SP TRANSMISSION LIMITED
CORPORATE REPORT & REGULATORY ACCOUNTS
for the year ended 31 March 2013

Registered No. SC189126

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CONTENTS

CORPORATE REPORT

REGULATORY ACCOUNTS

SP TRANSMISSION LIMITED
DIRECTORS' REPORT

The directors present their report and audited Accounts for the year ended 31 March 2013.

ACTIVITIES AND REVIEW

The principal activity of SP Transmission Limited ("the company"), registered company number SC189126, is the ownership of the electricity transmission network within the Central and Southern Scotland area. In accordance with the British Electricity Trading and Transmission Arrangements ("BETTA"), National Grid operates the Great Britain ("GB") transmission system, including balancing of generation and demand in Scotland. The company retains network ownership and all associated responsibilities including development of the network.

The ultimate parent of the company is Iberdrola S.A. ("Iberdrola") which is listed on the Madrid stock exchange and the immediate parent of the company is Scottish Power Energy Networks Limited ("SPENH"). 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"), and are regulated by The Office of Gas and Electricity Markets ("Ofgem").

The company and fellow subsidiary companies, SP Manweb plc and SP Distribution 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 previous Transmission Price Control ("TPCR4") was extended by Ofgem by one year to 31 March 2013. The transmission business has agreed cost allowances and revenues with Ofgem for this "rollover" period.

Due to the company being fast tracked through the price control process, the negotiation of the next full transmission price review for the period from 1 April 2013 to 31 March 2021 was completed in January 2012. This is the first review under the RIIO (Revenue = Incentives + Innovation + Outputs) model. This review (RIIO-T1) has set the outputs that the company needs to deliver for its customers and the associated revenues for the eight year period of the review.

KEY FACTORS AFFECTING THE BUSINESS

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

- Deliver returns at, or in excess of, the current price control's regulatory return
- Deliver investment programmes and operational improvements
- Improve security of supply and network performance

These objectives have to be achieved within the conditions of the Price Review set by Ofgem.

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 the year to 31 March 2013 the ScottishPower governance structure was supported by risk policies approved by the Board of Directors of Iberdrola and adopted by the Board of Directors of Scottish Power Limited ("the ScottishPower Board"). Further information is provided in the Identification and Evaluation of Risks and Control Objectives section of the Corporate Governance Statement on page 17.

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.

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

Risks relating to the company's business continued

(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.

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 ScottishPower 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 2013, 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 during the year ended 31 March 2013:

	Note	**Year ended 31 March 2013**	Year ended 31 March 2012
Franchise area (km^2)		**22,950**	22,950
System maximum demand (GW)		**3.8**	3.9
Length of overhead lines (circuit km)	(a)	**3,713**	3,767
Length of underground cables (circuit km)	(a)	**320**	259

(a) An audit of the inventory of network assets was undertaken during 2012/2013 to validate key asset categories. This identified a change to the network length of overhead line and underground cable which are reflected in the table.

PROJECTS

The company in accordance with its long-term plan agreed with stakeholders, continues to undertake a number of major projects that will enhance the capability and capacity of the transmission network. This includes key projects to facilitate the delivery of the Government's target for renewable generation in Scotland.

New Projects

In February 2012 National Grid and the company announced the award of a £1 billion contract to build the first ever sub-sea electricity link between Scotland and England/Wales. The link will be the longest high capacity High Voltage Direct Current ("HVDC") cable in the world and will increase the capacity of electricity flowing between Scotland and England/Wales by more than 2GW. During 2012/13, the project focus has been on finalising the detailed engineering design for the HVDC convertor stations, the undersea route and order of materials for production of power cable and major electrical equipment. The project remains on course for full commercial operation in 2016, subject to planning approvals and landowner consents.

PROJECTS ***continued***

New Projects continued

The major design and engineering works undertaken on strategic reinforcement projects during 2012/13 underpins an ambitious investment plan which will increase capacity from Scotland to England from 3.3GW to close to 7GW by 2021. The under-sea link is one of several key projects designed to transport more power from Scotland to England and complements existing reinforcement projects like the construction of a new 400kV double-circuit overhead link between Beauly (near Inverness) and Denny (near Falkirk). This circuit is necessary to increase power transfers to Central Scotland, arising from new renewable generation in the North of Scotland.

In December 2009, the Scottish Government granted Section 37 ("S37") consent for the Beauly-Denny 400kV overhead line, subject to appropriate visual mitigation measures. Since then extensive liaison has taken place with the local community to develop visual mitigation measures in an attempt to fully comply with planning conditions attached to the S37 consent. This has taken considerable time and a submission was made to the Scottish Government in August 2011. In December 2011 formal notice of consent for the Beauly-Denny project was provided to the company by Scottish Ministers. A full tender and contract award assessment process was largely completed during 2012 and work is well underway on all of the major contracts. It is expected that the new circuits to Scottish Hydro Electric Transmission Limited will be completed by the end of 2015 with all substation works completed in the first half of 2016.

The company has been making good progress with a project to increase reactive compensation in Central Scotland to secure the network for increased power flows. The installation and commissioning of shunt compensation plant at Windyhill and Elvanfoot were completed by winter 2012. This enabled an increase in power transfer capacity to 3.15GW on the Scotland-England interconnector. The remaining works at Moffat and Longannet remain on schedule for completion during 2013 which will realise the full increase in transfer capacity to 3.3GW (from 2.8GW).

During 2012/13, significant progress has been made on pre-engineering works for a further two strategic reinforcement projects. Both projects are designed to strengthen the power links between the West and East of Scotland and significantly increase the transport of electricity from Scotland to England. In the case of the second project, this will be the first use of series compensation on overhead lines in the UK. A comprehensive tender assessment process is currently being undertaken on this technically complex project to ensure best economic value for stakeholders. The principal contract is expected to be placed by summer 2013. Both projects are scheduled to commence construction in 2013 and are planned to complete in 2015/16. Once operational they will take the power transfer capability between Scotland and England up to 4.4GW.

In 2012/13 activity has continued to focus on development and construction works for the connection of numerous wind farm generation projects and associated network reinforcement requirements. A further large wind farm, Fallago (180MW of new capacity), was connected to the Transmission System in December 2012.

The company continues to work closely with stakeholders to connect wind farms in accordance with both TPCR4 plans and proposals set out in its Business Plan for RIIO-T1. It has exceeded the original connection target for TPCR4 and the rollover year (1890MW cumulative). This plan will increase the renewable generation portfolio by a further 2500MW by 2020/21 in its franchise area. Development and construction works continue on new wind farm capacity, including more than nine projects in South-West Scotland, totalling over 600MW, with expected substantive completion in the period leading up to 2016/17.

Network reinforcement and modernisation

Whilst there has been significant construction activity associated with new renewable generation activity, a substantial amount of reinforcement works were undertaken to improve security of supply to existing customers. An increase in underlying electricity demand in and around the West of Glasgow has necessitated the establishment of a new Grid Supply Point ("GSP") near Glasgow city centre. Construction work continues and the company are on schedule for completion during 2013.

PROJECTS *continued*

Reinforcement and refurbishment work continued

There is a forecast increase in electricity demand in the East of Glasgow due to the 2014 Commonwealth Games. As a result, reinforcement works are taking place around Dalmarnock GSP to increase capacity and improve security of supply as this area of Glasgow is undergoing extensive redevelopment. Dalmarnock 132kV GSP was commissioned during summer 2012 and associated network reconfiguration works remain on course for completion by summer 2013.

The modernisation of the existing network continued with a range of projects across the main asset groups: switchgear, transformers, overhead lines and underground cables. In accordance with a key strategy agreed as part of TPCR4, the company is nearing completion of a programme to remove all poor condition and performance gas compression cables from service and replace with modern polymer insulated cables. The final circuit in Glasgow is being replaced as part of the Glasgow East Reinforcement project in accordance with the plan agreed with Glasgow City Council in preparation for the Commonwealth games.

