

**SP DISTRIBUTION PLC**  
**CORPORATE REPORT & REGULATORY ACCOUNTS**  
**for the year ended 31 March 2015**

Registered No. SC189125

**SP DISTRIBUTION PLC**  
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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 STRATEGIC REPORT**

The directors present an overview of SP Distribution plc's structure, 2014/15 performance, strategic objectives and plans.

### **STRATEGIC OUTLOOK**

The principal activity of SP Distribution plc ("the company"), registered company number SC189125, is the ownership and operation 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 ("SPL") is the United Kingdom ("UK") holding company of the Scottish Power Limited group ("ScottishPower") of which the company is a member.

The company is part of ScottishPower's 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 ("SPM") and SP Transmission plc ("SPT"), are "asset-owner companies" 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 a natural monopoly and is governed by The Office of Gas and Electricity Markets ("Ofgem") via regulatory price controls. The primary objective of the regulation of the electricity networks is the protection of customers interests while ensuring that demand can be met and companies are able to finance their activities. Price controls are the method by which the amount of allowed revenue is set for network companies over the period of the price control. Price control processes are designed to cover the company's efficient costs and allows it to earn a reasonable return, provided it behaves efficiently, delivers value for customers and meet Ofgem targets.

The company faces considerable challenges over the next decade to secure the significant investment required to maintain reliable and secure networks. To ensure that this investment is delivered at a fair price for customers, Ofgem have introduced a new RIIO framework (Revenue = Incentives + Innovation + Outputs). It is a performance based model, lasting eight years, that places 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 and the provision of incentives to reduce network costs for both current and future customers.

During the regulatory year to 31 March 2015 the company operated in accordance with Ofgem Electricity Distribution Price Control Review 5 ("DPCR5"), which applied from 1 April 2010 to 31 March 2015.

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

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

## SP DISTRIBUTION PLC

### STRATEGIC REPORT *continued*

#### STRATEGIC OUTLOOK *continued*

Under the first three schemes the company is rewarded or penalised depending upon its performance against pre-specified targets. Ofgem will determine the final position for these incentives; however the company believes it has outperformed and earned financial rewards in DPCR5. For customer satisfaction the incentive is dependent upon the relative performance against other DNOs.

RIIO-ED1 operates from 1 April 2015 to 31 March 2023. The company's Business Plan was submitted in March 2014 and Ofgem published their final determination in November 2014. Overall, the Electricity Distribution Licences ("licences") have received a challenging outcome compared with existing regulatory arrangements, with a reduction in shareholder allowed returns, whilst setting further efficiency challenges from benchmarking, smart metering and reduced allowances for commodities such as copper. On 3 February 2015 Ofgem published the statutory notice to enact the RIIO-ED1 price controls in the licences of the electricity distribution companies with effect from 1 April 2015. Energy Networks has accepted the modifications to the company's and SP Manweb plc's licences. On 3 March 2015, two appeals, the results of which may affect the company, were lodged with the Competitions and Market Authority ("CMA") by third parties; the outcome of these appeals is unlikely to be known until late autumn 2015.

The main incentives operated by Ofgem in RIIO-ED1 focus on:

- Efficiency;
- Quality of service including:
  - number of interruptions to customers' supplies; and
  - duration of those interruptions;
- Network outputs (e.g. volumes of assets replaced/refurbished, network capacity delivered); and
- Broad measure of customer service.

The key strategies for the company until the end of RIIO-ED1 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.

#### 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 minimus
	£m	(DUOS)	services	£m	£m
For the year ended 31 March 2015		£m	£m		
Revenue*	370.0	356.5	-	13.5	-
Procurements*	(23.4)	(23.4)	-	-	-
	346.6	333.1	-	13.5	-
Staff costs*	(1.1)	(1.1)	-	-	-
Outside services*	(84.3)	(66.9)	(12.0)	(3.9)	(1.5)
Other operating income*	30.8	0.7	28.6	-	1.5
	(54.6)	(67.3)	16.6	(3.9)	-
Taxes other than income*	(42.0)	(42.0)	-	-	-
	250.0	223.8	16.6	9.6	-
Depreciation and amortisation charges, allowances and provisions*	(98.8)	(68.3)	(18.5)	(12.0)	-
<b>PROFIT/(LOSS) FROM OPERATIONS*</b>	<b>151.2</b>	<b>155.5</b>	<b>(1.9)</b>	<b>(2.4)</b>	<b>-</b>
<b>Property, plant and equipment asset additions**</b>	<b>221.6</b>	<b>218.8</b>	<b>-</b>	<b>2.8</b>	<b>-</b>

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

\*As presented in the Income Statement on page 21.

\*\*As presented within Note 5 on page 29.

## **SP DISTRIBUTION PLC**

### **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 continued to focus on cost control with efficiency improvements allowing increased operating activity to be managed within the existing cost base.

The company's profit from operations was £151.2 million, a decrease of £16.2 million compared to the prior year, and net profit was £89.7 million, a decrease of £37.8 million compared to the prior year.

**Revenue** fell by £7.3 million in comparison to prior year as a result of a reduction in base revenues.

**Procurements** increased by £8.0 million due to greater Grid Supply Point activity.

**Outside services** have reduced by £3.0 million primarily as a result of lower recharges from SPPS and other Iberdrola companies.

**Other operating income** increased by £4.0 million primarily as a result of higher deferred income and an increase in diversions income.

**Taxes other than income tax** have increased by £6.3 million largely as a result of a rates refund in the prior year.

**Depreciation and amortisation charge, allowances and provisions** is broadly in line with prior year.

**Net finance costs** increased slightly due to fluctuations in the on demand loan facility held with Scottish Power UK plc ("SPUK"), which at 31 March 2015 was in a receivable position.

The **income tax expense** has increased compared with the prior year due to the one off beneficial impact in 2013/14 on deferred tax due to the change in 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. The company earns allowed returns on this extensive capital investment programme.

Net capital investment for the year was £171.1 million (2014 £152.6 million) consisting of fixed asset additions of £221.6 million (2014 £199.9 million) less capital contributions received of £50.5 million (2014 £47.3 million). Property, plant and equipment additions in relation to growth of the network amounted to £86.6 million (2014 £62.6 million) less capital contributions of £50.5 million (2014 £47.3 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 £135.0 million (2014 £137.3 million). The scale of investment is consistent with the five-year price review period allowed capital expenditure programme.

**SP DISTRIBUTION PLC**  
**STRATEGIC REPORT** *continued*

**OPERATIONAL PERFORMANCE** *continued*

The tables below provide key non-financial performance indicators relating to the company's operational assets and operational performance during the year ended 31 March 2015:

		Year ended 31 March 2015	Year ended 31 March 2014
<b>Operational assets</b>	Note		
Franchise area (km <sup>2</sup> )		22,950	22,950
System maximum demand (Megawatts ("MW"))	(a)	3,414	3,426
Distributed energy (Gigawatt hours ("GWh"))		18,589	18,943
Length of overhead lines (circuit km)		19,319	19,389
Length of underground cables (circuit km)		38,960	38,588

(a) System maximum demand value for the regulatory year to 31 March 2015 has been finalised at 3,414 MW and for the regulatory year to 31 March 2014 was finalised at 3,426 MW.

