

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

Registered No. SC189126

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Some of the statements contained herein are forward looking statements about the company's strategic plans. Although the company believes that the expectations reflected in such statements are reasonable, the statements are not guarantees as to future performance and undue reliance should not be placed on them.

## SP TRANSMISSION PLC STRATEGIC REPORT

The directors present an overview of SP Transmission plc's structure, 2016/17 performance, strategic objectives and plans.

### STRATEGIC OUTLOOK

The principal activity of SP Transmission plc ("the company") 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 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 company will continue with this activity for the foreseeable future.

The ultimate parent of the company is Iberdrola, S.A. ("Iberdrola") which is listed on the Madrid stock exchange. The immediate parent of the company is Scottish Power Energy Networks Holdings Limited ("SPENH"). Scottish Power Limited ("SPL") is the United Kingdom ("UK") holding company of the Scottish Power Limited group ("ScottishPower") of which the company is a member.

The company is part of ScottishPower's Energy Networks business ("Energy Networks"). Energy Networks owns three regulated electricity network businesses in the UK. The company and fellow subsidiary companies, SP Distribution plc and SP Manweb plc, are "asset-owner companies" holding the regulated assets and Electricity Distribution and Transmission licences of ScottishPower and are regulated monopolies. They own and operate the network of cables and power lines transporting electricity to around 3.5 million connected customers in Central and Southern Scotland, Cheshire, Merseyside, North Shropshire and North Wales.

In addition, a further unregulated business, SP Power Systems Limited ("Power Systems"), provides asset management expertise and conducts the day-to-day operation of the networks.

The asset-owner companies act as an integrated business unit to concentrate expertise on regulatory and investment strategy and Power Systems implements work programmes commissioned by and agreed with the asset-owner businesses. Strict commercial disciplines are applied at the asset-owner service provider interface, with Power Systems operating as a contractor to the distribution and transmission businesses.

The company is a transmission network owner. The electricity transmission network consists of the high-voltage electricity wires that convey electricity from power stations to distribution system entry points or, in certain cases, direct to end-users' premises via a national network of high-voltage grids.

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

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

The key strategies for the company until the end of the current transmission price review period and beyond are to:

- ensure public safety and the safety of employees;
- deliver improved customer service through more efficient processes, systems and higher first-time resolution;
- deliver value for money to customers through improved security of supply and network performance;
- maximise the financial benefit to be obtained from the available incentives to deliver returns at, or in excess of, allowed regulated returns;
- achieve investor objectives on sustainable returns on investment; and
- facilitate the UK's transition to a low carbon economy by connecting renewable generation and increasing transmission capacity.

**SP TRANSMISSION PLC**  
**STRATEGIC REPORT *continued***

**STRATEGIC OUTLOOK *continued***

The company's strong focus on delivering its RIIO-T1 Plans and on responding to customer needs continued throughout 2016/17. In the regulatory year the company reached the half-way point on its modernisation projects, with further outputs achieved across the overhead line and switchgear replacement programmes. On overhead lines, completion of the Smeaton to Portobello line brings the total replacement to approximately 500 km; and on switchgear replacement, works at Currie, Dalmally, Windyhill and Lambhill brings the total number of units replaced to 41. The company also connected six new wind farms to the network, mainly in South-West Scotland, delivering some 400 MW of new generation capacity. The new connections have been accompanied by a range of reinforcement projects to strengthen the network and facilitate future connections. The reinforcements have added just under 700 Mega Volt Amperes ("MVA") of additional capacity in the reporting year. Progress has continued on the reduced scope project to build new infrastructure across Dumfries and Galloway (now the Kendoon to Tongland scheme), with the completion of a second round of public consultation and the commencement of environmental surveys.

On 12 May 2016, Ofgem published its decision to launch a mid-period review for the RIIO-T1 price control in which it looked at some specific issues in relation to National Grid Electricity Transmission ("NGET"); however for the company, Ofgem did not identify any changes in output requirements, so did not proceed with a mid-period review of the company.