During the year a number of modernisation projects were undertaken to address substation assets that were at or approaching end of life. The works to modernise the grid supply point at Dewar Place and improve the reliability of supply to customers in Edinburgh is substantively complete. The replacement of transformers at Haggs Road, Telford Road, Newton Stewart along with those in Govan and Drumchapel were completed during 2012/13. There is significant asset replacement activity at Ayr, Bonnybridge, Cockenzie, Drumchapel, Easterhouse and Paisley with substantive completion expected during 2013. In addition, major engineering works associated with the replacement of worn-out switchgear and transformers will commence at several sites including Bainsford, Chapelcross, Sighthill and Windyhill substations. These works will contribute to the delivery of key asset health outputs to improve the quality and reliability of electricity supplies to customers.

In accordance with the company's asset strategy, asset replacement and refurbishment work was undertaken to improve the asset health of a number of 400kV, 275kV and 132kV overhead line routes. A major refurbishment, involving full reconductoring, of the Neilston to Windyhill route substantively completed in December 2012. On several suburban routes 132kV overhead lines are being undergrounded as it is not feasible to modernise them due to proximity to domestic premises and they are scheduled for completion during 2013. Major refurbishment works on the Windyhill to Drumchapel Route and the Kilmarnock to Strathaven route commenced in 2012/13 and are scheduled to complete during 2013. In addition, construction works are ongoing to modernise Windyhill to Dalmally 132kV route and will commence on the Neilston to East Kilbride route and Kaimes to Cockenzie route in 2013.

The aforementioned major refurbishment works are supported by a programme of minor works to maintain the reliability and performance on other overhead lines until they are due for major works in future. This approach ensures that the network assets are modernised in an efficient manner without compromising long-term customer service.

OPERATIONAL PERFORMANCE OF THE COMPANY

The table below provides key non-financial information relating to the company's performance during the year ended 31 March 2013:

	Notes	**Year ended 31 March 2013**	Year ended 31 March 2012
Annual system availability	(a)	**95.72%**	94.41%
Winter peak system availability		**98.19%**	97.46%
Annual reliability of supply	(b)	**99.99%**	99.99%
Annual number of loss of supply incidents		**11**	17
1. Affecting >3 customers		**4**	7
2. Affecting <3 customers		**7**	10

(a) Annual system availability details the overall availability of the licensee's transmission circuits, with any reduction below 100% being due to planned outages and faults.
(b) Annual reliability of supply is calculated by deducting the total estimated unsupplied energy from all loss of supply incidents (i.e. faults that cause a loss of supply) from the total energy that would have been supplied by the transmission systems and dividing by the latter.

Although these metrics give a view on asset network performance, it must be pointed out that performance can be impacted by factors that are outwith the control of the transmission licensee e.g. faults due to bad weather.

OPERATIONAL FINANCIAL PERFORMANCE

	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
Revenue	**246.7**	232.0
Profit from operations	**168.4**	169.5
Profit before tax	**150.8**	154.3
Net assets	**646.2**	566.6
Net capital investment	**250.5**	155.3
Cash inflow from operating activities	**141.1**	166.3
Purchase of tangible fixed assets (cash flow)	**162.3**	148.7
Net debt	**(529.9)**	(449.3)

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 £168.4 million, a decrease of £1.1 million compared to the prior year, and net profit was £120.8 million, a decrease of £2.7 million compared to the prior year.

Revenue increased as a result of higher base revenues.

Outside services have increased primarily as a result of higher maintenance costs. In addition, the outside services costs have been impacted by the change in accounting estimate as discussed at Note 1.

Taxes other than income tax have increased as a result of a business rates revaluation.

OPERATIONAL FINANCIAL PERFORMANCE *continued*

Depreciation and amortisation charge, allowances and provisions has increased on the prior year due to ongoing capital additions being brought into use during the year, increasing the cost base for depreciation. In addition, the depreciation charge has been impacted by the change in accounting estimate as discussed at Note 1.

Net finance costs were higher mainly due to increases in interest payable on higher group loan balances.

The **income tax expense** was similar to the prior year.

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

Cash and net debt

In the year the company generated £141.1 million of cash from operating activities (2012 £166.3 million). This was used to fund investment in property, plant and equipment of £162.3 million (2012 £148.7 million) and settle interest charges amounting to £16.4 million (2012 £14.9 million). A dividend of £43.0 million was paid during the year (2012 £30.0 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. The company earns allowed returns on this extensive capital investment programme.

Net capital investment for the year was £250.5 million consisting of fixed asset additions of £254.5 million less capital contributions received of £4.0 million. This compares to fixed asset additions of £158.0 million for the year ended 31 March 2012 less capital contributions received of £2.7 million.

Property, plant and equipment additions in relation to growth of the network amounted to £162.4 million (2012 £56.9 million) less capital contributions of £4.0 million (2012 £2.7 million). This investment delivers new connections to the transmission network and increases in network capacity. Property, plant and equipment additions in relation to modernisation of the network to maintain safety, security and reliability of supplies, amounted to £92.1 million (2012 £101.1 million).

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

RESULTS AND DIVIDENDS

The net profit for the year amounted to £120.8 million (2012 £123.5 million). The aggregate dividends paid during the year amounted to £43.0 million (2012 £30.0 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.

As part of the exercise to achieve legal separation of Scottish Power UK plc's ("SPUK's") businesses pursuant to the provisions of the Utilities Act 2000, the company and other subsidiary companies of SPUK were each required to jointly provide guarantees to external lenders of SPUK for debt existing in that company at 1 October 2001.

CAPITAL AND DEBT STRUCTURE *continued*

Treasury and interest policy

Treasury services are provided by SPL. ScottishPower has a risk policy within treasury and financing which is designed to ensure that the company's exposure to variability of cash flows and asset values due to fluctuations in market interest rates and exchange rates are minimised and managed at acceptable risk levels. Further details of the treasury and interest policy for the ScottishPower group and how it manages them is included in the most recent Directors' Report and Accounts of SPUKH.

Funding

At the end of the year the company had net debt of £529.9 million (2012 £449.3 million). During the year, the company repaid the on-demand loan payable to SPUK. The company then entered into a new ten-year fixed rate loan agreement with SPUK for £260.0 million.

As at 31 March 2013 the company had net current liabilities of £100.0 million (2012 £226.3 million). The reduction in net current liabilities was mainly due to repayment of the intercompany loan with SPUK which at 31 March 2012 was £164.3 million.

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

Since 2007 ScottishPower has been part of Iberdrola, one of the world's largest utility companies and has a significant role to play in helping Iberdrola deliver on its international strategic ambitions. The focus of the strategic plan includes optimisation of both existing assets and future investments with the aim of maximising value, as well as improving customer service levels and investing to deliver efficiency and environmental improvements. The Energy Networks investment programme, which is undertaken within the scope of regulatory price controls, 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. Combined with the focus on customer satisfaction, the environment and efficiency, these investments will create value for Iberdrola shareholders and security for ScottishPower's employees and suppliers who will deliver these investments.

Some of the statements contained herein are forward looking statements and statements about Iberdrola's strategic plans. Although ScottishPower 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.

Key strategies for SP Transmission Limited until the end of the current RPI-X based transmission price review period 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 transmission business must operate, replaced individual gas and electricity regulators with one regulatory authority, the Gas and Electricity Markets 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.

Transmission licence holders are required, amongst other duties, to develop and maintain an efficient, co-ordinated and economical system of electricity transmission and to offer the GB system operator terms for connection to, and use of, its transmission system on a non-discriminatory basis, in order to ensure competition in the supply and generation of electricity. The company is licensed to transmit electricity within its service area. Charges for transmission are made to the GB system operator.

