

SP DISTRIBUTION PLC
CORPORATE REPORT AND REGULATORY ACCOUNTS
for the year ended 31 March 2017

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, 2016/17 performance, strategic objectives and plans.

STRATEGIC OUTLOOK

The principal activity of SP Distribution plc ("the company") 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. 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 and SP Transmission plc, 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 Central and Southern 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. Price control processes are designed to cover the company's efficient costs and allow it to earn a reasonable return, provided the company acts in an efficient manner, delivers value for customers and meets Ofgem targets.

The company faces a considerable challenge over the next decade to secure the significant investment required to maintain reliable and secure networks. To ensure that this investment is delivered at a fair price for customers, Ofgem introduced the RIIO (Revenue=Incentives+Innovation+Outputs) framework. It is a performance based model, with an eight year price control period, that places a much greater emphasis on network companies playing a full role in developing a sustainable energy sector and delivering services that provide value for money for customers. A key feature is agreement on the set of outputs that companies are expected to deliver as part of the framework and the provision of incentives to reduce network costs for both current and future customers.

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*

On 31 March 2017, the company successfully completed the second year of the price control RIIO-ED1 that will run until March 2023. The Distribution Annual Performance Report for 2016/17 will be published later this year. That report will provide all of the company's stakeholders with a comprehensive view of how the company is performing against the commitments made in its RIIO-ED1 business plan.

Following the publication of SP Energy Networks DSO Vision document in October 2016, the company has engaged heavily with both industry and the UK Government. The company has also joined an Energy Networks Association ("ENA") working group, which will seek to inform the Department for Business, Energy and Industrial Strategy ("BEIS") /Ofgem on an industry view of the roles and responsibilities of a future DSO in the UK. BEIS/Ofgem are fully supportive of this working group and sit on both the Steering Group and Advisory panels.

During 2016/17 Energy Networks won three high profile industry awards. At the Utility Week Industry Awards the Customer Service Team were winners in the Customer Care category for their work with vulnerable customers. At the Scottish Green Energy Awards Energy Networks won the Best Innovation Award for the Dynamic Cable Rating System and jointly won the Judges Award for the Beauly to Denny transmission line.

In line with ScottishPower's strategic objectives and its regulatory obligations, the company is maintaining its significant investment in the UK energy network. Over the last ten years, Energy Networks has invested around £5.3 billion in its transmission and distribution networks, and during the next ten years, Energy Networks currently plans to invest a further £5.7 billion to modernise and improve service to customers. Energy Networks' ten year investment plans are reviewed annually in detail to ensure that they are aligned with and continue to support UK Government energy policy.

Announcements in the past few years by the UK Government on funding programmes have led to some renewables developers scaling back future activity. Some developers have requested acceleration in connection dates, while other projects have been deferred or cancelled. These developments have been analysed carefully, resulting in updated projections of volumes and expenditure for the Energy Networks business. The external environment will continue to be monitored and the impact of any changes in trends will be considered in future forecasts. In addition to this the company has experienced a significant uptake in applications for battery storage projects in response to National Grid's Firm Frequency Response ("FFR") tender. The company will continue to monitor this but the market seems to be responding quickly and in volume to any incentives on storage applications.

The company is mindful that some of its assets are critical national infrastructure. On 1 November 2016, the UK Government published its National Cyber Security Strategy 2016 to 2021. The recent ransomware attack which affected institutions and individuals across the world in May 2017 served as a reminder of the increasing threat of cyber crime. The company liaises with UK 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 September 2016, the UK Government published its National Flood Resilience Review, which was set up following the floods experienced in some areas of the UK in December 2015. The company is working with BEIS and other stakeholders to ensure that improvements in flood defences for electricity infrastructure are effectively implemented.

Energy Networks is continuing to develop and train staff for a 'smarter' future and replenish its ageing workforce from the communities that Energy Networks serve so that the investment made in recruitment and training continues to deliver in the long-term. The challenge of replacing an ageing workforce in Energy Networks and across the UK Power Sector in the coming years will be significant. Energy Networks will continue to work closely with schools and Further and Higher Education institutions to ensure that it can attract high calibre individuals into exciting development and career opportunities. During the Regulatory year 2016/2017 Energy Networks recruited 10 Graduates and 36 Apprentices, in addition, internal recruits have been enrolled on the Trainee Engineer and Technical Craftsperson programmes to increase the engineering and technical capabilities of the front line teams.

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:

For the year ended 31 March 2017	Notes	Total £m	Distribution Use of System (DUOS) £m	Directly remunerated services £m	Metering £m	De minimus £m
Revenue	(a)	400.1	387.4	-	12.7	-
Procurements	(a)	(24.3)	(24.3)	-	-	-
GROSS MARGIN		375.8	363.1	-	12.7	-
NET OPERATING EXPENSES		(50.7)	(48.4)	-	(2.3)	-
Net personnel expenses		(1.0)	(1.0)	-	-	-
Staff costs	(a)	(1.0)	(1.0)	-	-	-
Net external expenses		(49.7)	(47.4)	-	(2.3)	-
External services	(a)	(80.6)	(66.6)	(11.6)	(2.3)	(0.1)
Other operating income	(a)	30.9	19.2	11.6	-	0.1
Taxes other than income tax	(a)	(43.7)	(43.7)	-	-	-
EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION		281.4	271.0	-	10.4	-
Depreciation and amortisation charge, allowances and provisions	(a)	(99.0)	(91.1)	-	(7.9)	-
OPERATING PROFIT	(a)	182.4	179.9	-	2.5	-
Property, plant and equipment asset additions	(b)	223.3	220.9	-	2.4	-

(a) As presented in the income statement on page 20.

(b) As presented within Note 5 on page 28.

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

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 operating profit was £182.4 million, a decrease of £9.4 million compared to the prior year, and net profit was £124.2 million, a decrease of £16.1 million compared to the prior year.

Revenue decreased by £5.9 million in comparison to prior year as a result of a decrease in base revenues allowed under RIIO-ED1.

Procurements decreased by £1.8 million primarily due a decrease in Low Carbon Network project funding payments to other distribution companies.

Staff costs are broadly in line with prior year.

External services have increased by £1.0 million primarily as a result of an increase in insurance costs.

Other operating income decreased by £1.5 million primarily as a result of lower rechargeable income.

Taxes other than income tax have increased by £1.4 million primarily as a result of an increase in property rates.

Depreciation and amortisation charge, allowances and provisions has increased mainly as a result of the increased cost base for depreciation.

