

SP MANWEB PLC

CORPORATE REPORT & REGULATORY ACCOUNTS

for the year ended 31 March 2012

Registered No.2366937

SP MANWEB PLC

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for the year ended 31 March 2012

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SP MANWEB PLC

DIRECTORS' REPORT

The directors present their report and audited Regulatory Accounts for the year ended 31 March 2012.

ACTIVITIES AND REVIEW

The principal activity of SP Manweb plc ("the company"), registered company number 2366937, is the ownership and operation of the electricity distribution network within the Mersey and North Wales areas. The network is used to distribute electricity, which has been transmitted to grid supply points, for electricity supply companies for onward sale to their customers.

The ultimate parent of the company is Iberdrola, S.A. ("Iberdrola") which is listed on the Madrid stock exchange. Scottish Power Limited and its subsidiaries ("ScottishPower"), the United Kingdom ("UK") operations of Iberdrola, operates on divisional lines and the activities of the company fall within the Energy Networks division ("the Regulated Business"), which is regulated by The Office of Gas and Electricity Markets ("Ofgem").

On 1 July 2011, as part of an Iberdrola group ("group") restructuring exercise to align the operational structure of ScottishPower with the operational structure of Iberdrola, ownership of the company and its subsidiaries was transferred from ScottishPower Investments Limited to Scottish Power Energy Networks Holdings Limited ("SPENH"), an immediate subsidiary of Scottish Power UK plc ("SPUK").

The company and fellow subsidiary companies, SP Distribution Limited and SP Transmission Limited, are the "asset-owner companies" within the Energy Networks division holding ScottishPower's regulated assets and distribution and transmission licences. SP Power Systems Limited ("SPPS") provides asset-management expertise and conducts the day to day operation of the networks.

The company, as an asset-owner company has clearly defined cost targets and performance incentives. SPPS, under a service level agreement with the company, operates the assets and delivers the capital programme on the company's behalf. Strict commercial disciplines are applied at the asset-owner/service-provider interface. The service level agreement allows the company to focus on its asset ownership strategy while mitigating a portion of the operational risk.

The company currently operates in accordance with Distribution Price Control Review 5 ("DPCR5"), which applies from 1 April 2010 to 31 March 2015. On 6 February 2012, Ofgem issued an open letter consultation on the next price control "RIIO-ED1" (Revenue = Incentives + Innovation + Outputs Electricity Distribution 1), which will replace the current price control on 1 April 2015. The final price control proposals for RIIO-ED1 are expected to be published in November 2014 and the company will engage closely and constructively with Ofgem throughout the review.

KEY FACTORS AFFECTING THE BUSINESS

The company's objectives to manage the key drivers impacting operational and financial performance are as follows:

- Deliver returns at, or in excess of, DPCR5's regulatory return
- Deliver investment programme and operational improvements
- Improve security of supply and network performance

These objectives must be achieved within the conditions of the Price Control Review set by Ofgem.

SP MANWEB PLC

DIRECTORS' REPORT *continued*

PRINCIPAL RISKS AND RISK MANAGEMENT ACTIVITIES

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

Risks relating to the company's business

The company considers the following risks to be the principal ones that might affect the company's performance and results but cautions that the risks listed in this section do not address all the factors that could materially affect the results. There may be additional risks that the company does not currently know of, or that are deemed immaterial based on either information currently available or the company's current assessment of the risk. The principal identified risks are:

- The UK Government's energy policy could change, negatively affecting the context in which the Iberdrola group has established its UK business strategy.
- Changes in regulatory requirements and/or modification of the company's licence could negatively affect the company's business, results of operations or financial conditions.
- The company's licence may be terminated or revoked.
- The assets of the company and business processes of the Iberdrola group may not perform as expected, which could impact the company's business, results of operations or financial conditions.
- Breaches of environmental or health and safety laws or regulations could expose the company to claims for financial compensation and adverse regulatory consequences and could damage the company's reputation.
- The Iberdrola group's pension plan funding obligations are significant and are affected by factors beyond its direct control.
- The Iberdrola group's overall financial position may be adversely affected by a number of factors including restrictions in borrowing and debt arrangements and changes to credit ratings.

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

During 2011/12 the ScottishPower governance structure was supported by a risk policy approved by the Board of directors of Iberdrola ("the Iberdrola Board") 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 16 of this Corporate Report.

The company manages risk exposure in three main 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 Gas and Electricity Markets Authority ("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 faces various financial risks. The principal financial risks faced by the company are interest rate risk and liquidity risk. In addition the company faced foreign exchange rate risk from foreign currency denominated procurement contracts. Treasury services are provided by Scottish Power Limited ("SPL"), the ultimate UK parent company. During the year, the treasury focus continued to be to minimise interest costs and effectively manage both foreign exchange and interest rate risk.

SP MANWEB PLC

DIRECTORS' REPORT *continued*

PRINCIPAL RISKS AND RISK MANAGEMENT ACTIVITIES *continued*

(b) Treasury management *continued*

Exposure to fluctuating interest rates is managed by issuing a proportion of debt at fixed rates. Interest rate risk is managed on a ScottishPower group-wide basis. The policies and procedures for managing the interest rate risk of the ScottishPower group have been included in the most recent Directors' Report and Accounts of Scottish Power UK Holdings Limited ("SPUKH"). Liquidity risk is managed by spreading debt maturities over a wide range of dates thereby ensuring that the company is not subject to excessive refinancing risk in any one year.

(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 2012, 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.

OPERATIONAL ASSETS OF THE COMPANY

The table below provides key non-financial information relating to the company's operational assets:

	Year ended 31 March 2012	Year ended 31 March 2011
Franchise area (km ²)	12,200	12,200
System maximum demand (MW)	3,197	3,320
Distributed energy (GWh)	15,787	16,195
Length of overhead lines (km)	21,420	21,184
Length of underground cables (km)	28,176	27,846

PROJECTS

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

Key customer-related projects were completed in the reporting period, a 60MVA connection at Lostock and a connection of Hole House Farm. Works to connect Wirral International Business Park will be complete in 2012.

The company continues to work with National Grid and key stakeholders on establishing major 400 & 132kV infrastructure within the Mid-Wales area to facilitate connection of over 1GW of renewable generation capacity. Major consultation work has been completed on the proposed solution for wind farms in Strategic Search Areas B and C. This has been undertaken in close collaboration and co-ordination with National Grid. The preferred location for the National Grid 400/132kV hub substation is planned to be announced in summer 2012. Environmental planning activities have progressed on the 132kV connections for developers in Strategic Search Area A. Public consultation will commence during 2012.

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DIRECTORS' REPORT *continued*

PROJECTS *continued*

Major reinforcement projects, to increase network capacity and improve security of supply to customers, have continued in the year. Work on establishing a new 132kV overhead line between Lostock and Carrington to increase network capacity is well underway and is forecast to complete in 2012. Works to remove fault level issues and improve reliability and availability of electricity supply to customers are underway in the St Helens, Formby and Guilden Sutton areas, with completion across 2012 and 2013.

Undergrounding of overhead line within Areas of Outstanding Natural Beauty has continued with 5km of 33kV and 11kV overhead line being removed between Maentwrog and Llanfrothen, Llithfaen and Nant Gwytheyrn and Pont Croesor. This work continues with 11kV OHL on the Llyn Peninsular due to be undergrounded in 2012.

In addition to the investment to extend or reinforce the network, a number of projects are also underway to improve asset condition and performance. These include 33kV switchgear and transformer replacement projects at Knutsford, Caernarfon, Welshpool and Whitchurch substations. Rebuilding 10km of 132kV line between Formby and Southport is forecast to complete in 2012 and major refurbishment works on a total of 170km of 132kV OHL are in progress. Refurbishment of over 900km of 33/11/LV OHL network has been completed. In terms of wider modernisation of the distribution substation over 300 poor condition and obsolete ring main units and 150 11kV circuit breakers were replaced with modern switchgear.

The company's inspection and maintenance policy is designed to achieve compliance with legal and licence obligations, including the Electricity Supply, Quality and Continuity Regulations ("ESQCR"). To improve network resilience and comply with ESQCR guidelines, the vegetation management programme frequency is a three year cycle.

On the overhead line network the first phase of the major low ground clearance programme has been completed, with the removal of over 6000 clearance defects. This programme will continue throughout 2012. The business continued its strategic deployment of wide ranging IFI projects including new and existing projects with academic, industrial and community partners to enhance the existing and future electrical networks. These include projects aimed at accurately measuring and managing fault level. If successful they could enable the employment of innovative solutions to developing networks.

OPERATIONAL FINANCIAL PERFORMANCE

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 2011/12 Electricity Distribution Quality of Service Report to be published online at www.ofgem.gov.uk in December 2012.

