networks (SSEN). This new name and an accompanying rebranding process were developed following extensive engagement with customers, employees and other stakeholders.

This change responds to the operating environment under the RIIO Price Controls which incentivises all network operators to engage effectively with their customers and stakeholders in developing and implementing their business plans. SSEN believes that adopting a clearer, simpler and more distinctive identity will help to deliver improved accountability to the communities it serves, supporting its performance against key incentives.

In 2016/17, the Company has made significant improvements to its customer service processes and in the way it engages and communicates with its customers. This has increased customer awareness of the Company and has helped to improve broad measure incentive performance.

By improving customer contact experience, including the use of proactive outbound calls, performance against the RIIO-ED1 customer satisfaction measure increased significantly, to £1.2m (2015/16: £0.2m). Complaints performance also rose, with the Company resolving 76% of complaints within 24 hours (2015/16: 64%) and 98% within 31 days (2015/16: 95%), resulting in no incentive penalty (potential penalty is £2.1m). This improved performance will feed into the Company's regulated income in 2018/19.

Ahead of winter 2016/17, SSEN delivered an awareness campaign, including advertising on TV, radio and digital outputs. The campaign promoted the new national single emergency power cut number 105; what to do during a storm; and to promote the services it provides for customers, including those who may need extra help through SSEN's Priority Service Register. This was followed up by a customer communication delivered to all customers in the distribution area in January 2017. As well as driving a general increase in awareness of SSEN, these measures have resulted in a three-fold increase in sign-ups to SSEN's Priority Service Register.

Protecting vulnerable customers

The Company delivered a number of initiatives in 2016/17 to help protect its most vulnerable customers

In November 2016, SSEN became the first network operator to meet the requirements of the British Standard Inclusive Service Provision (ISP) BS18477:2010 for two years in a row. The achievement outlines the critical procedures to ensure inclusive services are available and accessible to all customers equally, regardless of their personal circumstances.

In 2016/17, SSEN created a vulnerability mapping portal, which provides detailed demographic information about its communities. The bespoke tool allows SSEN to make informed decisions about assistance during power cuts, planned supply interruptions and where to promote its Priority Service Register..

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Strategic Report (continued)

Protecting vulnerable customers (continued)

The Company has established a £285,000 Resilient Communities Fund across central southern England, with up to £20,000 available to charities and local groups who wish to undertake a resilience project to help protect their communities in the event of an emergency

Building on the success of previous rounds of funding, the Company is looking to continue its work in helping communities most at risk on the rare occasions there is a prolonged powercut, for during a storm or similar weather-related emergency.

Preparing for a new, flexible energy system

In their joint Call for Evidence in November 2016, BEIS and Ofgem put forward their view on the transition from the traditional Distribution Network Operator model to a prominent Distributed System Operator (DSO) role. The Company believes this transition will meet the needs of a flexible and de-carbonised electricity system, serving to protect customers' interests whilst ensuring the network remains resilient and affordable.

Work is undertaken jointly with our sister Company SHEPD. During 2016/17, these joint innovation projects provided some significant findings, which will ultimately inform this transition:

- The New Thames Valley Vision project explored a number of innovative methods, including network monitoring, battery storage and thermal storage. This was done to anticipate and manage the growth of new technologies connecting to the electricity network, including electric vehicles, heat pumps and solar panels. Its findings detail how network reinforcement can be avoided by the use of smart technologies, such as Active Network Management.
- Following the My Electric Avenue project, which identified the impact of electric vehicles on the electricity network; a new project has been launched from the findings – Smart EV. The aim of the project is to create and collaborate with other DNOs, National Grid, DECC and Ofgem on an industry-accepted solution for managing future EV charging, in the form of an Engineering Recommendation. This will help DNOs protect the LV network and allow EVs to connect to networks.

These innovation projects are designed to help anticipate and prepare the electricity network operators for future energy scenarios. The Company continues to deploy technologies, such as Constrained Managed Zones and LiDAR technology, at a business-as-usual level to develop a system that is transparent, reliable and affordable.

The Company will continue to engage with industry, policy-makers and the regulator in support of a phased approach to the DSO transition whereby impacts can be carefully reviewed and the best interests of customers maintained.

Electricity Distribution priorities

The Company's priorities in the 2017/18 and beyond are to:

- operate safely and meet all compliance requirements;
- provide an excellent service to all customers who rely on their networks and related services;
- deliver required outputs while maintaining tight controls over expenditure;
- maintain good progress in the safe delivery of new assets;
- progress innovations that will improve network reliability, efficiency and customer service and inform industry-wide improvements;
- develop and maintain effective stakeholder relationships and conduct constructive engagement with regulators and legislators, advocating clarity and stability in the regulatory framework and
- progress the transition towards operating in a DSO environment.