Net finance costs decreased by £0.5 million primarily as a result of lower interest charges following instalment repayments on long-term group loans.

The **income tax expense** increased as a result of the reduced impact on the deferred tax charge of future tax rate reductions.

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 £154.1 million (2016 £147.8 million) consisting of fixed asset additions of £223.3 million (2016 £210.6 million) less capital contributions received of £69.2 million (2016 £62.8 million). Property, plant and equipment additions in relation to growth of the network amounted to £92.0 million (2016 £83.1 million) less capital contributions of £69.2 million (2016 £62.8 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 £131.3 million (2016 £127.5 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 2017:

Operational assets	Note	Year ended 31 March	Year ended 31 March
		2017	2016
Franchise area (km ²)		22,950	22,950
System maximum demand (MW)*	(a)	3,563	3,626
Distributed energy (GWh)*		17,961	18,348
Length of overhead lines (circuit km)		18,685	18,648
Length of underground cables (circuit km)		39,683	39,338

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

(a) System maximum demand value for the regulatory year ended 31 March 2017 is finalised at 3,563. The value for the regulatory year ended 31 March 2016 was finalised at 3,626.

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 2016/17 Electricity Distribution Quality of Service Report to be published online at www.ofgem.gov.uk from November 2017.

Operational performance	Notes	Actual Year ended 31 March	Target Year ended 31 March	Actual Year ended 31 March	Target Year ended 31 March
		2017	2017	2016	2016
Quality of service					
Customer minutes lost ("CML")	(a)	29.3	45.7	34.8	46.2
Customer interruptions ("CI")	(b)	42.9	51.9	48.5	52.1
Average time off supply (minutes)		68	88	72	89
Electricity supply available		99.99%	99.99%	99.99%	99.99%
Customer performance					
Broader customer service measure - Interruptions		8.74	8.2	8.79	8.2
Broader customer service measure - Connections		8.43	8.2	8.36	8.2
Broader customer service measure - General enquiries		9.05	8.2	8.84	8.2
Energy ombudsman (customer complaints)	(d)	5	-	2	-
Total number of Energy Ombudsman findings against the licensee (financial, non-financial and both)	(d)	-	-	-	-

(a) CML is reported as the average number of minutes that a customer is without power during a year due to power cuts that 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 that last three minutes or more.

(c) Customer performance comprises three components: a customer satisfaction survey, a complaints metric and stakeholder engagement. Further detail is given below and on page 5.

(d) The Energy Ombudsman Services are an independent body that monitors and adjudicates on 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 2017 are 29.3 and 42.9, respectively. These values will be validated and confirmed by Ofgem and will be published by them from November 2017. The CML and CI figures for Actual Year ended 31 March 2016 were confirmed by Ofgem, and were published in Ofgem's RIIO-ED1 Annual Report 2015/16. During 2016/17 there were no storm events which met Ofgem's 'exceptional event' exclusion criterion (2015/16 also had no exceptional storm events).

SP DISTRIBUTION PLC

STRATEGIC REPORT *continued*

OPERATIONAL PERFORMANCE *continued*

Customer Performance: 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 above 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 2016/17 is shown in the table on page 4.

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 is an independent body that monitors and adjudicates on complaint cases. The Energy Ombudsman performance is shown in the table on page 4 for 2016/17 performance. The wider complaints performance will not be published until Autumn 2017.

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 2016/17 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 a safe and reliable network with high performance during extreme weather events. Consequently, during the year to 31 March 2017, £35 million was invested to refurbish or rebuild the overhead line network. In addition £3 million was invested in tree cutting activities. Both of these investments will contribute to improving performance of distribution assets and minimising disruptions during inclement weather.

The long-term safety and reliability of the company's electricity distribution networks and its 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, the company continued to deliver its investment plans in line with the RIIO-ED1 regulatory contract. These projects contribute to the company's strategy for a safe, secure and efficient network. These works are broadly categorised as works to enable network growth and reinforcement and asset modernisation.

Network growth and reinforcement

The growth of the company's network has two drivers; to increase the capability of the asset base to manage future load demands, and to accommodate new connections for generators and customers. During the regulatory year, a number of projects were completed, including:

- Wind farm connections were commissioned across Dumfries, Ayrshire and Lanarkshire for the Andershaw, Auchroberts, Assell Valley, Ewe Hill, Glenchamber and Harehill extension sites.
- Nine new substations were built and connected for these wind farms, with other supporting works in other substations and connecting circuits.
- In total, over 100 km of 11 kilovolts ("kV") cable and 50 km of 33 kV cable were installed for new connections and reinforcement of the network.

Asset modernisation

Alongside the reinforcement and extension of the network, the company continued its extensive RIIO-ED1 programme to renew its aging infrastructure of plant, cables and overhead lines. These targeted interventions are designed to renew 'end of life' assets with modern equipment to improve the condition, performance and resilience of the network. Projects completed during the year include:

- Replacement of 33 kV switchgear at Giffnock, Linmill, Coatbridge and Maybole, enhancing network security and operability at these critical transmission network infeeds.
- Replacement of 33 kV transformers at Pinwherry, Muirhouse, Balmore and Dunscore.
- Replacement of obsolete 11 kV primary switchgear feeding the communities around Maukinfauld Road in Glasgow, West Linton in Edinburgh, Barterholm in Paisley, Dunscore in Dumfries and Common Farm in Lanarkshire.

SP DISTRIBUTION PLC
STRATEGIC REPORT *continued*

PROJECTS *continued*

Asset modernisation *continued*

- Continuation of the extensive overhead line programme, with over 200 km of conductor and 7,000 poles replaced in total across the network - enhancing the resilience of supply in communities such as Pinwherry, Newton Stewart, Netherdale, Troon and Kilbirnie.
- At the local level, replacement of over 250 11 kV switchgear units and replacement of over 60 11 kV transformers.
- Continuing its work with local authority residential accommodation, the company replaced over 12,000 low voltage connections to customer's properties, including the internal wiring of these buildings;
- To enable the installation of smart meters across the licence area, the company intervened in over 13,000 cases of difficulties encountered at customer meter positions, over a total installation of 150,000 smart meters.

These and other works undertaken by the company in the previous year demonstrate its commitment to deliver the plans it set out for the RIIO-ED1 period over the remaining six years.