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 2014/15 Electricity Distribution Quality of Service Report to be published online at [www.ofgem.gov.uk](http://www.ofgem.gov.uk) from December 2015.

		Actual Year ended 31 March 2015	Target Year ended 31 March 2015	Actual Year ended 31 March 2014	Target Year ended 31 March 2014
<b>Operational performance</b>	Notes				
<b>Quality of service</b>					
Customer minutes lost ("CML")	(a)	34.2	57.5	43.8	59.5
Customer interruptions ("CI")	(b)	46.7	60.1	53.1	60.1
Average time off supply (minutes)		73	96	83	99
Electricity supply available		99.99%	99.99%	99.99%	99.99%
<b>Customer performance</b>					
Broader customer service measure	(c)	8.4	8.5	8.3	8.3
Energy ombudsman (customer complaints)	(d)	1	-	9	-

(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, a complaints metric and stakeholder engagement. The rating is out of ten. Attached to the measure are financial rewards and penalties related to 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 2014/15 the supply of energy to customers was disrupted by two major storm events which met Ofgem's 'exceptional event' exclusion criterion; both were wind and gale storms in January 2015. The underlying CML and CI are estimated at 34.2 and 46.7 respectively for the year to 31 March 2015. These values will be validated and confirmed by Ofgem in their final direction in relation to the 2014/15 storm events, due to be published in December 2015. During 2013/14 there were three exceptional storm events.

The 'broader customer service measure' combines the results of a detailed customer satisfaction survey, a complaints metric and stakeholder engagement. For the 2014/15 regulatory year, within the customer satisfaction survey element the company was ranked 9th out of 14 DNO's with an overall score of 8.4 out of 10. The penalty for the company's performance was £0.5 million.

During the course of the year £22.9 million was invested to refurbish or rebuild the overhead line network. In addition £3.7 million was invested in tree cutting activities. Both of these investments have contributed significantly to improving performance of distribution assets during storms.

## **SP DISTRIBUTION PLC**

### **STRATEGIC REPORT** *continued*

#### **OPERATIONAL PERFORMANCE** *continued*

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.

#### **PROJECTS**

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.

##### *Network growth*

Seven major customer-related projects were undertaken by the company to facilitate new demand and generation connections. The projects were wind farm connections, for generation at seven sites; Muirhall Extension, Livingston; Earlseat, Fife; Ardoch and Over Enoch, East Kilbride; Tod Hill, Falkirk; Torrance Extension, Lanarkshire; Langhope Rigg, Borders; and Barmoor, Berwick. These projects involved extending the network by approximately 45 km of underground cable and adding seven new 33 kV substations to the network.

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 Castlandhill, Kaimes and Telford Road substations were completed in 2014/15 along with significant cable reinforcement projects in the Monktonhall, Tranent and Cockenzie areas of Edinburgh. Further projects will complete later in 2015 at Dumbarton and Kaimes. Work has commenced to provide additional capacity in East Kilbride and to uprate the network around Gylemuir in Edinburgh from 6.6 kV to 11 kV and will continue into 2016. Reinforcement projects to address specific fault-level issues continued at Kilmarnock, Port Dundas, Partick, Paisley and Sighthill and are currently forecast to complete during 2015 and 2016.

##### *Asset modernisation*

Replacement of 33 kV switchgear was completed at East Kilbride South and Westfield during the year and work is ongoing to replace 33 kV switchgear at Bonnybridge and Ravenscraig.

The replacement of 33 kV transformers was also completed at Uddingston, Newhouse, Hunter Street, Forth, Fairlie and Lauder during the year. Over 250 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 involving the 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 2014/15, providing modernised supplies to over 13,000 customers. 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 its condition and resilience to abnormal weather events. Major overhead line projects involving the complete rebuild of 33 kV overhead line circuits around Tongland, Castle Douglas, and Dalbeattie were completed in 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 6,900 clearance defects in 2014/15. This programme will continue throughout the foreseeable future.

## SP DISTRIBUTION PLC

### STRATEGIC REPORT *continued*

#### LIQUIDITY AND CASH MANAGEMENT

##### *Cash and net debt*

Net cash flows from operating activities increased by £18.3 million to £262.6 million for the year, as detailed on page 23. As outlined in the table below, net debt increased by £112.8 million to £1,016.7 million. During the year to 31 March 2015, the primary obligation on the £350 million euro-sterling bond, originally issued by SPD Finance UK plc ("SPDF") and guaranteed by the company, was transferred to the company via a legal issuer substitution. Subsequently the £350 million intercompany loan between the company and SPDF that mirrored this bond was duly cancelled. The movement in loans payable to Iberdrola group companies is primarily attributable to a new £200 million loan with SPUK due to mature in 2025, offset by the cancellation of the £350 million internal loan with SPDF and a capital repayment of £85.0 million on the long term loan with SPUK due to mature in 2022.

		2015	2014
Analysis of net debt	Notes	£m	£m
Cash and short-term deposits	(a)	7.5	9.5
Group loans receivable	(b)	12.5	8.1
Loans payable to Iberdrola group companies	(c)	(690.0)	(921.5)
External loans payable	(d)	(346.7)	-
<b>Net debt</b>		<b>(1,016.7)</b>	<b>(903.9)</b>

- (a) As detailed on the balance sheet, refer to page 20.
- (b) Loans due from Iberdrola group companies, refer to Note 7 on page 31.
- (c) Loans payable to Iberdrola group companies, refer to Note 14 on page 34.
- (d) External loans payable comprises debt as detailed in Note 14 on page 34.

##### *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 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, should it be necessary, 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").



## SP DISTRIBUTION PLC

### STRATEGIC REPORT *continued*

#### HEALTH AND SAFETY *continued*

Compliance with the above legislation and standards 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 strives 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 has 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.

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

		Actual Year ended 31 March 2015	Target Year ended 31 March 2015
	Notes		
Total recordable incident rate	(a)	0.22	0.26
Lost time accidents		4	5
Occupational health monitoring	(b)	98%	90%
Audit and inspection programme completion	(c)	112%	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.
- (b) Occupational health monitoring is a measure of how we meet our planned forecasts for those staff assessed as at risk.
- (c) Audit and inspection programme completion is the measurement of the planned internal management system audits and Energy Networks compliance inspections, both against Energy Networks own staff and contracting partners.

During the year there has been a continued focus on employee involvement in health and safety with "Safety Stand-Downs" being held covering specific issues that are topical. The stand-downs provide a forum for raising awareness and 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 school teaching programmes.

#### PRINCIPAL RISKS AND UNCERTAINTIES

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.

Further details of ScottishPower's governance structure and risk management are provided in Note 4 of the Annual Report and Accounts of SPL.

**SP DISTRIBUTION PLC**  
**STRATEGIC REPORT** *continued*

**PRINCIPAL RISKS AND UNCERTAINTIES** *continued*

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:

<b>RISK</b>	<b>RESPONSE</b>
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.
Adverse findings from the CMA market investigation.	Proactive and positive engagement process with business, legal and regulatory experts and advisors aimed at seeking outcomes that are well founded and positive for competition.
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 operations.

