

SP DISTRIBUTION PLC
CORPORATE REPORT AND REGULATORY ACCOUNTS
for the year ended 31 March 2016

Registered No. SC189125

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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, 2015/16 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 business ("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 ("Power Systems"), 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 Power Systems 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 Power Systems 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 and embedded generators 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 a regulatory price control. 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.

The new RIIO price control framework (Revenue = Incentives + Innovation + Outputs) took effect from 1 April 2015 and applies through to 31 March 2023. The key objective is to encourage network companies to play a full role in the delivery of a sustainable energy sector and to deliver services that provide value for money for customers. A key feature is an agreed set of outputs that must be delivered. The framework also encourages innovation and encompasses a range of incentives which serve to reduce network costs for both current and future customers whilst also allowing a fair return to shareholders. The company is fully committed to delivering the RIIO-ED1 investment programme (the first Electricity Distribution RIIO price control).

Thus the key strategies for the company until the end of the RIIO-ED1 price control review period and beyond are 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;
- achieve investor objectives on sustainable returns on investment; and
- facilitate the transition to a low carbon economy by connecting distributed generation and by exploring the opportunities presented by the emerging Distribution System Operator ("DSO") model.

SP DISTRIBUTION PLC
STRATEGIC REPORT *continued*

STRATEGIC OUTLOOK *continued*

In March 2015 an appeal was made to the Competition and Markets Authority ("CMA") by British Gas Trading ("BGT") in respect of the content of the modifications to the licences, particularly in respect of some of the components of allowed revenue. The CMA issued its determination of the appeal at the end of September 2015 and rejected BGT's appeal in all respects except for one component, which resulted in allowed revenues being reduced by £1.3 million (based on 2012/13 prices) per annum for the company, over the remaining seven years of RIIO-ED1.

In September 2015, Ofgem introduced a new standard licence condition (SLC 52, Competition in Connections Code of Practice) to help facilitate effective competition in the market for connections to the electricity distribution network. This condition also requires us to submit an annual report to Ofgem demonstrating our compliance with the Code of Practice. The company's first report will be submitted in September 2016.

Following Storm Desmond in December 2015, the Government initiated the National Flood Resilience Review. This Review is assessing how the country can be better protected from future flooding and increasingly extreme weather events. It focuses on four key areas:

- updating climate modelling and stress-testing the nation's resilience to flood risk;
- assessing the resilience of important infrastructure like electricity substations;
- temporary defences; and
- future investment strategy.

The company is working with the Department of Energy and Climate Change ("DECC") and other stakeholders to ensure that improvements in flood defences for electricity infrastructure are effectively implemented.

At the end of September 2015, Ofgem published its Position Paper: "Making the electricity system more flexible and delivering the benefits for consumers." Ofgem's flexibility project includes encouraging the transition of DNOs to take on certain roles as a DSO. In December 2015, DECC published "Towards a Smart Energy System". A smart energy system, based around new forms of flexibility, could help the UK deliver the government's objectives more cost effectively. DECC is working closely with Ofgem on how to manage the transition to a smarter energy system in Great Britain. This will build on Ofgem's recent flexibility publication and the work of the Smart Grid Forum. Working with industry experts, the company is actively investigating opportunities which will facilitate its potential evolution towards becoming a DSO.

The company is mindful that some of its assets are critical national infrastructure. The company liaises with Government agencies to ensure that any potential threats and risks are assessed and mitigated. In circumstances where potential risks are identified the company takes steps to enhance both the physical security of its assets and the security of its associated IT and communications systems.

In line with ScottishPower's strategic objectives and its regulatory obligations, Energy Networks is maintaining its significant investment in the UK energy network. Over the last ten years, Energy Networks has invested around £6 billion in its transmission and distribution network and, during the next ten years, Energy Networks plans to invest a further £7 billion to modernise and improve service to customers. Energy Networks' ten year investment plans are reviewed annually in detail to ensure that Energy Networks is aligned with and continues to support Government energy policy. Recent announcements by the UK Government to manage possible over-spend of the Levy Control Framework have led to some renewables developers scaling back future activity. Energy Networks is in communication with contracted customers across the transmission and distribution business. Energy Networks' strategic plans therefore remain an important focal point for the UK energy consumer.

The drive to modernise and improve service to customers, together with the age profile of Energy Networks' employees and those of its contractors, means that almost 4,000 people will need to be recruited over the next ten years to support its activities and to replace retirees. Energy Networks have carried out a review of its resourcing strategy and have already started on its plan to bridge the industry skills gap by investing in comprehensive training and development programmes. These training programmes include graduate trainees, engineering apprentices, craft apprentices and adult craft trainees. Energy Networks is also providing training to its craftspeople to widen their skills so that they can carry out a range of operational duties and upskill those that have demonstrated the capability to move on to the Trainee Engineer programme. During the regulatory year 2015/16 Energy Networks recruited 9 graduates, 9 engineering apprentices, 15 trainee craftspeople and 46 craft apprentices.

SP DISTRIBUTION PLC
STRATEGIC REPORT *continued*

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 £m	Directly remunerated			De minimis £m
		Distribution £m	(DUOS) £m	services £m	
For the year ended 31 March 2016					
Revenue*	406.0	392.0	-	14.0	-
Procurements*	(26.1)	(26.1)	-	-	-
	379.9	365.9	-	14.0	-
Staff costs*	(1.2)	(1.2)	-	-	-
Outside services*	(79.6)	(63.1)	(13.7)	(2.8)	-
Other operating Income*	32.4	18.6	13.7	-	0.1
	(48.4)	(45.7)	-	(2.8)	0.1
Taxes other than income*	(42.3)	(42.3)	-	-	-
	289.2	277.9	-	11.2	0.1
Depreciation and amortisation charges, allowances and provisions*	(97.4)	(87.9)	-	(9.5)	-
PROFIT FROM OPERATIONS*	191.8	190.0	-	1.7	0.1
Property, plant and equipment asset additions**	210.6	206.5	-	4.1	-

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 20.

**As presented within Note 5 on page 28.

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 £191.8 million, an increase of £40.6 million compared to the prior year, and net profit was £140.3 million, an increase of £50.6 million compared to the prior year.