LIQUIDITY AND CASH MANAGEMENT

Cash and net debt

Net cash flows from operating activities decreased by £40.0 million to £283.2 million for the year, as detailed on page 22. As outlined in the table below, net debt increased by £45.4 million to £1,046.6 million. The increase comprises a movement of £166.1 million in the on-demand loan with Scottish Power UK plc ("SPUK") from a receivable to a payable balance, a decrease of £4.0 million in cash and an increase in external loans payable of £0.3 million arising from the amortisation of finance costs, offset by repayments of £125.0 million in loans with SPUK.

		2017	2016
	Notes	£m	£m
Analysis of net debt			
Cash	(a)	0.5	4.5
Loans receivable from Iberdrola group companies	(b)	-	31.3
Loans payable to Iberdrola group companies	(c)	(699.8)	(690.0)
External loans payable	(c)	(347.3)	(347.0)
Net debt		(1,046.6)	(1,001.2)

(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 13 on page 31.

Capital and debt structure

The company is funded by a combination of debt and equity in accordance with the directors' objectives of establishing an appropriately funded business consistent with the requirements of the Utilities Act 2000 and the objectives of the Iberdrola group. All the equity is held by the company's immediate parent undertaking, SPENH. Treasury services are provided by 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 Etc. 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 Notes	Target Year ended 31 March 2017
Total recordable incident rate	(a) 0.36	0.23
Lost time accidents		7 7
Occupational health monitoring	(b) 113%	90%
Audit and inspection programme completion	(c) 109%	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 corporate memory safety stand-downs being held covering specific issues that are topical and specifically targeting root cause and learning from incidents. 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 engagement and education promotion has continued with a particular focus and engagement with the agricultural community.

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 on the next page:

SP DISTRIBUTION PLC
STRATEGIC REPORT *continued*

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

SCOTTISHPOWER	
RISK	RESPONSE
Material deterioration in the relatively stable and predictable UK regulatory and political environment, including any sudden changes of policy, or new initiatives in the retail market outside the framework of the Competition and Markets Authority ("CMA") investigation outcome.	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. Providing stakeholders with evidence of the risks of ad hoc intervention in markets.
Impacts arising from the UK decision to leave the European Union ("EU") or market reactions to events during the negotiation. These impacts could include further depreciation in the value of Sterling and other financial instruments. In the longer term there could be negative or positive changes in the UK economy and in the political and regulatory environment in which the company operates.	In addition to monitoring ongoing developments related to "Brexit" the treasury risk management policy is in place to hedge financial risks which are the most prevalent in the short term. Any longer term impact on the UK economy and its impact on the group and specific business units will be managed in line with developments.
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 internal and 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 all 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:

NETWORKS	
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 Black Start. "Strategic Spares" policy in place.

SP DISTRIBUTION PLC
STRATEGIC REPORT *continued*

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

NETWORKS	
RISK	RESPONSE
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.

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 2017 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 2017, 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
 12 July 2017

SP DISTRIBUTION PLC DIRECTORS' REPORT

The directors present their report and audited Regulatory Accounts for the year ended 31 March 2017. 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 £124.2 million (2016 £140.3 million). The aggregate dividends paid during the year amounted to £69.0 million (2016 £65.0 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 2,700 (2015 2,500) training events and over 139,000 hours (2015 169,000) undertaken in the year ended 2016. 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 formal, structured training programme, leading towards 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

Employee feedback is recognised as key to driving engagement within ScottishPower and in 2016 the group again carried out its annual employee engagement survey, 'The LOOP'. This year there was a significant increase in the response rate from employees with 75% of employees across the group providing feedback. The overall engagement score increased to 76% in 2016 which is a positive reflection of how employees feel about working for ScottishPower.

All ScottishPower businesses recognise the importance of taking action in response to employee feedback. Action plans were developed following the LOOP survey in 2016 and focus on three key areas across ScottishPower – recognising the day to day achievements of our employees, improving face to face communication and creating a positive employee experience for all employees.

In addition to employee feedback, ScottishPower regularly consults with employees and their representatives via a variety of channels, including monthly team meetings, business conferences, health and safety committees and employee relations forums.

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 and includes a focus on creating an innovative, integrated organisation where people feel valued, inspiring them to perform at their best.

ScottishPower have a Diversity and Inclusion Governance Group whose objective is to drive the Diversity and Inclusion action plan with key stakeholders across the organisation to ensure that diversity is embedded into ScottishPower's working policies and practices.

SP DISTRIBUTION PLC

DIRECTORS' REPORT *continued*

EMPLOYEES *continued*

Equality and diversity continued

Activities over 2016 included E-learning and training on diversity and unconscious bias to raise the awareness of employees and key stakeholders. ScottishPower also received external recognition for ScottishPower's flexible and agile working practices to support working families and its development and employment programmes for young people.

ScottishPower is committed to driving gender diversity in the energy sector by encouraging women into leadership roles and engineering careers, not only seeking to develop its diverse and inclusive workforce but take active steps to address the deepening skills shortage in the sector. During 2016 ScottishPower joined the Women's Engineering Society and Powerful Women, sponsored the Top 50 Women in Engineering list and supported National Women in Engineering day.

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. ScottishPower's company-wide Volunteering Policy has been actively utilised by employees during 2016. 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 such as wind farms, the presence of distribution and transmission lines and routine maintenance and upkeep work. ScottishPower takes a proactive approach to providing good and accurate 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 with 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 such as Public Information Days. 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 wind farms and 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 Grantor's Charter which sets out guidance of commitment to grantors and has been prepared in consultation with key stakeholders.

SP DISTRIBUTION PLC
DIRECTORS' REPORT *continued*

COMMUNITY RELATIONSHIPS *continued*

Community consultation continued

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.

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 regulatory year ended 31 March 2017, ScottishPower paid a total of £22,010 (2016 £20,000) for the sponsorship of conferences and events – activities that may be regarded as falling within the terms of the Act.

The recipients of these payments were:

- The Conservative Party £7,000 (2016 £6,000)
- The Labour Party £7,000 (2016 £7,000)
- The Scottish National Party £8,010 (2016 £7,000)

The above amounts were for sponsored receptions at the 2016 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 and were open to everyone attending the conference, including party members, non-governmental organisations, the media and trade unions. 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
Scott Mathieson
Frank Mitchell

Wendy Barnes and Elizabeth Haywood are independent non-executive directors.

DIRECTORS' INDEMNITY

In terms of the company's Articles of Association, a qualifying third party indemnity provision is in force for the benefit of all the directors of the company and of associated companies and has been in force during the financial year.

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 2017.