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:

<b>RISK</b>	<b>RESPONSE</b>
Regulatory uncertainty over future RIIO-ED1 distribution cash flows until the CMA makes a decision on two appeals in late Autumn 2015.	The final determination for RIIO-ED1 was published in November 2014. Energy Networks has accepted the licence modifications in respect of the company and SP Manweb plc. However two appeals have been lodged with the CMA, which may have an impact on the company. Business, legal and regulatory experts, with advisors, will work to ensure that a well-founded and fair outcome is achieved.
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 2015 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 15.

**SP DISTRIBUTION PLC**  
**STRATEGIC REPORT** *continued*

**PRINCIPAL RISKS AND UNCERTAINTIES** *continued*

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. Liquidity risk is managed by Iberdrola Group Treasury, who are 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 2015, 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  
24 June 2015

## **SP DISTRIBUTION PLC DIRECTORS' REPORT**

The directors present their report and audited Regulatory Accounts for the regulatory year ended 31 March 2015.

### **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 9:

- 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 £89.7 million (2014 £127.5 million). The aggregate dividends paid during the year amounted to £119.0 million (2014 £98.0 million).

### **ENVIRONMENTAL MANAGEMENT AND 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.spenergynetworks.co.uk/pages/other\\_reports.asp](http://www.spenergynetworks.co.uk/pages/other_reports.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, grievance, harassment, discrimination, stress, anti-bribery and 'whistleblowing' and have been brought together in the Code of Ethics of Iberdrola and its group of companies (which also outlines expectations for employees' conduct).

#### *Training*

ScottishPower has a continuing commitment to training and personal development for its employees with over 15,000 training events (over 191,000 hours) undertaken in the year to 31 December 2014. Much of the training is focused on health and safety and technical training ensuring field staff are safe and competent. In addition, ScottishPower recruits over 100 craft and engineering trainees annually who undertake a concentrated training period as part of their induction and development programme, leading toward a recognised apprenticeship or formal engineering qualification. Team leaders and managers also participate in core management skills training and there are management development programmes and modules aimed at increasing our leadership capability.

#### *Employee feedback and consultation*

ScottishPower believes that it is important that all employees have the opportunity to get involved and share their views. During 2014 around 60% of employees took part in the annual employee survey 'The LOOP'<sup>1</sup> and the overall engagement score remained high at 75%. In 2014 the key areas of action included the launch of an online development toolkit to improve the opportunities for employees to develop, a focus on internal communications to keep employees more informed about what is happening in the organisation, and a review of how to best recognise the efforts of employees.

Regular consultation takes place with employees using a variety of means, including monthly team meetings, team managers' conferences, business roadshows, safety committees, employee relations mechanisms and presentations.

#### *Equality and diversity*

ScottishPower recognises the importance of difference and respects individuality as part of its ongoing commitment to promoting equality and diversity. ScottishPower also understands that diversity goes beyond legally compliant policies and practices. It also includes a focus on creating an innovative, integrated organisation where people feel valued, inspiring them to perform at their best. During 2014 Employers Network for Equality & Inclusion ("ENEI") were appointed to conduct an external diversity and inclusion audit across ScottishPower and support development of a clear, specific and practical action plan. This action plan will be progressed throughout 2015.

<sup>1</sup> The 'LOOP' Survey is an internal employee relations initiative.

## **SP DISTRIBUTION PLC**

### **DIRECTORS' REPORT** *continued*

#### **EMPLOYEES** *continued*

##### *Employment of disabled persons*

In support of the policy on Equality and Diversity on the previous page, ScottishPower expects all employees to be treated with respect and has supporting policy guidance on People with Disabilities and Reasonable Adjustments to help ensure equality of employment opportunity for people with disabilities. The aim of these guidelines is to establish working conditions that 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.

##### *Employee health and wellbeing*

ScottishPower promotes and supports the physical and mental health and wellbeing of its employees through a programme of health promotion and information run by its occupational health department.

##### *Employee volunteering*

ScottishPower prides itself in being a good corporate neighbour, providing support to the communities it serves in each of its operating areas. Volunteering is central to community involvement and ScottishPower has an excellent track record in this area. During 2014 ScottishPower introduced a new company-wide Volunteering Policy. This policy gives all registered volunteers, on an annual basis, an opportunity to take an additional one day's paid leave, to be used as a volunteering day.

#### **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 and 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 interacts with 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.

ScottishPower 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 is happening in their area in advance, allowing communities to have their say. This is of particular importance to the business as a developer, owner and operator of longstanding relationships in many of the communities in which it works.

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 facilities 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.

## **SP DISTRIBUTION PLC**

### **DIRECTORS' REPORT** *continued*

#### **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 2015, ScottishPower paid a total of £21,000 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 £7,000

ScottishPower was represented at all the major UK political party conferences in 2014, and sponsored receptions at the conferences of the above parties. 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	(resigned 24 June 2014)
Professor Sir James McDonald	
Elizabeth Haywood	(appointed 1 January 2015)
Wendy Barnes	(appointed 1 January 2015)

Guy Jefferson was appointed as a director of SP Distribution plc on 30 April 2015.

#### **DISCLOSURE OF INFORMATION TO AUDITORS**

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

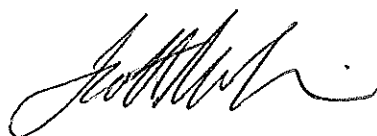
- so far as he or she is aware, there is no relevant audit information of which the company's auditor is unaware; and
- he or she has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that 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 2015.

#### **ON BEHALF OF THE BOARD**



**Scott Mathieson**  
Director  
24 June 2015

## SP DISTRIBUTION PLC

### 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***

During the regulatory year, the company was governed by a Board ("the SP Distribution Board") consisting of two executive directors, bringing a broad range of skills and experience to the company. The SP Distribution Board has also been enhanced, over the course of the year, by the appointment of two independent non-executive directors to 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.

In addition to formal SP Distribution plc and SPENH Board meetings, which are convened as required, the directors and other senior managers within the Regulatory Business 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 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 comprised the Chairman Javier Villalba Sánchez and eight other directors as at 31 March 2015. 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	Non-independent, non-executive director
José Izaguirre Nazar	Non-independent, non-executive director
Scott Mathieson	Executive director
Dame Denise Holt	Independent non-executive director (resigned 24 June 2014)
Professor Sir James McDonald	Independent non-executive director
Elizabeth Haywood	Independent non-executive director (appointed 1 January 2015)
Wendy Barnes	Independent non-executive director (appointed 1 January 2015)

## SP DISTRIBUTION PLC

### CORPORATE GOVERNANCE STATEMENT *continued*

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

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

SPENH Board meetings were held on seven 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 six meetings
Dame Denise Holt	Attended one meeting
Professor Sir James McDonald	Attended five meetings
Elizabeth Haywood	Attended two meetings
Wendy Barnes	Attended three meetings

##### **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 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 ScottishPower's internal control, internal audit, compliance and risk management systems; and
- monitoring the statutory audit of the annual and consolidated Accounts of ScottishPower.

The ACC comprises three members, including two independents, as indicated in the table below. The ACC met six 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
Professor Susan Deacon	External independent, attended all meetings
Juan Carlos Rebollo Liceaga	Non-independent, attended all meetings

##### **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 (Chairperson)	External independent
Iñigo 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.