In November 2016, as part of Ofgem's programme to Extend Competition in Electricity Transmission ("ECIT"), Ofgem issued as part of the next milestone in their programme, their decision on criteria, pre-tender and conflict mitigation arrangements. Delays in the legislative process appear to limit the potential for the first projects to be tendered until the next price control period. However in February 2017 Ofgem published a consultation on the mid period review parallel work that was to propose improvement for RIIO-T1 price control arrangements in respect of output accountability, operation and filling gaps in the framework. The company continues to work with Ofgem to ensure this improves the overall regulatory framework.

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

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

The company has maintained an active dialogue with renewable developers looking to connect to the company's network as they assess how they should progress with their schemes. The current forecast level of connections by 2020/2021 is approximately 2 Gigawatts ("GW"), which is below the original RIIO-T1 plan. The company will continue with this approach in order to match the timing of its investments as closely as possible to the need. The company will also continue to assist the System Operator as it develops commercial solutions that reduce the level of investment needed in the company's Dumfries and Galloway network.

The company is mindful that some of its assets are critical national infrastructure. On 1 November 2016, the UK Government published its National Cyber Security Strategy 2016 to 2021. The recent ransomware attack which affected institutions and individuals across the world in May 2017 served as a reminder of the increasing threat of cyber crime. The company liaises with UK Government agencies to ensure that any potential threats and risks are assessed and mitigated. In circumstances where potential risks are identified, the company takes steps to enhance both the physical security of its assets and the security of its associated IT and communications systems.

In September 2016, the UK Government published its National Flood Resilience Review, which was set up following the floods experienced in some areas of the UK in December 2015. The company is working with The Department for Business, Energy and Industrial Strategy ("BEIS") and other stakeholders to ensure that improvements in flood defences for electricity infrastructure are effectively implemented.

**SP TRANSMISSION PLC**  
**STRATEGIC REPORT *continued***

**STRATEGIC OUTLOOK *continued***

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

**OPERATIONAL PERFORMANCE**

The table below provides key financial information relating to the company's performance during the year.

Financial key performance indicators	Notes	Year ended	Year ended
		31 March 2017	31 March 2016
Revenue	(a)	315.8	314.5
Operating profit	(a)	202.8	215.3
Profit before tax	(a)	171.0	182.8
Net assets	(b)	991.9	722.4
Net capital investment	(c)	344.7	379.7
Cash inflow from operating activities	(d)	265.1	264.7
Purchase of tangible fixed assets (cash flow)	(d)	(340.1)	(360.4)
Net debt	(e)	(1,178.5)	(1,178.9)

(a) Revenue, operating profit and profit before tax are presented in the income statement on page 22.

(b) Net assets are presented in the balance sheet on page 21.

(c) Net capital investment is discussed below.

(d) Cash inflow from operating activities and purchase of tangible fixed assets are presented in the cash flow statement on page 24.

(e) Net debt is further analysed on page 7.

The financial position of the company at the Regulatory year end was satisfactory. The majority of revenue generated by the company is subject to regulation by the Gas and Electricity Markets Authority ("GEMA").

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

The company's operating profit was £202.8 million, a decrease of £12.5 million compared to the prior year, and profit before tax was £171.0 million, a decrease of £11.8 million compared to the prior year.

**Revenue** increased slightly as a result of higher income earned under the RIIO-T1 price control.

**External services** increased principally as a result of higher corporate and other cost recharges from Power Systems.

**Other operating income** decreased as a result of a decrease in rechargeable activity.

**Staff costs and taxes other than income tax** have remained broadly in line with the prior year.

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

**Net finance costs** are broadly in line with last year.

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

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

***Net capital investment***

ScottishPower's investment strategy is to drive the growth and development of its regulated businesses through a balanced programme of capital investment. The company earns allowed returns on this extensive capital investment programme.

**SP TRANSMISSION PLC**  
**STRATEGIC REPORT *continued***

**OPERATIONAL PERFORMANCE *continued***

*Net capital investment continued*

Net capital investment for the year was £344.7 million (2016 £379.7 million) consisting of fixed asset additions of £361.1 million (2016 £394.3 million) less capital contributions received of £16.4 million (2016 £14.6 million). Property, plant and equipment additions in relation to growth of the network amounted to £269.1 million (2016 £316.3 million) less capital contributions of £16.4 million (2016 £14.6 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 £92.0 million (2016 £78.0 million). The scale of investment is consistent with the eight-year price review period allowed capital expenditure programme.