ON BEHALF OF THE BOARD



Scott Mathieson
Director

12 July 2017

SP DISTRIBUTION PLC

CORPORATE GOVERNANCE STATEMENT

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

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

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

ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES

Board and management meetings

During the regulatory year, the company was governed by a Board ("the SP Distribution Board") consisting of 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 six other directors as at 31 March 2017.

The directors of SPENH and their classification are shown below.

Armando Martínez Martínez	Chairman
Frank Mitchell	Chief Executive Officer
Antonio Espinosa de los Monteros	
José Izaguirre Nazar	
Scott Mathieson	
Nicola Connelly	(resigned 1 February 2017)
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 all meetings
Frank Mitchell	Attended all meetings
Antonio Espinosa de los Monteros	Attended all meetings
José Izaguirre Nazar	Attended all meetings
Scott Mathieson	Attended all meetings
Nicola Connelly	Attended three meetings
Wendy Barnes	Attended all 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 (Chairman)	External independent, attended all meetings
Professor Susan Deacon	External independent, attended all meetings
Juan Carlos Rebollo Liceaga	Attended four 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:

María Helena Antolín Raybaud (Chairperson)	External independent
Iñigo Víctor de Oriol Ibarra	Other External
Angel Jesús Acebas Paniagua	External independent

The members of the IRC are:

Inés Macho Stadler (Chairperson)	External independent
Iñigo Víctor de Oriol Ibarra	Other External
Santiago Martínez Lage	External independent (resigned 31 March 2017)
Juan Manuel González Serna	External independent (appointed 31 March 2017)

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 a set of Anti-Bribery and Corruption policies and procedures, Crime Prevention and Anti-Fraud guidelines, and Speaking Out guidelines in place. Together with the Code of Ethics, these policies, procedures and guidelines provide mechanisms to ensure that instances of fraud, bribery, corruption or other criminal or unethical behaviour are identified, reported and investigated. The Speaking Out guidelines incorporate a confidential external reporting service operated by an independent provider. These guidelines, which are applicable to employees and suppliers of the company, cover any incident, issue, behaviour or practice which does not comply with The Code of Ethics, including fraud, bribery, theft, misuse of company resources and conflicts of interest. There is also a process in existence within ScottishPower whereby all members of staff may report any financial irregularities to the Audit and Risk 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 fairly presents 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 all aspects except with respect to the nature of the audit opinion. Ofgem have consented to this having regard to the guidance contained in the Institute of Chartered Accountants in England and Wales ("ICAEW") Technical Release TECH02/16AAF. 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 International Financial Reporting Standards ("IFRSs") as adopted by the EU, 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 2017 (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. 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' section below, and having regard to the guidance contained in ICAEW Technical Release TECH 02/16AAF 'Reporting to Regulators on Regulatory Accounts'. 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 and the reasonableness of significant accounting estimates made by the directors. 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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:

- have been properly prepared in accordance with Standard Condition 44 of the company's Regulatory Licence and the accounting policies.

INDEPENDENT AUDITOR'S REPORT

to the Gas and Electricity Markets Authority ("the Authority") and to SP Distribution plc ("the company")
continued

EMPHASIS OF MATTER - 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 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.

The Regulatory Accounts are separate from the statutory financial statements of the company and have been prepared under the basis of 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

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 2016 on which we reported on 30 March 2017, 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

12 July 2017

SP DISTRIBUTION PLC
BALANCE SHEETS
as at 31 March 2017 and 31 March 2016

	Notes	2017 £m	2016 £m
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	4	-	-
Property, plant and equipment		2,817.1	2,692.6
Property, plant and equipment in use	5	2,561.1	2,502.1
Property, plant and equipment in the course of construction	5	256.0	190.5
Financial assets		-	0.1
Investments in subsidiaries	6	-	0.1
NON-CURRENT ASSETS		2,817.1	2,692.7
CURRENT ASSETS			
Trade and other receivables	7	60.5	92.4
Cash	8	0.5	4.5
CURRENT ASSETS		61.0	96.9
TOTAL ASSETS		2,878.1	2,789.6
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the parent		892.3	837.1
Share capital	10, 11	300.0	300.0
Retained earnings	11	592.3	537.1
TOTAL EQUITY		892.3	837.1
NON-CURRENT LIABILITIES			
Deferred income	12	611.1	559.8
Bank borrowings and other financial liabilities		912.6	912.3
Loans and other borrowings	13	912.6	912.3
Deferred tax liabilities	14	162.6	166.2
NON-CURRENT LIABILITIES		1,686.3	1,638.3
CURRENT LIABILITIES			
Provisions	15	0.4	0.4
Bank borrowings and other financial liabilities		134.5	124.7
Loans and other borrowings	13	134.5	124.7
Trade and other payables	16	145.8	167.8
Current tax liabilities		18.8	21.3
CURRENT LIABILITIES		299.5	314.2
TOTAL LIABILITIES		1,985.8	1,952.5
TOTAL EQUITY AND LIABILITIES		2,878.1	2,789.6

Approved by the Board on 12 July 2017 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 2017 and 31 March 2016.

SP DISTRIBUTION PLC
INCOME STATEMENTS AND STATEMENTS OF COMPREHENSIVE INCOME
for the years ended 31 March 2017 and 31 March 2016

	Notes	2017 £m	2016 £m
Revenue		400.1	406.0
Procurements		(24.3)	(26.1)
GROSS MARGIN		375.8	379.9
NET OPERATING EXPENSES		(50.7)	(48.4)
Net personnel expenses		(1.0)	(1.2)
Staff costs	17	(1.0)	(1.2)
Net external expenses		(49.7)	(47.2)
External services		(80.6)	(79.6)
Other operating income		30.9	32.4
Taxes other than income tax	18	(43.7)	(42.3)
EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION		281.4	289.2
Depreciation and amortisation charge, allowances and provisions	19	(99.0)	(97.4)
OPERATING PROFIT		182.4	191.8
Finance income	20	0.5	0.6
Finance costs	21	(39.3)	(39.9)
PROFIT BEFORE TAX		143.6	152.5
Income tax	22	(19.4)	(12.2)
NET PROFIT FOR THE YEAR		124.2	140.3

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 2017 and 31 March 2016.

SP DISTRIBUTION PLC
STATEMENTS OF CHANGES IN EQUITY
for the years ended 31 March 2017 and 31 March 2016

	Ordinary share capital £m	Retained earnings £m	Total equity £m
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 1 April 2016	300.0	537.1	837.1
Total comprehensive income for the year	-	124.2	124.2
Dividends	-	(69.0)	(69.0)
At 31 March 2017	300.0	592.3	892.3

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 2017 and 31 March 2016.