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:

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Strategic Report (continued)

Values and responsibilities (continued)

- 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 see the Risk Management Frameworks section 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 Management Committee 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, the main 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:

- **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 and priority for the Group and Company. There is a Safety Management System in place to support people at work and ensure their safety and significant focus on both technical and behavioural safety training. 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 to the Company on the interpretation of political and regulatory change. In addition there is proactive engagement with regulators, politicians, officials and other stakeholders on these issues.
- **Network Resilience & Integrity** – The Company has an obligation to maintain and enhance its network and ensure its resilience. A robust asset management and quality assurance process is in place to ensure that equipment is of the correct standard and specification to provide a safe, efficient and reliable network now and in the future. The impact of adverse weather 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 these 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 and regulatory change. 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 and people, delivering major cost efficiencies, new IT systems 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

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Strategic Report (continued)

Understanding and managing our principal risks (continued)

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.

- **Supply Chain & Contractor Performance** – 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 procurement and 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.
- **Price Control Governance and Management** – 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 Totex project milestones and output measures, ensuring data quality and accuracy, 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.
- **Cyber Security** - With the increased incidence of cyber attacks over recent years there is a risk to the Company's key systems and, as a result, the network could be compromised or rendered unavailable. To mitigate this risk, the Group and Company are investing in a long term security programme including liaising with relevant external stakeholders and ensuring staff awareness of IT security issues and their importance.
- **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.

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.

Rewarding employee contribution

Performance management is undertaken comprehensively throughout the Group. Its objective is to create a framework for continuous feedback and improvement in line with business goals. Above all, this approach is designed to ensure the safe operation of the Group's businesses and the reliable provision of service to customers. 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, Excellence, Sustainability, Efficiency, and Teamwork.

Southern Electric Power Distribution plc

Strategic Report (continued)

Rewarding employee contribution (continued)

The opportunity to grow and develop a career has the greatest impact on employee commitment but it is also understood that employee benefits make an important contribution to both employee engagement and the attractiveness of SSE as a place to choose to work.

- **Employee benefits:** a significantly enhanced package of employee benefits was established in 2016/17. A more flexible and family friendly package includes significant improvement to parental benefits, more flexibility for unexpected situations and a new 'gradual return to work' offer for returning mothers. This package has been deliberately designed to reflect modern lives and support the Group's efforts to become a more inclusive and diverse organisation. There has also been a strong focus on delivering additional health related benefits to support employee wellbeing.
- **Sharing success:** the Group actively encourages its employees to own SSE shares, offering both an employee Share Incentive Plan (SIP) and a Sharesave scheme, with participation rates at 73% and 41% respectively.
- **The Group pension schemes:** the Group has taken measures to help employees plan and save for their financial future and has proactively enrolled new employees onto its pension schemes since 2005. 97% of the Group's employees in 2016/17 chose to save for their future through one of the Group's pension schemes. Recent supplier negotiations have improved the value that employees get from these schemes, with affinity benefits and reduced management charges.

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 has undertaken an annual survey of employee opinion for many years. A review of the survey in 2016/17 considered feedback and decided to adjust the frequency of the survey every two years to allow sufficient time to understand, plan and report back on progress with action plans to all employees. An employee opinion survey has been run in early summer of 2017. The objective of the new survey is to gather instructive data on the Group's and the Company's business culture, as well as gather signals on issues such as inclusiveness, engagement and strategy.

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.

At a time in which the energy networks must be more responsive to stakeholder and customer needs, in March 2016, SSEN established an independent Stakeholder Advisory Panel. With membership from charities and external industry bodies, it works alongside the Board to help scrutinise key areas of business performance, the commitments made under the RIIO-ED1 price control and future plans. The Panel consists of a Chair and six members, recruited to reflect a broad range of external interests, skills, knowledge and experiences. Through its work, the panel brings stakeholder insight and challenge to SSEN's decision-making and long-term direction at the highest level, helping to drive improvement in key processes and outcomes for customers.

Internal control

The Group's Board performs a review of the effectiveness of the system of internal control annually across the Group.

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.

Southern Electric Power Distribution plc

Strategic Report (continued)

Internal control (continued)

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 and Company have been collaborating with stakeholders to understand the impacts of carbon reduction ambitions on the resilience of its business. From the scenario analysis it was found the Company's assets in distribution were found to be vital to the UK's electricity system over the long term. The important conclusion from the review was that the long term viability of the Company's existing portfolio of assets is secure in every scenario it assessed.