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 transmission of electricity. Regulatory controls are therefore deemed necessary to protect customers and the electricity transmission 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.

TPCR4, which ended on 31 March 2012 was extended by Ofgem by one year to 31 March 2013. The transmission business has agreed specific cost allowances and revenues with Ofgem for this one year "rollover" period. The next transmission price control has been agreed for the eight year period from 1 April 2013 to 31 March 2021, which is the first based on the new RIIO (Revenue = Incentives + Innovation + Outputs) model. RIIO is designed to provide companies with strong incentives to meet the challenges of delivering a low carbon, sustainable energy sector with appropriate rewards to promote timely investment in the networks.

Under RIIO, Ofgem adopted a very different process for setting the price control, requiring companies to develop and submit well justified business plans, supported by the views of stakeholders, and setting out what they would deliver. SP Transmission Ltd was rewarded for the high quality of its plans by being able to settle its price control early i.e. being "fast-tracked".

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.

EMPLOYEES *continued*

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 Business Disability Forum, 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.

ENVIRONMENTAL REGULATION

Throughout its operations, ScottishPower strives to meet, or exceed, relevant legislative and regulatory environmental requirements and codes of practice. A more extensive description of how the ScottishPower group addresses environmental requirements can be found in the most recent 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 the Regulated Business. 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 the Regulated Business achieved Integrated Management System certification in 2012. 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 decreased to four from seven 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 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 goals for operational excellence is to achieve zero harm.

The Regulated Business works closely with the industry trade body, the Energy Networks Association, to ensure that good practice is shared and innovation is promoted. Key performance indicators are in place and progress is monitored regularly at all levels throughout the business.

HEALTH AND SAFETY *continued*

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

	Notes	**Actual Year ended 31 March 2013**	Target Year ended 31 March 2013
Behavioural Safety Audits	(a)	**4,764**	4,959
Number of near miss reports	(b)	**236**	180
Lost time accidents		**4**	8
Total Recordable Incident Rate	(c)	**0.25**	0.50

(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 conditions occurring by initiating immediate investigation and remedial action. It is a forward looking measure where reporting is proactively encouraged. Indeed a higher number of near miss reports against target is a positive result. The information received allows common themes to be identified and lessons learned to prevent accidents in the future.
(c) Total Recordable Incident Rate is the summation of any incidents, be they lost time, medical treatment or leading to some work restriction per 100,000 hours worked. The business has seen a 50% reduction in total incidents over a 12 month period.

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 well-being is also 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.

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 four key themes: Training & Research, Sustainability & Biodiversity, Art & Culture and 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 that the safety and integrity of the plant is maintained, while respecting the needs of the landowner and local community.

COMMUNITY RELATIONSHIPS *continued*

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 2012, ScottishPower's businesses contributed £6.2 million in community support activity of which £3.9 million was contributed to registered charitable organisations. The £6.2 million total incorporated £1.8 million categorised as charitable gifts, £2.8 million categorised as community investment and £1.6 million categorised as commercial initiatives, given in cash, through staff time and in-kind donations.

These figures are compiled from ScottishPower'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 2013 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.

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 2013, ScottishPower paid a total of £23,000 for the sponsorship of conferences and events – activities which may be regarded as falling within the terms of the Act.

The recipients of these payments were:

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

CREDITOR PAYMENT POLICY AND PRACTICE

ScottishPower'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 external trade creditors outstanding. Therefore the company's creditor days were nil (2012 nil).

DIRECTORS

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

Scott Mathieson
Frank Mitchell

SP TRANSMISSION LIMITED
DIRECTORS' REPORT *continued*

DISCLOSURE OF INFORMATION TO AUDITORS

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

- so far as he is aware, there is no relevant audit information of which the company's auditors are unaware; and
- he 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
12 July 2013

SP TRANSMISSION LIMITED
CORPORATE GOVERNANCE STATEMENT

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

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

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

Administrative, management and supervisory bodies

Board and management meetings

The company is governed by a Board consisting of two directors who bring a broad range of skills and experience to the company. Both are full-time employees of ScottishPower. The immediate parent of the company is Scottish Power Energy Network Holdings Limited ("SPENH"). The SPENH Board of Directors ("SPENH Board") are responsible for the effective day to day operation and management of the Regulated Business within ScottishPower, in accordance with the strategy set by the ScottishPower Board.

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

In addition to formal SP Transmission 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 six other directors. The directors of SPENH and their classification are shown below.

Javier Villalba Sánchez	Chairman
Frank Mitchell	Chief Executive Officer
Nicola Connelly	Executive director
Antonio Espinosa de los Monteros	Executive director
José Izaguirre Nazar	Executive director
Scott Mathieson	Executive director
Dame Denise Holt	Independent non-executive director (appointed 24 May 2012)

SP TRANSMISSION LIMITED
CORPORATE GOVERNANCE STATEMENT *continued*

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

SPENH Board continued

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

Javier Villalba Sánchez	Attended all meetings
Frank Mitchell	Attended all meetings
Nicola Connelly	Attended all meetings
Antonio Espinosa de los Monteros	Attended all meetings
José Izaguirre Nazar	Attended all meetings
Scott Mathieson	Attended all meetings
Dame Denise Holt	Attended three meetings

ScottishPower Board

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

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

Directors	
José Ignacio Sánchez Galán (Chairman)	Non-independent, non-executive director
Lord Kerr of Kinlochard GCMG (Vice Chairman)	Independent non-executive director (appointed Vice Chairman 18 April 2012)
José Miguel Alcolea Cantos	Non-independent, executive director
Keith Anderson	Non-independent, executive director
Fernando Becker Zuazua	Non-independent, executive director (resigned 31 May 2012)
Professor Susan Deacon	Independent non-executive director (appointed 18 July 2012)
Sir Tom Farmer CVO CBE KCSG	Independent non-executive director
Rt Hon Lord Macdonald of Tradeston CBE	Independent non-executive director
Juan Carlos Rebollo Liceaga	Non-independent, executive director
José Sainz Armada	Non-independent, executive director
José Luis San Pedro Gerenabarrena	Non-independent, executive director (resigned 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
Lord Kerr of Kinlochard GCMG	Attended all meetings
José Miguel Alcolea Cantos	Attended all meetings
Keith Anderson	Attended all meetings
Fernando Becker Zuazua	Attended no meetings
Professor Susan Deacon	Attended three meetings
Sir Tom Farmer CVO CBE KCSG	Attended three meetings
Rt Hon Lord Macdonald of Tradeston CBE	Attended all meetings
Juan Carlos Rebollo Liceaga	Attended all meetings
José Sainz Armada	Attended all meetings
José Luis San Pedro Gerenabarrena	Attended two meetings

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

SP TRANSMISSION LIMITED
CORPORATE GOVERNANCE STATEMENT *continued*

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

ScottishPower Audit and Compliance Committee ("ACC")

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

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

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

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

Rt Hon Lord Macdonald of Tradeston CBE (Chairman)	External independent, attended all meetings
Juan Carlos Rebollo Liceaga	Attended all meetings
José Miguel Alcolea Cantos	Attended three meetings (resigned 17 July 2012)
Professor Susan Deacon	External independent, attended two meetings (appointed 17 July 2012)

Iberdrola Appointments and Remuneration Committee ("IARC")

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

Inés Macho Stadler (Chairman)	External independent
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 24 April 2012, José Ignacio Berroeta Echevarría was succeeded as Chairman of the IARC by Inés Macho Stadler.

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

Internal control

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

Internal control ***continued***

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

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

Identification and evaluation of risks and control objectives

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

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

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

Capital investment

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

Monitoring and corrective action

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

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

SP TRANSMISSION LIMITED
CORPORATE GOVERNANCE STATEMENT *continued*

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.