## **SP DISTRIBUTION PLC**

### **CORPORATE GOVERNANCE STATEMENT** *continued*

#### **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. Furthermore, ScottishPower has a 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 with the Energy Network specific policy also being adopted by the SPENH Board. 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.

#### **Capital investment**

Capital investment proposals are considered by the Regulated Business' Investment Review Group ("IRG"). Membership of the IRG includes the Business Executive Team 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.

## **SP DISTRIBUTION PLC**

### **CORPORATE GOVERNANCE STATEMENT** *continued*

#### **Monitoring and corrective action**

The management team of the company 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 auditors. This committee and the firm of external auditors have safeguards to avoid the possibility that the auditors' 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 auditors for sound commercial and practical reasons, including confidentiality, the conduct of such work is permissible provided that all necessary internal governance requirements have been met.

#### **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**

### **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 ("the company")**

We have audited the Regulatory Accounts of the company for the year ended 31 March 2015 (the "Regulatory Accounts") which comprise the Balance Sheet, Income Statement and Statement of Comprehensive Income, 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 24 to 28.

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 17, 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 24 to 28, the state of the company's affairs at 31 March 2015 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 2014 on which we reported on 30 March 2015, 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**  
**24 June 2015**

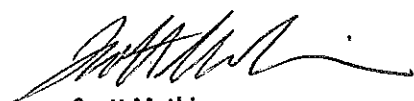
# SP DISTRIBUTION PLC

## BALANCE SHEETS

as at 31 March 2015 and 31 March 2014

	Notes	2015 £m	2014 £m
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Intangible assets		-	-
Other intangible assets	4	-	-
Property, plant and equipment		2,579.4	2,456.7
Property, plant and equipment in use	5	2,437.8	2,299.6
Property, plant and equipment in the course of construction	5	141.6	157.1
Investments	6	0.1	0.1
<b>NON-CURRENT ASSETS</b>		<b>2,579.5</b>	<b>2,456.8</b>
<b>CURRENT ASSETS</b>			
Trade and other receivables	7	73.1	66.7
Cash and short-term deposits	8	7.5	9.5
<b>CURRENT ASSETS</b>		<b>80.6</b>	<b>76.2</b>
<b>TOTAL ASSETS</b>		<b>2,660.1</b>	<b>2,533.0</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Of shareholders of the Parent		761.8	791.1
Share capital	10, 11	300.0	300.0
Retained earnings	11	461.8	491.1
<b>TOTAL EQUITY</b>		<b>761.8</b>	<b>791.1</b>
<b>NON-CURRENT LIABILITIES</b>			
Deferred income	12	513.7	479.3
Provisions		-	0.2
Other provisions	13	-	0.2
Bank borrowings and other financial liabilities		1,036.7	836.8
Loans and other borrowings	14	1,036.7	836.8
Trade and other payables	15	18.3	14.8
Deferred tax liabilities	16	179.4	174.7
<b>NON-CURRENT LIABILITIES</b>		<b>1,748.1</b>	<b>1,505.8</b>
<b>CURRENT LIABILITIES</b>			
Provisions	13	0.6	0.8
Bank borrowings and other financial liabilities		-	84.7
Loans and other borrowings	14	-	84.7
Trade and other payables	15	137.3	127.5
Current tax liabilities		12.3	23.1
<b>CURRENT LIABILITIES</b>		<b>150.2</b>	<b>236.1</b>
<b>TOTAL LIABILITIES</b>		<b>1,898.3</b>	<b>1,741.9</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,660.1</b>	<b>2,533.0</b>

Approved by the Board on 24 June 2015 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 2015 and 31 March 2014.

**SP DISTRIBUTION PLC**  
**INCOME STATEMENTS AND STATEMENTS OF COMPREHENSIVE INCOME**  
**for the years ended 31 March 2015 and 31 March 2014**

	Notes	2015 £m	2014 £m
Revenue		370.0	377.3
Procurements		(23.4)	(15.4)
		<b>346.6</b>	<b>361.9</b>
Staff costs	17	(1.1)	(0.8)
Outside services		(84.3)	(87.3)
Other operating income		30.8	26.8
		<b>(54.6)</b>	<b>(61.3)</b>
Taxes other than income tax	18	(42.0)	(35.7)
		<b>250.0</b>	<b>264.9</b>
Depreciation and amortisation charge, allowances and provisions	19	(98.8)	(97.5)
<b>PROFIT FROM OPERATIONS</b>		<b>151.2</b>	<b>167.4</b>
Dividends received		-	0.1
Finance income	20	0.1	1.1
Finance costs	21	(37.3)	(37.1)
<b>PROFIT BEFORE TAX</b>		<b>114.0</b>	<b>131.5</b>
Income tax	22	(24.3)	(4.0)
<b>NET PROFIT FOR THE YEAR</b>		<b>89.7</b>	<b>127.5</b>

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

All results relate to continuing operations.

The accompanying Notes 1 to 28 are an integral part of the income statements and statements of comprehensive income for the years ended 31 March 2015 and 31 March 2014.

**SP DISTRIBUTION PLC**  
**STATEMENTS OF CHANGES IN EQUITY**  
**for the years ended 31 March 2015 and 31 March 2014**

	Ordinary share capital £m	Retained earnings £m	Total equity £m
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 1 April 2014	300.0	491.1	791.1
Total comprehensive income for the year	-	89.7	89.7
Dividends	-	(119.0)	(119.0)
At 31 March 2015	300.0	461.8	761.8

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 2015 and 31 March 2014.



**SP DISTRIBUTION PLC**  
**CASH FLOW STATEMENTS**  
**for the years ended 31 March 2015 and 31 March 2014**

	<b>2015</b>	<b>2014</b>
	<b>£m</b>	<b>£m</b>
Cash flows from operating activities		
Profit before tax	114.0	131.5
Adjustments for:		
Depreciation and amortisation	95.7	93.3
Change in provisions	(0.2)	(0.9)
Transfer of assets from customers	(16.1)	(14.2)
Finance income and costs	37.2	36.0
Shareholding income	-	(0.1)
Net losses on write-off/disposal of non-current assets	3.2	4.4
Changes in working capital:		
Change in trade and other receivables	(2.0)	2.4
Change in trade and other payables	11.7	(21.5)
Provisions paid	(0.2)	(1.5)
Assets received from customers	49.6	42.8
Income taxes paid	(30.4)	(29.3)
Interest received	0.1	1.3
Dividends received	-	0.1
<b>Net cash flows from operating activities (i)</b>	<b>262.6</b>	<b>244.3</b>
Cash flows from investing activities		
Investments in property, plant and equipment	(219.2)	(192.4)
<b>Net cash flows from investing activities (ii)</b>	<b>(219.2)</b>	<b>(192.4)</b>
Cash flows from financing activities		
Increase in amounts due to Iberdrola group companies	115.0	-
Dividends paid to company's equity holders	(119.0)	(98.0)
Interest paid	(37.0)	(36.9)
<b>Net cash flows from financing activities (iii)</b>	<b>(41.0)</b>	<b>(134.9)</b>
<b>Net increase/(decrease) in cash and cash equivalents (i)+(ii)+(iii)</b>	<b>2.4</b>	<b>(83.0)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>17.6</b>	<b>100.6</b>
<b>Cash and cash equivalents at end of year</b>	<b>20.0</b>	<b>17.6</b>
Cash and cash equivalents at end of year comprises:		
Balance sheet cash and short-term deposits	7.5	9.5
Receivables due from Iberdrola group companies - loans	12.5	8.1
<b>Cash flow statement cash and cash equivalents</b>	<b>20.0</b>	<b>17.6</b>

The accompanying Notes 1 to 28 are an integral part of the cash flow statements for the years ended 31 March 2015 and 31 March 2014.