While the Company plays its part to mitigate climate change, it must also adapt its business to the impacts of rising global temperatures. Extreme weather events are a material climate adaptation risk that impacts the resilience of the Company's distribution network. As a result the Company has invested in maintenance and emergency response solutions. This includes new technology that identifies faults on lines; tree cutting along networks; resilience funds for local communities to support climate adaptation initiatives; and emergency response procedures to ensure the lights are kept on.

More information on the Group's approach to managing our environmental impact is contained in the 2016/17 Annual Report, on page 18 at www.sse.com.

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.

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Strategic Report (continued)

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 2017 which could be made available to the Company as required. During the year the Group extended its existing £1.5bn revolving credit and bilateral facilities by invoking the one year extension options with the facilities now maturing in August 2021 (£1.3bn) and November 2021 (£0.2bn). As at 31 March 2017, they were undrawn.

The Company has 2,542 employees which it calls on to maintain its distribution network and carry out investment in future developments. The Company also draws upon Group 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.

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 directors believe that Group and Company both continue to maintain one of the strongest balance sheets in the global utility sector. The directors consider that 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, cash from operations is first used to finance maintenance capital expenditure and then dividend payments, with further growth in capital expenditure and investment generally financed by a combination of cash from operations, bank borrowings and bond issuance.

The Company's financial risk is managed as part of the wider Group risk management policy. For more information regarding financial risk management, please see page 176 of the Group's 2017 Annual Report at www.sse.com.

Liquidity

The Group's Treasury function acts on behalf of the Company and is responsible for managing the banking and liquidity requirements of the Group, 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.

Borrowings and facilities

The Company has loans of £1,196.4m (2016 – £1,193.7m) of which £400.0m (2016 – £400.0m) is due to other Group companies. Of the total, interest is paid at fixed rates on £1,074.0m (2016 – £1,074.0m). The remaining loan amounts to £122.4m (2016 – £119.7m) and is an index-linked bond.

As at 31 March 2017, the weighted average interest rate payable was 4.74% (2016 – 4.74%) and the weighted average remaining term was 14.60 years (2016 – 15.57 years).

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Strategic Report (continued)

Taxation

The Company's effective current tax rate is 17.2% compared with 18.6% 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 15.7% compared with 9.8% in the previous year.

Dividend

Following a review of distributable reserves, the Directors declared, approved, and paid a dividend of £100m (2016 – £200m).

Pensions

25% (2016 - 25%) of employees of the Company are members of the Southern Electric Pension Scheme, which, at 31 March 2017, had a deficit included in the Group Financial Statements, net of deferred tax, of £377.6m (2016 – £331.9m) on an IAS 19 basis.

On behalf of the board



Gregor Alexander
Director
19 July 2017

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 and has not voluntarily applied the UK Corporate Governance Code. The information below, therefore, is in relation to the Group only and is included solely for information.

The Group's corporate governance policies are described in the Group's Annual Report and Accounts 2017 under Governance on pages 54 to 100 available at www.sse.com.

The Board of the Group considers that it complied in full with the UK Corporate Governance Code 2014 during 2016/17, with the exception of the provision C3.7 that the external audit contract be put out to tender at least every ten years. This remains unchanged from last year and a full explanation of the Group's reasons for non-compliance, including details of the timeline to address the position are set out in the Audit Committee Report on page 74 of the Group's annual report to 31 March 2017.

SSE plc Group ("the Group")

The Group has a responsibility to meet its objectives and operate sustainably for the benefit of all of its stakeholders, which includes upholding the commitments it has made to its shareholders and customers through its financial objective and core purpose. It is the role of the Board to ensure that these are achieved, and this is supported primarily through setting the Group's longer term strategy, providing the leadership and support necessary to ensure that it can be delivered responsibly within accepted levels of risk. Implementation and delivery of this strategy is managed through the careful delegation of authority in line with the Corporate Governance Framework, with oversight being retained through regular reporting, which includes an ongoing dialogue between the Board, the Executive Committee, their respective sub-Committees and other key individuals within the business.

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.

Each year the Group describes how it has applied the Main Principles of the UK Corporate Governance Code and in line with its 'comply or explain' model details any departures from its specific provisions. A departure is only ever made when it is deemed appropriate to do so, and good governance can be achieved by other means.

For 2016/17 the Board is reporting against the 2014 version of the Code and confirm compliance with its provisions with the exception of provision C3.7 explained above.

There are four principal Board committees; an Audit Committee, a Remuneration Committee, a Safety, Health and Environment Advisory Committee and a Nomination Committee. The details of the appointees and work undertaken by these committees are included in the published annual report of the Group, which is available at www.sse.com.