Revenue increased by £36.0 million in comparison to prior year as a result of an increase in base revenues allowed under RIIO-ED1.

Procurements increased by £2.7 million primarily due to higher Grid Point Supply activity.

Outside services have reduced by £4.7 million primarily as a result of a reduction in Indirect cost recharges, corporate costs, insurance, consultancy and other costs.

Other operating income increased by £1.6 million primarily as a result of higher rechargeable income.

Taxes other than income tax is broadly in line with prior year.

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

Net finance costs increased slightly reflecting a higher ongoing level of net indebtedness to Iberdrola group companies during the regulatory year compared to the prior year.

The **Income tax expense** has decreased compared with the prior year due to a reduction in deferred tax arising from changes in 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.

SP DISTRIBUTION PLC
STRATEGIC REPORT *continued*

OPERATIONAL PERFORMANCE *continued*

Net capital investment continued

Net capital investment for the year was £147.8 million (2015 £171.1 million) consisting of fixed asset additions of £210.6 million (2015 £221.6 million) less capital contributions received of £62.8 million (2015 £50.5 million). Property, plant and equipment additions in relation to growth of the network amounted to £83.1 million (2015 £86.6 million) less capital contributions of £62.8 million (2015 £50.5 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 £127.5 million (2015 £135.0 million). The scale of investment is consistent with the eight-year price review period allowed capital expenditure programme.

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 2016:

	Note	Year ended	Year ended
		31 March 2016	31 March 2015
Operational assets			
Franchise area (km ²)		22,950	22,950
System maximum demand (MW*)	(a)	3,550	3,414
Distributed energy (GWh*)		18,348	18,589
Length of overhead lines (circuit km)		18,648	18,669
Length of underground cables (circuit km)		39,338	38,960

* Megawatts ("MW"), Gigawatt hours ("GWh")

(a) System maximum demand value for the regulatory year to 31 March 2016 will be finalised after the publication of the 2015/16 regulatory accounts.

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 2015/16 Electricity Distribution Quality of Service Report to be published online at www.ofgem.gov.uk from November 2016.

	Notes	Actual	Target	Actual	Target	
		Year ended 31 March 2016	Year ended 31 March 2016	Year ended 31 March 2015	Year ended 31 March 2015	
Operational performance						
Quality of service						
Customer minutes lost ("CML")	(a)	34.8	46.2	34.0	57.5	
Customer interruptions ("CI")	(b)	48.5	52.1	46.6	60.1	
Average time off supply (minutes)		72	89	73	96	
Electricity supply available		99.99%	99.99%	99.99%	99.99%	
Customer performance						
Broader customer service measure - Interruptions		8.79	8.2	N/A	N/A	
Broader customer service measure - Connections		8.36	8.2	N/A	N/A	
Broader customer service measure - General enquiries		8.84	8.2	N/A	N/A	
Energy ombudsman (customer complaints)	(d)	2	-	1	-	

(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) Customer performance comprises three components: a customer satisfaction survey, complaints metric and stakeholder engagement. This is the first year of the RIIO ED1 approach to measuring customer performance therefore comparatives to the previous DPCRS approach have been removed. Further detail is given on page 5.

(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.

The underlying CML and CI for the year to 31 March 2016 are estimated at 34.8 and 48.5, respectively. These values will be validated and confirmed by Ofgem and will be published by them from November 2016. During 2015/16 there were no storm events which met Ofgem's "exceptional event" exclusion criterion (2014/15 two). The CML and CI figures for the Actual Year ended 31 March 2015 were confirmed by Ofgem in their final directions issued in November 2015.

SP DISTRIBUTION PLC

STRATEGIC REPORT *continued*

OPERATIONAL PERFORMANCE *continued*

Customer Satisfaction Survey All customer contacts relating to interruption of power supplies, requests and delivery of new connections to the network and any other general enquiries are passed to an independent research agency on a weekly basis (for all DNO's). The independent agency randomly samples customers each week to ask a series of customer satisfaction questions. Sampled customers give a score out of ten and the average annual score for each of the three categories drives each year's performance in this incentive. A reward is received if the average score is over 8.2 out of 10 and anything below 8.2 attracts a financial penalty. The customer satisfaction performance for each of the three elements in 2015/16 is shown in the table on the previous page.

Complaints Performance This is a 'penalty-only' incentive. Companies are measured on their complaints performance over a number of key metrics; volume of complaints resolved in one day, volume of complaints resolved in 31 days, volume of repeat complaints and the number of complaints referred to the Energy Ombudsman which have been ruled against the company. The Energy Ombudsman Services, an independent body, monitors and adjudicates complaint cases. The Energy Ombudsman performance is shown in the table above for 2015/16 performance. The wider complaints performance will not be published until Autumn 2016.

Stakeholder Engagement and Customer Vulnerability This is a 'reward-only' incentive and is an annual assessment of the company's Stakeholder Engagement activities. An annual submission is provided to Ofgem in April in respect of the previous regulatory year and is assessed by Ofgem and an independent panel (including social assessors) in July and scored out of ten in order to determine a financial reward. The results for 2015/16 will therefore not be known until this assessment is completed. The submissions set out the company's strategy, engagement and outputs for stakeholder engagement and customer vulnerability.

The company is committed to maintaining high performance during extreme weather events. Consequently, during the year to 31 March 2016, £17.2 million was invested to refurbish or rebuild the overhead line network. In addition £2.7 million was invested in tree cutting activities. Both of these investments have contributed significantly to improving performance of distribution assets during storms.

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

PROJECTS

During the Regulatory 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 and reinforcement

During the year the company completed and progressed various network growth projects in support of the company's investment strategy, including the projects noted below.

- Wind farm connections to facilitate new demand and generation connections at Assel Valley in Ayrshire, Penmanshields and Quixwood Moor wind farms in the Borders, Harburnhead wind farm in Fife, Andershaw wind farm in Lanarkshire and Glenchamber wind farm in Dumfries. This increased the network by 127 km of underground cable and added six new 33 kilovolt ("kV") substations.
- There was also significant work completed at the St. James Shopping Centre in Edinburgh as well as the new ScottishPower headquarters in Glasgow.
- The completion of major reinforcement projects at Dumbarton, Kaimes and Finneston substations and the commencement of work to provide additional capacity in East Kilbride and to reinforce the network around Gylemuir in Edinburgh to operate at 11 kV.
- Reinforcement projects to address specific fault-level issues were completed at Kilmarnock and Paisley, with works at Port Dundas, Partick and Sighthill continuing and on schedule for completion during 2016/17.