The table below provides key non-financial information relating to the company's performance during the year ended 31 March 2012:

		Actual Year ended 31 March 2012	Target Year ended 31 March 2012	Actual Year ended 31 March 2011	Target Year ended 31 March 2011
	Notes				
Quality of Service					
- Customer minutes lost ("CML")	(a)	43.6	49.4	47.4	61.1
- Customer interruptions ("CI")	(b)	36.0	40.6	39.3	45.6
Average time off supply (minutes)		121	121	121	134
Electricity supply availability		99.99%	99.99%	99.98%	99.99%
Quality of Response (mean score)	(c)	4.51	4.45	4.49	4.45
Customer performance					
Energy Ombudsman (customer complaints)	(d)	2	-	2	-

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DIRECTORS' REPORT *continued*

OPERATIONAL FINANCIAL PERFORMANCE *continued*

- (a) CML is reported as the average number of minutes that a customer is without power during a year due to power cuts which last for three minutes or more.
- (b) CI is reported as the number of customers, per 100 customers, that are affected by power cuts which last three minutes or more during the year.
- (c) Quality of Response assesses the speed and quality of telephone response, measuring customer satisfaction on a scale of 1 to 5. This is then weighted by a factor of customers who are unsuccessful in contacting the company on its emergency line.
- (d) The Energy Ombudsman, an independent body, monitors and adjudicates complaint cases.

CML and CI are key statistics, which measure the reliability and security of supply provided to customers. The company is focused on minimising CML and CI to out-perform the System Performance (IIS) targets.

During 2011/12 the supply of energy to customers was disrupted by one storm event January. This event met the 'exceptional event' exclusions criteria that Ofgem have applied to previous events of this kind. The above CML and CI values have been adjusted accordingly to reflect the underlying performance of the network as measured and incentivised by Ofgem. During 2010/11 there were two exceptional storm events.

Quality of Telephone Response is a measure of customer service and is scored directly by the customer. Performance monitoring for the Quality of Telephone Response measure is undertaken by Ofgem. In DPCR5 the performance metric was amended to weight a reduced range of Quality of Telephone Response measures by the number of customers who were unsuccessful in contacting the SPD Emergency Service. The company is focused on improving the overall level of customer service, and through the Quality of Telephone Response measure achieve reward under the incentive mechanism.

Business activities

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

	Total	Distribution	Excluded	Metering	De minimus
For the year ended 31 March 2012	£m	(DUOS)	services	£m	£m
Revenue	311.3	300.7	-	10.6	-
Procurements	(16.0)	(16.0)	-	-	-
	295.3	284.7	-	10.6	-
Staff costs	(0.6)	(0.6)	-	-	-
Outside services	(54.7)	(45.4)	(6.5)	(2.5)	(0.3)
Other operating income	15.8	9.2	6.3	-	0.3
	(39.5)	(36.8)	(0.2)	(2.5)	-
Taxes other than income tax	(15.4)	(15.4)	-	-	-
	240.4	232.5	(0.2)	8.1	-
Depreciation and amortisation charge, allowances and provisions	(59.9)	(49.4)	-	(10.5)	-
PROFIT/(LOSS) FROM OPERATIONS	180.5	183.1	(0.2)	(2.4)	-
Property, plant and equipment additions	196.9	192.9	-	4.0	-

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 GEMA.

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

The company's profit from operations was £180.5 million, an increase of £29.3 million compared to the prior year, and net profit was £137.6 million, an increase of £27.1 million compared to the prior year.

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DIRECTORS' REPORT *continued*

OPERATIONAL FINANCIAL PERFORMANCE *continued*

Revenue increased on the prior year primarily as a result of higher base revenues and, to a lesser extent, improved Quality of Service incentive revenue.

Procurements have increased due to the inclusion of Low Carbon Network Fund costs.

Outside services have decreased on the prior year primarily as a result of lower recharges from SPPS for the provision of asset management services.

Other operating income has decreased on the prior year, as a result of lower rechargeable revenue with SPPS.

Depreciation and amortisation charge, allowances and provisions has increased on the prior year primarily due to increased provisions for environmental costs. In addition, the ongoing capital additions being brought into use during the year has increased the cost base for depreciation.

Net finance costs decreased slightly, primarily as a result of an increase in the expected return on retirement benefit net assets and a decrease in interest payable on bank loans and overdrafts.

The **income tax expense** has increased compared to the prior year, with the increase in taxable profits being offset by the impact of reducing corporation tax rates.

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

Cash and net debt

During the year the company generated £179.8 million of cash from operating activities (2011 £176.3 million). This was used to fund investment in property, plant and equipment of £161.1 million (2011 £160.3 million) and settle net interest charges amounting to £13.7 million (2011 £15.3 million). The movements in the prior year also include the repayment of a loan with the European Investment Bank of £50.0 million. A dividend of £75.0 million was paid during the year (2011 £35.0 million).

Net capital investment

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

Net capital investment for the year was £172.1 million consisting of fixed asset additions of £196.9 million less capital contributions received of £24.8 million. This compares to fixed asset additions of £170.5 million for the year ended 31 March 2011 less capital contributions received of £21.8 million.

The company earns allowed returns on this extensive capital programme. The net investment of £172.1 million (2011 £148.7 million) comprised £0.8 million (2011 £16.1 million) in relation to growth of the network and £171.3 million (2011 £132.6 million) in relation to refurbishment of the network.

Approximately 99% (2011 89%) of the company's net investment related to non-load investment, the majority of which relates to expenditure identified as being necessary for the ongoing integrity and safety of the network as its age increases.

The load-related investment is focused on network expansion and driving improved network performance. This investment will play a significant role in reducing response times and the average duration of customer interruptions.

The scale of investment is consistent with the five-year price review period allowed capital expenditure programme.

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DIRECTORS' REPORT *continued*

RESULTS AND DIVIDENDS

The net profit for the year amounted to £137.6 million (2011 £110.5 million). The aggregate dividends paid during the year amounted to £75.0 million (2011 £35.0 million).

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.

Funding

The overall movement in net debt during the year was an increase of £70.0 million to £471.4 million. This movement in net debt comprised an increase in short-term debt of £69.8 million to finance operating activities net of returns on investments, capital expenditure, servicing of finance and taxation and a decrease of £0.2 million in cash.

The company has net current liabilities of £282.8 million at 31 March 2012 (2011 £223.3 million), which include loans and other borrowings of £216.4 million (2011 £146.6 million).

The short-term loan from SPUK represents drawings under a working capital facility.

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

STRATEGIC PLAN

ScottishPower is part of one of the world's largest utility companies, Iberdrola, and has a significant role to play in helping Iberdrola deliver on its international strategic ambitions.

The ScottishPower Strategic Plan includes a focus on improving the quality of service in ScottishPower's Regulated Business. Iberdrola's UK plans include continuation of the targeted investment programme in the Regulated Business undertaken within the scope of the regulatory price controls. This continues to be a major focus, reflecting the requirement to replace ageing infrastructure to maintain a reliable energy system, as well as facilitating the connection of new renewable energy sources and the energy flows that this will create. As a result of this level of investment and a focus on profitability, efficiency improvements and customer satisfaction, the Regulated Business, as part of ScottishPower, expects to contribute to Iberdrola's key financial targets – further details of which are given in the Consolidated Annual Accounts and Consolidated Management Report of Iberdrola, S.A. for the year ended 31 December 2011.

Some of the statements contained therein are forward-looking statements and statements about Iberdrola's strategic plans. Although Iberdrola 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 MANWEB PLC

DIRECTORS' REPORT *continued*

STRATEGIC PLAN *continued*

Key strategies for the company until the end of DPCR5 and beyond are:

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

UK ELECTRICITY REGULATION

The Utilities Act 2000, which defines the regulatory framework within which the company's electricity distribution business must operate, replaced individual gas and electricity regulators with one regulatory authority, GEMA. GEMA is supported by Ofgem, a non-ministerial UK Government department. Ofgem is responsible for monitoring compliance with the conditions of licences and, where necessary, enforcing them through procedures laid down in the Electricity Act 1989, as amended by the Utilities Act 2000, on behalf of GEMA.

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

The primary objective of regulation of the electricity industry is the promotion of competition, while ensuring that demand can be met and companies are able to finance their activities. However, it is recognised that the development of competitive markets is not appropriate in the distribution of electricity. Regulatory controls are therefore deemed necessary to protect customers and the electricity distribution business is subject to price controls which restrict the average amount, or total amount, charged for a bundle of services. Ofgem undertakes periodic price reviews and sets price caps every five years. The current price control framework in which the company operates is DPCR5. DPCR5 covers the period from 1 April 2010 to 31 March 2015.

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

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

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

SP MANWEB PLC

DIRECTORS' REPORT *continued*

UK ELECTRICITY REGULATION *continued*

On 6 February 2012, Ofgem issued an open letter consultation on the next price control “RIIO-ED1” (Revenue = Incentives + Innovation + Outputs Electricity Distribution 1), which will replace the current price control on the 1 April 2015. The final price control proposals for RIIO-ED1 are expected to be published in November 2014 and the company will engage closely and constructively with Ofgem throughout the review.

