

**SP DISTRIBUTION PLC (formerly SP DISTRIBUTION LIMITED)  
CORPORATE REPORT & REGULATORY ACCOUNTS  
for the year ended 31 March 2014**

Registered No. SC189125

**SP DISTRIBUTION PLC (formerly SP DISTRIBUTION LIMITED)**  
**CORPORATE REPORT & REGULATORY ACCOUNTS**  
for the year ended 31 March 2014

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Some of the statements contained herein are forward looking statements about the company's strategic plans. Although the company believes that the expectations reflected in such statements are reasonable, the statements are not guarantees as to future performance and undue reliance should not be placed on them.

## **SP DISTRIBUTION PLC (formerly SP DISTRIBUTION LIMITED) STRATEGIC REPORT**

The directors present an overview of SP Distribution plc's structure, 2014 performance, strategic objectives and plans.

On 31 October 2013 the company registered as a public company and consequently changed its name from SP Distribution Limited to SP Distribution plc.

### **STRATEGIC OUTLOOK**

The principal activity of SP Distribution plc ("the company"), registered company number SC189125, is the ownership of the electricity distribution network within the Central and Southern Scotland area. The network is used to distribute electricity, which has been transmitted to grid supply points, for electricity supply companies for onward sales to their customers. The company will continue with this activity for the foreseeable future.

The ultimate parent of the company is Iberdrola S.A. ("Iberdrola") which is listed on the Madrid stock exchange and the immediate parent of the company is Scottish Power Energy Networks Holdings Limited ("SPENH"). Scottish Power Limited and its subsidiaries ("ScottishPower"), the United Kingdom ("UK") operations of Iberdrola, operate on divisional lines and the activities of the company fall within the Energy Networks division ("Energy Networks").

Energy Networks owns three regulated electricity network businesses in the UK. The company and fellow subsidiary companies, SP Manweb plc and SP Transmission plc, are the "asset-owner companies" within Energy Networks holding the regulated assets and Electricity Distribution and Transmission licences of ScottishPower and are regulated monopolies. They own and operate the network of cables and power lines transporting electricity to around 3.5 million connected customers in the South of Scotland, Cheshire, Merseyside, North Shropshire and North Wales. In addition, a further unregulated business, SP Power Systems Limited ("SPPS"), provides asset management expertise and conducts the day-to-day operation of the networks.

The asset-owner companies act as an integrated business unit to concentrate expertise on regulatory and investment strategy and SPPS implements work programmes commissioned by and agreed with the asset-owner businesses. Strict commercial disciplines are applied at the asset-owner service provider interface with SPPS operating as a contractor to the distribution and transmission businesses.

The company is a Distribution Network Operator ("DNO"). The electricity distribution networks are regional grids that transport electricity at a lower voltage from the national grids to industrial, commercial and domestic users.

The company is governed by The Office of Gas and Electricity Markets ("Ofgem") via regulatory price controls. The primary objective of regulation of the electricity industry is the promotion of competition, while ensuring that demand can be met and companies are able to finance their activities. However, it is recognised that the development of competitive markets is not appropriate in the distribution of electricity. Regulatory controls are therefore deemed necessary to protect customers and the electricity distribution business is subject to price controls which restrict the average amount, or total amount, charged for a bundle of services.

Distribution licence holders are required, amongst other duties, to develop and maintain an efficient, co-ordinated and economical system of electricity distribution and to offer terms for connection to, and use of, its distribution system on a non-discriminatory basis, in order to ensure competition in the supply and generation of electricity. The company is licensed to distribute electricity within its service area on behalf of all suppliers whose customers are within the area. Charges for distribution are made to various suppliers as appropriate.

To date prices have been controlled according to a five-year formula known as RPI-X. The regulator assesses the costs of an efficient network operator and the likely capital programme in order to calculate the return needed to meet a target return on capital. Various incentives have been added to the formula that also takes account of the Retail Prices Index ("RPI") and any projected efficiency improvements (-X) in order to calculate the permissible revenues for the network.

The RPI-X framework is being replaced by the new RIIO framework (Revenue = Incentives + Innovation + Outputs). RIIO is similar to RPI-X, but there are several important changes. These changes are to be applied over the next price reviews which will introduce regulatory periods of eight years (with a limited revision after four years), using a market index for setting the debt cost, and the introduction for electricity of an asset depreciation period of 45 years, replacing the 20 year period used under RPI-X. Under the RIIO framework, there will be a much greater emphasis on network companies playing a full role in developing a sustainable energy sector and delivering services that provide value for money for customers. A key feature is agreement on the set of outputs that companies will be expected to deliver as part of the framework.

**SP DISTRIBUTION PLC (formerly SP DISTRIBUTION LIMITED)**  
**STRATEGIC REPORT *continued***

**STRATEGIC OUTLOOK *continued***

The company currently operates in accordance with Ofgem Electricity Distribution Price Control Review 5 ("DPCR5"), which applies from 1 April 2010 to 31 March 2015.

The main incentive schemes operated by Ofgem in DPCR5 focus on:

- Efficiency
- Quality of Supply including:
  - number of interruptions to customers' supplies;
  - length of those interruptions;
  - quality of telephone response to customers;
- Network losses;
- Network outputs (e.g. volumes of assets replaced/refurbished, network capacity delivered); and
- Broad measure of customer satisfaction.

Under the first four schemes, the company is rewarded or penalised depending upon its performance against pre-specified targets, which the company believes it will outperform and earn financial rewards in DPCR5. For customer satisfaction the incentive is dependent upon the relative performance against other DNOs.

The key strategies for the company until the end of DPCR5 and beyond are therefore to:

- ensure public safety and the safety of employees;
- deliver improved customer service through more efficient processes, systems and higher first-time resolution;
- deliver value for money to customers through improved security of supply and network performance;
- maximise the financial benefit to be obtained from the available incentives to deliver returns at, or in excess of, allowed regulated returns; and
- achieve investor objectives on sustainable returns on investment.

A new price control within the RII framework will run from 1 April 2015 to 31 March 2023. The company submitted its business plan to Ofgem in March 2014 and the outcome is expected to be announced by Ofgem in November 2014.

**OPERATIONAL PERFORMANCE**

*Business activities*

In accordance with Distribution Licence Condition 44 (Regulatory Accounts) the following details are provided for the prescribed distribution business activities;

	Total	Distribution	Excluded	Metering	De minimis
For the year ended 31 March 2014	£m	(DUOS) £m	services £m	£m	£m
Revenue*	377.3	363.7	-	13.6	-
Procurements*	(15.4)	(15.4)	-	-	-
	<b>361.9</b>	<b>348.3</b>	-	<b>13.6</b>	-
Staff costs*	(0.8)	(0.8)	-	-	-
Outside services*	(87.3)	(68.6)	(11.1)	(6.3)	(1.3)
Other operating income*	26.8	0.8	24.7	-	1.3
	<b>(61.3)</b>	<b>(68.6)</b>	<b>13.6</b>	<b>(6.3)</b>	-
Taxes other than income tax*	(35.7)	(35.7)	-	-	-
	<b>264.9</b>	<b>244.0</b>	<b>13.6</b>	<b>7.3</b>	-
Depreciation and amortisation charges, allowances and provisions*	(97.5)	(68.9)	(14.2)	(14.4)	-
<b>PROFIT/(LOSS) FROM OPERATIONS*</b>	<b>167.4</b>	<b>175.1</b>	<b>(0.6)</b>	<b>(7.1)</b>	-
<b>Property, plant and equipment asset additions**</b>	<b>199.9</b>	<b>149.8</b>	<b>47.3</b>	<b>2.8</b>	-

*These activities are not considered by the company as segments as defined by IFRS 8 'Operating Segments'.*

\* As presented within the income statement on page 20.

\*\* As presented within Note 5 on page 27.

**SP DISTRIBUTION PLC (formerly SP DISTRIBUTION LIMITED)**  
**STRATEGIC REPORT *continued***

**OPERATIONAL PERFORMANCE *continued***

The financial position of the company at the Regulatory year end was satisfactory. The majority of revenue generated by the company is subject to regulation by the Gas and Electricity Markets Authority ("GEMA").

The company's profit from operations was £167.4 million, a decrease of £38.3 million compared to the prior year, and net profit was £127.5 million, a decrease of £25.2 million compared to the prior year.

Revenue and Procurements were broadly in line with prior year.

Outside services have increased primarily as a result of a revised methodology for allocating indirect costs which became effective from 1 January 2013, thus recognising a twelve month impact of £25.0 million in the current year compared to a three month impact in the prior year of £4.3 million.

Other operating income is broadly in line with prior year.

Taxes other than income tax have decreased as a result of a rates refund in 2013, following a resolution of a negotiation with the Scottish Assessors Association on historical property taxes.

Depreciation and amortisation charge, allowances and provisions has increased due to three factors; Firstly, a revision to the estimated useful life of underground cables to 40 years which was effective from 1 January 2013. The impact of this has been a net increase of £6.0 million with a recognition of a twelve month depreciation charge of £14.4 million in the current year, compared to only a three month impact in the prior year of £8.4 million. Secondly, depreciation charges increased by £2.7 million as a result of ongoing capital additions being brought into use in the year, increasing the cost base for depreciation. Lastly, asset write-offs increased by £2.3 million driven by an increase in the volume of modernisation investment.

Net finance costs were higher mainly due to the impact of a full year's interest charge on group loan balance with SPUK compared to three month's charge in the prior year.

The income tax expense has decreased compared with the prior year due to a decrease in profits and the impact of reducing corporation tax rates.

Overall, the directors are satisfied with the level of business and the year-end financial position.

*Net capital investment*

ScottishPower's investment strategy is to drive the growth and development of its regulated businesses through a balanced programme of capital investment.

Net capital investment for the year was £152.6 million (2013 £146.3 million) consisting of fixed asset additions of £199.9 million (2013 £219.0 million) less capital contributions received of £47.3 million (2013 £72.7 million). Property, plant and equipment additions in relation to growth of the network amounted to £62.6 million (2013 £94.1 million) less capital contributions of £47.3 million (2013 £72.7 million). This investment delivers new connections to the distribution network and increases in network capacity. Property, plant and equipment additions in relation to modernisation of the network to maintain safety, security and reliability of supplies, amounted to £137.3 million (2013 £124.9 million). The scale of investment is consistent with the five-year price review period allowed capital expenditure programme.

The tables below provide key non-financial information relating to the company's operational assets and operational performance during the year ended 31 March 2014:

		Year ended 31 March 2014	Year ended 31 March 2013
<b>Operational assets</b>	Note		
Franchise area (km <sup>2</sup> )		22,950	22,950
System maximum demand (MW)	(a)	3,426	3,673
Distributed energy (GWh)		18,943	19,537
Length of overhead lines (circuit km)		19,389	19,478
Length of underground cables (circuit km)		38,588	38,334

(a) System maximum demand values have been finalised with National Grid at 3,673 megawatts ("MW") for the Regulatory year to 31 March 2013. For the Regulatory year to 31 March 2014, system maximum demand is based on the information available at 23 May 2014, and will be finalised with National Grid later in the year.

**SP DISTRIBUTION PLC (formerly SP DISTRIBUTION LIMITED)**  
**STRATEGIC REPORT *continued***

**OPERATIONAL PERFORMANCE *continued***

Ofgem requires all licensees operating electricity distribution systems to report annually on their performance. Statistics remain provisional until they are audited and subsequently published by Ofgem. Consequently, the provisional statistics contained in the table below may differ to the statistics published by Ofgem. The company expects the 2013/14 Electricity Distribution Quality of Service Report to be published online at [www.ofgem.gov.uk](http://www.ofgem.gov.uk) from December 2014.