Asset modernisation

In addition to investment to extend or reinforce the network, a number of projects to improve asset condition and performance have been completed or progressed during the year, including the projects noted below.

- Replacement of 33 kV switchgear at Bonnybridge and ongoing works to replace 33 kV switchgear at Ravenscraig, Maybole and Erskine.
- Replacement of 33 kV transformers at New Cumnock, Towers Road and Carruthers Town.

SP DISTRIBUTION PLC
STRATEGIC REPORT *continued*

PROJECTS *continued*

Asset modernisation *continued*

- Replacement of 200 poor condition and obsolete ring main units and multi-panel boards with modern switchgear as part of the wider modernisation of distribution substations and the replacement of over 20 high-loss 11 kV transformers with modern low-loss units.
- Works to modernise and improve the resilience of the extensive overhead line network continued including:
 - the complete rebuild of 33 kV overhead line circuits between Ayr and Coylton;
 - the refurbishment of around 50 km of 33 kV overhead line; and
 - the removal of 3,800 clearance defects as part of the low ground clearance programme.
- The company's extensive modernisation of internal mains low-voltage service cables in local authority residential accommodation has continued through 2015/16, providing modernised supplies to over 9,500 customers.

All of the above projects seek to improve the overall condition, performance and resilience of the company's network.

LIQUIDITY AND CASH MANAGEMENT

Cash and net debt

Net cash flows from operating activities increased by £60.6 million to £323.2 million for the year, as detailed on page 22. As outlined in the table below, net debt decreased by £15.5 million to £1,001.2 million. The movement comprises an increase of £18.8 million in the on-demand loan receivable from Scottish Power UK plc ("SPUK") offset by a decrease of £3.0 million in cash and an increase in external loans payable of £0.3 million arising from the amortisation of finance costs.

		2016	2015
	Notes	£m	£m
Analysis of net debt			
Cash	(a)	4.5	7.5
Loans receivable from Iberdrola group companies	(b)	31.3	12.5
Loans payable to Iberdrola group companies	(c)	(690.0)	(690.0)
External loans payable	(c)	(347.0)	(346.7)
Net debt		(1,001.2)	(1,016.7)

(a) As detailed on the balance sheet, refer to page 19.

(b) As detailed in Note 7 on page 29.

(c) As detailed in Note 14 on page 32.

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.

SP DISTRIBUTION PLC
STRATEGIC REPORT *continued*

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 the Occupational Health and Safety Advisory Services standard 18001 ("OHSAS 18001").

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

Energy Networks' plan for continuous improvement is illustrated 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 continues to put the "health" into health and safety, with 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 2016	Target Year ended 31 March 2016
	Notes		
Total recordable incident rate	(a)	0.18	0.23
Lost time accidents		4	5
Occupational health monitoring	(b)	102%	90%
Audit and inspection programme completion	(c)	103%	100%

(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 Energy Networks meets its 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.

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

RISK	RESPONSE
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 public backing is secured for the necessary investment in the UK energy system.

SP DISTRIBUTION PLC
STRATEGIC REPORT *continued*

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

RISK <i>continued</i>	RESPONSE <i>continued</i>
Adverse findings and/or remedies from the CMA market investigation.	Proactive and positive engagement in the process with business, legal and regulatory experts and advisers 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.
Breach in cyber security and unwanted infiltration of the ScottishPower IT infrastructure by external parties.	Implementation of a cyber risk policy which provides the framework for mitigation. Proactive approach to identifying where ScottishPower is vulnerable and addressing these points through technical solutions. Educating company employees as to how behaviour can reduce this risk. Embedding cyber security in IT related projects where appropriate.

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

RISK	RESPONSE
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.
Security of Supply due to potential asset failures alongside reduced generation capacity.	Risk based asset investment programme in place, business continuity and emergency planning well established including BlackStart. "Strategic Spares" policy in place.
Failure to protect the company's critical national infrastructure assets from physical or cyber-attack.	Assess potential threats and risks in collaboration with Government agencies and, where potential risks are identified, take steps to enhance both the physical security of the company's assets and the security of its associated IT and communications systems. Implementation of a cyber risk policy which provides the framework for mitigation.
Failure to protect customer service performance.	Well-established customer service processes to respond to power loss, including storm readiness. Priority Service Register to protect vulnerable customers in the event of power loss. Implementation of a single emergency number to route customer queries.
Inability to recruit or retain an appropriately skilled workforce.	A Strategic Work Force Planning and Implementation plan that incorporates: a) retirement profiles with demographics; b) one year ahead Strategic Recruitment; and c) ten year Strategic Recruitment plan. Identification of business critical roles and succession planning.

SP DISTRIBUTION PLC
STRATEGIC REPORT *continued*

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

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 2016 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.

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 the 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 2016, 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
15 June 2016

SP DISTRIBUTION PLC

DIRECTORS' REPORT

The directors present their report and audited Regulatory Accounts for the year ended 31 March 2016. References to 'ScottishPower' below apply fully to 'the company'.

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 £140.3 million (2015 £89.7 million). The aggregate dividends paid during the year amounted to £65.0 million (2015 £119.0 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.

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 14,300 training events (over 169,000 hours) undertaken in the year to 31 December 2015. 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. In 2015, 70% of employees took part in the annual internal employee engagement survey 'The LOOP' and the overall engagement score remained high at 74%. Following The LOOP Survey in 2014, ScottishPower focussed on a number of actions in response to employee feedback which included the launch of an online development toolkit for employees, 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 channels, including monthly team meetings, team managers' conferences, business road shows, 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 2016.

SP DISTRIBUTION PLC

DIRECTORS' REPORT *continued*

EMPLOYEES *continued*

Employment of disabled persons

In support of the policy on Equality and Diversity (above), 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 businesses. Volunteering is central to community involvement and ScottishPower has an excellent track record in this area. In 2014 ScottishPower introduced a new company-wide Volunteering Policy, which has been actively utilised by employees during 2015. 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.