EMPLOYEES

Employment regulation

ScottishPower has well-defined policies in place throughout its businesses to ensure compliance with applicable laws and related codes of practice. These policies cover a wide range of employment issues such as disciplinary action, grievance, harassment, discrimination, stress and ‘whistle-blowing’ and have been brought together in the Code of Ethics of Iberdrola and its group of companies (which also outlines expectations for employees’ conduct). Further policies and measures were introduced in 2011 to ensure ScottishPower complies with the Bribery Act 2010.

Employee consultation

Regular consultation takes place on key business initiatives of issues raised by employees using a variety of means, including monthly team meetings, team managers’ conferences, business unit road shows, safety committees, presentations and employee magazines. ScottishPower believes that an important element of a positive working experience is stable employee and industrial relations; it recognises the legitimacy of trade union involvement and has formal agreements in place to foster open, two-way communication and consultation. Positive relationships and ongoing liaison with employees and their representatives are seen as contributing significantly to achieving the performance objectives of the ScottishPower businesses.

Equal opportunities

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

Employment of disabled persons

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

Positive about disabled people - double tick accreditation

ScottishPower is a disability positive organisation and in February 2011 was re-accredited and retained the double tick symbol, which recognises the positive action and good practices the organisation has continuously adopted to ensure the required commitments to good employment practice specified by Jobcentre Plus are being met in areas such as recruitment and selection, career development, consultation, retention and redeployment of disabled people.

SP MANWEB PLC

DIRECTORS' REPORT *continued*

ENVIRONMENTAL REGULATION

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

HEALTH AND SAFETY

The prevention of harm to employees, contractors and members of the public, and the protection of business assets and operational capability is a key priority for ScottishPower. The organisation has continued to strive for improved performance and both internal and external assessments have again returned positive findings. The main business areas within ScottishPower maintained OHSAS 18001 Health and Safety Management System accreditation. The number of lost time accidents reported to the Health and Safety Executive ("HSE") under The Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995 ("RIDDOR"), has increased to 7 from 6 in the previous year. The commitment to investigate accidents and incidents to address root causes remains steadfast and is given the highest priority with panels of inquiry being established whenever there is a significant incident.

The Regulated Business' key focus on health and safety includes a continued emphasis on promoting safe working behaviours and progress improvements in the physical identification and control of workplace risk and the need for prevention. One of the Regulated Business goals for operational excellence is to achieve zero injuries.

The company works closely with both SPPS, the service-provider, and the electricity industry through the Energy Networks Association Health and Safety groups, to ensure focus and priority is maintained in this vital area. Key performance indicators are in place within the Regulated Business, through the service level agreements with SPPS, and progress is monitored regularly at all levels throughout the business.

The table below provides key information relating to the Regulated Business' performance with regard to health and safety:

		Actual Year ended 31 March 2012	Target Year ended 31 March 2012
	Notes		
Behavioural Safety Audits	(a)	5,069	6,200
Number of near miss reports	(b)	171	n/a
Accident free days	(c)	40	n/a
Lost time accidents		7	8
Non-lost time accidents		62	n/a

(a) Behavioural Safety Audits are conducted through structured safety observations to compare how current conditions and work practices match standard conditions and work practices. Results of these audits are used by the business to address safety issues effectively.

(b) Near miss reports centre on preventing unsafe acts or situations occurring by initiating immediate investigation and remedial action.

(c) Accident free days represent the number of days since the last lost time accident.

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

SP MANWEB PLC

DIRECTORS' REPORT *continued*

COMMUNITY RELATIONSHIPS

Community relationships

Building the trust of communities has been part of ScottishPower's core values for many years. The organisation has a long track record of supporting communities not only financially, but also by sharing its resources and the skills of its employees. ScottishPower promotes payroll giving and encourages employee development through community based programmes.

The Fundación Iberdrola is responsible for coordinating, driving and promoting the social and environmental activities of the Iberdrola Group. ScottishPower's community investment activity is aligned to the Fundación's three key themes: Energy Sustainability, Art & Culture and Development, Cooperation and Solidarity. ScottishPower engages with communities across its operations, particularly where new developments are planned, to ensure community groups can have a say in the planning process.

Community consultation

The key areas where ScottishPower's business impacts upon the community include the siting of new facilities, the presence of distribution and transmission lines and routine maintenance and upkeep work.

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

Many of ScottishPower's assets, such as pylons, are on land not owned by ScottishPower, so it is important that effective policies are in place to ensure the safety and integrity of the plant is maintained, while respecting the needs of the landowner and local community.

Investing in the community

ScottishPower uses the London Benchmarking Group ("LBG") model to evaluate its community investment activity. The model is used by hundreds of leading businesses around the world and provides a comprehensive and consistent set of measures for companies to determine their contributions to the community.

During the year ended 31 December 2011, ScottishPower's businesses contributed £3.3 million in community support activity of which £2.6 million was contributed to registered charitable organisations. The total incorporated £1.3 million categorised as charitable gifts, £1.2 million categorised as community investment and £0.8 million categorised as commercial initiatives, given in cash, through staff time and in-kind donations.

These figures are compiled from Scottish Power's Community Database, which provides an analysis of community investment activity, which is submitted annually in a return to the LBG. The figures provided above will form part of the company's 2012 return and have not yet been audited by LBG.

Further details of ScottishPower's community investment activity and performance can be found in the Corporate Responsibility section of www.scottishpower.com.

CREDITOR PAYMENT POLICY AND PRACTICE

The company's policy and practice is to settle terms of payment when agreeing the terms of the transaction, to include the terms in contracts, and to pay in accordance with its contractual and legal obligations. At the year end there were no trade creditors outstanding. Therefore, the company's creditor days were nil (2011 nil).

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DIRECTORS' REPORT *continued*

POLITICAL DONATIONS AND EXPENDITURE

ScottishPower is a politically neutral organisation. It is subject to the Political Parties, Elections and Referendums Act 2000, which defines political "donations" and "expenditure" in wider terms than would be commonly understood by these phrases. During the year ended 31 March 2012, ScottishPower paid a total of £22,500 for the sponsorship of conferences and events – activities which may be regarded as falling within the terms of the Act.

The recipients of these payments were:

- | | |
|--------------------------------|--------|
| • The Labour Party | £7,000 |
| • The Conservative Party | £7,000 |
| • The Scottish National Party | £6,500 |
| • Plaid Cymru – Party of Wales | £2,000 |

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

DIRECTORS

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

Scott Mathieson
Frank Mitchell

DISCLOSURE OF INFORMATION TO AUDITORS

Each person who is a director at the date of approval of this report confirms that:

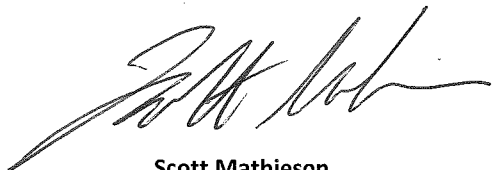
- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's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

AUDITORS

Ernst & Young LLP were re-appointed auditors of the company for the year ended 31 March 2013.

On behalf of the board



Scott Mathieson
Director
13 July 2012

SP MANWEB 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 group 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 operation of Iberdrola S.A., operates on divisional lines and the activities of the company fall within the Transmission and Distribution business within the Regulated Business.

BOARD AND MANAGEMENT MEETINGS

The company is governed by a Board ("the SP Manweb Board") consisting of two directors who bring a broad range of skills and experience to the company. Both are full-time employees of ScottishPower. On 1 July 2011 as part of a group restructuring exercise, SPENH, an immediate subsidiary of SPUK, acquired the entire issued share capital of SP Manweb plc. The SPENH Board of Directors ("the SPENH Board") are responsible for the effective day to day operation and management of the Regulated Business within ScottishPower, in accordance with the strategy set by the ScottishPower Board.

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

In addition to formal SP Manweb 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 comprises the Chairman Javier Villalba Sánchez and five other directors. The directors of SPENH are shown below.

Javier Villalba Sanchez	Chairman
Nicola Connelly	Executive director
Antonio Espinosa de los Monteros	Executive director
José Izaguirre Nazar	Executive director
Scott Mathieson	Executive director
Frank Mitchell	Chief Executive Officer

Dame Denise Holt was appointed to the Board of SPENH as an independent non-executive director on 24 May 2012.

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

Javier Villalba Sanchez	Attended all meetings
Nicola Connelly	Attended four meetings
Antonio Espinosa de los Monteros	Attended all meetings
José Izaguirre Nazar	Attended all meetings
Scott Mathieson	Attended all meetings
Frank Mitchell	Attended all meetings

SP MANWEB PLC

CORPORATE GOVERNANCE STATEMENT *continued*

SCOTTISHPOWER BOARD

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

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

DIRECTORS

José Ignacio Sánchez Galán (Chairman)	Non-independent, non-executive director
José Miguel Alcolea Cantos	Non-independent, non-executive director
Fernando Becker Zuazua	Non-independent, non-executive director
Keith Anderson	Executive director (appointed 4 January 2012)
Sir Tom Farmer	Independent non-executive director
Lord Kerr of Kinlochard	Independent non-executive director (appointed Vice Chairman 18 April 2012)
Rt Hon Lord Macdonald of Tradeston	Independent non-executive director
Amparo Moraleda Martinez	Non-independent, non-executive director (resigned 31 January 2012)
Juan Carlos Rebollo Liceaga	Non-independent, non-executive director
José Luis San Pedro Gerenabarrena	Non-independent, non-executive director
José Sainz Armada	Non-independent, non-executive director

Fernando Becker Zuazua and José Luis San Pedro Gerenabarrena resigned as directors on 31 May 2012.