Social, environmental and ethical matters

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

Further information regarding the SEE matters can be found in the 'Corporate Responsibility' section of the ScottishPower website www.scottishpower.com.

SP TRANSMISSION LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITY
in respect of the Regulatory Accounts and compliance with Standard Licence Condition B1

Standard Condition B1 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 B1 as applicable. They are also responsible for the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT

To the Gas and Electricity Markets Authority ("the Authority") and to SP Transmission Limited ("the Company")

We have audited the Regulatory Accounts of the Company for the year ended 31 March 2013 (the "Regulatory Accounts") 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 26 to 29.

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 B1 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 19, 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 B1 of the company's Regulatory Licence. Where Standard Condition B1 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).

INDEPENDENT AUDITORS' REPORT *continued*

OPINION ON THE REGULATORY ACCOUNTS

In our opinion the Regulatory Accounts:

- fairly present in accordance with Standard Condition B1 of the company's Regulatory Licence and the accounting policies set out on pages 26 to 29, the state of the Company's affairs at 31 March 2013 and its profit and its cash flow for the year then ended; and
- have been properly prepared in accordance with Standard Condition B1 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 B1 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 2012 on which we reported on 28 March 2013, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Ernst & Young LLP

Ernst & Young LLP
Statutory Auditor
Glasgow
12 July 2013

SP TRANSMISSION LIMITED
BALANCE SHEETS
as at 31 March 2013 and 31 March 2012

	Notes	2013 £m	2012 £m
ASSETS			
NON-CURRENT ASSETS			
Intangible assets		**0.7**	1.4
Other intangible assets	3	0.7	1.4
Property, plant and equipment		**1,454.6**	1,234.5
Property, plant and equipment in use	4	978.2	782.7
Property, plant and equipment in course of construction	4	476.4	451.8
Investments	5	**-**	-
Financial assets		**2.3**	2.3
Finance lease receivables	6	2.0	2.3
Derivative financial instruments	12, 14	0.3	-
NON-CURRENT ASSETS		**1,457.6**	1,238.2
CURRENT ASSETS			
Trade and other receivables	7	**20.5**	7.1
Financial assets		**0.5**	0.2
Finance lease receivables	6	0.2	0.2
Derivative financial instruments	12, 14	0.3	-
CURRENT ASSETS		**21.0**	7.3
TOTAL ASSETS		**1,478.6**	1,245.5
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the Parent		**646.2**	566.6
Share capital	8, 9	200.0	200.0
Hedge reserve	9	0.4	(1.4)
Retained earnings	9	445.8	368.0
TOTAL EQUITY		**646.2**	566.6
NON-CURRENT LIABILITIES			
Deferred income	10	**47.1**	44.4
Bank borrowings and other financial liabilities		**545.1**	286.9
Loans and other borrowings	11	545.0	285.0
Derivative financial instruments	12, 14	0.1	1.9
Trade and other payables	15	**0.1**	0.2
Deferred tax liabilities	16	**119.1**	113.8
NON-CURRENT LIABILITIES		**711.4**	445.3
CURRENT LIABILITIES			
Bank borrowings and other financial liabilities		**-**	164.3
Loans and other borrowings	11	-	164.3
Trade and other payables	15	**101.2**	50.9
Current tax liabilities		**19.8**	18.4
CURRENT LIABILITIES		**121.0**	233.6
TOTAL LIABILITIES		**832.4**	678.9
TOTAL EQUITY AND LIABILITIES		**1,478.6**	1,245.5

Approved by the Board on 12 July 2013 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 2013 and 31 March 2012.

SP TRANSMISSION LIMITED
INCOME STATEMENTS
for the years ended 31 March 2013 and 31 March 2012

	Notes	2013 £m	2012 £m
Revenue		246.7	232.0
		246.7	232.0
Staff costs	17	(0.8)	(0.9)
Outside services		(19.4)	(12.2)
Other operating income		3.5	4.0
		(16.7)	(9.1)
Taxes other than income tax		(27.1)	(26.4)
		202.9	196.5
Depreciation and amortisation charge, allowances and provisions	18	(34.5)	(27.0)
PROFIT FROM OPERATIONS		**168.4**	169.5
Finance income	19	0.2	0.3
Finance costs	20	(17.8)	(15.5)
PROFIT BEFORE TAX		**150.8**	154.3
Income tax	21	(30.0)	(30.8)
NET PROFIT FOR THE YEAR		**120.8**	123.5

Net profit for both years is wholly attributable to the equity holders of SP Transmission Limited.

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 2013 and 31 March 2012.

SP TRANSMISSION LIMITED
STATEMENTS OF COMPERHENSIVE INCOME
for the years ended 31 March 2013 and 31 March 2012

	2013 £m	2012 £m
NET PROFIT FOR THE YEAR	**120.8**	123.5
OTHER COMPREHENSIVE INCOME		
Cash flow hedges:		
Change in the value of cash flow hedges	2.4	(1.9)
Tax on items relating to cash flow hedges	(0.6)	0.5
OTHER COMPREHENSIVE INCOME FOR THE YEAR	**1.8**	(1.4)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**122.6**	122.1

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

STATEMENTS OF CHANGES IN EQUITY
for the years ended 31 March 2013 and 31 March 2012

	Ordinary share capital £m	Hedge reserve £m	Retained earnings £m	Total equity £m
At 1 April 2011	200.0	-	274.5	474.5
Total comprehensive income for the year	-	(1.4)	123.5	122.1
Dividends	-	-	(30.0)	(30.0)
At 1 April 2012	200.0	(1.4)	368.0	566.6
Total comprehensive income for the year	-	1.8	120.8	122.6
Dividends	-	-	(43.0)	(43.0)
At 31 March 2013	**200.0**	**0.4**	**445.8**	**646.2**

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 2013 and 31 March 2012.

SP TRANSMISSION LIMITED
CASH FLOW STATEMENTS
For the years ended 31 March 2013 and 31 March 2012

	2013 £m	2012 £m
Cash flows from operating activities		
Profit before tax	150.8	154.3
Adjustments for:		
Depreciation and amortisation	33.6	26.0
Transfer of assets from customers	(1.3)	(0.7)
Finance income and costs	17.6	15.2
Net losses on write-off/disposal of non-current assets	1.5	1.0
Changes in working capital:		
Change in trade and other receivables	2.0	(4.7)
Change in trade and other payables	(43.4)	(0.5)
Assets received from customers	4.0	2.7
Income taxes paid	(23.9)	(27.3)
Interest received	0.2	0.3
Net cash flows from operating activities (i)	**141.1**	166.3
Cash flows from investing activities		
Investments in property, plant and equipment	(162.3)	(148.7)
Net cash flows from investing activities (ii)	**(162.3)**	(148.7)
Cash flows from financing activities		
Increase in amounts due to Iberdrola group companies	260.0	-
Dividends paid to company's equity holders	(43.0)	(30.0)
Interest paid	(16.4)	(14.9)
Net cash flows from financing activities (iii)	**200.6**	(44.9)
Net increase in cash and cash equivalents (i)+(ii)+(iii)	**179.4**	(27.3)
Cash and cash equivalents at beginning of year	**(164.3)**	(137.0)
Cash and cash equivalents at end of year	**15.1**	(164.3)

Cash and cash equivalents at end of year comprises:

Receivables due from Iberdrola group companies - loans	15.1	-
Payables due to Iberdrola group companies - loans	-	(164.3)
Cash flow statement cash and cash equivalents	**15.1**	(164.3)

The accompanying notes 1 to 28 are an integral part of the cash flow statements for the years ended 31 March 2013 and 31 March 2012.