Energy Networks has reorganised its business around geographical districts to get closer to its customers, communities and stakeholders; focussing on customer service, winning the trust of communities and engaging with its 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 2016, ScottishPower paid a total of £20,000 for the sponsorship of conferences and events – activities which may be regarded as falling within the terms of the Act.

The recipients of these payments were:

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

ScottishPower was represented at all the major UK political party conferences in 2015, 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:

Wendy Barnes	
Elizabeth Haywood	
Guy Jefferson	(appointed 30 April 2015)
Scott Mathieson	
Professor Sir James McDonald	(resigned 18 November 2015)
Frank Mitchell	

Wendy Barnes and Elizabeth Haywood are independent non-executive directors. Until his resignation, Professor Sir James McDonald was an independent non-executive director.

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 2016.

ON BEHALF OF THE BOARD



Scott Mathieson
Director
15 June 2016

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 at 31 March 2016 of five directors bringing a broad range of skills and experience to the company, two of which are independent non-executive directors. The immediate parent of the company is SPENH. The SPENH Board of Directors ("SPENH Board") is 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.

Oversight is provided at ScottishPower group level by the ScottishPower Board (which includes four independent non-executive directors), other than on those matters reserved for the SPENH Board (which includes two independent non-executive directors, who also reside on the SP Distribution 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 Armando Martínez Martínez and seven other directors as at 31 March 2016. The directors of SPENH and their classification are shown below.

Armando Martínez Martínez	(appointed as director and Chairman 3 February 2016)
Javier Villalba Sánchez	(resigned as director and Chairman 1 February 2016)
Frank Mitchell	Chief Executive Officer
Nicola Connelly	
Antonio Espinosa de los Monteros	
José Izaguirre Nazar	
Scott Mathieson	
Professor Sir James McDonald	Independent non-executive director (resigned 18 November 2015)
Wendy Barnes	Independent non-executive director
Elizabeth Haywood	Independent non-executive director

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

Armando Martínez Martínez	Attended two meetings
Javier Villalba Sánchez	Attended three meetings
Frank Mitchell	Attended all meetings
Nicola Connelly	Attended all meetings
Antonio Espinosa de los Monteros	Attended all meetings
José Izaguirre Nazar	Attended all meetings
Scott Mathieson	Attended all meetings
Professor Sir James McDonald	Attended two meetings
Wendy Barnes	Attended four meetings
Elizabeth Haywood	Attended all meetings

SP DISTRIBUTION PLC
CORPORATE GOVERNANCE STATEMENT *continued*

Administrative, management and supervisory bodies *continued*

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

Professor Sir James McDonald	External independent, attended one meeting (appointed as member and Chairman 10 December 2015)
Rt Hon Lord Macdonald of Tradeston CBE	External independent, attended three meetings (resigned as member and Chairman 8 October 2015)
Professor Susan Deacon	External independent, attended all meetings
Juan Carlos Rebollo Liceaga	Attended all meetings

Iberdrola Appointments and Remuneration Committees

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 Iberdrola Appointments Committee ("IAC") and the Iberdrola Remuneration Committee ("IRC"). The members of the IAC are:

Maria Helena Antolin Raybaud (Chairperson)	External independent
Iñigo Victor De Oriol Ibarra	Other External
Angel Jesús Acebas Paniagua	External independent

The members of the IRC are:

Inés Macho Stadler (Chairperson)	External independent
Iñigo Victor De Oriol Ibarra	Other External
Santiago Martínez Lage	External independent

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

Internal control

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

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

SP DISTRIBUTION PLC
CORPORATE GOVERNANCE STATEMENT *continued*

Internal control *continued*

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.

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.

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. The directors confirm that these Regulatory Accounts comply with Standard Licence condition 44. 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 2016 (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 23 to 26.

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

RESPECTIVE RESPONSIBILITIES OF THE AUTHORITY DIRECTORS AND AUDITOR

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

SCOPE OF THE AUDIT OF THE REGULATORY ACCOUNTS

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

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

OPINION ON THE REGULATORY ACCOUNTS

In our opinion the Regulatory Accounts:

- fairly present in accordance with Standard Condition 44 of the company's Regulatory Licence, basis of preparation and the accounting policies set out on pages 23 to 26, the state of the company's affairs at 31 March 2016 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 2015 on which we reported on 23 March 2016, 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
Ernst & Young LLP
Statutory Auditor
Glasgow
15 June 2015

SP DISTRIBUTION PLC
BALANCE SHEETS
as at 31 March 2016 and 31 March 2015

	Notes	2016 £m	2015 £m
ASSETS			
NON-CURRENT ASSETS			
Intangible assets			
Other intangible assets	4	-	-
Property, plant and equipment		2,692.6	2,579.4
Property, plant and equipment in use	5	2,502.1	2,437.8
Property, plant and equipment in the course of construction	5	190.5	141.6
Investments	6	0.1	0.1
NON-CURRENT ASSETS		2,692.7	2,579.5
CURRENT ASSETS			
Trade and other receivables	7	92.4	73.1
Cash	8	4.5	7.5
CURRENT ASSETS		96.9	80.6
TOTAL ASSETS		2,789.6	2,660.1
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the Parent		837.1	761.8
Share capital	10, 11	300.0	300.0
Retained earnings	11	537.1	461.8
TOTAL EQUITY		837.1	761.8
NON-CURRENT LIABILITIES			
Deferred income	12	559.8	513.7
Bank borrowings and other financial liabilities		912.3	1,036.7
Loans and other borrowings	14	912.3	1,036.7
Trade and other payables	15	-	18.3
Deferred tax liabilities	16	166.2	179.4
NON-CURRENT LIABILITIES		1,638.3	1,748.1
CURRENT LIABILITIES			
Provisions	13	0.4	0.6
Bank borrowings and other financial liabilities		124.7	-
Loans and other borrowings	14	124.7	-
Trade and other payables	15	167.8	137.3
Current tax liabilities		21.3	12.3
CURRENT LIABILITIES		314.2	150.2
TOTAL LIABILITIES		1,952.5	1,898.3
TOTAL EQUITY AND LIABILITIES		2,789.6	2,660.1

Approved by the Board on 15 June 2016 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 2016 and 31 March 2015.