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

José Ignacio Sánchez Galán	Attended all meetings
José Miguel Alcolea Cantos	Attended all meetings
Fernando Becker Zuazua	Attended three meetings
Keith Anderson	Attended one meeting
Sir Tom Farmer	Attended all meetings
Lord Kerr of Kinlochard	Attended all meetings
Rt Hon Lord Macdonald of Tradeston	Attended all meetings
Amparo Moraleda Martinez	Attended four meetings
Juan Carlos Rebollo Liceaga	Attended all meetings
José Luis San Pedro Gerenabarrena	Attended all meetings
José Sainz Armada	Attended all meetings

There is no designated Senior Independent Director on the board of ScottishPower.

SCOTTISHPOWER AUDIT AND COMPLIANCE COMMITTEE ("ACC")

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

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

SP MANWEB PLC

CORPORATE GOVERNANCE STATEMENT *continued*

SCOTTISHPOWER AUDIT AND COMPLIANCE COMMITTEE ("ACC") *continued*

The ACC comprises three members. The Chairman of the ACC has relevant accounting and financial experience, and there is one independent member on the ACC as indicated in the table below.

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

Rt Hon Lord Macdonald of Tradeston (Chairman)	External independent, attended all meetings
Juan Carlos Rebollo Liceaga (Chairman)	Attended all meetings
José Miguel Alcolea Cantos	Attended all meetings

On 2 February 2012, Juan Carlos Rebollo Liceaga was succeeded as Chairman of the ACC by Rt Hon Lord Macdonald of Tradeston.

IBERDROLA NOMINATING AND COMPENSATION COMMITTEE ("INCC")

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

Inés Macho Stadler (Chairman)	External Independent
José Ignacio Berroeta Echevarría (Chairman)	External Independent (resigned 24 April 2012)
Inigo Victor De Oriol Ibarra	External Independent
Santiago Martínez Lage	External Independent (appointed 24 April 2012)

On 24th April 2012, José Ignacio Berroeta Echevarría was succeeded as Chairman of the INCC by Inés Macho Stadler.

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

INTERNAL CONTROL

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

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

SP MANWEB PLC

CORPORATE GOVERNANCE STATEMENT *continued*

INTERNAL CONTROL *continued*

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

IDENTIFICATION AND EVALUATION OF RISKS AND CONTROL OBJECTIVES

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

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

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

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 Regulated Business 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 and Compliance 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 it has been pre-approved by the ScottishPower Board.

SP MANWEB PLC

CORPORATE GOVERNANCE STATEMENT *continued*

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 report on the ScottishPower website www.scottishpower.com.

SP MANWEB PLC

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Standard Condition 44 of the Electricity Distribution Licence requires the directors to prepare Regulatory Accounts, for each regulatory year, which presents fairly the assets, liabilities, reserves and provisions of, or reasonably attributable to, the company and of the revenues, costs and cash flows of, or reasonably attributable to, the company for the year. In preparing the Regulatory Accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the accounts comply with IFRSs, subject to any material departures disclosed and explained in the financial statements; and
- prepare the Regulatory Accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 and Standard Condition 44 as applicable. They are also responsible for the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

SP MANWEB PLC

INDEPENDENT AUDITORS' REPORT

To the Gas and Electricity Markets Authority ("the Authority") and to SP Manweb plc ("the company")

We have audited the Regulatory Accounts of the company for the year ended 31 March 2012 which comprise the Balance Sheet, Income Statement, 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 25 and 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 AUDITORS

As explained more fully in the Statement of Directors' Responsibilities set out on page 18, the directors are responsible for the preparation of the Regulatory Accounts and for their fair presentation in accordance with the basis of preparation and accounting policies. Our responsibility is to audit and express an opinion on the Regulatory Accounts in accordance with International Standards on Auditing (UK and Ireland), except as stated in the 'Scope of the audit of the Regulatory Accounts' below, and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE REGULATORY ACCOUNTS

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

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

SP MANWEB PLC

INDEPENDENT AUDITORS' REPORT *continued*

OPINION ON THE REGULATORY ACCOUNTS

In our opinion the Regulatory Accounts:

- fairly present in accordance with Standard Condition 44 of the company's Regulatory Licence and the accounting policies set out on pages 25 and 26, the state of the Company's affairs at 31 March 2012 and its profit and its cash flow for the year then ended; and
- have been properly prepared in accordance with Standard Condition 44 of the company's Regulatory Licence and the accounting policies.

BASIS OF PREPARATION

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

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

OTHER MATTERS

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

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company for the year ended 31 December 2011 on which we reported on 30 May 2012, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



Ernst & Young LLP
Statutory Auditor
Glasgow
18 July 2012

SP MANWEB PLC

BALANCE SHEETS

as at 31 March 2012 and 31 March 2011

	Notes	2012 £m	2011 £m
ASSETS			
NON-CURRENT ASSETS			
Intangible assets		1.9	3.0
Other intangible assets	3	1.9	3.0
Property, plant and equipment		2,017.6	1,878.3
Property, plant and equipment in use	4	1,766.9	1,655.6
Property, plant and equipment in course of construction	4	250.7	222.7
Investments	5	0.1	0.1
NON-CURRENT ASSETS		2,019.6	1,881.4
CURRENT ASSETS			
Trade and other receivables	8	43.2	40.5
Financial assets		-	0.2
Cash	6	-	0.2
CURRENT ASSETS		43.2	40.7
TOTAL ASSETS		2,062.8	1,922.1
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the Parent		884.9	871.6
Share capital	9, 10	300.0	300.0
Share premium	10	3.3	3.3
Capital redemption reserve	10	6.0	6.0
Retained earnings	10	575.6	562.3
TOTAL EQUITY		884.9	871.6
NON-CURRENT LIABILITIES			
Deferred income	11	292.9	277.2
Provisions		162.6	104.6
Provision for retirement benefit obligations	12	162.6	104.6
Bank borrowings and other financial liabilities		255.0	255.0
Loans and other borrowings	13	255.0	255.0
Trade and other payables	14	5.4	3.9
Deferred tax liabilities	15	136.0	145.8
NON-CURRENT LIABILITIES		851.9	786.5
CURRENT LIABILITIES			
Provisions	16	1.0	0.9
Bank borrowings and other financial liabilities		216.4	146.6
Loans and other borrowings	13	216.4	146.6
Trade and other payables	14	95.0	105.4
Current tax liabilities		13.6	11.1
CURRENT LIABILITIES		326.0	264.0
TOTAL LIABILITIES		1,177.9	1,050.5
TOTAL EQUITY AND LIABILITIES		2,062.8	1,922.1

Approved by the Board on 13 July 2012 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 2012 and 31 March 2011.

SP MANWEB PLC

INCOME STATEMENTS

for the years ended 31 March 2012 and 31 March 2011

	Notes	2012 £m	2011 £m
Revenue		311.3	270.4
Procurements		(16.0)	(11.7)
		295.3	258.7
Staff costs	17	(0.6)	(0.5)
Outside services		(54.7)	(59.7)
Other operating income		15.8	24.5
		(39.5)	(35.7)
Taxes other than income tax		(15.4)	(15.3)
		240.4	207.7
Depreciation and amortisation charge, allowances and provisions	18	(59.9)	(56.5)
PROFIT FROM OPERATIONS		180.5	151.2
Finance income	19	50.8	48.0
Finance costs	20	(64.3)	(65.3)
PROFIT BEFORE TAX		167.0	133.9
Income tax	21	(29.4)	(23.4)
NET PROFIT FOR THE YEAR	10	137.6	110.5

Net profit for the current and prior year is wholly attributable to the equity holders of SP Manweb plc.

All results relate to continuing operations.

The accompanying notes 1 to 28 are an integral part of the income statements for the years ended 31 March 2012 and 31 March 2011.

SP MANWEB PLC

STATEMENTS OF COMPREHENSIVE INCOME

for the years ended 31 March 2012 and 31 March 2011

	2012 £m	2011 £m
NET PROFIT FOR THE YEAR	137.6	110.5
OTHER COMPREHENSIVE INCOME		
Actuarial losses on retirement benefits:		
Actuarial losses on retirement benefits	(62.6)	(0.8)
Tax relating to actuarial losses on retirement benefits	13.3	(1.4)
	(49.3)	(2.2)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	88.3	108.3

Total comprehensive income for both years is wholly attributable to the equity holders of SP Manweb plc.