SP TRANSMISSION LIMITED
NOTES TO ACCOUNTS
31 March 2013

1 BASIS OF PREPARATION OF THE ACCOUNTS

The Accounts have been prepared in accordance with Standard Condition B1 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 2013. The company's accounting reference date is 31 December to match that of its ultimate parent undertaking, Iberdrola, S.A.. Standard Condition B1 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 2012 to 31 March 2013. Consequently the Corporate Report & Regulatory Accounts for the year ended 31 March 2013 are separate from the Directors' Report and Accounts of the company which have been prepared for the year ended 31 December 2012. The Accounts are prepared in accordance with the Accounting Policies set out in Note 2.

In order to better align its accounting estimates with that applied by the Iberdrola group and within the industry, the company reduced the estimated useful life of its underground cable assets to 40 years and revised its methodology for recovering indirect costs. These changes in estimates were applied prospectively as from 1 January 2013. The impact of these changes has been to reduce the net profit of the company for the year ended 31 March 2013 by £0.6 million and £1.4 million respectively.

2 ACCOUNTING POLICIES

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

A REVENUE

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

B INTANGIBLE ASSETS (COMPUTER SOFTWARE COSTS)

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

2 ACCOUNTING POLICIES *continued*

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
Transmission facilities	40 - 60
Meters and measuring devices	2 - 10
Other facilities and other items of property, plant and equipment	3 - 25

D IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

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

E LEASED ASSETS

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

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

Finance lease receivables are initially recognised at the lower of fair value of the leased asset and the present value of future payments. Finance income is subsequently recognised over the useful life of the leased asset using the effective interest method.

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

2 ACCOUNTING POLICIES *continued*

F FINANCIAL ASSETS AND LIABILITIES

F1. ACCOUNTING POLICIES UNDER IAS 39 'FINANCIAL INSTRUMENTS RECOGNITION AND MEASUREMENT' ("IAS 39")

(a) Financial assets categorised as trade and other receivables are recognised and carried at original invoice amount less an allowance for impairment of doubtful debts. Allowance for doubtful debts has been estimated by management, taking into account future cash flows, based on past experience and assessment of the current economic environment within which the group or company operates.

(b) The carrying amount of finance lease receivables is calculated as set out in Note 2E.

(c) Cash and cash equivalents and term deposits in the balance sheet comprises cash on hand. In the cash flow statement, cash and cash equivalents include bank overdrafts repayable on demand and the net of current loans receivable and payable to Iberdrola group companies.

(d) Financial liabilities categorised as trade payables are recognised and carried at original invoice amount.

(e) 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.

IAS 39 requires all derivatives to be recognised on the balance sheet at fair value. Embedded derivatives in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value through the income statement.

Unrealised gains or losses on remeasurement of derivatives and embedded derivatives used in the group's treasury activities are recognised within finance income or finance costs in the income statement, except where hedge accounting is applied (see F3).

F2. RISK CONTROL ENVIRONMENT

ScottishPower's strategy 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 rigid control environment at all levels of the organisation. Further details of ScottishPower's strategy and management of risks are discussed in detail in the most recent Directors' Report and Accounts of SPUKH.

F3. HEDGE ACCOUNTING

Hedge accounting is applied when certain conditions required by IAS 39 are met.

F3.1 CASH FLOW HEDGES

The portion of gain or loss of the hedging instrument that was determined to be an effective hedge is recognised directly in equity and forms part of the hedge reserve. The ineffective portion of the change in fair value of the hedging instruments is recognised in the income statement within finance income or finance costs. If the cash flow hedge relates to an underlying transaction which results in the recognition of a non-financial asset, the associated gains or losses on the derivative that had previously been recognised in equity are recognised in the initial measurement of the asset arising from the hedged transaction. For hedges that relate to an underlying transaction which results in recognition of a financial asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects the income statement.

F3.2 HEDGE EFFECTIVENESS

Hedge effectiveness is measured and respective entries recorded in the balance sheet, reserves and income statement on a half-yearly basis. Hedge effectiveness is achieved where the correlation between the changes in value of the hedging instrument and the hedged item is between 80% and 125%.

2 ACCOUNTING POLICIES *continued*

F FINANCIAL ASSETS AND LIABILITIES *continued*

F3.3 DISCONTINUING HEDGE ACCOUNTING

The company discontinues prospectively hedge accounting when the hedge instrument expires or is sold, terminated or exercised, when the hedge relationship no longer qualifies for hedge accounting or when the designation is revoked. In the case of cash flow hedging, any gain or loss that has been recognised in equity until that time remains separately recognised in equity until the forecast transaction occurs. If the transaction is no longer expected to occur, related cumulative gains and losses which have been previously deferred in equity are recognised in the income statement.

F4. VALUATION OF FINANCIAL INSTRUMENTS

In those circumstances where IAS 39 requires financial instruments to be recognised in the balance sheet at fair value, the company's valuation strategies for derivative and other financial instruments utilise as far as possible quoted prices in an active trading market.

In the absence of quoted prices for identical or similar assets or liabilities, it is sometimes necessary to apply valuation techniques where contracts are marked using approved models. Models are used for developing both the forward curves and the valuation metrics of the instruments themselves where the instruments are complex combinations of standard or non-standard products. All models are subject to rigorous testing prior to being approved for valuation and subsequent continuous testing and approval procedures designed to ensure the validity and accuracy of the model assumptions and inputs.

F5. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The company offsets a financial asset and a financial liability and reports the net amount only when the company has a legally enforceable right to set off the amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

G TRANSFER OF ASSETS FROM CUSTOMERS

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

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

H TAXATION

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

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

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

3 INTANGIBLE ASSETS

Year ended 31 March 2012	Computer software £m
Cost:	
At 1 April 2011 and 31 March 2012	5.0
Amortisation:	
At 1 April 2011	2.9
Amortisation for the year	0.7
At 31 March 2012	3.6
Net book value:	
At 31 March 2012	1.4
At 1 April 2011	2.1

Year ended 31 March 2013	Computer software £m
Cost:	
At 1 April 2012 and 31 March 2013	**5.0**
Amortisation:	
At 1 April 2012	3.6
Amortisation for the year	0.7
At 31 March 2013	**4.3**
Net book value:	
At 31 March 2013	**0.7**
At 1 April 2012	1.4

4 PROPERTY, PLANT AND EQUIPMENT

(a) Movements in property, plant and equipment

Year ended 31 March 2012	Operating plant - transmission 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
Cost:						
At 1 April 2011	1,018.5	64.9	20.6	330.6	7.3	1,441.9
Additions	-	-	-	157.7	0.3	158.0
Transfers from in progress to plant in use	40.6	3.2	0.3	(36.5)	(7.6)	-
Disposals	(6.3)	-	-	-	-	(6.3)
At 31 March 2012	1,052.8	68.1	20.9	451.8	-	1,593.6
Depreciation:						
At 1 April 2011	304.4	33.8	0.9	-	-	339.1
Charge for the year	23.0	2.2	0.1	-	-	25.3
Disposals	(5.3)	-	-	-	-	(5.3)
At 31 March 2012	322.1	36.0	1.0	-	-	359.1
Net book value:						
At 31 March 2012	730.7	32.1	19.9	451.8	-	1,234.5
At 1 April 2011	714.1	31.1	19.7	330.6	7.3	1,102.8

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

Property, plant and equipment in use	730.7	32.1	19.9	-	-	782.7
Property, plant and equipment in the course of construction	-	-	-	451.8	-	451.8
At 31 March 2012	730.7	32.1	19.9	451.8	-	1,234.5