		Actual Year ended 31 March 2014	Target Year ended 31 March 2014	Actual Year ended 31 March 2013	Target Year ended 31 March 2013
<b>Operational performance</b>	Notes				
<b>Quality of service</b>					
Customer minutes lost ("CML")	(a)	43.8	59.5	45.7	61.5
Customer interruptions ("CI")	(b)	53.1	60.1	51.6	60.1
Average time off supply (minutes)		83	99	89	102
Electricity supply available		99.99%	99.99%	99.99%	99.99%
<b>Customer performance</b>					
Broader customer service measure	(c)	8.3	8.3	7.8	8.3
Energy ombudsman (customer complaints)	(d)	7	-	8	-

- (a) CML is reported as the average number of minutes that a customer is without power during a year due to power cuts which last for three minutes or more.
- (b) CI are reported as the number of customers, per 100 customers, that are affected during the year by power cuts which last three minutes or more.
- (c) The broader customer service measure consists of three components: a customer satisfaction survey, complaints metric and stakeholder engagement. Attached to the measure are financial rewards and penalties related to Distribution Network Operator ("DNO") performance.
- (d) The Energy Ombudsman Services, an independent body, monitors and adjudicates complaint cases.

Underlying CML and CI, quoted in the table above, are key statistics, which measure the reliability and security of supply typically provided to customers. The company is focused on minimising CML and CI to out-perform the System Performance (IIS) targets agreed with Ofgem.

During 2013/14 the supply of energy to customers was disrupted by three major storm events which met Ofgem's 'exceptional event' exclusion criterion; a lightning storm in July 2013, and two wind and gale storms in December 2013. The underlying CML and CI are estimated at 43.8 and 53.1 respectively for year to 31 March 2014. These values will be validated and confirmed by Ofgem in their final direction in relation to the 2013/14 storm events, due to be published in December 2014. During 2012/13 there were two exceptional storm events.

The 'broader customer service measure' combines the results of a detailed customer satisfaction survey, complaints and stakeholder engagement. For the 2013/14 regulatory year there has been an improvement on the previous year's performance; the company was ranked 7th out of 14 DNO's with an overall score of 8.3 out of 10. The mean score for the industry (8.34) sets the threshold for DNO penalty or reward. The penalty for the company's performance is £0.3 million; however this excludes the complaints component, which will not be known until later in 2014.

During the course of the year £15.0 million was invested to refurbish or rebuild the overhead line network. In addition £4.0 million was invested in tree cutting activities. Both of these investments have contributed significantly to improving performance of distribution assets during storms.

The long-term safety and reliability of the company's electricity distribution networks and their impact on customers are key business priorities. Whilst working to improve reliability and restoration, the networks are designed and operated in a way that ensures the safety of the public and employees, with minimal number and duration of supply interruptions.

## **SP DISTRIBUTION PLC (formerly SP DISTRIBUTION LIMITED)** **STRATEGIC REPORT *continued***

### **PROJECTS**

#### *Network growth*

During the year a number of projects were undertaken by the company to facilitate new demand and generation connections and to improve the overall condition, performance and resilience of the distribution network.

Ten major customer-related projects were undertaken by the company to facilitate new demand and generation connections. These projects involved extending the network by approximately 60km of underground cable and adding nine new 33kV substations to the network. The projects included wind farm connections for generation at eight sites; Glaxo Smithkline (Irvine), Barlockhart (Glenluce), Torrance (Bathgate), Blantyre Muir (Hamilton), Calder Water (East Kilbride), Nutberry (Douglas), West Browncastle (East Kilbride) and Carscreugh (Glenluce). Additionally sites at Samsung (Leven) and Hunterston (Largs) were installed as full generation connections: however these sites are utilised as test sites for research into offshore wind turbines.

As well as these major projects the company continues to support local authority and private developers' enquiries through the provision of new electrical connections, network alterations and, in conjunction with key stakeholders, connection of new generation plant to the network.

The company continues to reinforce the electricity network to support underlying load growth and address local issues. Major reinforcement projects at Armadale, Ayr and Netherdale were completed in 2013/14 and a number of projects will complete later in 2014 at Dumbarton and Castandhill. New projects commenced during the year at Finneston, Kaimes and Telford Road.

Reinforcement projects to address specific fault-level issues continued at Kilmarnock, Port Dundas, Elderslie, Giffnock and Sighthill, and are scheduled for completion during 2014/15.

#### *Asset modernisation*

A major replacement of transmission infrastructure at Dewar Place near the financial centre of Edinburgh has continued, necessitating extensive replacement of distribution switchgear, transformers and cables. Replacement of 33kV switchgear was completed at Devol Moor, Strathaven and Wishaw during the year and work is ongoing to replace 33kV switchgear at East Kilbride South, Westfield and Bonnybridge.

Replacement of 33kV transformers was also completed at Girvan, Irvine, Kelliebank, Menstrie Moffat and Sauchie during the year. Over 275 poor condition and obsolete ring main units and multi-panel boards were replaced with modern switchgear as part of the wider modernisation of distribution substations.

In addition to performance and reliability benefits from modern switchgear, there are environmental improvements through reduced use of oil as an insulating medium. These substation sites can facilitate remote-control switching from the Operational Control Centre that will further improve system performance and customer service.

In order to protect the long-term integrity of the electrical assets a major civil infrastructure programme has continued and involves refurbishment of foundations, support structures and buildings.

The company's extensive modernisation of internal mains low-voltage service cables in local authority residential accommodation has continued through 2013/14. This work will continue for the foreseeable future to modernise the main electrical infrastructure in all local authority housing stock.

The company continues to modernise its extensive overhead line network in order to improve condition and resilience to abnormal weather events. Major overhead line projects involving the complete rebuild of 33kV overhead line circuits between Stranraer and Barrhill was completed in 2013/14. Further work to replace 33kV overhead line circuits out of Newton Stewart, Redhouse and Larkhall have commenced and will be completed during 2014/15. In order to complement these full rebuild projects and further improve the performance and reliability of the overhead line network, the extensive overhead line refurbishment programme initiated in 2010 will continue until at least 2030.

On the low voltage overhead line network, the low ground clearance programme continues, with the removal of over 7900 clearance defects. This programme will continue throughout the foreseeable future and into RIIO.

**SP DISTRIBUTION PLC (formerly SP DISTRIBUTION LIMITED)**  
**STRATEGIC REPORT *continued***

**LIQUIDITY AND CASH MANAGEMENT**

*Cash and net debt*

Net cash flows from operating activities decreased by £85.1 million to £244.3 million for the year, as shown on page 22. As detailed in the table below, net debt increased by £83.3 million to £903.9 million. This was primarily due to the decrease in the on demand loan receivable from Scottish Power UK plc ("SPUK").

	Notes	2014 £m	2013 £m
<b>Analysis of net debt</b>			
Cash and short term deposits	(a)	9.5	3.1
Receivables due from Iberdrola group companies - loans	(b)	8.1	97.5
Loans payable to Iberdrola group companies	(c)	(921.5)	(921.2)
		<b>(903.9)</b>	<b>(820.6)</b>

- (a) As detailed on the balance sheet, refer to page 19.  
 (b) Loans due from Iberdrola group companies, refer to Note 9 on page 29.  
 (c) Loans with Iberdrola group companies, refer to Note 14 on page 31.

*Capital and debt structure*

The company is funded by a combination of debt and equity in accordance with the directors' objectives of establishing an appropriately funded business consistent with the requirements of the Utilities Act 2000 and the objectives of the Iberdrola group. All the equity is held by the company's immediate parent undertaking, SPENH. Treasury services are provided by Scottish Power Limited ("SPL"). ScottishPower has a risk policy within treasury and financing which is designed to ensure that the company's exposure to variability of cash flows and asset values due to fluctuations in market interest rates and exchange rates are minimised and managed at acceptable risk levels. Further details of the treasury and interest policy for ScottishPower and how it manages them is included in Note 4 of the most recent Annual Report and Accounts of SPL.

As part of the exercise to achieve legal separation of the business of SPUK pursuant to the provisions of the Utilities Act 2000, the company and other subsidiary companies of SPUK were each required to jointly provide guarantees to external lenders of SPUK for debt existing in that company at 1 October 2001.

*Liquidity and maintenance of investment grade credit rating*

The directors confirm that the company remains a going concern on the basis of its future cash flow forecasts and that it has sufficient working capital for present requirements. It is anticipated that the company will continue to have a level of liquidity at least sufficient to maintain an investment grade credit rating. The directors consider that sufficient funding will be made available to the company to continue operations and to meet liabilities as they fall due. Further details of the going concern considerations made by the directors of the company are set out in Note 28.

**HEALTH AND SAFETY**

Energy Networks is compliant with relevant health and safety legislation, such as The Health and Safety at Work Act 1974, The Electricity, Safety, Quality and Continuity Regulations ("ESQCR") 2002 and the Electricity at Work Regulations 1989. Further, Energy Networks' management systems are independently externally assessed and certificated to the latest international standards, notably Occupational Health and Safety Advisory Services standard 18001 ("OHSAS 18001").

Compliance with the above legislation is considered the minimum requirement, with the ultimate aim being zero harm to our employees, contractors and members of the public. Energy Networks is considered an industry leader in public safety through its behaviours, investments in operational integrity and comprehensive public safety education programmes.

Energy Networks strive for continuous improvement and this is illustrated again by both internal and external management system assessments returning positive findings. The commitment to promptly investigate incidents to identify root causes remains steadfast and is given the highest priority with a Panel of Inquiry established whenever there is a significant incident. In addition to a focus on safety, Energy Networks aims to put the "health" into health and safety, introducing robust risk based health surveillance programmes for employees together with more general well-being initiatives.

Energy Networks works closely with the industry trade body, the Energy Networks Association, to ensure that good practice is shared and innovation is promoted.

**SP DISTRIBUTION PLC (formerly SP DISTRIBUTION LIMITED)**  
**STRATEGIC REPORT *continued***

**HEALTH AND SAFETY *continued***

The table below provides key information relating to performance of Energy Networks with regard to health and safety:

	Notes	Actual Year ended 31 March 2014	Target Year ended 31 March 2014
Total recordable incident rate	(a)	0.22	0.50
Total incident rate	(b)	17.4	23.6
Lost time accidents		5	5
Occupational health monitoring	(c)	94%	90%
Audit and inspection programme completion	(d)	102%	95%

- (a) Total recordable incident rate is the summation of any incidents, be they lost time, medical treatment or leading to some work restriction per 100,000 hours worked. There has been recognised continuous improvement year on year.
- (b) Total incident rate is the summation of all Injury related incidents (lost time, medical treatment, first aid and accident book reported incidents) per 1,000 employees. This has seen a year on year Improvement over the past three years.
- (c) Occupational health monitoring is a measure of how Energy Networks meets its planned forecasts for those staff assessed as at risk.
- (d) Audit and inspection programme completion is the measurement of Energy Networks' planned internal management system audits and compliance inspections, both against Energy Networks' own staff and its contracting partners. The number of audits and Inspections actually carried out in the year ended 31 March 2014 exceeded the planned number.

During the year there was a continued focus on employee involvement in health and safety with "Safety Stand-Downs" held covering specific issues that are topical. The stand-downs provide a forum for raising awareness and to allow employees to openly debate and improve areas by focusing on changing behaviours. Public safety information and education promotion has continued through a mixture of internet, community and schools teaching programmes.

**PRINCIPAL RISKS AND RISK MANAGEMENT ACTIVITIES**

ScottishPower's strategy, which is adopted by the company, is to conduct business in a manner benefiting customers through balancing cost and risk while delivering shareholder value and protecting ScottishPower's performance and reputation by prudently managing the risks inherent in the business. To maintain this strategic direction ScottishPower develops and implements risk management policies and procedures, and promotes a robust control environment at all levels of the organisation.