The composition of the Board has remained unchanged during the reporting year. 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 eight 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 independent 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 2016/17, 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	7 of 8
Stuart Hogarth	6 of 8
David Gardner	7 of 8
Colin Nicol	7 of 8
Robert McDonald	7 of 8
Dale Cargill	8 of 8
Rachel McEwen	8 of 8
David Rutherford (Non-Executive Director)	7 of 8
Gary Steel (Non-Executive Director)	8 of 8

Board evaluation

In 2015/16 the effectiveness of the Board was assessed internally through a formal and rigorous external evaluation process, the results of which were used to develop actions and agree areas for improvement in 2016/17. For this reporting year an internal evaluation was conducted, and was specifically designed to allow any progress made throughout the year to be measured. As well as confirming the areas in which the Board has performed well, or in which improvements have been made, the evaluation identified areas of focus for 2017/18.

Director induction, training and development

On joining the Board, all non-Executive Directors receive an induction tailored to their individual requirements. The comprehensive programme is facilitated by the Chairman and Company Secretary and involves briefings and meetings with key individuals from each business area and supporting Group functions. During the induction programme each Director is invited to identify areas in which they would like additional meetings or further information.

Throughout the reporting year the Directors develop and refresh their knowledge through various training sessions and a number of internally and externally facilitated engagements, with individual development needs being reviewed as part of the annual Board evaluation process. Directors are encouraged to request additional information and support at any time as required, with the necessary resources being made available to them.

Southern Electric Power Distribution plc

Corporate Governance Statement (continued)

Southern Electric Power Distribution plc ("The Company") (continued)

Going Concern

The Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. In making their assessment, the Directors have considered future cash flows, the level of headroom on long-term loans and bonds and the financial support available from the Group. The Financial Statements are therefore prepared on a going concern basis.

Viability Statement

The Board has voluntarily carried out an assessment of the longer term viability of the Company consistent with the assessment and governance approach undertaken at Group level by SSE plc.

In doing so, the Board has assessed the prospects of the Company over the next 3 financial years to 31st March 2020. The Directors have determined that as this time horizon aligns with the Company's strategy planning period and committed networks resilience projects, a reasonable degree of confidence over the forecasting assumptions modelled can be established.

This statement is included solely for information.

In making this statement the Directors have considered the resilience of the Company taking into account its current position, the Principal Risks it faces and the control measures in place to mitigate each of them. In particular the Directors recognise the significance of the Company's regulated revenue stream, strong balance sheet and access to available resources including the SSE Group's committed lending facilities of £1.5bn.

To support this statement, stress testing of scenarios relating to each of the Principal Risks facing the Company has been undertaken. Examples include failure to meet regulatory reporting deadlines (for Statutory and Regulatory Compliance) and failure to implement key system upgrades (for Networks Change Transformation).

Upon the basis of the analysis undertaken, the Directors have a reasonable expectation that the Company will be able to continue to meet its liabilities as they fall due in the period to 31st March 2020.

Southern Electric Power Distribution plc

Directors' Report

The Directors present their report together with the audited Financial Statements for the year ended 31 March 2017.

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 3.1 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 £185.2m (2016 – £178.7m). A final dividend of £100.0m (2016 – £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
19 July 2017

Southern Electric Power Distribution plc

Statement of Directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

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

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the 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 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
19 July 2017

Independent Auditor's Report to the Members of Southern Electric Power Distribution plc

We have audited the financial statements of Southern Electric Power Distribution plc for the year ended 31 March 2017 set out on pages 18 to 32. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 16, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



Gordon Herbertson (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
319 St Vincent Street
Glasgow
G2 5AS

19 July 2017

Southern Electric Power Distribution plc

Profit and Loss Account for the year ended 31 March 2017

	Note	2017 £m	2016 £m
Turnover		690.1	623.8
Cost of sales		(19.6)	(24.9)
Gross profit		670.5	598.9
Distribution costs		(358.0)	(326.1)
Administrative costs		(30.9)	(33.3)
Operating profit	2	281.6	239.5
Interest receivable and similar income	4	1.6	21.8
Interest payable and similar charges	5	(63.4)	(63.1)
Profit before taxation		219.8	198.2
Tax on profit	6	(34.6)	(19.5)
Profit for the financial year		185.2	178.7

Continuing operations

The above results are derived from continuing activities.