**SP DISTRIBUTION PLC**  
**NOTES TO ACCOUNTS**  
**31 March 2015**

**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 2015. 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 2014 to 31 March 2015. Consequently the Corporate Report & Regulatory Accounts for the year ended 31 March 2015 are separate from the Annual Report and Accounts of the company which have been prepared for the year ended 31 December 2014. The Accounts are prepared in accordance with the Accounting Policies set out in Note 2.

The Accounts contain information about SP Distribution plc as an individual company and do not contain consolidated financial information as the parent of subsidiary companies. The company is exempt under Section 400 of the Companies Act 2006 from the requirements to prepare consolidated Accounts as it and its subsidiary undertakings are included by full consolidation in the consolidated Accounts of its ultimate parent, Iberdrola S.A., a company incorporated in Spain.

The company has one operating segment for management reporting purposes.

**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 2015.

For the year ended 31 March 2015, the company has applied the following standards and amendments for the first time:

Standard	Note
• Amendments to IAS 32 'Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities'	(a)
• Amendments to IFRS 10 'Consolidated Financial Statements', IFRS 12 'Disclosure of Interests in Other Entities' and IAS 27 'Separate Financial Statements' - 'Investment Entities'	(a)
• Amendments to IAS 36 'Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets'	(a)
• Amendments to IAS 39 'Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting'	(a)

(a) The application of these pronouncements did not have a material impact on the company's accounting policies, financial position or performance.

**SP DISTRIBUTION PLC**  
**NOTES TO ACCOUNTS *continued***  
**31 March 2015**

**1 BASIS OF PREPARATION *continued***

**B ACCOUNTING STANDARDS *continued***

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:

		IASB effective date (for periods commencing on or after)	Planned date of application by the company
• IFRIC 21 'Levies'	(b),(c)	1 January 2014	1 April 2015
• Amendments to IAS 19 'Employee Benefits: Defined Benefit Plans: Employee Contributions'	(b)	1 July 2014	1 April 2015
• Annual Improvements to IFRSs (2010-2012)	(b)	1 July 2014	1 April 2015
• Annual Improvements to IFRSs (2011-2013)	(b)	1 July 2014	1 April 2015
• IFRS 14 'Regulatory Deferral Accounts'	(b), (d)	1 January 2016	1 April 2016
• Amendments to IFRS 11 'Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations'	(b), (d)	1 January 2016	1 April 2016
• Amendments to IAS 16 'Property, Plant and Equipment' and IAS 38 'Intangible Assets' – 'Clarification of Acceptable Methods of Depreciation and Amortisation'	(b), (d)	1 January 2016	1 April 2016
• Amendments to IAS 16 'Property, Plant and Equipment' and IAS 41 'Agriculture' – 'Agriculture: Bearer Plants'	(b), (d)	1 January 2016	1 April 2016
• Annual Improvements to IFRSs (2012-2014)	(b), (d)	1 January 2016	1 April 2016
• Amendments to IAS 27 'Separate Financial Statements: Equity Method in Separate Financial Statements'	(b), (d)	1 January 2016	1 April 2016
• Amendments to IFRS 10 'Consolidated Financial Statements', IFRS 12 'Disclosure of Interests in Other Entities' and IAS 28 'Investments in Associates and Joint Ventures' - 'Investment Entities: Applying the Consolidated Exception'	(b), (d)	1 January 2016	1 April 2016
• Amendments to IAS 1 'Presentation of Financial Statements: Disclosure Initiative'	(b), (d)	1 January 2016	1 April 2016
• IFRS 15 'Revenue from Contracts with Customers'	(d), (e)	1 January 2017	1 April 2017
• IFRS 9 'Financial Instruments'	(d), (e)	1 January 2018	1 April 2018
• Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures' - 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'	(b), (d), (f)	To be decided	To be decided

- (b) The future application of these pronouncements is not expected to have a material impact on the company's accounting policies, financial position or performance.
- (c) Although the effective date of this interpretation is 1 January 2014, it was not endorsed by the EU until 13 June 2014, therefore it will not be applied by the company until 1 April 2015.
- (d) These pronouncements have not yet been adopted by the EU.
- (e) The directors are currently in the process of assessing the impact of this standard in relation to the company's accounting policies, financial position and performance.
- (f) The effective date of this amendment was for periods commencing on or after 1 January 2016. However, the EU endorsement process for this amendment has been postponed, awaiting a revised exposure draft from the IASB. The effective date will be amended in due course.
- (g) The company has chosen not to early adopt any of these standards/amendments for the regulatory year ended 31 March 2015.

**SP DISTRIBUTION PLC**  
**NOTES TO ACCOUNTS *continued***  
**31 March 2015**

**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
- I RETIREMENT BENEFITS

**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 seven 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

**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.

**SP DISTRIBUTION PLC**  
**NOTES TO ACCOUNTS *continued***  
**31 March 2015**

**2 ACCOUNTING POLICIES *continued***

**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 at 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.

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.

**SP DISTRIBUTION PLC**  
**NOTES TO ACCOUNTS *continued***  
**31 March 2015**

**2 ACCOUNTING POLICIES *continued***

**1 RETIREMENT BENEFITS**

ScottishPower operates a number of defined benefit and defined contribution retirement benefit schemes in the UK. SP Distribution plc is a participating company in these arrangements, and the contributions for the defined benefit schemes are based on pension costs across all the participating companies. The company is unable to identify its share of the underlying assets and liabilities in the defined benefit schemes, as the scheme administrators do not calculate these separately for each of the various companies participating in the schemes and therefore treats these schemes as if they were defined contribution schemes. The amount charged to the income statement in respect of pension costs is the contributions payable in the period.

**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 2015, the carrying value of property, plant and equipment amounted to £2,579.4 million (2014 £2,456.7 million).

**4 INTANGIBLE ASSETS**

	Note	Computer software £m
<b>Year ended 31 March 2014</b>		
Cost:		
At 1 April 2013 and 31 March 2014	(a)	15.7
Amortisation:		
At 1 April 2013		14.6
Amortisation for the year		1.1
At 31 March 2014		15.7
Net book value:		
At 31 March 2014		-
At 1 April 2013		1.1
<b>Year ended 31 March 2015</b>		
Cost:		
At 1 April 2014 and 31 March 2015	(a)	15.7
Amortisation:		
At 1 April 2014 and 31 March 2015		15.7
Net book value:		
At 1 April 2014 and 31 March 2015		-

(a) The cost of fully amortised computer software still in use at 31 March 2015 was £15.7 million (2014 £15.2 million).