*Risks relating to the company's business*

The principal risks and uncertainties of ScottishPower, and so that of the company, which may impact the current and future operational and financial performance and the management of these risks are described below:

RISK	RESPONSE
A major health and safety incident in the course of operations could impact staff, contractors, communities or the environment.	ScottishPower's Health and Safety function provides specialist services and support for the businesses in relation to health and safety. A comprehensive framework of health and safety policy and procedures, alongside audit programmes, is established throughout ScottishPower, which aim to ensure not only continuing legal compliance but also drive towards best practice in all levels of its health and safety.
Material deterioration in the relatively stable and predictable UK regulatory and political environment.	Positive and transparent engagement with all appropriate stakeholders to ensure that long-term regulatory stability and political consensus is maintained and necessary public backing is secured for much needed investment in the UK energy system.

**SP DISTRIBUTION PLC (formerly SP DISTRIBUTION LIMITED)**  
**STRATEGIC REPORT *continued***

**PRINCIPAL RISKS AND RISK MANAGEMENT ACTIVITIES *continued***

The principal risks and uncertainties of the Energy Networks business, and so that of the company, which may impact the current and future operational and financial performance and the management of these risks are described below:

RISK	RESPONSE
Regulatory uncertainty over future distribution cash flows until RIIO-ED1 price control is concluded in 2014/15.	Mitigating actions include engaging constructively with the regulator; participation in all working groups, use of a dedicated team of internal staff and external advisors working on the business plan; strong executive oversight; and a manager appointed to improve stakeholder engagement. The business plan was submitted in March 2014 with final proposals from Ofgem expected in November 2014.
Failure to deliver the Distribution outputs agreed with the regulator in the current price control.	Mitigating actions include formulating detailed investment, resource, outage and contingency plans supported by an extensive procurement strategy. Good communication and co-ordination of activities across the business is integral to success, complemented by a comprehensive monitoring regime that provides early warning of potential issues.

Other factors affecting financial performance include economic growth and downturns, and abnormal weather, both of which impact revenues, cash flows and investment.

During the year to 31 March 2014 the ScottishPower governance structure was supported by risk policies approved by the Board of Directors of Iberdrola and adopted by the Board of Directors of Scottish Power Limited ("the ScottishPower Board"). Further information is provided in the 'Identification and evaluation of risks and control objectives' section of the Corporate Governance Statement on page 14.

The company manages financial risk exposure in three key areas: revenue risk, treasury management and credit risk.

**(a) Revenue risk**

The majority of the revenue generated by the company is subject to regulation by GEMA. Regulatory controls include price controls which restrict the average amount, or total amount, charged for a bundle of services.

**(b) Treasury management**

The company is exposed to various financial risks including liquidity risk, interest rate risk and foreign exchange risk. Treasury services are provided by SPL, a UK parent company. Liquidity risk is managed by Iberdrola Group Treasury, which is responsible for arranging banking facilities on behalf of ScottishPower. ScottishPower's financing structure is determined by its position in the wider Iberdrola group and interest rate risk managed on an Iberdrola group wide basis. Exposure to fluctuating interest rates is managed by issuing a proportion of debt at fixed rates, refinancing risk is managed by issuing debt with various maturity dates. Foreign exchange risk in relation to procurement contracts is managed through use of foreign exchange forward contracts

**(c) Credit risk**

The company has credit guidelines to mitigate against credit risk. The company employs specific eligibility criteria in determining appropriate limits for each prospective counterparty and supplements this with letters of credit and collateral where appropriate. Credit exposures are then monitored on a daily basis.

*Insurance*

For the year ended 31 March 2014, the company's main insurance strategy was to procure cover from external insurance markets. The company conducts periodic reviews of the business requirements and evaluates alternative risk mitigation strategies to ensure that the most effective and economic cover is secured.

**ON BEHALF OF THE BOARD**



**Scott Mathieson**  
 Director  
 26 June 2014

## **SP DISTRIBUTION PLC (formerly SP DISTRIBUTION LIMITED) DIRECTORS' REPORT**

The directors present their report and audited Regulatory Accounts for the regulatory year ended 31 March 2014.

### **INFORMATION CONTAINED WITHIN THE STRATEGIC REPORT**

The directors have chosen to disclose information on the following, required by Companies Act 2006 to be included in the Directors' Report, within the Strategic Report, found on pages 1 to 8:

- information on financial risk management and policies; and
- information regarding future developments of the business.

### **RESULTS AND DIVIDENDS**

The net profit for the year amounted to £127.5 million (2013 £152.7 million). The aggregate dividends paid during the year amounted to £98.0 million (2013 £468.0 million). On 7 May 2014 an interim dividend of £44.0 million was approved by the SP Distribution board and subsequently paid on 21 May 2014.

### **ENVIRONMENTAL REGULATION**

Throughout its operations, ScottishPower strives to meet, or exceed, relevant legislative and regulatory environmental requirements and codes of practice. A more extensive description of how the ScottishPower group addresses environmental requirements can be found in the most recent Annual Report and Accounts of SPL.

Details of the environmental strategy specific to Energy Networks can be found in the business plan within the 'Serving Our Customers' section of [www.spenergynetworks.co.uk](http://www.spenergynetworks.co.uk). Further environmental information and documents specific to Energy Networks are available at [www.scottishpower.com/pages/other\\_documents.asp](http://www.scottishpower.com/pages/other_documents.asp).

### **EMPLOYEES**

#### *Employment regulation*

ScottishPower has well-defined policies in place throughout its businesses to ensure compliance with applicable laws and related codes of practice. These policies cover a wide range of employment issues such as disciplinary action, grievance, harassment, discrimination, stress, anti-bribery and 'whistle-blowing' and have been brought together in the Code of Ethics of Iberdrola and its group of companies (which also outlines expectations for employees' conduct).

#### *Employee consultation*

Regular consultation takes place on key business initiatives or issues raised by employees using a variety of means, including monthly team meetings, team managers' conferences, business unit road shows, safety committees, presentations and employee magazines. In addition, work on employee engagement is paying dividends with another strong year in terms of "Loop Survey"<sup>1</sup> results. In 2013/14, ScottishPower's focus was taking action based on the outputs of this survey as well as embedding some elements of "The Deal"<sup>1</sup>. ScottishPower believes that an important element of a positive working experience is stable employee and industrial relations; it recognises the legitimacy of trade union involvement and has formal agreements in place to foster open, two-way communication and consultation. Positive relationships and ongoing liaison with employees and their representatives are seen as contributing significantly to achieving the performance objectives of the businesses.

#### *Equal opportunities*

ScottishPower is committed to equal opportunities for all, irrespective of age, disability, gender reassignment, race, religion or belief, sex, sexual orientation, marriage and civil partnership, pregnancy and maternity or other considerations that do not affect a person's ability to perform their job. Further details of group workplace policy and performance can be found in the 'Corporate Governance' section of [www.scottishpower.com](http://www.scottishpower.com).

#### *Employment of disabled persons*

In support of the policy on Equal Opportunities (above), ScottishPower expects all employees to be treated with respect and has a policy on People with disabilities to help ensure equality of employment opportunity for people with disabilities. The aim of the policy is to establish working conditions which encourage the full participation of people with disabilities, which may be achieved through activities such as: making adjustments and/or adaptations to premises; enabling access to the full range of recruitment and career opportunities including the provision of specialist training; and the retention of existing staff who are affected by disability, through rehabilitation, training and reassignment. ScottishPower also works with support organisations, such as Business Disability Forum, which provide support, guidance and sharing of best practice to enable companies to become disability confident.

<sup>1</sup>The "Loop Survey" and "The Deal" are internal employee relations initiatives.

## **SP DISTRIBUTION PLC (formerly SP DISTRIBUTION LIMITED)** **DIRECTORS' REPORT *continued***

### **EMPLOYEES *continued***

#### *Positive about disabled people - double tick accreditation*

ScottishPower is a disability positive organisation and in April 2013 was re-accredited and retained the double tick symbol, which recognises the positive action and good practices the organisation has continuously adopted to ensure the required commitments to good employment practice specified by Jobcentre Plus are being met in areas such as recruitment and selection, career development, consultation, retention and redeployment of disabled people.

### **COMMUNITY RELATIONSHIPS**

#### *Community relationships*

Building the trust of communities has been part of ScottishPower's core values for many years. ScottishPower has a significant presence in many communities – with power stations and substations, offices and overhead lines, along with meters in several million homes and businesses. It aims to conduct its activities responsibly, in a way that is considerate to local communities and makes a positive contribution to society.

#### *Community consultation*

ScottishPower engages with communities across its operations, where new and modernising developments are planned. The key areas where ScottishPower's business impacts upon the community include the siting of new facilities, the presence of distribution and transmission lines and routine maintenance and upkeep work. ScottishPower takes a proactive approach to providing good information from pre-planning through to construction. It maintains strong relationships with local communities by working with community groups, elected representatives, interest groups and individuals ensuring that those affected by the work are aware of what's happening in their area in advance, allowing communities to have their say.

A variety of methods of consultation are used to keep in touch with the needs and concerns of the communities potentially affected. ScottishPower's community consultation processes include representation at community meetings, presentations and forums. ScottishPower's power stations host visits from community groups, maintain a number of visitor centres and run Local Liaison Committees which provide a forum for discussion between local management teams and community representatives.

Many of ScottishPower's assets, such as pylons, are situated on land not owned by ScottishPower, therefore it is important that effective policies are in place to ensure that the safety and integrity of the plant is maintained, while respecting the needs of the landowner, the local community and the general public. Energy Networks and those working on its behalf adhere to a Grantors Charter which sets out guidance of commitment to grantors and has been prepared in consultation with key stakeholders.

### **POLITICAL DONATIONS AND EXPENDITURE**

ScottishPower is a politically neutral organisation. It is subject to the Political Parties, Elections and Referendums Act 2000, which defines political "donations" and "expenditure" in wider terms than would be commonly understood by these phrases. During the year ended 31 March 2014, ScottishPower paid a total of £20,000 for the sponsorship of conferences and events – activities which may be regarded as falling within the terms of the Act.

The recipients of these payments were:

- The Conservative Party £7,000
- The Labour Party £7,000
- The Scottish National Party £6,000

These occasions provide an important opportunity for ScottishPower to represent its views on a non-partisan basis to politicians from across the political spectrum. The payments do not indicate support for any particular party.

### **DIRECTORS**

The directors who held office during the year were as follows:

Scott Mathieson

Frank Mitchell

Dame Denise Holt

(appointed 31 March 2014 and resigned 24 June 2014)

Professor Sir James McDonald

(appointed 31 March 2014)

**SP DISTRIBUTION PLC (formerly SP DISTRIBUTION LIMITED)**  
**DIRECTORS' REPORT *continued***

**DISCLOSURE OF INFORMATION TO AUDITORS**

Each of the directors in office as at the date of this Directors' Report and Accounts confirms that:

- so far as he or she is aware, there is no relevant audit information of which the company's auditor is unaware; and
- he or she has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditor are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

**AUDITOR**

Ernst & Young LLP were re-appointed as auditor of the company for the year ended 31 March 2014.

**ON BEHALF OF THE BOARD**



Scott Mathieson  
Director  
26 June 2014

## **SP DISTRIBUTION PLC (formerly SP DISTRIBUTION LIMITED) CORPORATE GOVERNANCE STATEMENT**

The ultimate parent company is Iberdrola S.A. which is listed on the Madrid stock exchange.

As a guiding principle, the company adopts the principles and rules contained in the most widely recognised good governance recommendations and, in particular, has taken as reference the Uniform Good Governance Code for Listed Companies approved by the National Securities Market Commission of Spain.

ScottishPower, the UK operations of Iberdrola S.A., operates on divisional lines and the activities of the company fall within the Transmission and Distribution business within the Energy Networks Regulated Business ("Regulated Business").

### **Administrative, management and supervisory bodies**

#### ***Board and management meetings***

Throughout the regulatory year the company was governed by a Board consisting of two directors, bringing a broad range of skills and experience to the company, being full-time employees of ScottishPower. On 31 March 2014, the company appointed two independent non-executive directors to enhance and complement the existing Board. The immediate parent of the company is Scottish Power Energy Network Holdings Limited ("SPENH"). The SPENH Board of Directors ("SPENH Board") are responsible for the effective day to day operation and management of the Regulated Business within ScottishPower, in accordance with the strategy set by the ScottishPower Board.