The accompanying notes are an integral part of these 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 2017

	Note	2017 £m	2016 £m
Fixed assets			
Tangible fixed assets	8	2,815.4	2,726.9
Intangible assets	9	24.6	15.2
Fixed asset investments	10	-	1.2
		<u>2,840.0</u>	<u>2,743.3</u>
Current assets			
Stocks	11	-	0.1
Debtors	12	82.3	78.8
Cash at bank and in hand	13	8.2	12.9
Total current assets		<u>90.5</u>	<u>91.8</u>
Current liabilities			
Creditors: amounts falling due within one year	14	(283.6)	(247.8)
Net current liabilities		<u>(193.1)</u>	<u>(156.0)</u>
Total assets less current liabilities		<u>2,646.9</u>	<u>2,587.3</u>
Creditors: amounts falling due after more than one year	15	(1,552.6)	(1,576.6)
Deferred taxation	17	(174.3)	(177.5)
Net assets		<u>920.0</u>	<u>833.2</u>
Capital and reserves			
Called up share capital	18	7.9	7.9
Profit and loss account		912.1	825.3
Equity Shareholders' funds		<u>920.0</u>	<u>833.2</u>

These financial statements were approved by the Directors on 19 July 2017 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 2017

	Share capital £m	Retained earnings £m	Total equity £m
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
Balance at 1 April 2016	7.9	825.3	833.2
Profit for the financial year	-	185.2	185.2
Dividends paid (note 7)	-	(100.0)	(100.0)
Credit in respect of employee share schemes	-	1.6	1.6
Balance at 31 March 2017	7.9	912.1	920.0

Southern Electric Power Distribution plc

Cash Flow Statement for the year ended 31 March 2017

	Note	2017 £m	2016 £m
Cash flows from operating activities			
Profit for the year		185.2	178.7
Add back: taxation		34.6	19.5
Add back: net finance costs		61.8	41.3
Operating profit		281.6	239.5
Depreciation on tangible fixed assets		163.1	154.4
Amortisation of intangible assets		2.8	0.3
Customer contributions and capital grants released		(10.0)	(9.9)
Decrease in stock		-	0.1
(Increase)/decrease in debtors		(1.4)	5.2
(Decrease)/increase in creditors		(23.3)	10.7
Movement in intercompany		40.4	121.6
Charge in respect of employee share awards		1.6	0.9
Net cash inflow from operating activities		454.8	522.8
Interest received		1.5	22.8
Interest paid		(60.5)	(61.3)
Returns on investments and servicing of finance		(59.0)	(38.5)
Corporation tax paid		(36.1)	(40.1)
Taxation		(36.1)	(40.1)
Purchase of tangible fixed assets		(252.2)	(236.0)
Expenditure on intangible assets		(12.2)	(12.6)
Capital expenditure and financial investment		(264.4)	(248.6)
Equity dividends paid	7	(100.0)	(200.0)
Net cash outflow before management of liquid resources and financing		(4.7)	(4.4)
Reconciliation of net cash flow to movement in net funds			
Decrease in cash in the year		(4.7)	(4.4)
Net funds at start of the year		12.9	17.3
Net funds at end of the year		8.2	12.9

Southern Electric Power Distribution plc

Notes on the Financial statements for the year ended 31 March 2017

1 Significant accounting policies

The Company is a public company incorporated, domiciled, and registered, in England. Its registration number is 04094290, and registered office is 55 Vastern Road, Reading, Berkshire, RG1 8BU.

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

Basis of preparation

The 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 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 these 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;
- Related party disclosures; and
- Comparative period reconciliations for tangible fixed assets, intangible assets and share capital.

As the consolidated 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 financial statements.

During the year, the Group and Company reviewed the presentation of information in the financial statements in order to improve the clarity, relevance and understandability of the statements. This review resulted in the removal of employee share based payments disclosures on the basis of materiality.

The accounts have been prepared on a going concern basis. See the Corporate Governance Statement at page 14 for details of the directors' assessment that the Company has adequate resources for the foreseeable future.

Turnover

Turnover from use of electricity networks is derived from the allowed revenue as defined by the parameters in the distribution licence regulations, which informs the tariffs we set. Revenue recognised is based on the volume of electricity distributed and the set customer tariff. Where this revenue differs from the allowed revenue, there may be an over- or under-recovery of revenue which will be reflected in future financial year's allowed revenue as set out in the regulatory licence and relevant industry codes. No accounting adjustment is made for over- or under-recoveries in the year that they arise. 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.

Southern Electric Power Distribution plc

Notes on the Financial statements (continued) for the year ended 31 March 2017

1 Significant accounting policies (continued)

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.

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 in the month following expenditure. All additions to tangible fixed assets are depreciated from the month after the expenditure has been incurred. This is a refinement to the previous depreciation policy whereby assets were transferred to the relevant category at the end of the financial year and were depreciated from the financial year after the expenditure was incurred. The financial impact of this is an increase in the depreciation charge for the current year of £2.5m. Considering a similar level and mix of capex, this would have a similar monetary impact in future years. In conjunction with this refinement, a review of asset lives was conducted and appropriate adjustments made.

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.

Southern Electric Power Distribution plc

Notes on the Financial statements (continued)⁰ for the year ended 31 March 2017

1 Significant accounting policies (continued)

Tangible fixed assets (continued)

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.