STATEMENTS OF CHANGES IN EQUITY

for the years ended 31 March 2012 and 31 March 2011

	Ordinary share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
At 1 April 2010	300.0	3.3	6.0	489.0	798.3
Total comprehensive income for the year	-	-	-	108.3	108.3
Dividends	-	-	-	(35.0)	(35.0)
At 1 April 2011	300.0	3.3	6.0	562.3	871.6
Total comprehensive income for the year	-	-	-	88.3	88.3
Dividends	-	-	-	(75.0)	(75.0)
At 31 March 2012	300.0	3.3	6.0	575.6	884.9

The accompanying notes 1 to 28 are an integral part of the statements of comprehensive income and the statements of changes in equity for the years ended 31 March 2012 and 31 March 2011.

SP MANWEB PLC

CASH FLOW STATEMENTS

for the years ended 31 March 2012 and 31 March 2011

	2012 £m	2011 £m
Cash flows from operating activities		
Profit before tax	167.0	133.9
Adjustments for:		
Depreciation and amortisation	58.3	56.5
Change in provisions	0.9	(0.8)
Transfer of assets from customers	(9.1)	(9.0)
Finance income and costs	13.5	17.3
Net losses on disposal/write-off of non-current assets	0.4	-
Movement in retirement benefits	(3.7)	(53.3)
Changes in working capital:		
Change in trade and other receivables	(2.7)	7.2
Change in trade payables	(45.4)	16.3
Provisions paid	(0.8)	-
Assets received from customers	24.8	21.8
Income taxes paid	(23.4)	(13.6)
Net cash flows from operating activities (i)	179.8	176.3
Cash flows from investing activities		
Investments in property, plant & equipment	(161.1)	(160.3)
Proceeds from disposal of property, plant & equipment	-	0.2
Net cash flows from investing activities (ii)	(161.1)	(160.1)
Cash flows from financing activities		
Dividends paid to company's equity holders	(75.0)	(35.0)
Interest paid	(13.7)	(15.3)
Repayments of borrowing	-	(50.0)
Net cash flows from financing activities (iii)	(88.7)	(100.3)
Net decrease in cash and cash equivalents (i)+(ii)+(iii)	(70.0)	(84.1)
Cash and cash equivalents at beginning of year	(146.4)	(62.3)
Cash and cash equivalents at end of year	(216.4)	(146.4)
Cash and cash equivalents at end of year comprises:		
Cash	-	0.2
Payables due to Iberdrola group companies - loans	(216.3)	(146.6)
Bank overdraft	(0.1)	-
Cash flow statement cash and cash equivalents	(216.4)	(146.4)

The accompanying notes 1 to 28 are an integral part of the cash flow statements for the years ended 31 March 2012 and 31 March 2011.

SP MANWEB PLC

NOTES TO THE ACCOUNTS

31 March 2012

1 BASIS OF PREPARATION OF THE ACCOUNTS

The Accounts have been prepared in accordance with Standard Condition 44 of the company's Regulatory Licence and International Accounting Standards ("IAS"), International Financial Reporting Standards ("IFRSs") and International Finance Reporting Interpretations Committee ("IFRIC") Interpretations (collectively referred to as IFRS), as adopted by the European Union ("EU") as at the date of approval of these Accounts and which are mandatory for the financial year ended 31 March 2012. 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 2011 to 31 March 2012. Consequently the Corporate Report and Regulatory Accounts for the year ended 31 March 2012 are separate from the Directors' Report and Accounts of the company which have been prepared for the year ended 31 December 2011. The Accounts are prepared in accordance with the Accounting Policies set out in Note 2.

In previous accounting periods, certain deposits received from group companies were presented within 'trade and other payables' as a current liability. Following a review of the treatment of such deposits, such amounts received are included within 'trade and other payables' as a non-current liability for the year ended 31 March 2012, and prior year amounts (2011 £3.9 million) have been restated accordingly. This change in balance sheet presentation has no impact on the company's net profit or net assets in both the current and prior years.

2 ACCOUNTING POLICIES

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

- A. REVENUE
- B. INTANGIBLE ASSETS
- C. PROPERTY, PLANT AND EQUIPMENT
- D. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS
- E. FINANCIAL ASSETS AND LIABILITIES
- F. TRANSFER OF ASSETS FROM CUSTOMERS
- G. RETIREMENT BENEFITS
- H. TAXATION

A. REVENUE

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

B. INTANGIBLE ASSETS

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

C. PROPERTY, PLANT AND EQUIPMENT

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

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

	Years
Distribution facilities	40-60
Meters and measuring devices	2-10
Other facilities and other items of property, plant and equipment	1-40

SP MANWEB PLC

NOTES TO THE ACCOUNTS *continued*

31 March 2012

2 ACCOUNTING POLICIES *continued*

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

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

E. FINANCIAL ASSETS AND LIABILITIES

- (a) Financial assets categorised as trade 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) In the cash flow statement, cash and cash equivalents include bank overdrafts repayable on demand the next business day and the net of current loans receivable from and payable to 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.

F. TRANSFERS OF ASSETS FROM CUSTOMERS

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

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

G. RETIREMENT BENEFITS

The company provides pensions through a defined benefit scheme. The retirement benefits asset and liability recognised in the balance sheet represent the net surpluses and deficits respectively in the company's defined benefit pension scheme for which the entity is the sponsoring employer.

The cost of providing benefits under the defined benefit scheme is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full, directly in retained earnings, in the period in which they occur and are shown in the statement of comprehensive income. The current service cost element of the pension charge which relates to the company's employees is recognised within 'Staff costs' in the income statement.

The expected return on pension scheme assets and interest on pension scheme liabilities are included within 'Finance income' and 'Finance costs', respectively, in the income statement.

H. TAXATION

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

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

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

SP MANWEB PLC

NOTES TO THE ACCOUNTS *continued*

31 March 2012

3 INTANGIBLE ASSETS

	Computer software £m
Year ended 31 March 2011	
Cost:	
At 1 April 2010 and 31 March 2011	4.5
Amortisation:	
At 1 April 2010	0.4
Amortisation for the year	1.1
At 31 March 2011	1.5
Net book value:	
At 31 March 2011	3.0
At 1 April 2010	4.1
Year ended 31 March 2012	
Cost:	
At 1 April 2011 and 31 March 2012	4.5
Amortisation:	
At 1 April 2011	1.5
Amortisation for the year	1.1
At 31 March 2012	2.6
Net book value:	
At 31 March 2012	1.9
At 1 April 2011	3.0

4 PROPERTY, PLANT AND EQUIPMENT

(a) Movements in property, plant and equipment

	Operating plant - distribution facilities £m	Operating plant - other (note (i)) £m	Other items of property, plant and equipment in use £m	Operating plant in progress (note (ii)) £m	Other items of property, plant and equipment in progress £m	Total £m
Year ended 31 March 2011						
Cost:						
At 1 April 2010	2,122.8	119.5	0.6	153.9	3.9	2,400.7
Additions	-	5.9	1.6	163.0	-	170.5
Transfers from in progress to plant in use	93.4	0.8	3.9	(94.2)	(3.9)	-
Disposals	(7.7)	(0.6)	-	-	-	(8.3)
At 31 March 2011	2,208.5	125.6	6.1	222.7	-	2,562.9
Depreciation:						
At 1 April 2010	586.6	50.6	0.1	-	-	637.3
Charge for the year	44.6	10.8	-	-	-	55.4
Disposals	(7.6)	(0.5)	-	-	-	(8.1)
At 31 March 2011	623.6	60.9	0.1	-	-	684.6
Net book value:						
At 31 March 2011	1,584.9	64.7	6.0	222.7	-	1,878.3
At 1 April 2010	1,536.2	68.9	0.5	153.9	3.9	1,763.4

The net book value of property, plant and equipment at 31 March 2011 is analysed as follows:

Property, plant and equipment in use	1,584.9	64.7	6.0	-	-	1,655.6
Property, plant and equipment in the course of construction	-	-	-	222.7	-	222.7
At 31 March 2011	1,584.9	64.7	6.0	222.7	-	1,878.3

SP MANWEB PLC

NOTES TO THE ACCOUNTS *continued*

31 March 2012

4 PROPERTY, PLANT AND EQUIPMENT *continued*

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

	Operating plant - distribution facilities £m	Operating plant - other (note (i)) £m	Other items of property, plant and equipment in use £m	Operating plant in progress (note (ii)) £m	Total £m
Year ended 31 March 2012					
Cost:					
At 1 April 2011	2,208.5	125.6	6.1	222.7	2,562.9
Additions	-	4.0	-	192.9	196.9
Transfers from in progress to plant in use	164.2	0.7	-	(164.9)	-
Disposals	(6.5)	(0.7)	-	-	(7.2)
At 31 March 2012	2,366.2	129.6	6.1	250.7	2,752.6
Depreciation:					
At 1 April 2011	623.6	60.9	0.1	-	684.6
Charge for the year	46.4	10.8	-	-	57.2
Disposals	(6.3)	(0.5)	-	-	(6.8)
At 31 March 2012	663.7	71.2	0.1	-	735.0
Net book value:					
At 31 March 2012	1,702.5	58.4	6.0	250.7	2,017.6
At 1 April 2011	1,584.9	64.7	6.0	222.7	1,878.3

The net book value of property, plant and equipment at 31 March 2012 is analysed as follows:

Property, plant and equipment in use	1,702.5	58.4	6.0	-	1,766.9
Property, plant and equipment in the course of construction	-	-	-	250.7	250.7
At 31 March 2012	1,702.5	58.4	6.0	250.7	2,017.6

- (i) The category "Operating plant - other" principally comprises meters and measuring devices.
- (ii) The category "Operating plant in progress" principally comprises distribution facilities in the course of construction.
- (iii) The cost of fully depreciated property, plant and equipment still in use at 31 March 2012 was £73.7 million (2011 £71.0 million).
- (iv) Included within the cost of property, plant and equipment are assets in use not subject to depreciation, being land of £6.0 million (2011 £6.0 million).