Non-executive oversight is provided at ScottishPower group level by the ScottishPower Board (which includes four independent non-executive directors), other than on those matters reserved for the SPENH Board (which includes two non-executive directors).

In addition to formal SP Distribution and SPENH Board meetings, which are convened as required, the directors and other senior managers within the Regulated Business (the three asset-owner companies) hold monthly management meetings which review strategy, operational performance and risk issues on behalf of both the company and other companies within the Regulated Business.

The executive directors of the company are subject to annual evaluation of their performance in respect of their executive responsibilities as part of the performance management system which is in place throughout ScottishPower.

#### ***SPENH Board***

The SPENH Board comprises the Chairman Javier Villalba Sánchez and seven other directors. The directors of SPENH and their classification are shown below.

Javier Villalba Sánchez	Chairman
Frank Mitchell	Chief Executive Officer
Nicola Connelly	Executive director
Antonio Espinosa de los Monteros	Executive director
José Izaguirre Nazar	Executive director
Scott Mathieson	Executive director
Dame Denise Holt	Independent non-executive director (resigned 24 June 2014)
Professor Sir Jim McDonald	Independent non-executive director (appointed 21 March 2014)

SPENH Board meetings were held on six occasions during the year under review. Attendance by the directors was as follows:

Javier Villalba Sánchez	Attended all meetings
Frank Mitchell	Attended all meetings
Nicola Connelly	Attended all meetings
Antonio Espinosa de los Monteros	Attended all meetings
José Izaguirre Nazar	Attended all meetings
Scott Mathieson	Attended all meetings
Dame Denise Holt	Attended three meetings (resigned 24 June 2014)
Professor Sir Jim McDonald	Attended no meetings (appointed 21 March 2014)

**SP DISTRIBUTION PLC (formerly SP DISTRIBUTION LIMITED)  
CORPORATE GOVERNANCE STATEMENT *continued***

**Administrative, management and supervisory bodies *continued***

***ScottishPower Board***

The ScottishPower Board comprises the Chairman José Ignacio Sánchez Galán and eight other directors. José Ignacio Sánchez Galán is also the Chairman and Chief Executive of Iberdrola S.A..

The directors of Scottish Power Limited and their classifications are shown below.

***Directors***

José Ignacio Sánchez Galán (Chairman)	Non-independent, non-executive director
Lord Kerr of Kinlochard GCMG (Vice Chairman)	Independent non-executive director
José Miguel Alcolea Cantos	Non-independent, non-executive director
Keith Anderson	Non-independent, executive director
Professor Susan Deacon	Independent non-executive director
Sir Tom Farmer CVO CBE KCSG	Independent non-executive director
Rt Hon Lord Macdonald of Tradeston CBE	Independent non-executive director
Juan Carlos Rebollo Liceaga	Non-independent, non-executive director
José Sainz Armada	Non-independent, non-executive director

ScottishPower Board meetings were held on seven occasions during the year under review. Attendance by the directors is also shown below.

José Ignacio Sánchez Galán	Attended six meetings
Lord Kerr of Kinlochard GCMG	Attended all meetings
José Miguel Alcolea Cantos	Attended all meetings
Keith Anderson	Attended all meetings
Professor Susan Deacon	Attended all meetings
Sir Tom Farmer CVO CBE KCSG	Attended five meetings
Rt Hon Lord Macdonald of Tradeston CBE	Attended six meetings
Juan Carlos Rebollo Liceaga	Attended all meetings
José Sainz Armada	Attended all meetings

There is no designated Senior Independent Director on the ScottishPower Board.

***ScottishPower Audit and Compliance Committee ("ACC")***

The ACC, a permanent internal body, has an Informative and consultative role, without executive functions, with powers of information, assessment and presentation of proposals to the ScottishPower Board within its scope of action, which is governed by the Memorandum and Articles of Association of Scottish Power Limited and by the Terms of Reference of the ACC. The ACC's responsibilities include:

- monitoring the financial reporting process for ScottishPower;
- monitoring the effectiveness of the ScottishPower's internal control, internal audit and risk management systems; and
- monitoring the statutory audit of the annual and consolidated accounts of ScottishPower.

The ACC comprises three members. The Chairman of the ACC has relevant accounting and financial experience. There are two independent members on the ACC as indicated in the table below.

The ACC met five times during the year under review. The members of the ACC and their attendance record are shown in the table below.

Rt Hon Lord Macdonald of Tradeston CBE (Chairman)	External independent, attended all meetings
Juan Carlos Rebollo Liceaga	Executive director, attended all meetings
Professor Susan Deacon	External independent, attended two meetings

**SP DISTRIBUTION PLC (formerly SP DISTRIBUTION LIMITED)**  
**CORPORATE GOVERNANCE STATEMENT *continued***

**Administrative, management and supervisory bodies *continued***  
***Iberdrola Appointments and Remuneration Committee ("IARC")***

There is no separate Appointments or Remuneration Committee within ScottishPower. Instead appointments and remuneration matters relevant to ScottishPower and the company are dealt with by the IARC. The members of the IARC are:

Inés Macho Stadler (Chairman)	External independent
Inigo Victor De Oriol Ibarra	External independent
Santiago Martínez Lage	External independent

The IARC has the power to supervise the process of selection of directors and senior managers of the Iberdrola group companies, and to assist the Board of Directors in the determination and supervision of the compensation policy for the above-mentioned persons.

**Internal control**

During the year under review, the directors of the company had overall responsibility for establishing and maintaining an adequate system of internal controls within the company and they participated in the review of internal controls over financial reporting and the certification process which took place on a ScottishPower group-wide basis. The effectiveness of the system at ScottishPower group level was kept under review through the work of the ACC. The system of internal control is designed to manage rather than eliminate risk. In pursuing these objectives, internal control can only provide reasonable and not absolute assurance against material misstatement or loss.

A risk and control governance framework is in place across ScottishPower. The risk management framework and internal control system is subject to continuous review and development. The company is committed to ensuring that a proper control environment is maintained. There is a commitment to competence and integrity and to the communication of ethical values and control consciousness to managers and employees. HR policies underpin that commitment by a focus on enhancing job skills and promoting high standards of probity among staff. In addition, the appropriate organisational structure has been developed within which to control the businesses and to delegate authority and accountability, having regard to acceptable levels of risk. The company's expectations in this regard are set out in 'ScottishPower Code of Ethics', a policy document which aims to summarise some of the main legal, regulatory, cultural and business standards applicable to all employees. This document has been distributed to all employees of the company.

ScottishPower has fraud and anti-bribery policies and procedures in place to ensure that all incidences of fraud and bribery are appropriately investigated and reported. Further, ScottishPower has adopted a revised Speaking Out and Whistleblower Protection Policy, incorporating a confidential external reporting service operated by an independent provider. This policy, which is applicable to employees of the company, covers the reporting and investigation of suspected fraud, bribery, and misappropriation, questionable accounting, financial reporting or auditing matters, breaches of internal financial control procedures, and serious breaches of behaviour and ethical principles. There is also a process in existence within ScottishPower whereby all members of staff may report any financial irregularities to the Audit, Risk and Supervision Committee of Iberdrola.

**Identification and evaluation of risks and control objectives**

During the year under review the ScottishPower governance structure was supported by risk policies adopted by the ScottishPower Board. These risk policies are adopted by the ScottishPower Board on an annual basis. ScottishPower business risk assessment teams and the independent group risk management function support the ScottishPower Board in the execution of due diligence and risk management. In addition, the SPENH Board is responsible for ensuring that business risks are adequately assessed, monitored, mitigated and managed.

ScottishPower's strategy, which is adopted by the company, is to conduct business in a manner benefiting customers through balancing cost and risk while delivering shareholder value and protecting ScottishPower's performance and reputation by prudently managing the risks inherent in the business. ScottishPower develops and implements risk management policies and procedures, and promotes a robust control environment at all levels of the organisation.

The company identifies and assesses the key business risks associated with the achievement of its strategic objectives. Any key actions needed to further enhance the control environment are identified, along with the person responsible for the management of the specific risk.

**SP DISTRIBUTION PLC (formerly SP DISTRIBUTION LIMITED)**  
**CORPORATE GOVERNANCE STATEMENT *continued***

**Capital investment**

Capital investment proposals are considered by the Regulated Business' Investment Review Group ("IRG"). Membership of the IRG includes the Energy Networks Executive Team ("ENET") members including representation from the Corporate finance and legal functions. In addition, significant capital investment proposals are referred to the SPENH Board and an operating committee which comprises senior executives from the Iberdrola group.

**Monitoring and corrective action**

The ENET reviews, on a monthly basis, the key risks facing the business, the controls, action plans and monitoring procedures for these. A risk report is produced for review and challenge at the monthly management meetings.

This is a key tool in ensuring the active management of risks. The operation of the control and monitoring procedures are reviewed and tested by ScottishPower's internal audit function with a direct reporting line to the Audit, Risk and Supervision Committee of Iberdrola and the ACC.

**Auditor independence**

The Audit, Risk and Supervision Committee of Iberdrola, which comprises non-executive directors, is responsible for the nomination of the external auditor. This committee and the firm of external auditor have safeguards to avoid the possibility that the auditor's objectivity and independence could be compromised.

Where the work to be undertaken is of a nature that is generally considered reasonable to be completed by the external auditor for sound commercial and practical reasons, including confidentiality, the conduct of such work is permissible provided that it has been pre-approved by the ScottishPower Board.

**Social, environmental and ethical matters**

Social, environmental, and ethical ("SEE") matters are included in the overall risk and control framework and in the Risk Report which is reviewed at the monthly management meetings. As such, regular account is taken of the strategic significance of SEE matters to the company, and the risks and opportunities arising from these issues that may have an impact on ScottishPower's short-term and long-term values are considered.

Further information regarding the SEE matters can be found in the 'Corporate Responsibility' section of the ScottishPower website [www.scottishpower.com](http://www.scottishpower.com).

## **SP DISTRIBUTION PLC (formerly SP DISTRIBUTION LIMITED)**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

#### **in respect of the Regulatory Accounts and compliance with Standard Licence Condition 44**

Standard Condition 44 of the Electricity Distribution Licence requires the directors to prepare Regulatory Accounts, for each regulatory year, which presents fairly the assets, liabilities, reserves and provisions of, or reasonably attributable to, the company and of the revenues, costs and cash flows of, or reasonably attributable to, the company for the year. 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 the accounts comply with IFRSs, subject to any material departures disclosed and explained in the financial statements; and
- prepare the Regulatory Accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 and Standard 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.

## **INDEPENDENT AUDITOR'S REPORT**

To the Gas and Electricity Markets Authority ("the Authority") and to SP Distribution plc (formerly SP Distribution Limited) ("the company")

We have audited the Regulatory Accounts of the Company for the year ended 31 March 2014 (the "Regulatory Accounts") which comprise the Balance Sheet, Income Statement, Statement of Changes in Equity, Cash Flow Statement, and the related notes 1 to 28.

These Regulatory Accounts have been prepared in accordance with the basis of preparation and accounting policies set out on pages 23 to 26.

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

### **RESPECTIVE RESPONSIBILITIES OF THE AUTHORITY DIRECTORS AND AUDITOR**

As explained more fully in the Statement of Directors' Responsibilities set out on page 16, the directors are responsible for the preparation of the Regulatory Accounts and for their fair presentation in accordance with the basis of preparation and accounting policies. Our responsibility is to audit and express an opinion on the Regulatory Accounts in accordance with International Standards on Auditing (UK and Ireland), except as stated in the 'Scope of the audit of the Regulatory Accounts' below, and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **SCOPE OF THE AUDIT OF THE REGULATORY ACCOUNTS**

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounts sufficient to give reasonable assurance that the Regulatory Accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the Regulatory Accounts. In addition, we read all the financial and non-financial information in the Corporate Report & Regulatory Accounts to identify material inconsistencies with the audited Regulatory Accounts. If we become aware of any apparent misstatements or inconsistencies we consider the implications for our report.