SP TRANSMISSION LIMITED
NOTES TO ACCOUNTS *continued*
31 March 2013

4 PROPERTY, PLANT AND EQUIPMENT *continued*
(a) Movements in property, plant and equipment *continued*

Year ended 31 March 2013	Operating plant - transmission 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
Cost:					
At 1 April 2012	1,052.8	68.1	20.9	451.8	1,593.6
Additions	-	-	0.1	254.4	254.5
Transfers from in progress to plant in use	224.3	5.5	-	(229.8)	-
Disposals	(8.6)	-	(0.5)	-	(9.1)
At 31 March 2013	**1,268.5**	**73.6**	**20.5**	**476.4**	**1,839.0**
Depreciation:					
At 1 April 2012	322.1	36.0	1.0	-	359.1
Charge for the year	30.2	2.6	0.1	-	32.9
Disposals	(7.6)	-	-	-	(7.6)
At 31 March 2013	**344.7**	**38.6**	**1.1**	**-**	**384.4**
Net book value:					
At 31 March 2013	**923.8**	**35.0**	**19.4**	**476.4**	**1,454.6**
At 1 April 2012	730.7	32.1	19.9	451.8	1,234.5

The net book value of property, plant and equipment at 31 March 2013 is analysed as follows:

Property, plant and equipment in use	923.8	35.0	19.4	-	978.2
Property, plant and equipment in the course of construction	-	-	-	476.4	476.4
At 31 March 2013	**923.8**	**35.0**	**19.4**	**476.4**	**1,454.6**

(i) The category "Operating plant - other" principally comprises telecommunication assets.
(ii) The category "Operating plant in progress" principally comprises transmission facilities in the course of construction.
(iii) Additions of £180.0 million (2012 £158.0 million) were purchased internally from the asset management entity SPPS and £74.5 million (2012 £nil) from a jointly controlled entity NGET/SPT Upgrades Limited, as noted within Note 25.
(iv) The cost of fully depreciated property, plant and equipment still in use at 31 March 2013 was £52.0 million (2012 £50.5 million).
(v) Included within the cost of property, plant and equipment are assets in use not subject to depreciation, being land of £9.9 million (2012 £10.3 million).

(b) Operating lease arrangements

Operating lease receivables	2013 £m	2012 £m
The future minimum lease payments receivable under non-cancellable operating leases are as follows:		
Within one year	**0.2**	0.2
Between one and five years	**0.1**	0.5
More than five years	**-**	-
	0.3	0.7

(c) Capital commitments

	2013 £m	2012 £m
Contracted but not provided	**285.8**	235.9

5 INVESTMENTS

	Shares in jointly controlled entity £
At 1 April 2011, 1 April 2012 and 31 March 2013	**50**

Jointly controlled entity	Place of incorporation or registration	Class of share capital	Proportion of shares held (Note (a))	Activity
NGET/SPT Upgrades Limited	England	Ordinary B shares £1	100%	Engineering services

(a) This investment represents 50% of the total issued share capital.

6 FINANCE LEASE RECEIVABLES

	2013 £m	2012 £m
Amounts receivable under finance leases:		
Current receivables	0.2	0.2
Non-current receivables	2.0	2.3
	2.2	2.5
Gross receivables from finance leases:		
Within one year	0.4	0.4
Between one and five years	1.9	1.9
More than five years	0.5	1.0
	2.8	3.3
Unearned future finance income on finance leases	(0.6)	(0.8)
Net investment in finance leases	2.2	2.5
The net investment in finance leases is analysed as follows:		
Within one year	0.2	0.2
Between one and five years	1.5	1.4
More than five years	0.5	0.9
	2.2	2.5

7 TRADE AND OTHER RECEIVABLES

	Note	2013 £m	2012 £m
Current receivables:			
Receivables due from jointly controlled entity - trade		-	1.7
Receivables due from Iberdrola group companies - loans	(a)	15.1	-
Trade receivables		0.1	0.8
Prepayments with jointly controlled entity		4.9	4.0
Other receivables		0.4	0.6
		20.5	7.1

(a) Interest on current loans due from Iberdrola group companies is payable at 1% above the Bank of England base rate and the loans are repayable on demand.

(b) At 31 March 2013 trade and other receivables of £0.1 million (2012 £nil) were past due but not impaired.

	2013 £m	2012 £m
Past due but not impaired:		
Less than 3 months	0.1	-
Between 3 and 6 months	-	-
Between 6 and 12 months	-	-
After more than 12 months	-	-
	0.1	-

SP TRANSMISSION LIMITED
NOTES TO ACCOUNTS *continued*
31 March 2013

8 SHARE CAPITAL

	2013 £m	2012 £m
Authorised:		
200,000,000 ordinary shares of £1 each (2012 200,000,000)	**200.0**	200.0
Allotted, called up and fully paid shares:		
200,000,000 ordinary shares of £1 each (2012 200,000,000)	**200.0**	200.0

9 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF SP TRANSMISSION LIMITED

	Ordinary share capital £m	Hedge reserve (Note (a)) £m	Retained earnings (Note (b)) £m	Total £m
At 1 April 2011	200.0	-	274.5	474.5
Profit for the year attributable to equity holders of SP Transmission Limited	-	-	123.5	123.5
Change in the value of cash flow hedges	-	(1.9)	-	(1.9)
Tax on items relating to cash flow hedges	-	0.5	-	0.5
Dividends	-	-	(30.0)	(30.0)
At 1 April 2012	200.0	(1.4)	368.0	566.6
Profit for the year attributable to equity holders of SP Transmission Limited	-	-	120.8	120.8
Change in the value of cash flow hedges	-	2.4	-	2.4
Tax on items relating to cash flow hedges	-	(0.6)	-	(0.6)
Dividends	-	-	(43.0)	(43.0)
At 31 March 2013	**200.0**	**0.4**	**445.8**	**646.2**

(a) The hedge reserve represents the balance of gains and losses on cash flow hedges (net of taxation) not yet transferred to income or the carrying amount of a non-financial asset.

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

(c) The changes in the hedge reserve arising from valuation adjustments to hedging derivatives is set out below:

Cash flow hedges	Foreign exchange rate hedges £m	Tax effect £m	Total £m
At 1 April 2011	-	-	-
Removed from equity and recognised in carrying amount of hedged items	(1.9)	0.5	(1.4)
At 1 April 2012	(1.9)	0.5	(1.4)
Effective cash flow hedges recognised	1.8	(0.5)	1.3
Removed from equity and recognised in carrying amount of hedged items	0.6	(0.1)	0.5
At 31 March 2013	0.5	(0.1)	**0.4**

The maturity analysis of amounts included in the hedge reserve is as follows:

	2013 £m	2012 £m
Less than 1 year	0.3	-
1-2 years	0.2	-
2-3 years	(0.1)	(0.2)
3-4 years	-	(1.0)
4-5 years	-	(0.2)
	0.4	(1.4)

10 DEFERRED INCOME

Year ended 31 March 2012	At 1 April 2011 £m	Recievable during year £m	Released to income statement £m	At 31 March 2012 £m
Transfer of assets from customers	42.4	2.7	(0.7)	44.4

Year ended 31 March 2013	At 1 April 2012 £m	Recievable during year £m	Released to income statement £m	**At 31 March 2013 £m**
Transfer of assets from customers	44.4	4.0	(1.3)	**47.1**

11 LOANS AND OTHER BORROWINGS

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

Analysis by instrument and maturity	Notes	Interest rate*	Maturity	**2013 £m**	2012 £m
Intercompany loan with SPUK		Base + 1%	On demand	-	164.3
Intercompany loan with SPL		3.858%	29 January 2019	**75.0**	75.0
Intercompany loan with SPUK	(i),(ii)	3.416%	21 December 2022	**260.0**	-
Intercompany loan with SPUK	(i),(iii)	LIBOR + 3.365%	28 January 2029	**210.0**	210.0
Total debt				**545.0**	449.3

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

Analysis of total loans and other borrowings	**2013 £m**	2012 £m
Non-current	**545.0**	285.0
Current	-	164.3
	545.0	449.3

(i) Under the conditions of the long term loan agreements between the company and SPUK, the company has an option, without fee or penalty, to make a repayment in whole or in part, of the then outstanding loan principal, plus accrued interest thereon, by providing SPUK with written notice at least 5 business days before the intended repayment date.