SP DISTRIBUTION PLC
CASH FLOW STATEMENTS
for the years ended 31 March 2017 and 31 March 2016

	2017 £m	2016 £m
Cash flows from operating activities		
Profit before tax	143.6	152.5
Adjustments for:		
Depreciation and amortisation	98.1	97.0
Transfer of assets from customers	(17.9)	(16.7)
Finance income and costs	38.8	39.3
Write-off of non-current assets	0.7	0.4
Changes in working capital:		
Change in trade and other receivables	0.5	(0.4)
Change in trade and other payables	(22.2)	11.3
Provisions paid	-	(0.2)
Assets received from customers	66.5	55.9
Income taxes paid	(25.5)	(16.4)
Interest received	0.6	0.5
Net cash flows from operating activities (i)	283.2	323.2
Cash flows from investing activities		
Investments in property, plant and equipment	(219.7)	(202.0)
Net cash flows from investing activities (ii)	(219.7)	(202.0)
Cash flows from financing activities		
Decrease in amounts due to Iberdrola group companies	(125.0)	-
Dividends paid to company's equity holders	(69.0)	(65.0)
Interest paid	(39.6)	(40.4)
Net cash flows from financing activities (iii)	(233.6)	(105.4)
Net (decrease)/increase in cash and cash equivalents (i)+(ii)+(iii)	(170.1)	15.8
Cash and cash equivalents at beginning of year	35.8	20.0
Cash and cash equivalents at end of year	(134.3)	35.8
Cash and cash equivalents at end of year comprises:		
Cash	0.5	4.5
Receivables due from Iberdrola group companies - loans	-	31.3
Payables due to Iberdrola group companies - loans	(134.8)	-
Cash flow statement cash and cash equivalents	(134.3)	35.8

The accompanying Notes 1 to 28 are an integral part of the cash flow statements for the years ended 31 March 2017 and 31 March 2016.

SP DISTRIBUTION PLC

NOTES TO ACCOUNTS

31 March 2017

1 BASIS OF PREPARATION

A COMPANY INFORMATION

SP Distribution plc ("the company"), registered company number SC189125, is a private company limited by shares, incorporated in Scotland and its registered address is Ochil House, 10 Technology Avenue Hamilton International Technology Park, Blantyre, Scotland, G72 0HT.

B 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"), IFRSs and International Financial Reporting Interpretations Committee ("IFRIC") Interpretations (collectively referred to as IFRS), as adopted by the EU as at the date of approval of these Accounts and which are mandatory for the financial year ended 31 March 2017. 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 2016 to 31 March 2017. Consequently the Corporate Report and Regulatory Accounts for the year ended 31 March 2017 are separate from the Annual Report and Accounts of the company which have been prepared for the year ended 31 December 2016. 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.

C 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 2017.

For the regulatory year ended 31 March 2017, the company has applied the following standards and amendments for the first time:

Standard	Note
• Amendments to IAS 1 'Presentation of Financial Statements: Disclosure Initiative'	(a)
• Amendments to IAS 16 'Property, Plant and Equipment' and IAS 38 'Intangible Assets' – 'Clarification of Acceptable Methods of Depreciation and Amortisation'	(a)
• Amendments to IAS 16 'Property, Plant and Equipment' and IAS 41 'Agriculture' – 'Bearer Plants'	(a)
• Amendments to IAS 27 'Separate Financial Statements: Equity Method in Separate Financial Statements'	(a)
• Amendments to IFRS 11 'Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations'	(a)
• Annual Improvements to IFRS Standards 2012-2014 Cycle	(a)
• 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'	(a)

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

SP DISTRIBUTION PLC

NOTES TO ACCOUNTS *continued*

31 March 2017

1 BASIS OF PREPARATION *continued*

C ACCOUNTING STANDARDS *continued*

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 statements, or have not been endorsed by the EU, 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 12 'Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses'	(b), (c), (d)	1 January 2017	1 April 2018
• Amendments to IAS 7 'Statement of Cash Flows: Disclosure Initiative'	(b), (c), (d)	1 January 2017	1 April 2018
• Annual Improvements to IFRS Standards 2014 – 2016 Cycle	(b), (c), (e)	1 January 2017 & 1 January 2018	1 April 2018
• IFRS 9 'Financial Instruments'	(f)	1 January 2018	1 April 2018
• IFRS 15 'Revenue from Contracts with Customers' (including Amendments to IFRS 15 'Effective date of IFRS 15')	(g)	1 January 2018	1 April 2018
• Clarifications to IFRS 15 'Revenue from Contracts with Customers'	(c), (g)	1 January 2018	1 April 2018
• Amendments to IAS 40 'Investment Property: Transfers of Investment Property'	(b), (c)	1 January 2018	1 April 2018
• Amendments to IFRS 2 'Share-based Payments: Clarification and Measurement of Share-based Payment Transactions'	(b), (c)	1 January 2018	1 April 2018
• Amendments to IFRS 4 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts'	(b), (c)	1 January 2018	1 April 2018
• IFRIC 22 'Foreign Currency Transactions and Advance Consideration'	(b), (c)	1 January 2018	1 April 2018
• IFRS 16 'Leases'	(c), (h)	1 January 2019	1 April 2019
• IFRS 17 'Insurance Contracts'	(b), (c)	1 January 2021	1 April 2021
• IFRS 14 'Regulatory Deferral Accounts'	(b), (c), (i)	1 January 2016	To be decided
• 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), (j)	Deferred	To be decided
			Indefinitely