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Standard Condition 44 of the company's Regulatory Licence. Where Standard Condition 44 does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Regulatory Accounts are consistent with those used in the preparation of the statutory financial statements of the company. Furthermore, as the nature, form and content of Regulatory Accounts are determined by the Authority, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK & Ireland).

### **OPINION ON THE REGULATORY ACCOUNTS**

In our opinion the Regulatory Accounts:

- fairly present in accordance with Standard Condition 44 of the company's Regulatory Licence, basis of preparation and the accounting policies set out on pages 23 to 26, the state of the Company's affairs at 31 March 2014 and its profit and its cash flow for the year then ended; and
- have been properly prepared in accordance with Standard Condition 44 of the company's Regulatory Licence and the accounting policies.

## **INDEPENDENT AUDITOR'S REPORT** *continued*

### **BASIS OF PREPARATION**

Without modifying our opinion, we draw attention to the fact that the Regulatory Accounts have been prepared in accordance with Standard Condition 44 of the company's Regulatory Licence and the accounting policies set out in the statement of accounting policies.

The Regulatory Accounts are separate from the statutory financial statements of the Company and have been prepared under the basis of International Financial Reporting Standards as adopted by the European Union ("IFRSs"). Financial information other than that prepared on the basis of IFRSs does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

### **OTHER MATTERS**

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

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company for the year ended 31 December 2013 on which we reported on 27 March 2014, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



**Ernst & Young LLP**  
**Statutory Auditor**  
**Glasgow**  
**26 June 2014**

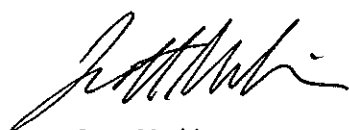
**SP DISTRIBUTION PLC (formerly SP DISTRIBUTION LIMITED)**

**BALANCE SHEETS**

as at 31 March 2014 and 31 March 2013

	Notes	2014 £m	2013 £m
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Intangible assets		-	1.1
Other intangible assets	4	-	1.1
Property, plant and equipment		2,456.7	2,353.4
Property, plant and equipment in use	5	2,299.6	2,157.8
Property, plant and equipment in course of construction	5	157.1	195.6
Investments	6	0.1	0.1
<b>NON-CURRENT ASSETS</b>		<b>2,456.8</b>	<b>2,354.6</b>
<b>CURRENT ASSETS</b>			
Trade and other receivables	9	66.7	158.7
Cash and short-term deposits	7	9.5	3.1
<b>CURRENT ASSETS</b>		<b>76.2</b>	<b>161.8</b>
<b>TOTAL ASSETS</b>		<b>2,533.0</b>	<b>2,516.4</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Of shareholders of the parent		791.1	761.6
Share capital	10,11	300.0	300.0
Retained earnings	11	491.1	461.6
<b>TOTAL EQUITY</b>		<b>791.1</b>	<b>761.6</b>
<b>NON-CURRENT LIABILITIES</b>			
Deferred income	12	479.3	446.2
Provisions	13	0.2	0.7
Bank borrowings and other financial liabilities		836.8	921.2
Loans and other borrowings	14	836.8	921.2
Trade and other payables	15	14.8	21.3
Deferred tax liabilities	16	174.7	197.9
<b>NON-CURRENT LIABILITIES</b>		<b>1,505.8</b>	<b>1,587.3</b>
<b>CURRENT LIABILITIES</b>			
Provisions	13	0.8	2.7
Bank borrowings and other financial liabilities		84.7	-
Loans and other borrowings	14	84.7	-
Trade and other payables	15	127.5	139.6
Current tax liabilities		23.1	25.2
<b>CURRENT LIABILITIES</b>		<b>236.1</b>	<b>167.5</b>
<b>TOTAL LIABILITIES</b>		<b>1,741.9</b>	<b>1,754.8</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,533.0</b>	<b>2,516.4</b>

Approved by the Board on 26 June 2014 and signed on its behalf by:



Scott Mathieson  
Director

The accompanying notes 1 to 28 are an integral part of the balance sheets as at 31 March 2014 and 31 March 2013.

**SP DISTRIBUTION PLC (formerly SP DISTRIBUTION LIMITED)**  
**INCOME STATEMENTS**  
for the years ended 31 March 2014 and 31 March 2013

	Notes	2014 £m	2013 £m
Revenue		377.3	380.6
Procurements		(15.4)	(15.0)
		<b>361.9</b>	<b>365.6</b>
Staff costs	17	(0.8)	(0.7)
Outside services		(87.3)	(57.8)
Other operating income		26.8	25.1
		<b>(61.3)</b>	<b>(33.4)</b>
Taxes other than income tax	18	(35.7)	(40.0)
		<b>264.9</b>	<b>292.2</b>
Depreciation and amortisation charge, allowances and provisions	19	(97.5)	(86.5)
<b>PROFIT FROM OPERATIONS</b>		<b>167.4</b>	<b>205.7</b>
Dividends received		0.1	-
Finance income	20	1.1	1.0
Finance costs	21	(37.1)	(27.3)
<b>PROFIT BEFORE TAX</b>		<b>131.5</b>	<b>179.4</b>
Income tax	22	(4.0)	(26.7)
<b>NET PROFIT FOR THE YEAR</b>		<b>127.5</b>	<b>152.7</b>

Net profit for both years is wholly attributable to the equity holders of SP Distribution plc (formerly SP Distribution Limited).

All results relate to continuing operations.

The accompanying notes 1 to 28 are an integral part of the income statements for the year ended 31 March 2014 and 31 March 2013.

**SP DISTRIBUTION PLC (formerly SP DISTRIBUTION LIMITED)**  
**STATEMENTS OF CHANGES IN EQUITY**  
**for the years ended 31 March 2014 and 31 March 2013**

	Ordinary share capital £m	Retained earnings £m	Total equity £m
At 1 April 2012	300.0	776.9	1,076.9
Total comprehensive income for the year	-	152.7	152.7
Dividends	-	(468.0)	(468.0)
At 1 April 2013	300.0	461.6	761.6
Total comprehensive income for the year	-	127.5	127.5
Dividends	-	(98.0)	(98.0)
At 31 March 2014	300.0	491.1	791.1

Total comprehensive income for both years comprises net profit for the respective years.

The accompanying notes 1 to 28 are an integral part of the statements of changes in equity for the years ended 31 March 2014 and 31 March 2013.

**SP DISTRIBUTION PLC (formerly SP DISTRIBUTION LIMITED)**  
**CASH FLOW STATEMENTS**  
for the years ended 31 March 2014 and 31 March 2013

	2014	2013
	£m	£m
Cash flows from operating activities		
Profit before tax	131.5	179.4
Adjustments for:		
Depreciation and amortisation	93.3	84.6
Change in provisions	(0.9)	0.1
Transfer of assets from customers	(14.2)	(13.2)
Shareholding income	(0.1)	-
Finance income and costs	36.0	26.3
Net losses on write-off/disposal of non-current assets	4.4	2.1
Changes in working capital:		
Change in trade and other receivables	2.4	1.9
Change in trade and other payables	(21.5)	39.8
Provisions paid	(1.5)	(1.5)
Assets received from customers	42.8	45.4
Income taxes paid	(29.3)	(36.4)
Interest received	1.3	0.9
Dividends received	0.1	-
<b>Net cash flows from operating activities (i)</b>	<b>244.3</b>	<b>329.4</b>
Cash flows from investing activities		
Investments in property, plant and equipment	(192.4)	(195.2)
<b>Net cash flows from investing activities (ii)</b>	<b>(192.4)</b>	<b>(195.2)</b>
Cash flows from financing activities		
Increase in amounts due to Iberdrola group companies	-	425.0
Dividends paid to company's equity holders	(98.0)	(468.0)
Interest paid	(36.9)	(23.0)
<b>Net cash flows from financing activities (iii)</b>	<b>(134.9)</b>	<b>(66.0)</b>
<b>Net (decrease)/increase in cash and cash equivalents (i)+(ii)+(iii)</b>	<b>(83.0)</b>	<b>68.2</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>100.6</b>	<b>32.4</b>
<b>Cash and cash equivalents at end of year</b>	<b>17.6</b>	<b>100.6</b>
Cash and cash equivalents at end of year comprises:		
Balance sheet cash and cash equivalents and term deposits	9.5	3.1
Receivables due from Iberdrola group companies - loans	8.1	97.5
<b>Cash flow statement cash and cash equivalents</b>	<b>17.6</b>	<b>100.6</b>

The accompanying notes 1 to 28 are an integral part of the cash flow statements for the years ended 31 March 2014 and 31 March 2013.

**SP DISTRIBUTION PLC (formerly SP DISTRIBUTION LIMITED)**  
**NOTES TO ACCOUNTS**  
**31 March 2014**

**1 BASIS OF PREPARATION**

**A BASIS OF PREPARATION OF THE ACCOUNTS**

The Accounts have been prepared in accordance with Standard Condition 44 of the company's Regulatory Licence and International Accounting Standards ("IAS"), International Financial Reporting Standards ("IFRSs") and International Financial Reporting Interpretations Committee ("IFRIC") Interpretations (collectively referred to as IFRS), as adopted by the European Union ("EU") as at the date of approval of these Accounts and which are mandatory for the financial year ended 31 March 2014. The company's accounting reference date is 31 December to match that of its ultimate parent undertaking, Iberdrola S.A.. Standard Condition 44 of the Electricity Distribution Licence requires the directors to prepare regulatory accounts, for each regulatory year, with the same content and format as the most recent statutory accounts of the company. The references made to the financial year within these Regulatory Accounts refer to the year from 1 April 2013 to 31 March 2014. Consequently the Corporate Report & Regulatory Accounts for the year ended 31 March 2014 are separate from the Annual Report and Accounts of the company which have been prepared for the year ended 31 December 2013. The Accounts are prepared in accordance with the Accounting Policies set out in Note 2.

**B ACCOUNTING STANDARDS**

In preparing these Accounts, the company has applied all relevant IAS, IFRS and IFRIC Interpretations which have been adopted by the EU as of the date of approval of these Accounts and which are mandatory for the regulatory year ended 31 March 2014.