(ii) The loan is repayable in bi-annual instalments commencing 21 December 2014.

(iii) For LIBOR linked debt, a 1% increase in the LIBOR rate would result in a £2.1 million increase in the full year interest charge.

(b) Borrowing facilities

The company has no undrawn committed borrowing facilities at 31 March 2013 (2012 £nil).

12 MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

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

		2013		2012	
		Carrying amount	**Fair value**	Carrying amount	Fair value
	Notes	**£m**	**£m**	£m	£m
Financial assets					
Derivative financial instruments	(b)	**0.6**	**0.6**	-	-
Current receivables	(a)	**15.6**	**15.6**	3.1	3.1
Finance lease receivables		**2.2**	**2.2**	2.5	2.5
Financial liabilities					
Derivative financial instruments	(b)	**(0.1)**	**(0.1)**	(1.9)	(1.9)
Loans payable to Iberdrola group companies	(c)	**(545.0)**	**(692.4)**	(449.3)	(553.0)
Payables	(a)	**(86.1)**	**(86.1)**	(13.6)	(13.6)

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

(a) Balances outwith the scope of IFRS 7 'Financial Instruments: Disclosure' ("IFRS 7") have been excluded, namely prepayments, payments on account and other tax payables.
(b) Further details on derivative financial instruments are disclosed within Note 14.
(c) The carrying value of loans and other borrowings are accounted for at amortised cost. The carrying value of short term debt is a reasonable approximation of fair value. The fair value of long-term debt is calculated using the most recently traded price to the year end date where available, or alternatively a discounted cash flow.

The company holds certain financial instruments which are measured in the balance sheet at fair value. The company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

All derivatives held by the company are Level 2.

13 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.

	2013						
	2014	2015	2016	2017	2018	2018 and thereafter	**Total**
Cash outflows	£m	£m	£m	£m	£m	£m	**£m**
Derivative financial instruments	0.8	-	20.4	-	-	-	**21.2**
Loans with Iberdrola group companies	21.1	73.1	19.2	72.1	19.2	622.5	**827.2**
Payables*	81.5	0.1	-	-	-	-	**81.6**
	103.4	**73.2**	**39.6**	**72.1**	**19.2**	**622.5**	**930.0**

	2012						
	2013	2014	2015	2016	2017	2017 and thereafter	Total
Cash outflows	£m	£m	£m	£m	£m	£m	£m
Derivative financial instruments	0.3	28.8	-	134.5	20.4	-	184.0
Loans with Iberdrola group companies	179.1	13.5	13.8	14.1	14.9	466.5	701.9
Payables*	10.3	0.2	-	-	-	-	10.5
	189.7	42.5	13.8	148.6	35.3	466.5	896.4

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

14 DERIVATIVE FINANCIAL INSTRUMENTS

Analysis of carrying value of derivative financial instruments – carrying value

	2013				2012			
	Assets		Liabilities		Assets		Liabilities	
	Current £m	Non-Current £m	Current £m	Non-Current £m	Current £m	Non-Current £m	Current £m	Non-Current £m
Hedging derivatives								
Foreign exchange rate	0.3	0.3	-	(0.1)	-	-	-	(1.9)

15 TRADE AND OTHER PAYABLES

	2013 £m	2012 £m
Current trade and other payables:		
Payables due to jointly controlled entity - trade	0.1	1.4
Payables due to Iberdrola group companies - trade	39.0	8.8
Payables due to Iberdrola group companies - interest	4.5	3.1
Other taxes and social security	5.3	10.9
Payments received on account	9.9	26.6
Other payables	42.4	0.1
	101.2	50.9
Non-current trade and other payables:		
Other payables	0.1	0.2

16 DEFERRED TAX

Deferred tax provided in the Accounts is as follows:

	Property, plant and equipment £m	Derivative financial instruments £m	Total £m
Deferred tax provided at 1 April 2011	109.2	-	109.2
Charge to income statement	5.1	-	5.1
Recorded in the statement of comprehensive income	-	(0.5)	(0.5)
Deferred tax provided at 1 April 2012	114.3	(0.5)	113.8
Charge to income statement	4.7	-	4.7
Recorded in the statement of comprehensive income	-	0.6	0.6
Deferred tax provided at 31 March 2013	**119.0**	**0.1**	**119.1**

The government has announced that it intends to reduce the rate of UK corporation tax to 20% by 1 April 2015. The rate of corporation tax reduced from 28% to 26% on 1 April 2011 and to 24% on 1 April 2012. A further reduction to 23%, effective from 1 April 2013, was enacted at the balance sheet date. These changes have reduced the tax rate expected to apply when temporary differences reverse.

Reductions of another 3% were substantively enacted on 2 July 2013 and will reduce the property, plant and equipment element of the deferred tax provision. The estimated impact of these changes will be a reduction of £15.5 million. It is not possible to quantify the impact of the rate reduction on other elements of the deferred tax balance.

17 EMPLOYEE INFORMATION

(a) Staff costs

	Note	2013 £'000	2012 £'000
Wages and salaries		585	632
Social security costs		59	69
Pension and other costs		152	156
Total employee costs	(i)	**796**	857

(i) The employee costs for the years ended 31 March 2013 and 31 March 2012 include those in respect of one director, Scott Mathieson. The emoluments of the other director of the company for the years ended 31 March 2013 and 31 March 2012 are included within the employee costs of other ScottishPower group companies, as he does not have a contract of service with the company. 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, including executive directors, were:

	Year end 2013	Average 2013	Year end 2012	Average 2012
Administrative	9	8	8	8

(c) Pensions

The company's contributions payable in the year were £116,400 (2012 £112,000). The company contributes to the ScottishPower group's defined benefit and defined contribution schemes in the UK. Full details of these schemes are provided in the most recent Directors' Report & Accounts of SPUKH. As at 31 December 2012, the deficit in the Scottish Power group's defined benefit schemes in the UK amounted to £498.7 million (2012 £212.1 million). The employer contribution rate for these schemes in the year ended 31 December 2012 was 21.8%-23.3%. The March 2012 valuation is ongoing and may result in changes to the employer contribution rates for 2013.

18 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS

	2013 £m	2012 £m
Property, plant and equipment depreciation charge	32.9	25.3
Intangible asset amortisation	0.7	0.7
Charges and provisions and allowances	0.9	1.0
	34.5	27.0

19 FINANCE INCOME

	2013 £m	2012 £m
Interest receivable on finance leases	0.2	0.3

20 FINANCE COSTS

	2013 £m	2012 £m
Interest payable to Iberdrola group companies	17.8	15.5

21 INCOME TAX

	2013 £m	2012 £m
Current tax:		
UK Corporation tax	**25.6**	25.7
Adjustments in respect of prior years	**(0.3)**	-
Current tax for the year	**25.3**	25.7
Deferred tax:		
Origination and reversal of temporary differences	**11.1**	14.7
Adjustments in respect of prior years	**(1.1)**	-
Impact of rate change on deferred tax	**(5.3)**	(9.6)
Deferred tax for the year	**4.7**	5.1
Income tax expense for the year	**30.0**	30.8

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

	2013 £m	2012 £m
Corporation tax at 24% (2012 26%)	**36.2**	40.1
Adjustments in respect of prior years	**(1.4)**	-
Impact of change of rate on deferred tax	**(5.3)**	(9.6)
Impact of change of rate for headline corporation tax rate	**0.3**	-
Other permanent difference	**0.2**	0.3
Income tax expense for the year	**30.0**	30.8

22 FINANCIAL COMMITMENTS

Other contractual commitments

	2013 £m	2012 £m
Provision of asset management services from SPPS	**24.0**	11.2

The contract in place for the provision for asset management services provided by SP Power Systems Limited expires on 31 March 2014.