(b) Operating lease arrangements

	2012 £m	2011 £m
Operating lease payments		
Minimum lease payments recognised as an expense in the year	0.1	-
	0.1	-
The future minimum lease payments under non-cancellable operating leases are as follows:		
Within one year	-	0.1
Between one and five years	0.1	0.1
After more than five years	0.1	-
	0.2	0.2
Operating lease receivables		
The future minimum lease receivables under non-cancellable operating leases are as follows:		
Within one year	-	0.1
Between one and five years	-	0.1
	-	0.2

(c) Capital commitments

	2012 £m	2011 £m
Contracted but not provided	223.6	226.1

SP MANWEB PLC

NOTES TO THE ACCOUNTS *continued*

31 March 2012

5 INVESTMENTS

	Shares in subsidiary undertakings £'000	Other unlisted investments £'000	Total £'000
At 31 March 2011 and 31 March 2012	75	26	101

Subsidiaries	Place of incorporation or registration	Class of share capital	Proportion of shares held	Activity
Manweb Services Limited	England	Ordinary shares £1	100%	Ancillary services
Manweb Nominees Limited	England	Ordinary shares £1	99%	Dormant company
Manweb Share Scheme Trustees Limited	England	Ordinary shares £1	50%	Dormant trustee company

6 MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

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

		2012		2011	
	Notes	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Financial assets					
Cash		-	-	0.2	0.2
Receivables	(a)	41.7	41.7	40.5	40.5
Financial liabilities					
External borrowings	(b)	(0.1)	(0.1)	-	-
Loans with Iberdrola group companies	(b)	(471.3)	(560.4)	(401.6)	(473.4)
Payables	(a)	(45.7)	(45.7)	(58.7)	(58.7)

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

(a) Balances outwith the scope of IFRS 7 'Financial Instruments: Disclosure' have been excluded, namely other tax receivables, payments on account and other tax payables.

(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 all other debt is calculated using a discounted cash flow.

7 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.

	2012						
	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 and thereafter £m	Total £m
Cash outflows							
External borrowings	0.1	-	-	-	-	-	0.1
Loans with Iberdrola group companies	229.7	12.0	12.2	12.5	13.2	411.4	691.0
Payables*	37.3	-	-	-	-	5.4	42.7
	267.1	12.0	12.2	12.5	13.2	416.8	733.8

	2011						
	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 and thereafter £m	Total £m
Cash outflows							
Loans with Iberdrola group companies	156.9	13.6	15.0	16.1	16.9	459.5	678.0
Payables*	52.5	-	-	-	-	3.9	56.4
	209.4	13.6	15.0	16.1	16.9	463.4	734.4

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

SP MANWEB PLC

NOTES TO THE ACCOUNTS *continued*

31 March 2012

8 TRADE AND OTHER RECEIVABLES

	2012 £m	2011 £m
Current receivables:		
Receivables due from Iberdrola group companies - trade	12.2	9.0
Trade receivables and accrued income	24.6	24.2
Other tax receivables	1.5	-
Other receivables	4.9	7.3
	43.2	40.5

- (a) Trade receivables are stated net of allowance for impairment of doubtful debts of £0.7 million (2011 £1.8 million). 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 charge on change in bad debt for the year to 31 March 2012 is £0.5 million (2011 £0.6 million).

- (b) At 31 March 2012 trade receivables of £3.1 million (2011 £5.8 million) were past due but not impaired.

	2012 £m	2011* £m
Past due but not impaired:		
Less than 3 months	0.5	0.9
Between 3 and 6 months	0.3	1.9
Between 6 and 12 months	0.5	0.1
After more than 12 months	1.8	2.9
	3.1	5.8

* Following a revision to the basis of determining trade receivables past due but not impaired, the amounts disclosed at 31 March 2011 have been restated to reflect the basis used at 31 March 2012.

9 SHARE CAPITAL

	2012 £m	2011 £m
Authorised:		
600,000,000 ordinary shares of 50p each (2011 600,000,000)	300.0	300.0
	300.0	300.0
Allotted, called up and fully paid shares:		
600,000,000 ordinary shares of 50p each (2011 600,000,000)	300.0	300.0
	300.0	300.0

10 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF SP MANWEB PLC

	Ordinary share capital £m	Share premium (note (a)) £m	Capital redemption reserve (note (b)) £m	Retained earnings (note (c)) £m	Total £m
At 1 April 2010	300.0	3.3	6.0	489.0	798.3
Profit for the year attributable to equity holders of SP Manweb plc	-	-	-	110.5	110.5
Actuarial losses on retirement benefits	-	-	-	(0.8)	(0.8)
Tax on items relating to actuarial losses on retirement benefits	-	-	-	(1.4)	(1.4)
Dividends	-	-	-	(35.0)	(35.0)
At 1 April 2011	300.0	3.3	6.0	562.3	871.6
Profit for the year attributable to equity holders of SP Manweb plc	-	-	-	137.6	137.6
Actuarial losses on retirement benefits	-	-	-	(62.6)	(62.6)
Tax on items relating to actuarial losses on retirement benefits	-	-	-	13.3	13.3
Dividends	-	-	-	(75.0)	(75.0)
At 31 March 2012	300.0	3.3	6.0	575.6	884.9

- (a) The share premium account represents consideration received for shares issued in excess of their nominal amount.

- (b) The capital redemption reserve comprises the nominal value of the company's ordinary share capital purchased by the company in previous years.

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

SP MANWEB PLC

NOTES TO THE ACCOUNTS *continued*

31 March 2012

11 DEFERRED INCOME

	At 1 April 2010 £m	Receivable during year £m	Released to income statement £m	At 31 March 2011 £m
Year ended 31 March 2011				
Transfer of assets from customers	264.4	21.8	(9.0)	277.2
Total deferred income	264.4	21.8	(9.0)	277.2

	At 1 April 2011 £m	Receivable during year £m	Released to income statement £m	At 31 March 2012 £m
Year ended 31 March 2012				
Transfer of assets from customers	277.2	24.8	(9.1)	292.9
Total deferred income	277.2	24.8	(9.1)	292.9

12 RETIREMENT BENEFIT OBLIGATIONS

(a) Analysis of balance

The amounts recognised in the balance sheet in respect of retirement benefit obligations are detailed below:

	2012 £m	2011 £m
Non-current liabilities	162.6	104.6
	162.6	104.6

(b) Pension arrangements

Details of the Manweb Group of Electricity Supply Pension Scheme are as follows;

SP Manweb Group of Electricity Supply Pension Scheme ('Manweb')

Type of Benefit	Final salary
New Entrants	No
Funded separately from group assets	Yes
Administration method	Trustee board
Member contributions	5.5% of salary
Group contribution - how determined	Agreement of trustees and group following actuarial valuation (last valuation: 31 March 2009)
Current actual group contributions	23.3% of salary
Special contributions during the year ended 31 March 2012	£Nil
Special contributions planned for the year ending 31 March 2013	£25.4 million
Pension charge	Based on advice of independent qualified actuary

The age profile of the scheme is expected to rise over time, due to there being no new entrants. This will in turn result in increasing service costs for the scheme due to the actuarial valuation method used (the projected unit method). The company believes that the projected unit method continues to be appropriate at present, and provides a reasonable basis for assessing the company's final salary pension costs.

Investment strategy

The scheme is invested in an appropriately diversified range of assets. The broad proportions of each asset class in which the scheme aims to be invested are in the table that follows, however it is important to note that this may vary from time to time as markets change and as cash may be held for strategic reasons.

	2012	2011
Equities	42%	44%
Infrastructure	5%	4%
Liability driven investment	52%	49%
Cash	1%	3%
Total	100%	100%

At 31 March 2012 the scheme held no ScottishPower or Iberdrola shares (2011 None).