**SP DISTRIBUTION PLC**  
**NOTES TO ACCOUNTS *continued***  
**31 March 2015**

**5 PROPERTY, PLANT AND EQUIPMENT**

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

		Distribution facilities	Meters and measuring devices	Other facilities (Note (i))	Other items of property, plant and equipment in use	Plant in progress (Note (ii))	Total
	Note	£m	£m	£m	£m	£m	£m
<b>Year ended 31 March 2014</b>							
<b>Cost:</b>							
At 1 April 2013		2,909.1	238.2	14.1	34.0	195.6	3,391.0
Additions	(iii)	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>239.2</b>	<b>14.6</b>	<b>34.0</b>	<b>157.1</b>	<b>3,573.1</b>
<b>Amortisation:</b>							
At 1 April 2013		837.0	169.8	5.9	24.9	-	1,037.6
Depreciation for the year		76.9	14.4	0.9	-	-	92.2
Disposals		(12.0)	(1.4)	-	-	-	(13.4)
<b>At 31 March 2014</b>		<b>901.9</b>	<b>182.8</b>	<b>6.8</b>	<b>24.9</b>	<b>-</b>	<b>1,116.4</b>
<b>Net book value:</b>							
<b>At 31 March 2014</b>		<b>2,226.3</b>	<b>56.4</b>	<b>7.8</b>	<b>9.1</b>	<b>157.1</b>	<b>2,456.7</b>
At 1 April 2013		2,072.1	68.4	8.2	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	56.4	7.8	9.1	-	2,299.6
Property, plant and equipment in the course of construction		-	-	-	-	157.1	157.1
		<b>2,226.3</b>	<b>56.4</b>	<b>7.8</b>	<b>9.1</b>	<b>157.1</b>	<b>2,456.7</b>

		Distribution facilities	Meters and measuring devices	Other facilities (Note (i))	Other items of property, plant and equipment in use	Plant in progress (Note (ii))	Total
	Note	£m	£m	£m	£m	£m	£m
<b>Year ended 31 March 2015</b>							
<b>Cost:</b>							
At 1 April 2014		3,128.2	239.2	14.6	34.0	157.1	3,573.1
Additions	(iii)	0.8	2.8	-	-	218.0	221.6
Transfers from in progress to plant in use		231.8	-	1.7	-	(233.5)	-
Disposals		(10.2)	(1.6)	(0.2)	-	-	(12.0)
<b>At 31 March 2015</b>		<b>3,350.6</b>	<b>240.4</b>	<b>16.1</b>	<b>34.0</b>	<b>141.6</b>	<b>3,782.7</b>
<b>Amortisation:</b>							
At 1 April 2014		901.9	182.8	6.8	24.9	-	1,116.4
Depreciation for the year		82.8	12.0	0.9	-	-	95.7
Disposals		(7.7)	(1.1)	-	-	-	(8.8)
<b>At 31 March 2015</b>		<b>977.0</b>	<b>193.7</b>	<b>7.7</b>	<b>24.9</b>	<b>-</b>	<b>1,203.3</b>
<b>Net book value:</b>							
<b>At 31 March 2015</b>		<b>2,373.6</b>	<b>46.7</b>	<b>8.4</b>	<b>9.1</b>	<b>141.6</b>	<b>2,579.4</b>
At 1 April 2014		2,226.3	56.4	7.8	9.1	157.1	2,456.7
The net book value of property, plant and equipment at 31 March 2015 is analysed as follows:							
Property, plant and equipment in use		2,373.6	46.7	8.4	9.1	-	2,437.8
Property, plant and equipment in the course of construction		-	-	-	-	141.6	141.6
		<b>2,373.6</b>	<b>46.7</b>	<b>8.4</b>	<b>9.1</b>	<b>141.6</b>	<b>2,579.4</b>

- (i) The category "Other facilities" principally comprises land and machinery.
- (ii) The category "Plant in progress" principally comprises distribution facilities in the course of construction.
- (iii) Additions of £220.7 million (2014 £195.4 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 2015 was £300.3 million (2014 £283.4 million).
- (v) Included within the cost of property, plant and equipment are assets in use not subject to depreciation, being land of £9.1 million (2014 £9.1 million).

**SP DISTRIBUTION PLC**  
**NOTES TO ACCOUNTS** *continued*  
**31 March 2015**

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

**(b) Operating lease arrangements**

	2015	2014
	£m	£m
<b>(i) Operating lease payments</b>		
Minimum lease payments under operating leases recognised as an expense in the year	0.1	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
	0.3	0.4

	2015	2014
	£m	£m
<b>(ii) Operating lease commitments</b>		
Within one year	0.2	0.2
Between one and five years	0.4	0.4
More than five years	0.2	0.2
	0.8	0.8

	2015	2014
	£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	0.8	0.5
Between one and five years	-	0.1
	0.8	0.6

Sublease payments of £0.2 million (2014 £0.1 million) were received in the year.

**(c) Capital commitments**

	2015	2014
	£m	£m
Contracted but not provided	220.6	228.0

**6 INVESTMENTS**

	Subsidiary undertakings shares £000	Other investments £000	Total £000
At 1 April 2013, 1 April 2014 and 31 March 2015	50	6	56

Subsidiaries	Country of incorporation	Proportion of shares held %	Activity
SPD Finance UK plc	England and Wales	100%	Finance company

Prior to 31 March 2015, proceedings commenced to liquidate SPDF.



**SP DISTRIBUTION PLC**  
**NOTES TO ACCOUNTS *continued***  
**31 March 2015**

**7 TRADE AND OTHER RECEIVABLES**

	Notes	2015 £m	2014 £m
<b>Current receivables:</b>			
Receivables due from Iberdrola group companies - trade		16.8	16.1
Receivables due from Iberdrola group companies - loans	(a)	12.5	8.1
Trade receivables and accrued income	(b)	43.8	42.5
		<b>73.1</b>	<b>66.7</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 £0.1 million (2014 £0.2 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 impact of the change in bad debt for the year to 31 March 2015 is £0.1 million (2014 credit of £0.3 million).
- (c) At 31 March 2015 trade receivables of £0.4 million (2014 £0.7 million) were past due but not impaired.

	2015 £m	2014 £m
<b>Past due but not impaired</b>		
Less than 3 months	0.3	0.4
Between 3 and 6 months	0.1	0.1
Between 6 and 12 months	-	0.1
After more than 12 months	-	0.1
	<b>0.4</b>	<b>0.7</b>

**8 MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES**

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

The table below sets out the carrying amount and fair value of the company's financial instruments.					
		2015		2014	
		Carrying amount	Fair value	Carrying amount	Fair value
	Notes	£m	£m	£m	£m
<b>Financial assets</b>					
Receivables	(a)	73.1	73.1	66.7	66.7
Cash	(b)	7.5	7.5	9.5	9.5
<b>Financial liabilities</b>					
Loans and other borrowings	(c)	(1,036.7)	(1,188.5)	(921.5)	(1,006.9)
Payables	(a)	(78.1)	(78.1)	(68.0)	(68.0)

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) Balances outwith the scope of IFRS 7 'Financial Instruments: Disclosure' ('IFRS 7') have been excluded, namely, payments on account and other tax payables.
- (b) As a general rule, cash deposited with banks earn interest at rates similar to market rates on daily deposits.
- (c) The carrying value of loans and other borrowings are accounted for at amortised cost. The fair value of long-term debt is calculated using a discounted cashflow with the exception of the £350.0 million euro-sterling bond, which is valued using the most recently traded price to the year end date.