SP DISTRIBUTION PLC

INCOME STATEMENTS AND STATEMENTS OF COMPREHENSIVE INCOME
for the years ended 31 March 2016 and 31 March 2015

	Notes	2016 £m	2015 £m
Revenue		406.0	370.0
Procurements		(26.1)	(23.4)
		379.9	346.6
Staff costs	17	(1.2)	(1.1)
Outside services		(79.6)	(84.3)
Other operating income		32.4	30.8
		(48.4)	(54.6)
Taxes other than income tax	18	(42.3)	(42.0)
		289.2	250.0
Depreciation and amortisation charge, allowances and provisions	19	(97.4)	(98.8)
PROFIT FROM OPERATIONS		191.8	151.2
Finance income	20	0.6	0.1
Finance costs	21	(39.9)	(37.3)
PROFIT BEFORE TAX		152.5	114.0
Income tax	22	(12.2)	(24.3)
NET PROFIT FOR THE YEAR		140.3	89.7

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 2016 and 31 March 2015.

SP DISTRIBUTION PLC
STATEMENTS OF CHANGES IN EQUITY
for the years ended 31 March 2016 and 31 March 2015

	Ordinary share capital £m	Retained earnings £m	Total equity £m
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 1 April 2015	300.0	461.8	761.8
Total comprehensive income for the year	-	140.3	140.3
Dividends	-	(65.0)	(65.0)
At 31 March 2016	300.0	537.1	837.1

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

The accompanying Notes 1 to 28 are an integral part of the statements of changes in equity for the years ended 31 March 2016 and 31 March 2015.

SP DISTRIBUTION PLC
CASH FLOW STATEMENTS
for the years ended 31 March 2016 and 31 March 2015

	2016 £m	2015 £m
Cash flows from operating activities		
Profit before tax	152.5	114.0
Adjustments for:		
Depreciation and amortisation	97.0	95.7
Change in provisions	-	(0.2)
Transfer of assets from customers	(16.7)	(16.1)
Finance income and costs	39.3	37.2
Net losses on write-off/disposal of non-current assets	0.4	3.2
Changes in working capital:		
Change in trade and other receivables	(0.4)	(2.0)
Change in trade and other payables	11.3	11.7
Provisions paid	(0.2)	(0.2)
Assets received from customers	55.9	49.6
Income taxes paid	(16.4)	(30.4)
Interest received	0.5	0.1
Net cash flows from operating activities (i)	323.2	262.6
Cash flows from investing activities		
Investments in property, plant and equipment	(202.0)	(219.2)
Net cash flows from investing activities (ii)	(202.0)	(219.2)
Cash flows from financing activities		
Increase in amounts due to Iberdrola group companies	-	115.0
Dividends paid to company's equity holders	(65.0)	(119.0)
Interest paid	(40.4)	(37.0)
Net cash flows from financing activities (iii)	(105.4)	(41.0)
Net increase in cash and cash equivalents (i)+(ii)+(iii)	15.8	2.4
Cash and cash equivalents at beginning of year	20.0	17.6
Cash and cash equivalents at end of year	35.8	20.0
Cash and cash equivalents at end of year comprises:		
Balance sheet cash	4.5	7.5
Receivables due from Iberdrola group companies - loans	31.3	12.5
Cash flow statement cash and cash equivalents	35.8	20.0

The accompanying Notes 1 to 28 are an integral part of the cash flow statements for the years ended 31 March 2016 and 31 March 2015.

SP DISTRIBUTION PLC

NOTES TO ACCOUNTS

31 March 2016

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 2016. 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 2015 to 31 March 2016. Consequently the Corporate Report and Regulatory Accounts for the year ended 31 March 2016 are separate from the Annual Report and Accounts of the company which have been prepared for the year ended 31 December 2015. 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 2016.

For the regulatory year ended 31 March 2016, the company has applied the following standards and amendments for the first time:

Standard	Note
• Amendments to IAS 19 'Employee Benefits: Defined Benefit Plans: Employee Contributions'	(a)
• Annual Improvements to IFRSs (2010-2012)	(a)
• Annual Improvements to IFRSs (2011-2013)	(a)
• IFRIC 21 'Levies'	(a)

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

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

Standard	Notes	IASB effective date (for periods commencing on or after)	Planned date of application by the company
• Amendments to IAS 1 'Presentation of Financial Statements: Disclosure Initiative'	(b)	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)	1 January 2016	1 April 2016
• Amendments to IAS 16 'Property, Plant and Equipment' and IAS 41 'Agriculture' – 'Bearer Plants'	(b)	1 January 2016	1 April 2016
• Amendments to IAS 27 'Separate Financial Statements: Equity Method in Separate Financial Statements'	(b)	1 January 2016	1 April 2016
• Amendments to IFRS 11 'Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations'	(b)	1 January 2016	1 April 2016
• Annual Improvements to IFRSs (2012-2014)	(b)	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), (c), (d)	1 January 2016	1 April 2017

SP DISTRIBUTION PLC

NOTES TO ACCOUNTS *continued*

31 March 2016

1 BASIS OF PREPARATION *continued*

B ACCOUNTING STANDARDS *continued*

Standard <i>continued</i>	Notes	IASB effective date (for periods commencing on or after)	Planned date of application by the company
• IFRS 14 'Regulatory Deferral Accounts'	(b), (e)	1 January 2016	To be decided
• Amendments to IAS 12 'Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses'	(b), (c)	1 January 2017	1 April 2017
• Amendments to IAS 7 'Statement of Cash Flows: Disclosure Initiative'	(b), (c)	1 January 2017	1 April 2017
• IFRS 9 'Financial Instruments'	(c), (f)	1 January 2018	1 April 2018
• IFRS 15 'Revenue from Contracts with Customers' (including Amendments to IFRS 15 'Effective date of IFRS 15' and Clarifications to IFRS 15 'Revenue from Contracts with Customers')	(c), (f)	1 January 2018	1 April 2018
• IFRS 16 'Leases'	(c), (f)	1 January 2019	1 April 2019
• 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), (c), (g)	Deferred indefinitely	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) These pronouncements have not yet been adopted by the EU.
- (d) The company applies all relevant standards/amendments which have been adopted by the EU as at the date of approval of these accounts. Despite the IASB effective date of 1 January 2016, the amendment has yet to be endorsed by the EU. The endorsement notice will be reviewed but it is anticipated that the company will apply this amendment for the accounting period following adoption, i.e. 1 April 2017.
- (e) The endorsement process of this interim standard has not been launched as the EU has decided to wait for the final standard to be issued.
- (f) The directors are currently in the process of assessing the impact of this standard/amendment in relation to the company's accounting policies, financial position and performance.
- (g) The IASB set the effective date of this amendment for periods commencing on or after 1 January 2016. However, in December 2015, the IASB postponed the effective date indefinitely pending the outcome of its research project on the equity method of accounting. The EU endorsement process for this amendment has been postponed, awaiting a revised exposure draft from the IASB. The IASB effective date will be amended in due course.
- (h) The company has chosen not to early adopt any of these standards/amendments for regulatory year ended 31 March 2016.