23 DIVIDENDS

	2013 pence per ordinary share	2012 pence per ordinary share	2013 £m	2012 £m
Interim dividend paid	**21.5**	15.0	**43.0**	30.0

24 CONTINGENT LIABILITIES

As part of the exercise to achieve legal separation of SPUK's businesses pursuant to the provision of the Utilities Act 2000, the company and other subsidiary companies of SPUK were each required to jointly provide guarantees to external lenders to SPUK for debt existing in that company at 1 October 2001. The value of debt guaranteed by these companies, which was still outstanding at 31 March 2013, was £1,205.1 million (2012 £1,197.7 million).

25 RELATED PARTY TRANSACTIONS

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

	2013				2012				
	Ultimate UK parent (SPL)	Immediate parent (SPENH) (Note(i))	Other Iberdrola group companies	Jointly controlled entity	Ultimate UK parent (SPL)	Immediate parent (SPENH) (Note(i))	Immediate parent (SPUK) (Note(i))	Other Iberdrola group companies	Jointly controlled entity
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Types of transaction									
Sales and rendering of services	-	-	-	1.5	-	-	-	-	1.6
Purchases and receipt of services	-	-	(18.3)	-	-	-	(0.1)	(11.3)	-
Finance costs	(2.9)	-	(14.9)	-	(2.9)	-	(3.3)	(9.3)	-
Purchases of property, plant and equipment	-	-	(180.0)	(74.5)	-	-	-	(158.0)	-
Dividends paid	-	(43.0)	-	-	-	(30.0)	-	-	-
Balances outstanding									
Loans receivable	-	-	15.1	-	-	-	-	-	-
Receivables	-	-	-	4.9	-	-	-	-	5.7
Derivative financial assets	0.6	-	-	-	-	-	-	-	-
Loans payable	(75.0)	-	(470.0)	-	(75.0)	-	-	(374.3)	-
Trade payables	-	-	(39.0)	(0.1)	-	-	-	(8.8)	(1.4)
Interest payable	(0.5)	-	(4.0)	-	(0.5)	-	-	(2.6)	-
Derivative financial liabilities	(0.1)	-	-	-	(1.9)	-	-	-	-

(i) On 1 July 2011, as part of a group restructuring exercise, SPUK transferred its investment in the company to SPENH. Transactions with SPUK for 2012 in respect of the period from 1 April 2011 to 30 June 2011 are included within "Immediate parent (SPUK)". Transactions with SPUK in respect of the period from 1 July 2011 to 31 March 2012 and balances outstanding with SPUK at 31 March 2012 are included within "Other Iberdrola group companies". Transactions with SPENH are in respect of the period from 1 July 2011 to 31 March 2012.

(ii) During the year ended 31 March 2013, SPUK made pension contributions of £116,400 on behalf of the company (2012 £112,000).

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

(b) Remuneration of key management personnel

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

	2013	2012
	£000	£000
Short-term employee benefits	1,512	555
Post-employment benefits	246	194
Share based payments	219	148
Total	1,977	897

25 RELATED PARTY TRANSACTIONS *continued*

(c) Directors' remuneration

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

Executive directors	2013 £000	2012 £000
Basic salary	412	329
Bonus	218	218
Benefits in kind	3	8
Total	**633**	555

(i) Two directors (2012 two) had retirement benefits accruing under defined benefit pension schemes.
(ii) During the year, two directors (2012 two) received shares under a long-term incentive scheme.
(iii) During the year two directors (2012 two) exercised share options.

Highest paid director	2013 £000	2012 £000
Basic salary	299	228
Bonus	164	169
Benefits in kind	1	1
Total	**464**	398

(iv) The accrued pension entitlement of the highest paid director was £85,353 (2012 £86,484).
(v) The highest paid director received shares under a long-term incentive scheme during both years.
(vi) The highest paid director exercised share options during both years.

(d) Ultimate parent company and immediate parent company

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

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

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 the company was transferred from Scottish Power UK plc to SPENH (an immediate subsidiary of Scottish Power UK plc).

26 AUDITORS' REMUNERATION

	2013 £m	2012 £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 2013.

For the year ended 31 March 2013, the company has applied the following amendment for the first time:
- Amendments to IFRS 7 'Financial Instruments: Disclosures – Transfers of Financial Assets'

The application of this amendment did not have a significant effect on the company results or financial policy.

The following new standards and amendments have effective dates after the date of these financial statements and have not yet been implemented by the company:

Standard	Notes	IASB Effective Date(for periods commencing on or after)	Planned date of application by the Company
• Amendments to IAS 1 'Presentation of Items of Other Comprehensive Income'	(a)	1 July 2012	1 April 2013
• IAS 19 (Revised) 'Employee Benefits'	(a)	1 January 2013	1 April 2013
• IFRS 9 'Financial Instruments' and subsequent amendments	(b), (c)	1 January 2015	1 April 2015
• Amendments to IAS 12 'Income Taxes: Deferred tax - Recovery of Underlying Assets'	(a), (d)	1 January 2012	1 April 2013
• IFRS 10 'Consolidated Financial Statements'	(a), (e)	1 January 2013	1 April 2013
• IFRS 11 'Joint Arrangements'	(a), (e)	1 January 2013	1 April 2013
• IFRS 12 'Disclosure of Interests in Other Entities'	(a), (e)	1 January 2013	1 April 2013
• IFRS 13 'Fair Value Measurement'	(f)	1 January 2013	1 April 2013
• IAS 27 (Revised) 'Separate Financial Statements'	(a), (e)	1 January 2013	1 April 2013
• IAS 28 (Revised) 'Investments in Associates and Joint Ventures'	(a), (e)	1 January 2013	1 April 2013
• Amendments to IFRS 7 'Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities'	(a)	1 January 2013	1 April 2013
• Amendments to IAS 32 'Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities'	(a)	1 January 2014	1 April 2014
• Amendments to IFRS 10, IFRS 11 and IFRS 12 'Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance'	(a), (e)	1 January 2013	1 April 2013
• Amendments to IFRS 10, IFRS 12 and IAS 27 'Investment Entities'	(b), (c)	1 January 2014	1 April 2014
• Annual Improvements to IFRSs (2009-2011)	(a)	1 January 2013	1 April 2013
• IFRIC 21 'Levies'	(b), (c)	1 January 2014	1 April 2014
• Amendment to IAS 36 'Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets'	(b), (c)	1 January 2014	1 April 2014
• Amendment to IAS 39 'Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting'	(b), (c)	1 January 2014	1 April 2014

(a) The company considers that the future application of this standard/amendment will not have a significant effect on the results or financial policy of the company.
(b) These pronouncements have not yet been adopted by the EU.
(c) The company is currently considering the impact of these pronouncements.
(d) The IASB effective date of this amendment was for periods commencing on or after 1 January 2012. However the amendment was not effective in the EU, until periods commencing on or after 1 January 2013 .
(e) The IASB effective date of these pronouncements is for periods commencing on or after 1 January 2013. However the EU permits adoption of these pronouncements for periods commencing no later than 1 January 2014 with early application permitted.
(f) The application of IFRS 13 for the first time as from 1 April 2013 is not expected to have a significant impact on company's results or financial policy as the measurement framework is not significantly different to the company's current practice. Additional disclosures regarding assets and liabilities measured at fair value and the sensitivity around the fair values will be required.
(g) The company has chosen not to early adopt any of these standards/amendments for year ended 31 March 2013.

28 GOING CONCERN

The company's business activities are set out in the Directors' Report on pages 1 to 13.

The company has recorded a profit after tax in both the current year and previous financial year and the company's balance sheet shows that it has net current liabilities of £100.0 million and net assets of £646.2 million at its most recent balance sheet date.

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

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