**SP DISTRIBUTION PLC**  
**NOTES TO ACCOUNTS** *continued*  
**31 March 2015**

**9 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.

	<b>2015</b>						<b>Total £m</b>
	<b>2016 £m</b>	<b>2017 £m</b>	<b>2018 £m</b>	<b>2019 £m</b>	<b>2020 £m</b>	<b>2021 and thereafter £m</b>	
<b>Cash outflows</b>							
Loans and other borrowings	39.4	164.8	36.3	311.7	29.8	805.7	<b>1,387.7</b>
Payables*	40.8	-	-	-	-	18.3	<b>59.1</b>
	<b>80.2</b>	<b>164.8</b>	<b>36.3</b>	<b>311.7</b>	<b>29.8</b>	<b>824.0</b>	<b>1,446.8</b>

	<b>2014</b>						<b>Total £m</b>
	<b>2015 £m</b>	<b>2016 £m</b>	<b>2017 £m</b>	<b>2018 £m</b>	<b>2019 £m</b>	<b>2020 and thereafter £m</b>	
<b>Cash outflows</b>							
Loans and other borrowings	121.9	34.3	121.1	33.9	269.5	702.2	<b>1,282.9</b>
Payables*	34.2	-	-	-	-	14.8	<b>49.0</b>
	<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>

\* Contractual cash flows exclude accrued interest as these cash flows are included within loans and borrowings.

**10 SHARE CAPITAL**

	<b>2015 £m</b>	<b>2014 £m</b>
<b>Authorised:</b>		
300,000,000 ordinary shares of £1 each (2014 300,000,000)	<b>300.0</b>	<b>300.0</b>
<b>Allotted, called up and fully paid shares:</b>		
300,000,000 ordinary shares of £1 each (2014 300,000,000)	<b>300.0</b>	<b>300.0</b>

**11 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF SP DISTRIBUTION PLC**

	<b>Ordinary share capital £m</b>	<b>Retained earnings (Note (a)) £m</b>	<b>Total £m</b>
<b>At 1 April 2013</b>	<b>300.0</b>	<b>461.6</b>	<b>761.6</b>
Profit for the year attributable to equity holders of SP Distribution plc	-	127.5	127.5
Dividends	-	(98.0)	(98.0)
<b>At 1 April 2014</b>	<b>300.0</b>	<b>491.1</b>	<b>791.1</b>
Profit for the year attributable to equity holders of SP Distribution plc	-	89.7	89.7
Dividends	-	(119.0)	(119.0)
<b>At 31 March 2015</b>	<b>300.0</b>	<b>461.8</b>	<b>761.8</b>

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

**SP DISTRIBUTION PLC**  
**NOTES TO ACCOUNTS *continued***  
**31 March 2015**

**12 DEFERRED INCOME**

	At 1 April 2013 £m	Receivable during year £m	Released to income statement £m	At 31 March 2014 £m
<b>Year ended 31 March 2014</b>				
Transfer of assets from customers	446.2	47.3	(14.2)	479.3
	At 1 April 2014 £m	Receivable during year £m	Released to income statement £m	At 31 March 2015 £m
<b>Year ended 31 March 2015</b>				
Transfer of assets from customers	479.3	50.5	(16.1)	513.7

**13 PROVISIONS**

		At 1 April 2013 £m	New provisions £m	Utilised during year £m	Released during year £m	At 31 March 2014 £m
<b>Year ended 31 March 2014</b>	Notes					
Environmental costs	(a)	1.1	0.1	(0.2)	-	1.0
Contract termination costs	(b)	2.3	-	(1.3)	(1.0)	-
		3.4	0.1	(1.5)	(1.0)	1.0
		At 1 April 2014 £m		Utilised during year £m	Released during year £m	At 31 March 2015 £m
<b>Year ended 31 March 2015</b>	Note					
Environmental costs	(a)		1.0	(0.2)	(0.2)	0.6
<b>Analysis of total provisions</b>					<b>2015 £m</b>	<b>2014 £m</b>
Non-current					-	0.2
Current					0.6	0.8
					<b>0.6</b>	<b>1.0</b>

- (a) The provision for environmental costs relates to obligations under the Control of Asbestos at Work Regulations. Costs are expected to be incurred in the next financial year.
- (b) The provision for contract termination costs related to contractor payments following the termination of contracts. The provision was utilised during the prior year.

**SP DISTRIBUTION PLC**  
**NOTES TO ACCOUNTS *continued***  
**31 March 2015**

**14 LOANS AND OTHER BORROWINGS**

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

Instrument	Notes	Interest rate*	Maturity	2015 £m	2014 £m
Intercompany loans with SPL	(i)	LIBOR + 0.34%	17 December 2018	150.0	150.0
Intercompany loans with SPUK	(ii),(iii)	3.416%	21 December 2022	340.0	425.0
Intercompany loans with SPUK	(ii),(iv)	2.821%	31 March 2025	200.0	-
£350m euro-sterling bond	(v)	5.875%	17 July 2026	346.7	-
Intercompany loan with SPDF	(v)	5.875%	17 July 2026	-	346.5
				<b>1,036.7</b>	<b>921.5</b>

\*LIBOR – London Inter Bank Offer Rate

Analysis of total loans and borrowings	2015 £m	2014 £m
Current	-	84.7
Non-current	1,036.7	836.8
	<b>1,036.7</b>	<b>921.5</b>

- (i) A 1% increase in the LIBOR rate and Base 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, is repayable in equal instalments every two years. The repayment of £85.0 million that was due in 2014 was classified as current in the 2014 analysis above.
- (iv) The intercompany loan with SPUK that is due to mature in March 2025 is repayable in equal instalments every two years with the first repayment due in March 2017.
- (v) During the year to 31 March 2015, the primary obligation on the £350.0 million euro-sterling bond, originally issued by SPDF and guaranteed by the company was transferred to the company via a legal issuer substitution. Subsequently the £350.0 million intercompany loan between the company and SPDF that mirrored this bond was duly cancelled. The £350.0 million euro-sterling bond will be redeemed at its principal amount on 17 July 2026 unless previously redeemed or purchased and cancelled. The bond can be redeemed at any time by the company at a higher redemption price (as determined by a financial advisor appointed by the company and Guarantor) giving 30 to 60 days' notice. The bond is shown net of finance costs of (£0.3) million.

**(b) Borrowing facilities**

The company has no undrawn committed borrowing facilities at 31 March 2015 (2014 £nil).

**15 TRADE AND OTHER PAYABLES**

	Note	2015 £m	2014 £m
<b>Current trade and other payables:</b>			
Payables due to Iberdrola group companies- trade		27.4	27.6
Payables due to Iberdrola group companies- interest		4.5	19.0
Other taxes and social security		11.3	11.2
Payments received on account		66.2	63.1
Other payables		27.9	6.6
		<b>137.3</b>	<b>127.5</b>
<b>Non-current other payables:</b>			
Payables due to Iberdrola group companies- trade	(a)	18.3	14.8

- (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 2015, the company held cash collateral of £19.2 million (2014 £14.8 million).