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.

Southern Electric Power Distribution plc

Notes on the Financial statements (continued) for the year ended 31 March 2017

1 Significant accounting policies (continued)

Recognition of profits on contracts

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

2 Expenses and auditor's remuneration

Operating profit is arrived at after charging/(crediting):	2017 £m	2016 £m
Depreciation of tangible fixed assets	163.1	154.4
Amortisation of intangible assets	2.8	0.3
Operating lease rentals - Other	8.6	8.1
Release of deferred income in relation to customer contributions and capital grants	(10.0)	(9.9)
Net management fees in respect of services provided by group companies	27.2	27.6
Research costs	2.0	2.3

The Company incurred an audit fee of £0.1m (2016: £0.1m) and audit-related assurance service fees of £0.03m (2016: £0.03m) in the year.

3 Staff costs and numbers

	2017 £m	2016 £m
Staff costs:		
Wages and salaries	92.7	86.2
Social security costs	10.0	8.5
Share based remuneration	1.6	0.9
Pension costs	42.0	44.9
	146.3	140.5
Less charged as capital expenditure	(39.8)	(43.7)
	106.5	96.8

Included within the above is a Share-based payment charge of £1,579,410 (2016: £926,825).

Employee numbers

	2017 Number	2016 Number
Numbers employed at 31 March	2,542	2,371

	2017 Number	2016 Number
The monthly average number of people employed by the Company during the year	2,547	2,313

	2017 £m	2016 £m
Directors remuneration	0.3	0.3

The aggregate of remuneration of the highest paid director was £0.3m (2016: £0.3m).

	Number of directors	
	2017	2016
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	1	1

Southern Electric Power Distribution plc

Notes on the Financial statements (continued)
for the year ended 31 March 2017

4 Interest receivable and similar income

	2017 £m	2016 £m
Other interest receivable	1.6	21.8

5 Interest payable and similar charges

	2017 £m	2016 £m
Interest payable to group companies	20.7	21.9
Bank loans and overdrafts	42.8	41.0
Foreign exchange translation of monetary assets and liabilities	0.1	0.6
Other financing charges	0.2	-
Interest capitalised	(0.4)	(0.4)
	<u>63.4</u>	<u>63.1</u>

6 Taxation

	2017 £m	2016 £m
UK corporation tax		
Current tax on income for the period	39.6	37.6
Adjustment in respect of prior periods	(1.8)	(0.8)
Total current tax charge	<u>37.8</u>	<u>36.8</u>
Deferred tax (see note 17):		
Origination and reversal of temporary differences	4.6	2.3
Adjustment in respect of prior periods	2.5	0.1
Effect of change in tax rate	(10.3)	(19.7)
Total deferred tax	<u>(3.2)</u>	<u>(17.3)</u>
Total tax on profit	<u>34.6</u>	<u>19.5</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:

	2017 £m	2016 £m
Profit before taxation	<u>219.8</u>	<u>198.2</u>
Tax on profit at standard UK corporation tax rate of 20% (2016: 20%)	44.0	39.6
Effects of:		
Adjustment in respect of previous periods	0.7	(0.7)
Expenses not deductible for tax purposes	0.2	0.3
Effect of change in tax rate on deferred tax	(10.3)	(19.7)
Total tax charge for year	<u>34.6</u>	<u>19.5</u>

Legislation to reduce the corporation tax rate from 20% to 19% from 1 April 2017 and to 18% from 1 April 2020 was substantively enacted on 26 October 2015. As these changes were substantively enacted at 31 March 2016, deferred tax at that date was calculated accordingly. Legislation was substantively enacted on 15 September 2016 to further reduce the corporation tax rate to 17% from 1 April 2020. As this change has been substantively enacted at the balance sheet date, deferred tax has been calculated accordingly and has had the effect of reducing the company's deferred tax liability at 31 March 2017 by £10.3m.

Southern Electric Power Distribution plc

Notes on the Financial statements (continued)
for the year ended 31 March 2017

7 Dividends

	2017 £m	2016 £m
Amounts recognised as distributions from equity:		
Final dividend of 1,273.9p (2016: 2,547.8p) per share	<u>100.0</u>	<u>200.0</u>

The final dividend for the current year, £100.0m (2016: £200m), was declared and approved on 23 February 2017 and was paid to shareholders on 31 March 2017. The final dividend for the previous year was approved on 17 June 2015 and paid to shareholders on 30 June 2015.