SP MANWEB PLC
NOTES TO THE ACCOUNTS *continued*

31 March 2012

12 RETIREMENT BENEFIT OBLIGATIONS *continued*

(c) Pension analysis

(i) Analysis of net liability relating to pensions

	2012 £m	2011 £m
Present value of funded obligations	(1,026.3)	(967.7)
Fair value of scheme assets	863.7	863.1
Net liability	(162.6)	(104.6)
Amounts in the balance sheet:		
Non-current liabilities	(162.6)	(104.6)
Net liability	(162.6)	(104.6)

(ii) The amounts recognised are as follows:

	2012 £m	2011 £m
Current service cost*	10.3	11.4
Interest on obligation	49.9	50.8
Expected return on scheme assets	(50.8)	(48.0)
Past service cost*	2.3	2.0
Total income statement charge	11.7	16.2
Actual return on scheme assets	25.0	55.4
Net actuarial losses recognised in the Statement of Comprehensive Income	(62.6)	(0.8)

* The pension costs relating to the employees of fellow subsidiary entities are recharged to the appropriate legal entity.

(iii) Changes in the present value of the defined benefit obligations are as follows:

	2012 £m	2011 £m
Defined benefit obligation at beginning of year	967.7	938.8
Current service cost	10.3	11.4
Interest on obligation	49.9	50.8
Scheme members' contributions	2.7	2.5
Past service costs	2.3	2.0
Actuarial losses	36.8	8.2
Benefits paid	(43.4)	(46.0)
Defined benefit obligation at end of year	1,026.3	967.7

(iv) Changes in the fair value of scheme assets are as follows:

	2012 £m	2011 £m
Fair value of scheme assets at beginning of year	863.1	784.5
Expected return on scheme assets	50.8	48.0
Actuarial (losses)/gains	(25.8)	7.4
Employer contributions	16.3	66.7
Scheme members' contributions	2.7	2.5
Benefits paid	(43.4)	(46.0)
Fair value of scheme assets at end of year	863.7	863.1

(d) Actuarial assumptions

(i) The major assumptions used by the actuary for the pension arrangements were as follows and are expressed as weighted averages:

	2012	2011
Rate of increase in salaries	4.8% p.a.	5.0% p.a.
Rate of increase in deferred pensions	3.3% p.a.	3.5% p.a.
Rate of increase in pensions payment	3.2% p.a.	3.4% p.a.
Discount rate	4.8% p.a.	5.3% p.a.
Inflation assumption	3.3% p.a.	3.5% p.a.

The discount rate is a critical assumption in determining the company's defined benefit obligation. As at 31 March 2012, if the discount rate was to be increased by 0.25% the company's defined benefit obligation would be reduced by £40.3 million (2011 £38.2 million).

SP MANWEB PLC

NOTES TO THE ACCOUNTS *continued*

31 March 2012

12 RETIREMENT BENEFIT OBLIGATIONS *continued*

(d) Actuarial assumptions *continued*

(ii) The weighted average life expectancy for mortality used to determine the benefit obligation was as follows:

Member age 63 (current life expectancy)	2012	2011
Male	22.3	22.2
Female	25.9	25.9
Member age 45 (life expectancy at age 63)		
Male	24.0	23.9
Female	27.0	26.9

The mortality assumptions are critical assumptions in determining the company's defined benefit obligation. As at 31 March 2012, if it were to be assumed that the members live one year longer than the assumptions above, the company's defined benefit obligation would increase by £32.7 million (2011 £26.3 million).

(iii) Allowance for cash commutation

Within the pension scheme, members are assumed to commute 25% of their benefits for a tax-free cash sum where this option is available.

(iv) The weighted average asset allocations were as follows:

	Asset Allocations	
	2012	2011
Equities	42.4%	43.3%
Infrastructure	4.6%	4.1%
Liability driven investment	52.3%	49.3%
Cash	0.7%	3.3%

The expected returns on each asset class were as follows:

	Long-term rates of return expected	
	2012	2011
Equities	8.0% p.a.	7.7% p.a.
Infrastructure	7.1% p.a.	6.2% p.a.
Liability driven investment	3.9% p.a.	4.7% p.a.
Cash	2.4% p.a.	3.9% p.a.
Expected return on scheme assets	5.9% p.a.	6.0% p.a.

The long-term rates of return for 31 March 2012 have been derived as follows:

- Equities: using a discounted cash flow model, where cash flows to shareholders are forecast and their aggregated discounted value is equated to the current value of each equity market to give a forecast return.
- Infrastructure: using a discounted cash flow model.
- Liability driven investment: based on the yield on corporate bonds with a deduction for defaults and downgrades.

In all cases, for International Accounting Standard 19 'Employee benefits' ("IAS 19") reporting purposes the long-term rates of return have been reduced by 0.3% p.a. (2011 0.3% p.a.) to reflect scheme expenses to arrive at the figures shown above. These return assumptions are based on both historical performance and independent advisors' forward-looking views of the financial markets.

(e) History of experience gains and losses

The amounts for the current year and previous periods in relation to the plan are given below:

	2012 £m	2011 £m	2010 £m	2009 £m
Difference between expected and actual return on scheme				
- amount	(25.8)	7.4	154.0	n/a
- percentage of scheme assets	(3.0)%	1%	20%	n/a
Experience gains and losses on scheme liabilities:				
- amount	-	(2.4)	6.1	n/a
- percentage of scheme liabilities	-	-	1%	n/a
Present value of defined benefit obligations	(1,026.3)	(967.7)	(938.8)	(676.4)
Fair value of plan assets	863.7	863.1	784.5	615.8
Deficit in defined benefit plans	(162.6)	(104.6)	(154.3)	(60.6)

(f) Future contributions

The company intends to contribute £36.4 million to the pension scheme in the year ending 31 March 2013.

SP MANWEB PLC

NOTES TO THE ACCOUNTS *continued*

31 March 2012

13 LOANS AND OTHER BORROWINGS

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

Analysis by instrument and maturity	Note	Interest rate	Maturity	2012 £m	2011 £m
Intercompany loan with SPUK		Base + 1%	On demand	216.3	146.6
Bank overdraft		Base + 1%	On demand	0.1	-
Intercompany loan with SPL		3.858%	29 January 2019	75.0	75.0
Intercompany loan with SPUK	(i)	LIBOR + 3.365%	28 January 2029	180.0	180.0
Total debt				471.4	401.6

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

	2012 £m	2011 £m
Analysis of total loans and other borrowings		
Non-current	255.0	255.0
Current	216.4	146.6
	471.4	401.6

(i) Under the conditions of the long term loan agreement 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 5 business days before the intended repayment date.

(b) Borrowing facilities

The company has no undrawn committed borrowing facilities at 31 March 2012 (2011 £nil).

14 TRADE AND OTHER PAYABLES

	Note	2012 £m	2011 £m
Current trade and other payables:			
Payables due to Iberdrola group companies - trade	(a)	28.5	45.4
Payables due to Iberdrola group companies - interest		3.0	2.3
Other tax payables		13.9	6.3
Payments received on account		40.8	44.3
Other payables		8.8	7.1
		95.0	105.4
Non-current trade and other payables:			
Payables due to Iberdrola group companies - trade	(a)	5.4	3.9
		5.4	3.9

(a) Payables due to Iberdrola group companies - trade amounting to £3.9 million in respect of the year ended 31 March 2011 has been reclassified from current trade and other payables to non-current trade and other payables as set out at Note 1.

15 DEFERRED TAX

Deferred tax provided in the Accounts is as follows:

	Property, plant and equipment £m	Retirement benefits £m	Total £m
Deferred tax provided at 1 April 2010	178.3	(43.2)	135.1
(Credit)/charge to income statement	(0.3)	9.6	9.3
Recorded in the Statement of Comprehensive Income	-	1.4	1.4
Deferred tax provided at 1 April 2011	178.0	(32.2)	145.8
Charge to income statement	0.2	3.3	3.5
Recorded in the Statement of Comprehensive Income	-	(13.3)	(13.3)
Deferred tax provided at 31 March 2012	178.2	(42.2)	136.0

The government has announced that it intends to reduce the rate of UK corporation tax to 22% by 1 April 2014. The rate of corporation tax reduced from 28% to 26% on 1 April 2011 and a further reduction to 24%, effective from 1 April 2012, was substantively enacted at the balance sheet date. The changes have reduced the tax rate expected to apply when temporary differences reverse.

In July 2012, the rate of tax effective from 1 April 2013 was substantively enacted at 23% and a further reduction of 1% is expected. The estimated impact of these changes will be reductions of £7.4 million in the property, plant and equipment element of the deferred tax provision in each of the next two years. It is not possible to quantify the impact of the rate reductions on the other element of the deferred tax balance.