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 four years.

SP DISTRIBUTION PLC

NOTES TO ACCOUNTS *continued*

31 March 2016

2 ACCOUNTING POLICIES *continued*

C PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost and is generally depreciated on a straight-line basis over the estimated operational lives of the assets. Property, plant and equipment includes capitalised employee costs 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.

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.

SP DISTRIBUTION PLC

NOTES TO ACCOUNTS *continued*

31 March 2016

2 ACCOUNTING POLICIES *continued*

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.

I 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 2016, the carrying value of property, plant and equipment amounted to £2,692.6 million (2015 £2,579.4 million).

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 March 2016

4 INTANGIBLE ASSETS

		Note	Computer software £m
Year ended 31 March 2015			
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			-
Year ended 31 March 2016			
Cost:			
At 1 April 2015			15.7
Disposals			(9.9)
At 31 March 2016		(a)	5.8
Amortisation:			
At 1 April 2015			15.7
Disposals			(9.9)
At 31 March 2016			5.8
Net book value:			
At 31 March 2016			-
At 1 April 2015			-

(a) The cost of fully amortised computer software still in use at 31 March 2016 was £5.8 million (2015 £15.7 million).

SP DISTRIBUTION PLC

NOTES TO ACCOUNTS *continued*

31 March 2016

5 PROPERTY, PLANT AND EQUIPMENT

(a) Movements in property, plant and equipment

Year ended 31 March 2015	Note	Distribution facilities £m	Meters and measuring devices £m	Other facilities (Note (i)) £m	Other items of property, plant and equipment		Plant in progress (Note (iii)) £m	Total £m
					In use (Note (ii)) £m	Plant in progress (Note (iii)) £m		
Cost:								
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)	
At 31 March 2015		3,350.6	240.4	16.1	34.0	141.6	3,782.7	
Amortisation:								
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)	
At 31 March 2015		977.0	193.7	7.7	24.9	-	1,203.3	
Net book value:								
At 31 March 2015		2,373.6	46.7	8.4	9.1	141.6	2,579.4	
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
	2,373.6	46.7	8.4	9.1	141.6	2,579.4

Year ended 31 March 2016	Note	Distribution facilities £m	Meters and measuring devices £m	Other facilities (Note (i)) £m	Other items of property, plant and equipment		Plant in progress (Note (iii)) £m	Total £m
					In use (Note (ii)) £m	Plant in progress (Note (iii)) £m		
Cost:								
At 1 April 2015		3,350.6	240.4	16.1	34.0	141.6	3,782.7	
Additions	(iii)	6.9	4.1	-	-	199.6	210.6	
Transfers from in progress to plant in use		149.6	-	1.0	0.1	(150.7)	-	
Disposals		(7.6)	(1.6)	-	(24.9)	-	(34.1)	
At 31 March 2016		3,499.5	242.9	17.1	9.2	190.5	3,959.2	
Amortisation:								
At 1 April 2015		977.0	193.7	7.7	24.9	-	1,203.3	
Depreciation for the year		86.8	9.5	0.7	-	-	97.0	
Disposals		(7.4)	(1.4)	-	(24.9)	-	(33.7)	
At 31 March 2016		1,056.4	201.8	8.4	-	-	1,266.6	
Net book value:								
At 31 March 2016		2,443.1	41.1	8.7	9.2	190.5	2,692.6	
At 1 April 2015		2,373.6	46.7	8.4	9.1	141.6	2,579.4	

The net book value of property, plant and equipment at 31 March 2016 is analysed as follows:

Property, plant and equipment in use	2,443.1	41.1	8.7	9.2	-	2,502.1
Property, plant and equipment in the course of construction	-	-	-	-	190.5	190.5
	2,443.1	41.1	8.7	9.2	190.5	2,692.6

- (i) The category "Other facilities" principally comprises land and machinery.
- (ii) The category "Other items of property, plant and equipment in use" principally comprises IT equipment.
- (iii) The category "Plant in progress" principally comprises distribution facilities in the course of construction.
- (iv) Additions of £203.6 million (2015 £220.7 million) were purchased from asset management entity Power Systems, as shown in Note 26.
- (v) The cost of fully depreciated property, plant and equipment still in use at 31 March 2016 was £292.4 million (2015 £300.3 million).
- (vi) Included within the cost of property, plant and equipment are assets in use not subject to depreciation, being land of £9.2 million (2015 £9.2 million).

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 March 2016

5 PROPERTY, PLANT AND EQUIPMENT *continued*

(b) Operating lease arrangements

	2016	2015
	£m	£m
(i) Operating lease payments		
Minimum lease payments under operating leases recognised as an expense in the year	0.1	0.1
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	0.3
(ii) Operating lease commitments		
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
(iii) Operating lease receivables		
The future minimum lease payments receivable under non-cancellable operating leases are as follows:		
Within one year	0.7	0.8
Between one and five years	0.5	0.5
	1.2	1.3

Sublease payments of £0.2 million (2015 £0.2 million) were received in the year.