For the year ended 31 March 2014, the company has applied the following standards and amendments for the first time:

Standard	Note
• Amendments to IAS 1 'Presentation of Items of Other Comprehensive Income'	(a)
• IAS 19 (Revised) 'Employee Benefits'	(a)
• Amendments to IAS 12 'Income Taxes: Deferred tax - Recovery of Underlying Assets'	(a)
• IFRS 10 'Consolidated Financial Statements'	(a)
• IFRS 11 'Joint Arrangements'	(a)
• IFRS 12 'Disclosure of Interests in Other Entities'	(a)
• IFRS 13 'Fair Value Measurement'	(a)
• IAS 27 (Revised) 'Separate Financial Statements'	(a)
• IAS 28 (Revised) 'Investments in Associates and Joint Ventures'	(a)
• Amendments to IFRS 7 'Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities'	(a)
• Annual Improvements to IFRSs (2009-2011)	(a)
• Amendments to IFRS 10, IFRS 11 and IFRS 12 'Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance'	(a)

The following new standards, amendments to standards and interpretations have been issued by the International Accounting Standards Board ("IASB") but have an effective date after the date of these financial statement thus have not been implemented by the company:

Standard	Notes	IASB effective date (for periods commencing on or after)	Planned date of application by the company
• IFRS 9 'Financial Instruments' and subsequent amendments	(b), (c), (d)	Not yet assigned	Not yet assigned
• Amendments to IAS 32 'Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities'	(e)	1 January 2014	1 April 2014
• Amendments to IFRS 10, IFRS 12 and IAS 27 'Investment Entities'	(e)	1 January 2014	1 April 2014
• Amendments to IAS 36 'Impairment of Asset – Recoverable Amount Disclosures for Non-Financial Assets'	(e)	1 January 2014	1 April 2014
• IFRIC 21 'Levies'	(e)	1 January 2014	1 April 2014
• Amendments to IAS 39 'Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting'	(e)	1 January 2014	1 April 2014
• Amendments to IAS 19 'Employee Benefits: Defined Benefit Plans Employee Contributions'	(c), (e)	1 July 2014	1 April 2015
• Annual Improvements to IFRSs (2010-2012)	(c), (e)	1 July 2014	1 April 2015
• Annual Improvements to IFRSs (2011-2013)	(c), (e)	1 July 2014	1 April 2015
• IFRS 14 'Regulatory Deferral Accounts'	(c), (e)	1 January 2016	1 April 2016
• Amendment to IAS 16 'Property Plant and Equipment' and IAS 38 'Intangible Assets' - 'Clarification of Acceptable Methods of Depreciation and Amortisation'	(c), (e)	1 January 2016	1 April 2016
• Amendment to IFRS 11 'Joint Arrangements: Acquisitions of Interest in Joint Operations'	(c), (e)	1 January 2016	1 April 2016
• IFRS 15 'Revenue from Contracts with Customers'	(b), (c)	1 January 2017	1 April 2017

## SP DISTRIBUTION PLC (formerly SP DISTRIBUTION LIMITED)

### NOTES TO ACCOUNTS *continued*

31 March 2014

#### 1 BASIS OF PREPARATION *continued*

##### B ACCOUNTING STANDARDS *continued*

- (a) The application of these pronouncements did not have a material impact on the company's accounting policies, financial position or performance.
- (b) The directors are currently in the process of assessing the impact of these standards in relation to the company's accounting policies, financial position and performance.
- (c) These pronouncements have not yet been adopted by the EU.
- (d) The IASB decided that the original mandatory date of 1 January 2015 would not allow sufficient time for the entities to apply the new standard as all phases of the IFRS 9 project has not been completed. Accordingly, the IASB removed the mandatory effective date from IFRS 9. In February 2014, the IASB tentatively decided to require an entity to apply IFRS 9 for annual periods beginning on or after 1 January 2018. Entities may still choose to apply IFRS 9 immediately; the company has decided not to do.
- (e) The future application of these pronouncements is not expected to have a material impact on the company's accounting policies, financial position or performance.
- (f) The company has chosen not to early adopt any of these standards/amendments for year ended 31 March 2014.

#### 2 ACCOUNTING POLICIES

The principal accounting policies applied in preparing the company's Accounts are set out below.

- A REVENUE
- B INTANGIBLE ASSETS (COMPUTER SOFTWARE COSTS)
- C PROPERTY, PLANT AND EQUIPMENT
- D IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS
- E LEASED ASSETS
- F FINANCIAL ASSETS AND LIABILITIES
- G TRANSFER OF ASSETS FROM CUSTOMERS
- H TAXATION

##### A REVENUE

Revenue comprises charges made to customers for use of the distribution network. Revenue includes accruals in respect of unbilled income relating to units transferred over the network established from industry data flows and for other rechargeable work completed but not yet billed. Revenue excludes Value Added Tax. Revenue consists entirely of sales made in the UK.

##### B INTANGIBLE ASSETS (COMPUTER SOFTWARE COSTS)

The costs of acquired computer software are capitalised on the basis of the costs incurred to acquire and bring to use the specific software and are amortised on a straight-line basis over their operational lives. Costs directly associated with the development of computer software programmes that will probably generate economic benefits over a period in excess of one year are capitalised and amortised, on a straight-line basis, over their estimated operational lives. Costs include employee costs relating to software development and an appropriate proportion of relevant overheads directly attributable to bringing the software into use. Amortisation of computer software is over periods of up to four years.

##### C PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost and is generally depreciated on the straight-line method over the estimated operational lives of the assets. Property, plant and equipment includes capitalised employee and other directly attributable costs. Borrowing costs directly attributable to the acquisition, construction or production of major qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. Reviews are undertaken annually of the estimated remaining lives and residual values of property, plant and equipment. Residual values are assessed based on prices prevailing at each balance sheet date.

Land is not depreciated. The main depreciation periods used by the company are set out below.

	Years
Distribution facilities	40
Meters and measuring devices	2 - 10
Other facilities and other items of property, plant and equipment	3 - 25

## SP DISTRIBUTION PLC (formerly SP DISTRIBUTION LIMITED)

### NOTES TO ACCOUNTS *continued*

31 March 2014

#### 2 ACCOUNTING POLICIES *continued*

##### D IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

At each balance sheet date, the company reviews the carrying amount of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

##### E LEASED ASSETS

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in the arrangement. For arrangements entered into prior to 1 April 2004, the date of inception is deemed to be 1 April 2004 in accordance with the transitional requirements of IFRIC 4 'Determining Whether an Arrangement Contains a Lease'.

The company classifies leases as finance leases whenever the lessor transfers substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

##### F FINANCIAL ASSETS AND LIABILITIES

- (a) Financial assets categorised as trade and other receivables are recognised and carried at original invoice amount less an allowance for impairment of doubtful debts. Allowance for doubtful debts has been estimated by management, taking into account future cash flows, based on past experience and assessment of the current economic environment within which the company operates.
- (b) Cash and cash equivalents in the balance sheet comprise cash on hand which is readily convertible into a known amount of cash without a significant risk of change in value. In the cash flow statement, cash and cash equivalents exclude term deposits which have a maturity of more than 90 days at the date of acquisition and include bank overdrafts repayable on demand the next business day and the net of current loans receivable and payable from Iberdrola group companies.
- (c) Financial liabilities categorised as trade payables are recognised and carried at original invoice amount.
- (d) All interest bearing loans and borrowings are initially recognised at fair value, net of directly attributable transaction costs. Interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

##### G TRANSFER OF ASSETS FROM CUSTOMERS

Transfers of assets from customers are credited to deferred income within non-current liabilities.

Pursuant to the applicable industry regulations, the company receives contributions from its customers for the construction of grid connection facilities, or is assigned such assets that must be used to connect those customers to a network and provide them with ongoing access to a supply of goods or services, or both. As the installation received is considered to be payment for ongoing access to the supply of the goods and services, it is credited to deferred income and released to the income statement over the estimated operational lives of the related assets.

##### H TAXATION

The company's liability for current tax is calculated using the tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on the difference between the carrying amounts of assets and liabilities in the balance sheet and the corresponding tax bases used in the computation of taxable profits (temporary differences), and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences, unused tax losses or credits can be utilised.

**SP DISTRIBUTION PLC (formerly SP DISTRIBUTION LIMITED)**  
**NOTES TO ACCOUNTS *continued***  
**31 March 2014**

**2 ACCOUNTING POLICIES *continued***

**II TAXATION *continued***

Deferred tax is calculated on a non-discounted basis at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised based on tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred tax is charged in the income statement, except where it relates to items charged or credited to equity (via the statement of comprehensive income), in which case the deferred tax is also dealt with in equity and is shown in the statement of comprehensive income.

**3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In preparing the Accounts in conformity with IFRSs, the company is required to make estimates and assumptions that impact on the reported amounts of revenues, expenses, assets and liabilities of the company. Actual results may differ from these estimates. The critical accounting judgement and key source of estimation uncertainty is discussed below and should be read in conjunction with the full statement of Accounting Policies at Note 2.

**IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT**

In certain circumstances, property, plant and equipment are required to be reviewed for impairment. When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of the expected future cash flows of the relevant Cash Generating Unit ("CGU"), or disposal value if higher. The discount rate applied is based on ScottishPower's weighted average cost of capital with appropriate adjustments for the risks associated with the CGU. Estimates of cash flows involve a significant degree of judgement and are consistent with management's plans and forecasts.

At 31 March 2014, the carrying value of property, plant and equipment amounted to £2,456.7 million (2013 £2,353.4 million).

**4 INTANGIBLE ASSETS**

Year ended 31 March 2013	Note	Computer software £m
<b>Cost:</b>		
At 1 April 2012 and 31 March 2013	(a)	15.7
<b>Amortisation:</b>		
At 1 April 2012		13.2
Amortisation for the year		1.4
At 31 March 2013		14.6
<b>Net book value:</b>		
At 31 March 2013		1.1
At 1 April 2012		2.5

Year ended 31 March 2014	Note	Computer software £m
<b>Cost:</b>		
At 1 April 2013 and 31 March 2014	(a)	15.7
<b>Amortisation:</b>		
At 1 April 2013		14.6
Amortisation for the year		1.1
At 31 March 2014		15.7
<b>Net book value:</b>		
At 31 March 2014		-
At 1 April 2013		1.1

(a) The cost of fully amortised computer software still in use at 31 March 2014 was £15.2 million (2013 £9.9 million).

**SP DISTRIBUTION PLC (formerly SP DISTRIBUTION LIMITED)**  
**NOTES TO ACCOUNTS *continued***  
**31 March 2014**

**5 PROPERTY, PLANT AND EQUIPMENT**

**(a) Movements in property, plant and equipment**

	Operating plant - distribution facilities £m	Operating plant - other (Note (i)) £m	Other items of property, plant and equipment in use £m	Operating plant in progress (Note (ii)) £m	Total £m
<b>Year ended 31 March 2013</b>					
<b>Cost:</b>					
At 1 April 2012	2,614.6	249.5	34.0	289.6	3,187.7
Additions	27.3	3.8	-	187.9	219.0
Transfers from in progress to plant in use	280.2	1.7	-	(281.9)	-
Disposals	(13.0)	(2.7)	-	-	(15.7)
<b>At 31 March 2013</b>	<b>2,909.1</b>	<b>252.3</b>	<b>34.0</b>	<b>195.6</b>	<b>3,391.0</b>
<b>Depreciation:</b>					
At 1 April 2012	781.6	161.5	24.9	-	968.0
Charge for the year	66.6	16.6	-	-	83.2
Disposals	(11.2)	(2.4)	-	-	(13.6)
<b>At 31 March 2013</b>	<b>837.0</b>	<b>175.7</b>	<b>24.9</b>	<b>-</b>	<b>1,037.6</b>
<b>Net book value:</b>					
At 31 March 2013	2,072.1	76.6	9.1	195.6	2,353.4
At 1 April 2012	1,833.0	88.0	9.1	289.6	2,219.7
The net book value of property, plant and equipment at 31 March 2013 is analysed as follows:					
Property, plant and equipment in use	2,072.1	76.6	9.1	-	2,157.8
Property, plant and equipment in the course of construction	-	-	-	195.6	195.6
<b>At 31 March 2013</b>	<b>2,072.1</b>	<b>76.6</b>	<b>9.1</b>	<b>195.6</b>	<b>2,353.4</b>

	Operating plant - distribution facilities £m	Operating plant - other (Note (i)) £m	Other items of property, plant and equipment in use £m	Operating plant in progress (Note (ii)) £m	Total £m
<b>Year ended 31 March 2014</b>					
<b>Cost:</b>					
At 1 April 2013	2,909.1	252.3	34.0	195.6	3,391.0
Additions	4.5	2.8	-	192.6	199.9
Transfers from in progress to plant in use	230.6	0.5	-	(231.1)	-
Disposals	(16.0)	(1.8)	-	-	(17.8)
<b>At 31 March 2014</b>	<b>3,128.2</b>	<b>253.8</b>	<b>34.0</b>	<b>157.1</b>	<b>3,573.1</b>
<b>Depreciation:</b>					
At 1 April 2013	837.0	175.7	24.9	-	1,037.6
Charge for the year	76.9	15.3	-	-	92.2
Disposals	(12.0)	(1.4)	-	-	(13.4)
<b>At 31 March 2014</b>	<b>901.9</b>	<b>189.6</b>	<b>24.9</b>	<b>-</b>	<b>1,116.4</b>
<b>Net book value:</b>					
At 31 March 2014	2,226.3	64.2	9.1	157.1	2,456.7
At 1 April 2013	2,072.1	76.6	9.1	195.6	2,353.4
The net book value of property, plant and equipment at 31 March 2014 is analysed as follows:					
Property, plant and equipment in use	2,226.3	64.2	9.1	-	2,299.6
Property, plant and equipment in the course of construction	-	-	-	157.1	157.1
<b>At 31 March 2014</b>	<b>2,226.3</b>	<b>64.2</b>	<b>9.1</b>	<b>157.1</b>	<b>2,456.7</b>

(i) The category "Operating plant - other" principally comprises meters and measuring devices.