SP MANWEB PLC

NOTES TO THE ACCOUNTS *continued*

31 March 2012

16 OTHER PROVISIONS

		At 1 April 2010 £m	Released during the year £m	At 31 March 2011 £m
Year ended 31 March 2011	Notes			
Contract termination costs	(b)	0.6	-	0.6
Environmental costs	(c)	1.1	(0.8)	0.3
	(a)	1.7	(0.8)	0.9

		At 1 April 2011 £m	New provisions £m	Released during the year £m	Utilised during the year £m	At 31 March 2012 £m
Year ended 31 March 2012	Notes					
Contract termination costs	(b)	0.6	-	-	(0.6)	-
Environmental costs	(c)	0.3	1.0	(0.1)	(0.2)	1.0
	(a)	0.9	1.0	(0.1)	(0.8)	1.0

(a) All provisions are classified in the balance sheet as current liabilities.

(b) The provision for contract termination costs related to likely contractor payments following the termination of contracts. Costs are expected to be incurred in the next financial year.

(c) The provision for environmental costs relates to obligations under the Control of Asbestos at Work Regulations. Costs are expected to be incurred in the next financial year.

17 EMPLOYEE INFORMATION

(a) Staff costs

	Note	2012 £'000	2011 £'000
Wages and salaries		471	423
Social security costs	(i)	46	38
Pension and other costs		103	67
Total employee costs		620	528

(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 25.

(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 2012	Average 2012	Year end 2011	Average 2011
Administrative	8	8	7	8
Total	8	8	7	8

18 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS

	2012 £m	2011 £m
Property, plant and equipment depreciation charge	57.2	55.4
Intangible asset amortisation	1.1	1.1
Charges and provisions and allowances	1.6	-
	59.9	56.5

19 FINANCE INCOME

	2012 £m	2011 £m
Expected return on retirement benefit assets	50.8	48.0

SP MANWEB PLC

NOTES TO THE ACCOUNTS *continued*

31 March 2012

20 FINANCE COSTS

	2012 £m	2011 £m
Interest payable to Iberdrola group companies	14.4	12.0
Interest on retirement benefit obligations	49.9	50.8
Interest on bank loans and overdrafts	-	2.5
	64.3	65.3

21 INCOME TAX

	2012 £m	2011 £m
Current tax:		
UK Corporation tax	25.9	14.1
Current tax for the year	25.9	14.1
Deferred tax:		
Origination and reversal of temporary differences	17.8	23.8
Adjustments in respect of prior years	-	(1.7)
Impact of rate change on deferred tax	(14.3)	(12.8)
Deferred tax for the year	3.5	9.3
Income tax expense for the year	29.4	23.4

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

	2012 £m	2011 £m
Corporation tax at 26% (2011 28%)	43.4	37.5
Adjustments in respect of prior years	-	(1.7)
Impact of tax rate change	(14.3)	(12.8)
Other permanent difference	0.3	0.4
Income tax expense for the year	29.4	23.4

22 DIVIDENDS

	2012 pence per ordinary share	2011 pence per ordinary share	2012 £m	2011 £m
Interim dividend paid	12.5	5.8	75.0	35.0

23 CONTINGENT LIABILITIES

The company's businesses were the subject of legal separation during the year ended 31 March 2002. This resulted in operational staff of the Distribution business and employees of the Energy Supply business being transferred to other ScottishPower group companies on 1 October 2001. Any liabilities in respect of the Electricity Supply Pension Scheme existing at this time were also transferred to these companies subject to certain contingent liabilities. Under the terms of the transfers, the company would however be required to fund any liabilities in respect of the Electricity Supply Pension Scheme should the other ScottishPower group companies become unable to fulfil their obligations in respect of the scheme.

Also, as the successor company to the Mersey and North Wales Electricity Board, the company will remain potentially liable for any breach of duty to provide pension benefits or secure accrued pension benefits for former protected employees in the event of the contracts of employment being transferred from the company to new employers, if their new employers fail to meet their obligations under the Electricity (Protected Persons) (England and Wales) Pension Regulations 1990.

24 FINANCIAL COMMITMENTS

Other contractual commitments

	2012 £m	2011 £m
Provision of asset management services from SPPS	37.2	39.4

The contract in place for the provision of asset management services provided by SPPS expires on 31 March 2013.

SP MANWEB PLC

NOTES TO THE ACCOUNTS *continued*

31 March 2012

25 RELATED PARTY TRANSACTIONS

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

	2012			2011		
	Ultimate UK parent (SPL) £m	Immediate parent (SPENH) (Note (i)) £m	Other Iberdrola group companies £m	Ultimate UK parent (SPL) £m	Immediate parent (ScottishPower Investments Limited) (Note (i)) £m	Other Iberdrola group companies £m
Types of transaction						
Sales and rendering of services	-	-	81.1	-	-	77.1
Purchases and receipt of services	-	-	(50.6)	-	-	(56.1)
Finance costs	(2.9)	-	(11.5)	(2.9)	-	(9.1)
Purchases of property, plant and equipment	-	-	(196.9)	-	-	(170.5)
Dividends paid	-	(75.0)	-	-	(35.0)	-
Balances outstanding						
Trade receivables	-	-	12.2	-	-	9.0
Loans payable	(75.0)	-	(396.3)	(75.0)	-	(326.6)
Trade payables	-	-	(33.9)	-	-	(49.3)
Interest payable	(0.5)	-	(2.5)	(0.5)	-	(1.8)

(i) On 1 July 2011, as part of a group restructuring exercise, ScottishPower Investments Limited transferred its investment in the company to SPENH.

(ii) During the year the company received pensions contributions of £16.3 million (2011 £66.7 million) from fellow subsidiary companies.

(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 group, it has not been possible to apportion the remuneration specifically in respect of services to this company. All of the key management personnel are paid by other companies within the group.

	2012 £000	2011 £000
Type of related party		
Short-term employee benefits	555	476
Post-employment benefits	194	187
Share-based payments	148	194
Total	897	857

(c) Directors' remuneration

The total emoluments of the directors that provided qualifying services to the company are shown below. As these directors are remunerated for their work for the group, it has not been possible to apportion the emoluments specifically in respect of services to this company.

	2012 £000	2011 £000
Executive directors		
Basic salary	329	292
Bonuses	218	177
Benefits in kind	8	7
Total	555	476

(i) Two directors (2011 two) had retirement benefits accruing under defined benefit pension schemes.

(ii) During the year, two directors (2011 two) received benefits under a long term share incentive scheme.

(iii) Both the directors were paid by other companies within the group.

SP MANWEB PLC

NOTES TO THE ACCOUNTS *continued*

31 March 2012

25 RELATED PARTY TRANSACTIONS *continued*

(c) Directors' remuneration *continued*

	2012	2011
	£000	£000
Highest paid director		
Basic salary	228	192
Bonuses	169	130
Benefits in kind	1	1
Total	398	323

(iv) The accrued pension entitlement of the highest paid director was £86,484 (2011 £72,270).

(v) The highest paid director received a benefit under a long term share incentive scheme during both the current and prior 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 Scottish Power UK plc.

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

On 1 July 2011, as part of a group restructuring exercise to align the operational structure of ScottishPower with the operational structure of Iberdrola, S.A., ownership of SP Manweb plc was transferred from ScottishPower Investments Limited to Scottish Power Energy Networks Holdings Limited (an immediate subsidiary of Scottish Power UK plc).

26 AUDITORS' REMUNERATION

	2012	2011
	£m	£m
Audit of the company's annual accounts and regulatory accounts	0.1	0.1

27 ACCOUNTING DEVELOPMENTS

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 financial year ended 31 March 2012. In addition, the EU has adopted the following IFRS standards which is not mandatory for the year ended 31 March 2012:

- Amendments to IFRS 7 'Financial Instruments: Disclosures - Transfer of Financial Assets'
- Amendments to IAS 1 'Presentation of Items of Other Comprehensive Income'
- IAS 19 (Revised) 'Employee Benefits'

The company has considered the impact of these but the standards have not been adopted early for the year ended 31 March 2012.

In addition, the International Accounting Standards Board has also issued a number of pronouncements which have not yet been adopted by the EU including:

- IFRS 9 'Financial instruments' and subsequent amendments
- IFRS 10 'Consolidated Financial Statements'
- IFRS 11 'Joint Arrangements'
- IFRS 12 'Disclosure of Interests in Other Entities'
- IFRS 13 'Fair Value Measurement'
- IAS 27 (Revised) 'Separate Financial Statements'
- IAS 28 (Revised) 'Investments in Associates and Joint Ventures'
- Amendments to IFRS 7 'Disclosures - Offsetting Financial Assets and Financial Liabilities'
- Amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities'
- Amendments to IFRS 10, IFRS 11 and IFRS 12 'Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance'

The company is currently considering the impact of these pronouncements.

SP MANWEB PLC

NOTES TO THE ACCOUNTS *continued*

31 March 2012

28 GOING CONCERN

The company's business activities are set out in the Directors' Report on pages 1 to 12.

The company has recorded a profit after tax in both the current year and previous financial years and the company's balance sheet shows that it has net current liabilities of £282.8 million and net assets of £884.9 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 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.