(c) Capital commitments

	2016	2015
	£m	£m
Contracted but not provided	230.2	220.6

6 INVESTMENTS

	Subsidiary undertakings	Other Investments	Total
	shares £000	£000	£000
At 1 April 2014, 1 April 2015 and 31 March 2016	50	6	56
Subsidiary			
SPD Finance UK plc	Country of incorporation	%	Activity
	England and Wales	100%	In liquidation

7 TRADE AND OTHER RECEIVABLES

	Notes	2016	2015
		£m	£m
Current receivables:			
Receivables due from Iberdrola group companies - trade		16.2	16.8
Receivables due from Iberdrola group companies - loans	(a)	31.3	12.5
Receivables due from Iberdrola group companies - interest	(a)	0.1	-
Trade receivables and accrued income	(b)	44.8	43.8
		92.4	73.1

(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 (2015 £0.1 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 2016 is a credit of £0.1 million (2015 charge of £0.1 million).

SP DISTRIBUTION PLC

NOTES TO ACCOUNTS *continued*

31 March 2016

7 TRADE AND OTHER RECEIVABLES *continued*

(c) At 31 March 2016 trade receivables of £0.1 million (2015 £0.4 million) were past due but not impaired.

	2016 £m	2015 £m
Past due but not impaired		
Less than 3 months	0.1	0.3
Between 3 and 6 months	-	0.1
	0.1	0.4

8 MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

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

	Notes	2016		2015	
		Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Financial assets					
Receivables		92.4	92.4	73.1	73.1
Cash	(a)	4.5	4.5	7.5	7.5
Financial liabilities					
Loans and other borrowings	(b)	(1,037.0)	(1,168.2)	(1,036.7)	(1,188.5)
Payables	(c)	(82.7)	(82.7)	(78.1)	(78.1)

The carrying amount of these financial instruments is calculated as set out in Note 2F. With the exception of loans and other borrowings, 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 footnote (b).

- (a) As a general rule, cash deposited with banks earn interest at rates similar to market rates on daily deposits.
- (b) The carrying value of loans and other borrowings are accounted for at amortised cost. The 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.
- (c) Balances outwith the scope of IFRS 7 'Financial Instruments: Disclosure' ("IFRS 7") have been excluded, namely, payments on account and other tax payables.

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.

	2016						Total £m
	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	2022 and thereafter £m	
Cash outflows							
Loans and other borrowings	164.8	36.3	311.7	29.8	154.8	650.9	1,348.3
Payables*	64.5	-	-	-	-	-	64.5
	229.3	36.3	311.7	29.8	154.8	650.9	1,412.8

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

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

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 March 2016

10 SHARE CAPITAL

	2016 £m	2015 £m
Authorised:		
300,000,000 ordinary shares of £1 each (2015 300,000,000)	300.0	300.0
Allotted, called up and fully paid shares:		
300,000,000 ordinary shares of £1 each (2015 300,000,000)	300.0	300.0

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

	Ordinary share capital £m	Retained earnings (Note (a)) £m	Total £m
At 1 April 2014	300.0	491.1	791.1
Profit for the year attributable to equity holders of SP Distribution plc	-	89.7	89.7
Dividends	-	(119.0)	(119.0)
At 1 April 2015	300.0	461.8	761.8
Profit for the year attributable to equity holders of SP Distribution plc	-	140.3	140.3
Dividends	-	(65.0)	(65.0)
At 31 March 2016	300.0	537.1	837.1

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

12 DEFERRED INCOME

	At 1 April 2014 £m	Receivable during year £m	Released to income statement £m	At 31 March 2015 £m
Year ended 31 March 2015				
Transfer of assets from customers	479.3	50.5	(16.1)	513.7
Year ended 31 March 2016				
Transfer of assets from customers	513.7	62.8	(16.7)	559.8

13 PROVISIONS

	At 1 April 2014 £m	Utilised during year £m	Released during year £m	At 31 March 2015 £m
Year ended 31 March 2015				
Environmental costs	(a) 1.0	(0.2)	(0.2)	0.6
Year ended 31 March 2016				
Environmental costs	(a) 0.6	(0.2)	-	0.4

(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.

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 March 2016

14 LOANS AND OTHER BORROWINGS

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

Instrument	Notes	Interest rate*	Maturity	2016 £m	2015 £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	340.0
Intercompany loans with SPUK	(ii),(iv)	2.821%	31 March 2025	200.0	200.0
£350m euro-sterling bond	(v)	5.875%	17 July 2026	347.0	346.7
				1,037.0	1,036.7

*LIBOR – London Inter Bank Offer Rate

Analysis of total loans and borrowings	2016 £m	2015 £m
Current	124.7	-
Non-current	912.3	1,036.7
	1,037.0	1,036.7

- (i) A 1% increase in the LIBOR rate would result in a £1.5 million (2015 £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 is due in 2016 is classified as current in the 2016 analysis above.
- (iv) The intercompany loan with SPUK that is due to mature in March 2025 is repayable in equal instalments every two years. The repayment of £40.0 million that is due in March 2017 is classified as current in the 2016 analysis above.
- (v) 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 which are classified as current in the 2016 analysis above (2015 £0.3 million classified as non-current). This bond contains a 'Loss of licences' covenant that will require repayment of the outstanding amount should the company lose its relevant licences.

(b) Borrowing facilities

The company has no undrawn committed borrowing facilities at 31 March 2016 (2015 £nil).

15 TRADE AND OTHER PAYABLES

	Note	2016 £m	2015 £m
Current trade and other payables:			
Payables due to Iberdrola group companies - trade		29.3	27.4
Payables due to Iberdrola group companies - interest		3.7	4.5
Payables due to Iberdrola group companies - other	(a)	12.4	-
Other taxes and social security		12.0	11.3
Payments received on account		73.1	66.2
Other payables		37.3	27.9
		167.8	137.3
Non-current other payables:			
Payables due to Iberdrola group companies- other	(a)	-	18.3

- (a) The company utilises forms of collateral to manage its credit exposure in respect of the provision of network services. All collateral held is settled in cash. At 31 March 2016, the company held cash collateral of £15.3 million (2015 £19.2 million) of which £12.4 million (2015 £18.3 million) is payable to Iberdrola group companies. Following a review of the company's collateral arrangements with ScottishPower Energy Retail Limited during the year, it has been deemed more appropriate to classify the balance payable as current rather than non-current. Prior year figures have not been restated.