- (b) The future application of this pronouncement is not expected to have a material impact on the company's accounting policies, financial position or performance.
- (c) This pronouncement has not yet been endorsed by the EU.
- (d) Despite the IASB effective date of 1 January 2017, this pronouncement has yet to be endorsed by the EU (expected 2017). The endorsement notice will be reviewed for specific guidance but in the absence of further information it is anticipated that the company will apply this pronouncement from the accounting period following endorsement i.e. 1 April 2018.
- (e) This pronouncement includes amendments to three standards. The amendments to IFRS 1 'First-time Adoption of International Financial Reporting Standards' and IAS 28 'Investments in Associates and Joint Ventures' have an effective date of 1 January 2018. The amendments to IFRS 12 'Disclosure of Interests in Other Entities' have an effective date of 1 January 2017. Despite this, the pronouncement has yet to be endorsed by the EU (expected 2017). The endorsement notice will be reviewed for specific guidance but in the absence of further information it is anticipated that the company will apply this pronouncement from the accounting period following endorsement i.e. 1 April 2018.
- (f) The company is currently analysing the impact of implementing IFRS 9 'Financial Instruments' ('IFRS 9') which is effective for the company from 1 April 2018. Following a preliminary analysis, the company provisionally expects that financial assets will be measured at amortised cost, except for equity instruments and derivative financial instruments that will be measured at fair value. The company intends to apply the general approach to the recognition of expected credit losses to all financial assets; except for trade receivables and leases to which the simplified approach will be taken regardless of whether they contain a significant financing component. The probability of default is not expected to be significant given the high credit quality of the financial assets. It is anticipated that more hedging instruments and hedged items will qualify for hedge accounting under IFRS 9. This analysis will continue in 2017.
- (g) The company is currently analysing the impact of implementing IFRS 15 'Revenue from Contracts with Customers' and the associated amendments and clarifications, all of which are effective for the company as from 1 April 2018. Following a preliminary analysis of income earning arrangements no significant impact is expected. This analysis will continue in 2017.
- (h) The company is currently analysing the impact of implementing IFRS 16 'Leases' ('IFRS 16') which is effective for the company from 1 April 2019. The company's principal leases relate to land and property. Most of these leases are currently classified as operating leases under IAS 17 'Leases'. The company expects to recognise 'right-of-use' assets and corresponding lease liabilities. The value of these is expected to be greater than the future minimum lease payments disclosed in Note 5(b). The company expects to take the exemptions in relation to short-term leases and leases of low-value assets. The company does not intend to bring leases of intangible assets within scope of IFRS 16. On transition, the modified retrospective method is expected to be applied and the new lease definition applied to all existing contracts at this point. The company is currently modifying its IT systems in order to adapt to the new requirements. This analysis will continue in 2017.
- (i) 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.
- (j) The IASB set the effective date of this pronouncement as 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 pronouncement has been postponed, awaiting a revised exposure draft from the IASB. The effective date will be amended in due course.

SP DISTRIBUTION PLC**NOTES TO ACCOUNTS *continued*****31 March 2017****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 INSTRUMENTS**
- 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.

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'.

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 March 2017

2 ACCOUNTING POLICIES *continued*

E LEASED ASSETS *continued*

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 INSTRUMENTS

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

G TRANSFER OF ASSETS FROM CUSTOMERS

Transfers of assets from customers are credited to 'Deferred income'.

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.

SP DISTRIBUTION PLC

NOTES TO ACCOUNTS *continued*

31 March 2017

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 2017, the carrying value of property, plant and equipment amounted to £2,817.1 million (2016 £2,692.6 million).

4 INTANGIBLE ASSETS

	Note	Computer software £m
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 1 April 2015 and 31 March 2016		-
Year ended 31 March 2017		
Cost:		
At 1 April 2016		5.8
Disposals		(5.8)
At 31 March 2017	(a)	-
Amortisation:		
At 1 April 2016		5.8
Disposals		(5.8)
At 31 March 2017		-
Net book value:		
At 1 April 2016 and 31 March 2017		-

(a) The cost of fully amortised computer software still in use at 31 March 2017 was £nil (2016 £5.8 million).

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 March 2017

5 PROPERTY, PLANT AND EQUIPMENT

(a) Movements in property, plant and equipment

	Distribution facilities £m	Meters and measuring devices £m	Other facilities (Note (i)) £m	Other items of property, plant and equipment in use (Note (ii)) £m	Plant in progress (Note (iii)) £m	Total £m
Year ended 31 March 2016						
Cost:						
At 1 April 2015	3,350.6	240.4	16.1	34.0	141.6	3,782.7
Additions (Note (iv))	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
Depreciation:						
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
Year ended 31 March 2017						
Cost:						
At 1 April 2016	3,499.5	242.9	17.1	9.2	190.5	3,959.2
Additions (Note (iv))	2.8	2.4	-	0.1	218.0	223.3
Transfers from in progress to plant in use	151.2	-	1.3	-	(152.5)	-
Disposals	(8.8)	(57.1)	-	-	-	(65.9)
At 31 March 2017	3,644.7	188.2	18.4	9.3	256.0	4,116.6
Depreciation:						
At 1 April 2016	1,056.4	201.8	8.4	-	-	1,266.6
Depreciation for the year	89.9	7.4	0.8	-	-	98.1
Disposals	(8.4)	(56.8)	-	-	-	(65.2)
At 31 March 2017	1,137.9	152.4	9.2	-	-	1,299.5
Net book value:						
At 31 March 2017	2,506.8	35.8	9.2	9.3	256.0	2,817.1
At 1 April 2016	2,443.1	41.1	8.7	9.2	190.5	2,692.6
The net book value of property plant and equipment at 31 March 2017 is analysed as follows:						
Property, plant and equipment in use	2,506.8	35.8	9.2	9.3	-	2,561.1
Property, plant and equipment in the course of construction	-	-	-	-	256.0	256.0
	2,506.8	35.8	9.2	9.3	256.0	2,817.1

- (i) The category "Other facilities" principally comprises other technical installations and communications equipment.
- (ii) The category "Other items of property, plant and equipment in use" principally comprises land.
- (iii) The category "Plant in progress" principally comprises distribution facilities in the course of construction.
- (iv) Additions of £220.5 million (2016 £203.6 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 2017 was £252.0 million (2016 £292.4 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 (2016 £9.2 million).

SP DISTRIBUTION PLC

NOTES TO ACCOUNTS *continued*

31 March 2017

5 PROPERTY, PLANT AND EQUIPMENT *continued*

(b) Operating lease arrangements

	2017	2016
	£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

	2017	2016
	£m	£m
(ii) Operating lease commitments		
Within one year	0.2	0.2
Between one and five years	0.3	0.4
More than five years	0.1	0.2
	0.6	0.8

The company leases land and equipment as a lessee under operating leases. The leases have varying terms, escalation clauses and renewal rights.

	2017	2016
	£m	£m
(iii) Operating lease receivables		
The future minimum lease payments receivable under non-cancellable operating leases are as follows:		
Within one year	0.5	0.7
Between one and five years	-	0.5
	0.5	1.2

The company leases land as a lessor under operating leases. The leases have varying terms, escalation clauses and renewal rights. Sublease payments of £0.2 million (2016 £0.2 million) were received in the year.