(ii) The category "Operating plant in progress" principally comprises distribution facilities in the course of construction.

(iii) Additions of £195.4 million (2013 £191.7 million) were purchased from asset management entity SPPS, as shown in Note 26.

(iv) The cost of fully depreciated property, plant and equipment still in use at 31 March 2014 was £283.4 million (2013 £270.3 million).

(v) Included within the cost of property, plant and equipment are assets in use not subject to depreciation, being land of £7.4 million (2013 £7.3 million).

**SP DISTRIBUTION PLC (formerly SP DISTRIBUTION LIMITED)**  
**NOTES TO ACCOUNTS *continued***  
**31 March 2014**

**5 PROPERTY, PLANT AND EQUIPMENT *continued***

**(b) Operating lease arrangements**

	2014	2013
	£m	£m
<b>(i) Operating lease payments</b>		
Minimum lease payments under operating leases recognised as an expense in the year	0.2	0.2
Contingent based operating lease rents recognised as an expense in the year	0.1	0.1
Sublease payments recognised as an expense in the year	0.1	0.1
	<b>0.4</b>	<b>0.4</b>

	2014	2013
	£m	£m
<b>(ii) Operating lease commitments</b>		
The future minimum lease payments under non-cancellable operating leases are as follows:		
Within one year	0.2	0.1
Between one and five years	0.4	0.4
More than five years	0.2	0.2
	<b>0.8</b>	<b>0.7</b>

	2014	2013
	£m	£m
<b>(iii) Operating lease receivables</b>		
The future minimum lease payments receivable under non-cancellable operating leases are as follows:		
Within one year	0.5	0.6
Between one and five years	0.1	0.3
	<b>0.6</b>	<b>0.9</b>

Sublease payments of £0.1 million (2013 £0.1 million) were received in the year.

**(c) Capital commitments**

	2014	2013
	£m	£m
Contracted but not provided	<b>228.0</b>	<b>192.3</b>

**6 INVESTMENTS**

	Investment in subsidiaries	Other unlisted investments	Total
	£000	£000	£000
At 1 April 2012, 1 April 2013 and 31 March 2014	50	6	56

Subsidiaries	Place of incorporation or registration	Class of share capital	Proportion of shares held	Activity
SPD Finance UK plc ("SPDF")	England	Ordinary shares £1	100%	Finance company

**7 MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES**

The table below sets out the carrying amount and fair value of the company's financial instruments.

	Notes	2014		2013	
		Carrying amount	Fair value	Carrying amount	Fair value
		£m	£m	£m	£m
<b>Financial assets</b>					
Receivables		66.7	66.7	158.7	158.7
Cash and short term deposits	(a)	9.5	9.5	3.1	3.1
<b>Financial liabilities</b>					
Loans payable to Iberdrola group companies	(b)	(921.5)	(1,006.9)	(921.2)	(1,060.3)
Payables	(c)	(68.0)	(68.0)	(91.2)	(91.2)

The carrying amount of these financial instruments is calculated as set out in Note 2F. With the exception of loans payable, the carrying value of financial assets and liabilities is a reasonable approximation of fair value. The fair value of loans and borrowings is calculated as set out in Note (c).

- (a) As a general rule, cash deposited with banks earn interest at rates similar to market rates on daily deposits.
- (b) The carrying value of loans and other borrowings are accounted for at amortised cost. The carrying value of short-term debt is a reasonable approximation of fair value. The fair value of long-term debt is calculated using a discounted cashflow with the exception of the loan with SPDF, which is valued using the most recently traded price to the year end date of the external bond in SPDF due to mature in 2026.
- (c) Balances outwith the scope of IFRS 7 'Financial Instruments: Disclosures' have been excluded, namely, payments on account and other taxes payable.

**SP DISTRIBUTION PLC (formerly SP DISTRIBUTION LIMITED)**  
**NOTES TO ACCOUNTS *continued***  
**31 March 2014**

**8 LIQUIDITY ANALYSIS**

**Maturity profile of financial liabilities**

The table below summarises the maturity profile of the company's financial liabilities based on contractual undiscounted payments.

	2014						Total £m
	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 and thereafter £m	
Cash outflows							
Loans with Iberdrola group companies	121.9	34.3	121.1	33.9	269.5	702.2	1,282.9
Payables*	34.2	-	-	-	-	14.8	49.0
	<b>156.1</b>	<b>34.3</b>	<b>121.1</b>	<b>33.9</b>	<b>269.5</b>	<b>717.0</b>	<b>1,331.9</b>

	2013						Total £m
	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 and thereafter £m	
Cash outflows							
Loans with Iberdrola group companies	37.0	121.3	34.1	119.6	32.4	970.4	1,314.8
Payables*	50.8	-	-	-	-	21.3	72.1
	<b>87.8</b>	<b>121.3</b>	<b>34.1</b>	<b>119.6</b>	<b>32.4</b>	<b>991.7</b>	<b>1,386.9</b>

\* Contractual cash flows exclude accrued interest as these cash flows are included in external borrowings and loans with Iberdrola group companies.

**9 TRADE AND OTHER RECEIVABLES**

	Notes	2014 £m	2013 £m
<b>Current receivables:</b>			
Receivables due from Iberdrola group companies - trade		16.1	21.2
Receivables due from Iberdrola group companies - loans	(a)	8.1	97.5
Receivables due from Iberdrola group companies - interest		-	0.2
Trade receivables and accrued income	(b)	37.8	35.5
Other receivables		4.7	4.3
		<b>66.7</b>	<b>158.7</b>

- (a) Interest on current loans due from Iberdrola group companies is payable at 1% above the Bank of England base rate and the loans are repayable on demand.
- (b) Trade receivables are stated net of allowance for impairment of doubtful debts of £0.2 million (2013 £0.6 million). Trade receivables are assumed to approximate their fair values due to the short term nature of trade receivables. Provisions for doubtful debts have been estimated by management, taking into account future cash flows, based on prior experience, ageing analysis and an assessment of the current economic environment within which the company operates. The income statement credit on change in bad debt for the year to 31 March 2014 is £0.3 million (2013 £0.3 million).
- (c) At 31 March 2014 trade receivables of £0.7 million (2013 £5.3 million) were past due but not impaired.

	2014 £m	2013 £m
<b>Past due but not impaired:</b>		
Less than 3 months	0.4	4.4
Between 3 and 6 months	0.1	0.3
Between 6 and 12 months	0.1	0.3
After more than 12 months	0.1	0.3
	<b>0.7</b>	<b>5.3</b>

**10 SHARE CAPITAL**

	2014 £m	2013 £m
<b>Authorised:</b>		
300,000,000 ordinary shares of £1 each (2013 300,000,000)	300.0	300.0
<b>Allotted, called up and fully paid shares:</b>		
300,000,000 ordinary shares of £1 each (2013 300,000,000)	300.0	300.0

**SP DISTRIBUTION PLC (formerly SP DISTRIBUTION LIMITED)**  
**NOTES TO ACCOUNTS *continued***  
**31 March 2014**

**11 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF SP DISTRIBUTION PLC (formerly SP DISTRIBUTION LIMITED)**

	Ordinary share capital £m	Retained earnings (Note (a)) £m	Total £m
At 1 April 2012	300.0	776.9	1,076.9
Profit for the year attributable to equity holders of SP Distribution plc (formerly SP Distribution Limited)	-	152.7	152.7
Dividends	-	(468.0)	(468.0)
At 1 April 2013	300.0	461.6	761.6
Profit for the year attributable to equity holders of SP Distribution plc (formerly SP Distribution Limited)	-	127.5	127.5
Dividends	-	(98.0)	(98.0)
At 31 March 2014	300.0	491.1	791.1

(a) Retained earnings comprise the cumulative balance of profits and losses recognised in the financial statements as adjusted for transactions with shareholders, principally dividends.

**12 DEFERRED INCOME**

	At 1 April 2012 £m	Receivable during year £m	Released to Income statement £m	At 31 March 2013 £m
Year ended 31 March 2013	386.7	72.7	(13.2)	446.2

	At 1 April 2013 £m	Receivable during year £m	Released to Income statement £m	At 31 March 2014 £m
Year ended 31 March 2014	446.2	47.3	(14.2)	479.3

**13 PROVISIONS**

	Notes	At 1 April 2012 £m	New provisions £m	Utilised during the year £m	At 31 March 2013 £m
Year ended 31 March 2013		4.8	0.1	(1.5)	3.4
Environmental costs	(a)	1.0	0.1	-	1.1
Contract termination costs	(b)	3.8	-	(1.5)	2.3

	Notes	At 1 April 2013 £m	New provisions £m	Released during the year £m	Utilised during the year £m	At 31 March 2014 £m
Year ended 31 March 2014		3.4	0.1	(1.0)	(1.5)	1.0
Environmental costs	(a)	1.1	0.1	-	(0.2)	1.0
Contract termination costs	(b)	2.3	-	(1.0)	(1.3)	-

	2014 £m	2013 £m
Analysis of total provisions	1.0	3.4
Current	0.8	2.7
Non-current	0.2	0.7

(a) The provision for environmental costs relates to obligations under the Control of Asbestos at Work Regulations. The timeframe for the surveys to be completed at each substation was reassessed during the year, with £0.2 million (2013 £0.7 million) being considered to be non-current. The remainder of the costs are expected to be incurred in the next financial year.

(b) The provision for contract termination costs relates to likely contractor payments following the termination of contracts. The provision was utilised during the year.

**SP DISTRIBUTION PLC (formerly SP DISTRIBUTION LIMITED)**  
**NOTES TO ACCOUNTS *continued***  
**31 March 2014**

**14 LOANS AND OTHER BORROWINGS**

**(a) Analysis of loans and other borrowings by instrument and maturity**

	Notes	Interest rate*	Maturity	2014 £m	2013 £m
<b>Analysis by instrument and maturity</b>					
Intercompany loan with SPL	(i)	LIBOR + 0.34%	17 December 2018	150.0	150.0
Intercompany loan with SPUK	(ii),(iii)	3.416%	21 December 2022	425.0	425.0
Intercompany loan with SPDF	(iv)	5.875%	17 July 2026	346.5	346.2
<b>Total debt</b>				<b>921.5</b>	<b>921.2</b>

\*LIBOR - London Inter Bank Offer Rate

	2014 £m	2013 £m
<b>Analysis of total loans and other borrowings</b>		
Current	84.7	-
Non-current	836.8	921.2
	<b>921.5</b>	<b>921.2</b>

- (i) For LIBOR linked debt, a 1% increase in the LIBOR rate would result in a £1.5 million increase in the full year interest charge.
- (ii) Under the conditions of the long term loan agreements between the company and SPUK, the company has an option, without fee or penalty, to make a repayment in whole or in part, of the then outstanding loan principal, plus accrued interest thereon, by providing SPUK with written notice at least five business days before the intended repayment date.
- (iii) The intercompany loan with SPUK that is due to mature in December 2022 has a schedule of repayments commencing in 2014. The first repayment of £85.0 million is classified as current in the above analysis.
- (iv) The intercompany loan with SPDF is shown net of finance costs, of which £0.3m are classified as current in the analysis above.