8 Tangible fixed assets

	Network assets £m	Assets under the course of construction (AUC) £m	Land £m	Vehicles and miscellaneous equipment £m	Total £m
Cost:					
At 1 April 2016	4,649.1	12.0	1.7	119.1	4,781.9
Additions	46.1	205.5	-	-	251.6
Transfers from AUC to fully commissioned	190.5	(204.4)	-	13.9	-
Transfers between categories	(3.2)	-	-	3.2	-
At 31 March 2017	<u>4,882.5</u>	<u>13.1</u>	<u>1.7</u>	<u>136.2</u>	<u>5,033.5</u>
Depreciation:					
At 1 April 2016	(1,969.6)	-	-	(85.4)	(2,055.0)
Charge for the year	(157.3)	-	-	(5.8)	(163.1)
At 31 March 2017	<u>(2,126.9)</u>	<u>-</u>	<u>-</u>	<u>(91.2)</u>	<u>(2,218.1)</u>
Net book value:					
At 31 March 2017	<u>2,755.6</u>	<u>13.1</u>	<u>1.7</u>	<u>45.0</u>	<u>2,815.4</u>
At 31 March 2016	2,679.5	12.0	1.7	33.7	2,726.9

The above tangible fixed assets include £6.3m (2016: £5.9m) of capitalised interest at 31 March 2017, of which £0.4m was capitalised in the current year (2016: £0.4m). 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 £7.2m (2016: £9.6m) relating to assets held under finance lease agreements. The depreciation charged to the financial statements in the year in respect of such assets amount to £2.4m (2016: £2.9m).

Southern Electric Power Distribution plc

Notes on the Financial statements (continued)
for the year ended 31 March 2017

9 Intangible assets

	Intangible assets £m
Cost:	
At 1 April 2016	15.5
Additions	12.2
At 31 March 2017	<u>27.7</u>
Amortisation:	
At 1 April 2016	(0.3)
Charge for the year	(2.8)
At 31 March 2017	<u>(3.1)</u>
Net book value:	
At 31 March 2017	<u>24.6</u>
At 31 March 2016	<u>15.2</u>

10 Fixed asset investments

	Other investments £m
Cost	
At 1 April 2016	1.2
Additions	0.2
At 31 March 2017	<u>1.4</u>
Provisions	
At 1 April 2016	-
Provided in year	(1.4)
At 31 March 2017	<u>(1.4)</u>
Net book value	
At 31 March 2017	<u>-</u>
At 31 March 2016	<u>1.2</u>

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

	2017 £m	2016 £m
Raw materials and consumables	-	0.1

12 Debtors

	2017 £m	2016 £m
Trade debtors	29.5	35.3
Prepayments and accrued income	39.3	32.1
Amounts owed by group undertakings	13.5	11.4
	<u>82.3</u>	<u>78.8</u>

Southern Electric Power Distribution plc

Notes on the Financial statements (continued) for the year ended 31 March 2017

13 Cash at bank and in hand

	2017 £m	2016 £m
Cash at bank and in hand	<u>8.2</u>	<u>12.9</u>

Cash at bank represents amounts received from Distribution Network Operators (DNOs) to fund the Thames Valley Vision (TVV) project, the Solvent Achieving Value from Efficiency (SAVE) project and the Low Energy Automated Networks (LEAN) project which is set up under Ofgem's Low Carbon Network funding arrangements. These bank accounts contain amounts received from Distribution Network Operators (DNOs) in line with annual Ofgem Funding Directions. 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

	2017 £m	2016 £m
Trade creditors	4.7	16.1
Amounts owed to group undertakings	150.0	131.3
Other creditors	27.7	26.1
Corporation tax payable	21.7	20.0
Accruals and deferred income	77.2	52.0
Obligations under finance leases and hire purchase contracts	2.3	2.3
	<u>283.6</u>	<u>247.8</u>

15 Creditors: amounts falling due after more than one year

	2017 £m	2016 £m
Amounts owed to group undertakings	135.9	112.0
Obligations under finance leases and hire purchase contracts	2.1	4.5
Loans and borrowings (note 16)	1,196.4	1,193.7
Accruals and deferred income	218.2	266.4
	<u>1,552.6</u>	<u>1,576.6</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 2017 %	Weighted Average Interest Rate 2016 %	2017 £m	2016 £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	323.8
4.454% Index Linked Bond repayable on 27 February 2044	4.45	4.45	122.4	119.7
4.25% Loan Stock repayable to SSE plc on 31 March 2023	4.25	4.25	400.0	400.0
			<u>1,196.4</u>	<u>1,193.7</u>