(c) Capital commitments

	2017	2016
	£m	£m
Contracted but not provided		
	176.9	230.2

6 INVESTMENTS

	Subsidiary undertakings	Other investments	Total
	shares £000	£000	£000
Note			
At 1 April 2015 and 1 April 2016	(a) 50	6	56
Disposals	(a) (50)	-	(50)
At 31 March 2017	-	6	6

(a) As at 1 April 2016 the company had a wholly-owned subsidiary, SPD Finance UK plc which was in liquidation. It was incorporated in England and Wales and its registered office was KPMG LLP, 8 Salisbury Square, London, EC4Y 8BB, England. During the regulatory year ended 31 March 2017 this subsidiary was dissolved.

7 TRADE AND OTHER RECEIVABLES

	Notes	2017	2016
		£m	£m
Current receivables:			
Receivables due from Iberdrola group companies - trade		14.6	16.2
Receivables due from Iberdrola group companies - loans	(a)	-	31.3
Receivables due from Iberdrola group companies - interest		-	0.1
Trade receivables and accrued income	(b)	45.9	44.8
		60.5	92.4

(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 £0.4 million (2016 £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 2017 is a charge of £0.4 million (2016 credit of £0.1 million).

SP DISTRIBUTION PLC

NOTES TO ACCOUNTS *continued*

31 March 2017

7 TRADE AND OTHER RECEIVABLES *continued*

(c) At 31 March 2017 trade receivables of £0.6 million (2016 £0.1 million) were past due but not impaired.

	2017 £m	2016 £m
Past due but not impaired		
Less than 3 months	0.5	0.1
Between 6 and 12 months	0.1	-
	0.6	0.1

8 FINANCIAL INSTRUMENTS

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

	Notes	2017		2016	
		Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Financial assets					
Receivables		60.5	60.5	92.4	92.4
Cash	(a)	0.5	0.5	4.5	4.5
Financial liabilities					
Loans and other borrowings	(b)	(1,047.1)	(1,222.0)	(1,037.0)	(1,168.2)
Payables	(c)	(88.5)	(88.5)	(82.7)	(82.7)

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 earns interest at rates similar to market rates on daily deposits. Cash as at 31 March 2017 includes deposits with banks of £0.5 million (2016 £4.5 million) in respect of ring-fenced funds received from third parties for use on specific innovation projects and are not available to finance the company's day-to-day operations.
- (b) The carrying value of loans and other borrowings are accounted for at amortised cost. The carrying value of short-term debt is a reasonable approximation of fair value. The fair value of long-term debt is calculated using a discounted cashflow with the exception of the £350 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' have been excluded, namely payments received on account and other taxes and social security.

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.

	2017						2023 and thereafter £m	Total £m
	2018 £m	2019 £m	2020 £m	2021 £m	2022 £m			
Cash outflows								
Loans and other borrowings	171.3	311.4	32.0	157.0	29.1	637.7	1,338.5	
Payables*	70.9	-	-	-	-	-	-	70.9
	242.2	311.4	32.0	157.0	29.1	637.7	1,409.4	
	2016						2022 and thereafter £m	Total £m
	2017 £m	2018 £m	2019 £m	2020 £m	2021 £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	

* 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 2017

10 SHARE CAPITAL

	2017 £m	2016 £m
Authorised:		
300,000,000 ordinary shares of £1 each (2016 300,000,000)	300.0	300.0
Allotted, called up and fully paid shares:		
300,000,000 ordinary shares of £1 each (2016 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 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 1 April 2016	300.0	537.1	837.1
Profit for the year attributable to equity holders of SP Distribution plc	-	124.2	124.2
Dividends	-	(69.0)	(69.0)
At 31 March 2017	300.0	592.3	892.3

(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 2015 £m	Receivable during year £m	Released to income statement £m	At 31 March 2016 £m	
	Year ended 31 March 2016	Transfer of assets from customers	513.7	62.8	(16.7)
	At 1 April 2016 £m	Receivable during year £m	Released to income statement £m	At 31 March 2017 £m	
Year ended 31 March 2017	Transfer of assets from customers	559.8	69.2	(17.9)	611.1

13 LOANS AND OTHER BORROWINGS

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

Instrument	Notes	Interest rate*	Maturity	2017 £m	2016 £m
Loans with group companies - SPUK	(i)	Base + 1%	On demand	134.8	-
Loans with group companies - SPL	(i)	LIBOR + 0.34%	17 December 2018	150.0	150.0
Loans with group companies - SPUK	(ii), (iii)	3.416%	21 December 2022	255.0	340.0
Loans with group companies - SPUK	(ii), (iv)	2.821%	31 March 2025	160.0	200.0
£350m euro-sterling bond	(v), (vi)	5.875%	17 July 2026	347.3	347.0
				1,047.1	1,037.0

*Base – Bank of England Base Rate; LIBOR – London Inter-Bank Offer Rate

Analysis of total loans and other borrowings	2017 £m	2016 £m
Non-current	912.6	912.3
Current	134.5	124.7
	1,047.1	1,037.0

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 March 2017

13 LOANS AND OTHER BORROWINGS *continued*

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

- (i) A 1% increase in the Base rate and LIBOR rate would result in a £2.8 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 on a bi-annual basis. The repayment of £85.0 million that was due in 2016 is classified as current in the 2016 analysis above.
- (iv) The intercompany loan with SPUK that is repayable in March 2025, is repayable in equal instalments on a bi-annual basis. The repayment of £40.0 million that was due in March 2017 is classified as current in the 2016 analysis above.
- (v) This bond contains a 'Loss of licences' covenant that will require repayment of the outstanding amount should the company lose its relevant licences.
- (vi) The £350 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 (2016 £(0.3) million), which are classified as current in the analysis above.

(b) Borrowing facilities

The company has no undrawn committed borrowing facilities at 31 March 2017 (2016 £nil).

14 DEFERRED TAX

Deferred tax provided in the Accounts is as follows:

	Property, plant and equipment £m
At 1 April 2015	179.4
Credit to the income statement	(13.2)
At 1 April 2016	166.2
Credit to the income statement	(3.6)
At 31 March 2017	162.6

Legislation has been enacted to reduce the rate of UK Corporation Tax to 19% on 1 April 2017 and to 17% on 1 April 2020. These changes reduce the tax rates expected to apply when temporary differences reverse and impact the deferred tax charge.