**(b) Borrowing facilities**

The company has no undrawn committed borrowing facilities at 31 March 2014 (2013 £nil).

**15 TRADE AND OTHER PAYABLES**

	Note	2014 £m	2013 £m
<b>Current trade and other payables:</b>			
Payables due to Iberdrola group companies - trade		27.6	48.2
Payables due to Iberdrola group companies - interest		19.0	19.1
Other taxes and social security		11.2	10.2
Payments received on account		63.1	59.5
Other payables		6.6	2.6
		<b>127.5</b>	<b>139.6</b>
<b>Non-current trade and other payables:</b>			
Payables due to Iberdrola group companies - trade	(a)	14.8	21.3

- (a) The company utilises forms of collateral to manage its credit exposure in respect of the provision of network services. All collateral held is settled in cash. At 31 March 2014, the company held cash collateral of £14.8 million (2013 £21.3 million).

**16 DEFERRED TAX**

Deferred tax provided in the Accounts is as follows:

	Property, plant and equipment £m	Other temporary differences £m	Total £m
Deferred tax provided at 1 April 2012	203.5	-	203.5
Credit to income statement	(5.6)	-	(5.6)
Deferred tax provided at 1 April 2013	197.9	-	197.9
Credit to income statement	(23.1)	(0.1)	(23.2)
<b>Deferred tax provided at 31 March 2014</b>	<b>174.8</b>	<b>(0.1)</b>	<b>174.7</b>

Finance Act 2012 contained legislation to set the rate of UK Corporation tax at 23% from 1 April 2013. In the year to 31 March 2013, the rate of tax expected to apply when temporary differences reverse reduced from 24% to 23%. Finance Act 2013 contained legislation to reduce the rate to 21% from 1 April 2014 and to 20% from 1 April 2015. These changes have reduced the tax rates expected to apply when temporary differences reverse.

**SP DISTRIBUTION PLC (formerly SP DISTRIBUTION LIMITED)**  
**NOTES TO ACCOUNTS *continued***  
**31 March 2014**

**17 EMPLOYEE INFORMATION**

**(a) Staff costs**

	Note	2014 £'000	2013 £'000
Wages and salaries		612	556
Social security costs		58	51
Pension and other costs		146	130
<b>Total employee costs</b>	(i)	<b>816</b>	<b>737</b>

(i) The employee costs do not include the directors of the company as they do not have a contract of service with the company. The emoluments of all directors are included within the employee costs of other ScottishPower group companies. Details of directors' emoluments are set out in Note 26.

**(b) Employee numbers**

The year end and average numbers of employees (full and part-time) employed by the company, excluding executive directors, were:

	Year end 2014	Average 2014	Year end 2013	Average 2013
Administrative	12	10	10	10

The year end and average numbers of full time equivalent staff employed by the company match those stated above.

**(c) Pensions**

The company's contributions payable in the year were £145,500 (2013 £129,600). The company contributes to the ScottishPower group's defined benefit and defined contribution schemes in the UK. Full details of these schemes are provided in the most recent Annual Report & Accounts of SPL. As at 31 December 2013, the deficit in the ScottishPower group's defined benefit schemes in the UK amounted to £332.7 million (2012 £498.7 million). The employer contribution rate for these schemes in the year ended 31 December 2013 was 30.1%-31%.

**18 TAXES OTHER THAN INCOME TAX**

	2014 £m	2013 £m
Property taxes	35.7	40.0

**19 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS**

	2014 £m	2013 £m
Property, plant and equipment depreciation charge	92.2	83.2
Intangible asset amortisation	1.1	1.4
Charges and provisions and allowances	4.2	1.9
	<b>97.5</b>	<b>86.5</b>

**20 FINANCE INCOME**

	2014 £m	2013 £m
Interest receivable from Iberdrola group companies	1.1	1.0

**21 FINANCE COSTS**

	2014 £m	2013 £m
Interest on amounts payable to Iberdrola group companies	37.1	27.3

**SP DISTRIBUTION PLC (formerly SP DISTRIBUTION LIMITED)**  
**NOTES TO ACCOUNTS *continued***  
**31 March 2014**

**22 INCOME TAX**

	2014	2013
	£m	£m
Current tax:		
UK Corporation tax	27.3	36.7
Adjustments in respect of prior years	(0.1)	(4.4)
<b>Current tax for the year</b>	<b>27.2</b>	<b>32.3</b>
Deferred tax:		
Origination and reversal of temporary differences	2.9	7.1
Adjustments in respect of prior years	-	(3.8)
Impact of rate change on deferred tax	(26.1)	(8.9)
<b>Deferred tax credit for the year</b>	<b>(23.2)</b>	<b>(5.6)</b>
<b>Income tax expense for the year</b>	<b>4.0</b>	<b>26.7</b>

The tax expense on profit on ordinary activities for the year varied from the standard rate of UK Corporation tax as follows:

	2014	2013
	£m	£m
UK Corporation tax at 23% (2013 24%)	30.2	43.1
Impact of rate change from headline corporation tax rate	(0.2)	0.5
Adjustments in respect of prior years	(0.1)	(8.2)
Impact of tax rate change	(26.1)	(8.9)
Other permanent difference	0.2	0.2
<b>Income tax expense for the year</b>	<b>4.0</b>	<b>26.7</b>

The rate of UK Corporation tax reduced from 24% to 23% on 1 April 2013 and from 26% to 24% on 1 April 2012.

The 2013 Finance Act includes legislation which will reduce the rate of UK Corporation tax to 21% on 1 April 2014 and to 20% on 1 April 2015. These further reductions impact the deferred tax charge as they reduce the tax rate expected to apply when the temporary differences reverse.

**23 DIVIDENDS**

	2014	2013	2014	2013
	pence per ordinary share	pence per ordinary share	£m	£m
Interim dividend paid	32.7	156.0	98.0	468.0

An interim dividend of £44.0 million was approved on 7 May 2014 by the SP Distribution Board and subsequently paid on 21 May 2014.

**24 CONTINGENT LIABILITIES**

As part of the exercise to achieve legal separation of SPUK's businesses pursuant to the provision of the Utilities Act 2000, the company and other subsidiary companies of SPUK were each required to jointly provide guarantees to external lenders of SPUK for debt existing in that company at 1 October 2001. The value of debt guaranteed by these companies, which was still outstanding at 31 March 2014 was £1,213.4 million (2013 £1,205.1 million).

The company has unconditionally and irrevocably guaranteed the debt of SPDF. The value of debt guaranteed at 31 March 2014 was £350.0 million (2013 £350.0 million).

**25 FINANCIAL COMMITMENTS**

**Other contractual commitments**

	2014	2013
	£m	£m
Provision of asset management services from SPPS	-	69.7

The contract for the provision for asset management services provided by SP Power Systems Limited expired on 31 March 2014. Negotiations concerning the extension of the contract are currently underway.

**SP DISTRIBUTION PLC (formerly SP DISTRIBUTION LIMITED)**  
**NOTES TO ACCOUNTS *continued***  
**31 March 2014**

**26 RELATED PARTY TRANSACTIONS**

**(a) Transactions and balances arising in the normal course of business**

	2014				2013			
	UK parent (SPL) £m	Immediate parent (SPENH) £m	Subsidiary (SPDF) £m	Other Iberdrola group companies £m	UK parent (SPL) £m	Immediate parent (SPENH) £m	Subsidiary (SPDF) £m	Other Iberdrola group companies £m
<b>Types of transaction</b>								
Sales and rendering of services	-	-	-	110.0	-	-	-	144.9
Purchases and receipt of services	-	-	-	(82.6)	-	-	(0.1)	(53.1)
Finance income	-	-	-	1.1	-	-	-	1.0
Finance costs	(1.4)	-	(20.9)	(14.8)	(2.1)	-	(21.0)	(4.2)
Purchases of property, plant and equipment	-	-	-	(195.4)	-	-	-	(191.7)
Dividends paid	-	(98.0)	-	-	-	(468.0)	-	-
<b>Balances outstanding</b>								
Loans receivable	-	-	-	8.1	-	-	-	97.5
Trade receivables	-	-	-	16.1	-	-	-	21.2
Interest receivable	-	-	-	-	-	-	-	0.2
Loans payable	(150.0)	-	(346.5)	(425.0)	(150.0)	-	(346.2)	(425.0)
Trade payables	-	-	-	(42.4)	-	-	-	(69.5)
Interest payable	(0.4)	-	(14.5)	(4.1)	(0.4)	-	(14.5)	(4.2)

- (i) During the year ended 31 March 2014, SPUK made pension contributions of £145,500 on behalf of the company (2013 £129,600).  
(ii) The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

**(b) Remuneration of key management personnel**

The remuneration of the key management personnel of the company is set out below. As all of the key management personnel are remunerated for their work for the Iberdrola group, it has not been possible to apportion the remuneration specifically in respect of services to this company. All of the key management personnel are paid by other companies within the ScottishPower group.

	2014	2013
Type of related party	£000	£000
Short-term employee benefits	1,627	1,512
Post-employment benefits	415	246
Share-based payments	564	219
<b>Total</b>	<b>2,606</b>	<b>1,977</b>

**(c) Directors' remuneration**

The total emoluments of the directors that provided qualifying services to the company are shown below. As these directors are remunerated for their work for the Iberdrola group, it has not been possible to apportion the emoluments specifically in respect of services to this company. All the directors were paid by other companies within the ScottishPower group.

	2014	2013
	£000	£000
Aggregate remuneration in respect of qualifying services	646	633
Number of directors who exercised share options	1	1
Number of directors who received shares under a long-term incentive scheme	2	2
Number of directors accruing retirement benefits under a defined benefit scheme	2	2
<b>Highest paid director</b>	<b>£000</b>	<b>£000</b>
Aggregate remuneration in respect of qualifying services	472	464
Accrued pension benefit	88	85

- (i) The highest paid director received shares under a long-term incentive scheme during both years.  
(ii) The highest paid director exercised share options during both years.

**SP DISTRIBUTION PLC (formerly SP DISTRIBUTION LIMITED)**  
**NOTES TO ACCOUNTS *continued***  
**31 March 2014**

**26 RELATED PARTY TRANSACTIONS *continued***

**(d) Ultimate parent company and immediate parent company**

The directors regard Iberdrola S.A. (incorporated in Spain) as the ultimate parent company, which is also the parent company of the largest group in which the results of the company are consolidated. The parent company of the smallest group in which the results of the company are consolidated is SPENH.

Copies of the Consolidated Accounts of Iberdrola S.A. may be obtained from Iberdrola S.A., Torre Iberdrola, Plaza Euskadi 5, 48009, Bilbao, Spain. Copies of the Consolidated Accounts of SPENH may be obtained from The Secretary, Scottish Power UK plc, 1 Atlantic Quay, Glasgow, G2 8SP.

**27 AUDITORS' REMUNERATION**

	2014	2013
	£m	£m
Audit of the company's annual accounts and regulatory accounts	0.1	0.1

**28 GOING CONCERN**

The company's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report on pages 1 to 8.

The company has recorded a profit after tax in both the current year and previous financial years and the company's balance sheet shows that it has net current liabilities of £159.9 million and net assets of £791.1 million at its most recent balance sheet date.

The company is ultimately owned by Iberdrola S.A. and it participates in the Iberdrola group's centralised treasury arrangements and so shares banking facilities with its parent companies and fellow subsidiaries. As a consequence, the company depends, in part, on the ability of the Iberdrola group to continue as a going concern. The directors have considered the company's funding relationship with Iberdrola to date and have considered available relevant information relating to Iberdrola's ability to continue as a going concern. In addition, the directors have no reason to believe that the Iberdrola group will not continue to fund the company, should it become necessary, to enable it to continue in operational existence.

On the basis of these considerations, the directors have a reasonable expectation that the company will be able to continue in operational existence for the foreseeable future. Therefore, they continue to adopt the going concern basis of accounting in preparing the Accounts.