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 March 2016

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 2014	174.8	(0.1)	174.7
Charge to income statement	4.6	0.1	4.7
At 1 April 2015	179.4	-	179.4
Credit to income statement	(13.2)	-	(13.2)
At 31 March 2016	166.2	-	166.2

Finance Act (No 2) 2015 included legislation to reduce the rate of UK Corporation Tax to 19% on 1 April 2017 and to 18% on 1 April 2020. These changes reduce the tax rates expected to apply when temporary differences reverse and impact the deferred tax charge. The rate of UK Corporation Tax is now expected to reduce by a further 1% to 17% on 1 April 2020 and this will reduce the deferred tax provision. The estimated impact of this change is a reduction of £9.3 million in the year to 31 March 2017.

17 EMPLOYEE INFORMATION

(a) Staff costs

	2016 £m	2015 £m
Wages and salaries	0.7	0.7
Social security costs	0.1	0.1
Pension and other costs	0.4	0.3
Total staff costs	1.2	1.1

(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 2016	Average 2016	Year end 2015	Average 2015
Administrative staff	12	12	13	12

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 £206,400 (2015 £178,700). 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 2015, the deficit in ScottishPower's defined benefit schemes in the UK amounted to £264.4 million (31 December 2014 £308.4 million). The employer contribution rate for these schemes in the year ended 31 December 2015 was 30.1% - 31.0%.

18 TAXES OTHER THAN INCOME TAX

	2016 £m	2015 £m
Property taxes	42.3	42.0

19 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS

	2016 £m	2015 £m
Property, plant and equipment depreciation charge	97.0	95.7
Charges and provisions, allowances and impairment of assets	0.4	3.1
	97.4	98.8

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 March 2016

20 FINANCE INCOME

	2016 £m	2015 £m
Interest receivable from Iberdrola group companies	0.6	0.1

21 FINANCE COSTS

	2016 £m	2015 £m
Interest on amounts due to Iberdrola group companies	19.0	26.8
Interest on other borrowings	20.9	10.5
	39.9	37.3

22 INCOME TAX

	2016 £m	2015 £m
Current tax:		
UK Corporation tax	25.5	19.9
Adjustments in respect of prior years	(0.1)	(0.3)
Current tax charge for the year	25.4	19.6
Deferred tax:		
Origination and reversal of temporary differences	5.7	4.4
Adjustments in respect of prior years	-	0.3
Impact of tax rate change	(18.9)	-
Deferred tax (credit)/charge for the year	(13.2)	4.7
Income tax charge for the year	12.2	24.3

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

	2016 £m	2015 £m
Corporation tax at 20% (2015 21%)	30.5	23.9
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	(18.9)	-
Other permanent differences	0.5	0.2
Income tax charge for the year	12.2	24.3

The rate of UK Corporation Tax reduced from 21% to 20% on 1 April 2015 and from 23% to 21% on 1 April 2014. Finance Act (No 2) 2015 included legislation to reduce the rate of UK Corporation Tax to 19% on 1 April 2017 and to 18% on 1 April 2020. These changes reduce the tax rates expected to apply when temporary differences reverse and impact the deferred tax charge.

23 DIVIDENDS

	2016 pence per ordinary share	2015 pence per ordinary share	2016 £m	2015 £m
Aggregate dividends paid	21.7	39.7	65.0	119.0

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 March 2016

24 CONTINGENT LIABILITIES

Debt guarantees

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 2016, was £1,223.0 million (2015 £1,219.7 million).

Legal proceedings

The company party to various legal claims, actions and complaints, certain of which may involve material amounts. The company is unable to predict with certainty whether or not it will ultimately be successful in these legal proceedings or, if not, what the impact might be. The company currently believes that disposition of these matters will not have a materially adverse effect on these Accounts.

25 FINANCIAL COMMITMENTS

Other contractual commitments

	2016	2015
	£m	£m
Provision of asset management services from Power Systems	70.7	67.3

The contract in place for the provision for asset management services provided by Power Systems expires on 31 March 2017.

26 RELATED PARTY TRANSACTIONS

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

	2016			2015		
	UK parent (SPL) £m	Immediate parent (SPENH) £m	Other Iberdrola group companies £m	UK parent (SPL) £m	Immediate parent (SPENH) £m	Other Iberdrola group companies £m
Types of transaction						
Sales and rendering of services	-	-	107.5	-	-	103.6
Purchases and receipt of services	-	-	(74.4)	-	-	(78.0)
Purchases of property, plant and equipment	-	-	(203.6)	-	-	(220.7)
Finance income	-	-	0.6	-	-	0.1
Finance costs	(1.6)	-	(17.4)	(1.5)	-	(14.9)
Dividends paid	-	(65.0)	-	-	(119.0)	-
Balances outstanding						
Loans receivable	-	-	31.3	-	-	12.5
Trade and other receivables	-	-	16.2	-	-	16.8
Interest receivable	-	-	0.1	-	-	-
Loans payable	(150.0)	-	(540.0)	(150.0)	-	(540.0)
Trade and other payables	(0.1)	-	(41.6)	-	-	(45.7)
Interest payable	(0.5)	-	(3.2)	(0.4)	-	(4.1)

- (i) During the year ended 31 March 2016, SPUK made pension contributions of £206,400 on behalf of the company (2015 £178,700).
- (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 2016

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 ScottishPower group, it has not been possible to apportion the remuneration specifically in respect of services to this company. All of the key management personnel were paid by another Iberdrola group company.

	2016 £000	2015 £000
Short-term employee benefits	1,781	1,675
Post-employment benefits	368	415
Termination benefits	-	214
Share-based payments	627	781
	2,776	3,085

(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 ScottishPower group, it has not been possible to apportion the emoluments specifically in respect of services to this company. All of the directors were paid by another ScottishPower group company.

	2016 £000	2015 £000
Executive directors		
Aggregate remuneration in respect of qualifying services	1,070	751
Number of directors who exercised share options	2	1
Number of directors who received shares under a long-term incentive scheme	3	2
Number of directors accruing retirement benefits under a defined benefit scheme	2	2
Highest paid director		
Aggregate remuneration	580	518
Accrued pension benefits	90	89

(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

	2016 £m	2015 £m
Audit of the company's Annual Accounts and Regulatory Accounts	0.1	0.1

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 March 2016

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 £217.3 million and net assets of £837.1 million at its most recent balance sheet date.

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

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