15 PROVISIONS

	At 1 April 2015	Utilised during year	At 31 March 2016
Year ended 31 March 2016	Note	£m	£m
Environmental costs	(a)	0.6	(0.2)
		At 1 April 2016	At 31 March 2017
Year ended 31 March 2017	Note	£m	£m
Environmental costs	(a)	0.4	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 regulatory year.

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 March 2017

16 TRADE AND OTHER PAYABLES

	Note	2017 £m	2016 £m
Current trade and other payables:			
Payables due to Iberdrola group companies - trade		39.6	29.3
Payables due to Iberdrola group companies - interest		3.1	3.7
Payables due to Iberdrola group companies - other	(a)	10.5	12.4
Other taxes and social security		11.5	12.0
Payments received on account		45.8	73.1
Other payables	(a)	35.3	37.3
		145.8	167.8

(a) The company utilises forms of collateral to manage its credit exposure in respect of the provision of network services. All collateral held is settled in cash. At 31 March 2017, the company held cash collateral of £13.5 million (2016 £15.3 million) of which £10.5 million (2016 £12.4 million) is payable to Iberdrola group companies.

17 EMPLOYEE INFORMATION

(a) Staff costs

	2017 £m	2016 £m
Wages and salaries	0.7	0.7
Social security costs	0.1	0.1
Pension and other costs	0.2	0.4
Total staff costs	1.0	1.2

(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 2017	Average 2017	Year end 2016	Average 2016
Administrative staff	10	11	12	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 £223,500 (2016 £206,400). 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 2016, the deficit in ScottishPower's defined benefit schemes in the UK amounted to £442.5 million (2015 £264.4 million). The employer contribution rate for these schemes in the year ended 31 December 2016 was 30.1% - 31.0%.

18 TAXES OTHER THAN INCOME TAX

	2017 £m	2016 £m
Property taxes	43.7	42.3

19 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS

	2017 £m	2016 £m
Property, plant and equipment depreciation charge	98.1	97.0
Charges and provisions, allowances and impairment of assets	0.9	0.4
	99.0	97.4

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 March 2017

20 FINANCE INCOME

	2017 £m	2016 £m
Interest receivable from Iberdrola group companies	0.5	0.6

21 FINANCE COSTS

	2017 £m	2016 £m
Interest on amounts due to Iberdrola group companies	18.4	19.0
Interest on other borrowings	20.9	20.9
	39.3	39.9

22 INCOME TAX

	2017 £m	2016 £m
Current tax:		
UK Corporation tax	23.3	25.5
Adjustments in respect of prior years	(0.3)	(0.1)
Current tax for the year	23.0	25.4
Deferred tax:		
Origination and reversal of temporary differences	5.6	5.7
Adjustments in respect of prior years	0.3	-
Impact of tax rate change	(9.5)	(18.9)
Deferred tax for the year	(3.6)	(13.2)
Income tax charge for the year	19.4	12.2

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

	2017 £m	2016 £m
Corporation tax at 20% (2016 20%)	28.7	30.5
Impact of rate change from headline corporation tax rate	-	0.2
Adjustments in respect of prior periods	-	(0.1)
Impact of tax rate change	(9.5)	(18.9)
Other permanent differences	0.2	0.5
Income tax charge for the year	19.4	12.2

The rate of UK Corporation Tax reduced from 21% to 20% on 1 April 2015. Legislation has been enacted to reduce the rate of UK Corporation Tax to 19% on 1 April 2017 and to 17% 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

	2017 pence per ordinary share	2016 pence per ordinary share	2017 £m	2016 £m
Interim dividend paid	23.0	21.7	69.0	65.0

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 March 2017

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 2017, was £1,027.3 million (2016 £1,223.0 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

	2017	2016
	£m	£m
Provision of asset management services from Power Systems	67.9	70.7

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

26 RELATED PARTY TRANSACTIONS

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

	2017			2016		
	UK parent	Immediate parent	Other Iberdrola group companies	UK parent	Immediate parent	Other Iberdrola group companies
	(SPL) £m	(SPENH) £m	£m	(SPL) £m	(SPENH) £m	£m
Types of transaction						
Sales and rendering of services	-	-	98.0	-	-	107.5
Purchases and receipt of services	-	-	(75.2)	-	-	(74.4)
Purchases of property, plant and equipment	-	-	(220.5)	-	-	(203.6)
Interest income	-	-	0.5	-	-	0.6
Interest costs	(1.5)	-	(16.9)	(1.6)	-	(17.4)
Dividends paid	-	(69.0)	-	-	(65.0)	-
Balances outstanding						
Loans receivable	-	-	-	-	-	31.3
Trade and other receivables	-	-	14.6	-	-	16.2
Interest receivable	-	-	-	-	-	0.1
Loans payable	(150.0)	-	(549.8)	(150.0)	-	(540.0)
Trade and other payables	(0.1)	-	(50.0)	(0.1)	-	(41.6)
Interest payable	(0.4)	-	(2.7)	(0.5)	-	(3.2)

(i) During the year ended 31 March 2017, SPUK made pension contributions of £223,500 on behalf of the company (2016 £206,400).

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

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 March 2017

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 ScottishPower group company.

	2017 £000	2016 £000
Short-term employee benefits	1,734	1,781
Post-employment benefits	266	368
Share-based payments	128	627
	2,128	2,776

(c) Directors' remuneration

The total remuneration 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 remuneration specifically in respect of services to this company. All of the directors were remunerated by another ScottishPower group company.

	2017 £000	2016 £000
Executive directors		
Aggregate remuneration in respect of qualifying services	1,088	1,070
Number of directors who exercised share options	2	2
Number of directors who received shares under a long-term incentive scheme	-	3
Number of directors accruing retirement benefits under a defined benefit scheme	2	2
 Highest paid director		
Aggregate remuneration	614	580
Accrued pension benefit	92	90

(i) The highest paid director received shares under a long-term incentive scheme during 2016 only.
 (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. 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. at its registered office; Torre Iberdrola, Plaza Euskadi 5, 48009, Bilbao, Spain. Copies of the Consolidated Accounts of SPENH may be obtained from Scottish Power Energy Networks Holdings Limited at its registered office; Ochil House, 10 Technology Avenue, Hamilton International Technology Park, Blantyre G72 0HT, Scotland.

27 AUDITOR'S REMUNERATION

	2017 £m	2016 £m
Audit of the company's annual accounts and regulatory accounts	0.1	0.1

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 March 2017

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 £238.5 million and net assets of £892.3 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.