Southern Electric Power Distribution plc

Notes on the Financial statements (continued)
for the year ended 31 March 2017

16 Interest bearing loans and borrowings (continued)

(ii) Finance lease liabilities

	Minimum lease payments		Present Value of minimum lease payments	
	2017 £m	2016 £m	2017 £m	2016 £m
Amounts payable				
Within one year	2.6	2.5	2.2	2.3
Between one and five years	2.6	5.2	2.2	4.5
	<u>5.2</u>	<u>7.7</u>	<u>4.4</u>	<u>6.8</u>
Less future finance charge	(0.8)	(0.9)	-	-
Present value of lease obligations	<u>4.4</u>	<u>6.8</u>	<u>4.4</u>	<u>6.8</u>

17 Deferred taxation

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Accelerated capital allowances	-	-	174.3	177.5	174.3	177.5
Net tax liabilities	<u>-</u>	<u>-</u>	<u>174.3</u>	<u>177.5</u>	<u>174.3</u>	<u>177.5</u>

	1 April 2016	Recognised in income	Recognised in equity	31 March 2017
	£m	£m	£m	£m
Movement in deferred tax during the year	<u>177.5</u>	<u>(3.2)</u>	<u>-</u>	<u>174.3</u>
	1 April 2015	Recognised in income	Recognised in equity	31 March 2016
	£m	£m	£m	£m
Movement in deferred tax during prior year	<u>194.8</u>	<u>(17.3)</u>	<u>-</u>	<u>177.5</u>

18 Share Capital

Equity:

Allotted, called up and fully paid:

7,850,000 ordinary shares of £1.00 each

2017 £m	2016 £m
<u>7.9</u>	<u>7.9</u>

19 Pensions

25% (2016: 25%) 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 Life.

Southern Electric Power Distribution plc

Notes on the Financial statements (continued) for the year ended 31 March 2017

19 Pensions (continued)

The Company's share of the total contribution payable to the pension schemes during the year was £15.4m (2016: £16.1m). In addition to this, the Company incurred a further charge, payable to SSE Services plc, of £26.6m (2016: £28.8m), which related to its share of the Scheme's deficit repair contributions for the year ended 31 March 2017.

20 Capital commitments

	2017 £m	2016 £m
Contracted but not provided for	<u>81.2</u>	<u>64.0</u>

21 Operating lease commitments

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

	2017 £m	2016 £m
Operating leases which expire:		
Within one year	9.9	6.7
Between one and five years	21.3	14.5
In more than five years	1.2	0.7
	<u>32.4</u>	<u>21.9</u>

Leases as lessee:

	2017 £m	2016 £m
Amount included in the profit and loss account relating to the current year leasing arrangements	<u>8.6</u>	<u>8.1</u>

22 Net debt

Reconciliation of net cash flow to movement in net debt

	2017 £m	2016 £m
Cash outflow from decrease in cash (i)	(4.7)	(4.4)
Other non-cash movement	(2.7)	(1.4)
Movement in net debt in the year	(7.4)	(5.8)
Net debt at 1 April	(1,180.8)	(1,175.0)
Net funds at 31 March	<u>(1,188.2)</u>	<u>(1,180.8)</u>

Analysis of net debt

	As at 1 April 2016 £m	Decrease in cash (i) £m	Decrease in debt £m	Non-cash movements £m	As at 31 March 2017 £m
Cash at bank and in hand	12.9	(4.7)	-	-	<u>8.2</u>
Net borrowings due within one year	12.9	(4.7)	-	-	8.2
Net borrowings due after more than one year	(1,193.7)	-	-	(2.7)	<u>(1,196.4)</u>
	<u>(1,180.8)</u>	<u>(4.7)</u>	<u>-</u>	<u>(2.7)</u>	<u>(1,188.2)</u>

Southern Electric Power Distribution plc

Notes on the Financial statements (continued) for the year ended 31 March 2017

22 Net debt (continued)

(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) to fund the Thames Valley Vision (TVV) project, the Solvent Achieving Value from Efficiency (SAVE) project and the Low Energy Automated Networks (LEAN) project which is set up under Ofgem's Low Carbon Network funding arrangements (see note 13).

23 Related undertakings

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

Company Name	Relation	Country of incorporation	Registered address (key)	2017 Holding %	2016 Holding %	Principal activity
Electralink Limited	Investment	England and Wales	A	8.79	8.79	Data Transfer Service Operator
Gemserv Limited	Investment	England and Wales	B	2.78	2.78	Market Design, Governance and Assurance Service Provider
DCUSA Limited	Investment	England and Wales	A	1.69	1.69	Billing Framework Operator
MRA Service Company Limited	Investment	England and Wales	B	0.61	0.61	Metering Point Administration Services Operator
Smart Energy Code Company Limited	Investment	England and Wales	B	0.54	0.85	Smart Metering Implementation Management

Registered Address Key

Address

Grafton House, 2-3 Golden Square, London, W1F 9HR
8 Fenchurch Place, London, EC3M 4AJ

Reference

A
B

24 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.