The tables below provide key non-financial performance indicators relating to the company's operational assets and operational performance during the year ended 31 March 2017:

	Year ended 31 March 2017	Year ended 31 March 2016
<b>Operational assets</b>		
Franchise area (km <sup>2</sup> )	22,950	22,950
System maximum demand (GW)*	3.6	3.4
Length of overhead lines (circuit km)	3,620	3,612
Length of underground cables (circuit km)	368	367
<i>*Gigawatts ("GW")</i>		
<b>Operational performance</b>	Notes	Year ended 31 March 2017
Annual system availability	(a)	93.01%
Winter peak system availability	(b)	95.82%
Annual reliability of supply	(c)	99.99%
Annual number of loss of supply incidents	(d)	18
1. Incentivised incidents		4
2. Non incentivised incidents		14
		19
		4
		15

(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. Annual system availability decreased this year due to an increase in the number of planned (maintenance and construction) and unplanned (faults) outages.

(b) Winter peak system availability is the average system availability over the three months of December, January and February.

(c) Annual reliability of supply is provided by the system operator, NGET.

(d) Any event on the licensee's transmission system that causes electricity not to be supplied. Incentivised incidents are incidents where the loss of supply is longer than three minutes and non-incentivised incidents are those which do not cause a loss of supply to customers and those that cause a loss of supply to customers that last less than three minutes.

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 for example, faults due to bad weather.

**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.

*Strategic reinforcement and generation connections*

The engineering and construction works undertaken on strategic reinforcement projects during 2016/17 continues to deliver an ambitious investment plan which will increase capacity from Scotland to England from 3.3 GW to close to 7 GW before 2021. There are a number of key projects in this area and their progress is described below.

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 2 GW. During 2016/17;

- commissioning of the Hunterston HVDC convertor station commenced and is on schedule for completion later in 2017; and
- the laying of the undersea power cable is on schedule for completion by summer 2017.

This project is expected to be available for full commercial operation in autumn 2017.

**SP TRANSMISSION PLC**  
**STRATEGIC REPORT *continued***

**PROJECTS *continued***

*Strategic reinforcement and generation connections *continued**

In December 2009, the Scottish Government granted Section 37 ("S37") consent for the Beauly-Denny 400 kV ("kilovolts") overhead line ("OHL"), subject to appropriate visual mitigation measures. Following extensive liaison with Stirling Council and the local community in relation to the visual mitigation measures the company was finally provided with a formal notice of consent for the Beauly-Denny project in December 2011. Since then a major construction programme has completed with a new 400 kV overhead line from Beauly to Denny.

The dismantling of redundant 132 kV OHL along with all remaining works, including the Stirling Visual Impact Mitigation scheme, are on course for completion by 2017/18.

During 2016/17 significant progress has been made on engineering and construction works for a further two strategic reinforcement projects: the East-West Upgrade and Series Compensation<sup>1</sup>. 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.

The East-West Upgrade construction project to uprate circuits between Strathaven and Smeaton to 400 kV operation to increase power transfer capacity continues. Progress to date is detailed below.

- The substation works at Strathaven and Wishaw are substantively complete, along with overhead line re-insulation works from Wishaw to Strathaven.
- The substation works at Kaimes and Smeaton and accompanying works to re-insulate the Wishaw-Kaimes-Smeaton overhead line were substantively complete in 2016.
- The final element involves increasing the capacity of existing underground cables and is scheduled for completion in 2017/18 due to coordination of network access requirements.

Series Compensation is the complementary project to East-West Upgrade and will be the first use of series compensation on overhead lines in Scotland. The project requires the installation of four series compensation plants at three locations: Eccles, Moffat and Gretna. Progress to date is as follows:

- the units at Moffat and Gretna are available for service; and
- both units at Eccles have been commissioned. There are minor protection upgrade works which are necessary to complete before the Eccles units can enter full service, which are scheduled to occur during planned outages in 2017.

The closure of Longannet Power Station in March 2016, along with wider changes to the generation background in the UK, has necessitated the development of further voltage control schemes that are under construction for service in 2017.