**SP DISTRIBUTION PLC**  
**NOTES TO ACCOUNTS** *continued*  
**31 March 2015**

**16 DEFERRED TAX**

Deferred tax provided in the Accounts is as follows:

	Property, plant and equipment £m	Other temporary differences £m	Total £m
At 1 April 2013	197.9	-	197.9
Credit to income statement	(23.1)	(0.1)	(23.2)
At 1 April 2014	174.8	(0.1)	174.7
Charge to income statement	4.6	0.1	4.7
At 31 March 2015	179.4	-	179.4

Finance Act 2013 contained legislation to reduce the rate of UK Corporation Tax from 23% to 21% from 1 April 2014 and to 20% from 1 April 2015. These changes reduced the tax rates expected to apply when temporary differences reverse.

**17 EMPLOYEE INFORMATION**

**(a) Staff costs**

	Note	2015 £000	2014 £000
Wages and salaries		732	612
Social security costs		69	58
Pension and other costs		266	146
<b>Total staff costs</b>	<b>(i)</b>	<b>1,067</b>	<b>816</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 2015	Average 2015	Year end 2014	Average 2014
Administrative staff	13	12	12	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 £178,700 (2014 £145,500). 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 and Accounts of SPL. As at 31 December 2014, the deficit in ScottishPower's defined benefit schemes in the UK amounted to £308.4 million (2013 £332.7 million). The employer contribution rate for these schemes in the year ended 31 December 2014 was 30.1%-31%.

**18 TAXES OTHER THAN INCOME TAX**

	2015 £m	2014 £m
Property taxes	42.0	35.7

**SP DISTRIBUTION PLC**  
**NOTES TO ACCOUNTS** *continued*  
**31 March 2015**

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

	2015	2014
	£m	£m
Property, plant and equipment depreciation charge	95.7	92.2
Intangible asset amortisation	-	1.1
Charges and provisions, allowances and impairment of assets	3.1	4.2
	98.8	97.5

**20 FINANCE INCOME**

	2015	2014
	£m	£m
Interest receivable from Iberdrola group companies	0.1	1.1

**21 FINANCE COSTS**

	2015	2014
	£m	£m
Interest on amounts due to Iberdrola group companies	26.8	37.1
Interest on other borrowings	10.5	-
	37.3	37.1

**22 INCOME TAX**

	2015	2014
	£m	£m
Current tax:		
UK Corporation tax	19.9	27.3
Adjustments in respect of prior years	(0.3)	(0.1)
<b>Current tax charge for the year</b>	<b>19.6</b>	<b>27.2</b>
Deferred tax:		
Origination and reversal of temporary differences	4.4	2.9
Adjustments in respect of prior years	0.3	-
Impact of tax rate change	-	(26.1)
<b>Deferred tax charge/(credit) for the year</b>	<b>4.7</b>	<b>(23.2)</b>
<b>Income tax charge for the year</b>	<b>24.3</b>	<b>4.0</b>

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

	2015	2014
	£m	£m
Corporation tax at 21% (2014 23%)	23.9	30.2
Impact of rate change from headline corporation tax rate	0.2	(0.2)
Adjustments in respect of prior periods	-	(0.1)
Impact of tax rate change	-	(26.1)
Other permanent differences	0.2	0.2
<b>Income tax charge for the year</b>	<b>24.3</b>	<b>4.0</b>

The rate of UK Corporation tax reduced from 23% to 21% on 1 April 2014 and from 24% to 23% on 1 April 2013. The 2013 Finance Act included legislation which reduced the rate of UK Corporation tax to 20% on 1 April 2015. These changes reduce the tax rate expected to apply when temporary differences reverse and impact the deferred tax charge.

**SP DISTRIBUTION PLC**  
**NOTES TO ACCOUNTS** *continued*  
**31 March 2015**

**23 DIVIDENDS**

	2015	2014	2015	2014
	pence per ordinary share	pence per ordinary share	£m	£m
Aggregate dividends paid	39.7	32.7	119.0	98.0

**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 2015 was £1,219.7 million (2014 £1,213.4 million).

**25 FINANCIAL COMMITMENTS**

**Other contractual commitments**

	2015	2014
	£m	£m
Provision of asset management services from SPPS	67.3	-

The contract in place for the provision for asset management services provided by SPPS expires on 31 March 2016. In the prior year, negotiations regarding the extension of the contract were underway as at the signing date of the Regulatory Accounts.

**26 RELATED PARTY TRANSACTIONS**

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

	2015				2014			
	UK parent (SPL) £m	Immediate parent (SPENH) £m	Other Iberdrola group companies £m	Subsidiary (SPDF) (Note (iii)) £m	UK parent (SPL) £m	Immediate parent (SPENH) £m	Other Iberdrola group companies £m	Subsidiary (SPDF) £m
<b>Types of transaction</b>								
Sales and rendering of services	-	-	103.6	-	-	-	110.0	-
Purchases and receipt of services	-	-	(78.0)	-	-	-	(82.6)	-
Purchases of property, plant and equipment	-	-	(220.7)	-	-	-	(195.4)	-
Interest income	-	-	0.1	-	-	-	1.1	-
Interest costs	(1.5)	-	(14.9)	(10.4)	(1.4)	-	(14.8)	(20.9)
Dividends paid	-	(119.0)	-	-	-	(98.0)	-	-
<b>Balances outstanding</b>								
Loans receivable	-	-	12.5	-	-	-	8.1	-
Trade and other receivables	-	-	16.8	-	-	-	16.1	-
Loans payable	(150.0)	-	(540.0)	-	(150.0)	-	(425.0)	(346.5)
Trade and other payables	-	-	(45.7)	-	-	-	(42.4)	-
Interest payable	(0.4)	-	(4.1)	-	(0.4)	-	(4.1)	(14.5)

(i) During the year ended 31 March 2015, SPUK made pension contributions of £178,700 on behalf of the company (2014 £145,500).

(ii) The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

(iii) During the year to 31 March 2015, the £350.0 million euro-sterling bond was transferred from SPDF to the company, the intercompany loan between SPDF and the company which mirrored this bond was subsequently cancelled.

**SP DISTRIBUTION PLC**  
**NOTES TO ACCOUNTS *continued***  
**31 March 2015**

**26 RELATED PARTY TRANSACTIONS *continued***

**(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.

	2015	2014
	£000	£000
Short-term employee benefits	1,675	1,627
Post-employment benefits	415	415
Termination benefits	214	-
Share-based payments	781	564
	3,085	2,606

**(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.

	2015	2014
	£000	£000
<b>Executive directors</b>		
Aggregate remuneration in respect of qualifying services	751	646
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>		
Aggregate remuneration	518	472
Accrued pension benefits	89	88

(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.

**(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 AUDITOR'S REMUNERATION**

	2015	2014
	£m	£m
Audit of the company's Annual Accounts and Regulatory Accounts	0.1	0.1



**SP DISTRIBUTION PLC**  
**NOTES TO ACCOUNTS *continued***  
**31 March 2015**

**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 9.

The company has recorded a profit after tax in both the current year and previous financial year and the company's balance sheet shows that it has net current liabilities of £69.6 million and net assets of £761.8 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.