The company also continues to work closely with stakeholders to connect wind farms in accordance with proposals set out in its Business Plan for RIIO-T1. The current projection for renewable generation connections, based on the company's best view of contracted generation schemes, has been reduced as a result of market uncertainty around government subsidy changes and delays to consents. Whilst still healthy at approximately 2 GW, it is now expected to fall below the original RIIO-T1 plan by 2020/21 in the company's franchise area. Against this backdrop, however, the company has worked closely with its customers to deliver a significant number of connections in the regulatory year:

- In 2016/17 six new wind farms were connected to the network, mainly in South-West Scotland, delivering 400 MW of new generation capacity. Kilgallioch wind farm accounted for approximately half of the total. This, along with capacity already delivered since the start of RIIO-T1, brings the total to 872 MW or 35% of target for the price control period.
- The new connections have been accompanied by a range of reinforcement projects to strengthen the network and facilitate future connections. The reinforcements have added just under 700 MVA of additional capacity in the reporting year. The company remains on schedule to exceed the RIIO-T1 target of 1073 MVA in 2017/18.
- Activity continues to focus on development and construction works on new wind farm capacity, in South-West Scotland. The base infrastructure works comprising the extension of the existing 275 kV network from Coylton to New Cumnock were completed during 2016. The next phases of the work are scheduled for completion over a coordinated timeframe which currently reaches to 2022.

<sup>1</sup> Series compensation enables more power to be transmitted through existing overhead lines at a fraction of the cost and time expenditure of a new overhead line.

## SP TRANSMISSION PLC

### STRATEGIC REPORT *continued*

#### PROJECTS *continued*

##### *Demand Connections*

Whilst the vast majority of current customer-driven investment on the company's network relates to generation connections there are a small number of schemes associated with new demand connections. In 2016/17, construction work continued on behalf of Network Rail. Network Rail is electrifying the Edinburgh to Glasgow (Queen Street) line via Falkirk, as well as the line from Stirling to Falkirk, and through Cumbernauld and Stepps to Springburn. In addition, it is proposed to electrify the rail network in the Bonnybridge area and the company has established a new railtrack feeder station at Greenhill with a capacity of approximately 48 MVA in 2016/17.

##### *Network reinforcement and modernisation*

During the regulatory year a substantial amount of reinforcement work and modernisation has been undertaken to improve the security and quality of supply to existing customers, whilst also enhancing the security of supply and providing new capacity for the distribution network to support economic development. Projects completed and progressed during the year include:

- A number of schemes to increase capacity at Grid Supply Points ("GSPs") (the main supply to the distribution network) are in advanced development stages or construction.
- The reinforcement of Bonnybridge and Cupar GSPs are ongoing and planned for completion in 2017.
- A number of modernisation projects were undertaken to address substation assets that were at or approaching the end of their life. These include:
  - the replacement of transformers at Sighthill and Devonside during 2016/17; and
  - major engineering works associated with the replacement of worn-out switchgear and transformers continued, at 132 kV (Windyhill and Chapelcross) and 275 kV substations (Dalmally, Lambhill, Currie, Kaimes, Strathaven and Wishaw).
- In accordance with the company's asset strategy, asset replacement and refurbishment work was undertaken to improve the asset health of a number of 400 kV, 275 kV and 132 kV OHL routes. This included:
  - completion of the Longannet – Lambhill - Windyhill 275 kV route and Currie – Livingston 132 kV route (undergrounding of urban OHL); and
  - continuation of work on a number of other 275 kV routes – Kincardine to Longannet, Kaimes to Cockenzie, Dalmally to Windyhill and Portobello to Smeaton. These routes are being modernised as part of a wider programme that ensures outage availability is coordinated in an optimal manner with other projects, with full project completion expected in 2018/19.

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.

##### *Network innovation*

The company has embedded innovation within its RIIO-T1 projects and several have been referred to above; ranging from the HVDC link under-sea cable, where a research project is underway to develop HVDC cable condition monitoring technology, to a novel deployment of series compensation in a complex network environment. The company continues to explore further opportunities to better utilise the existing network for example using composite core conductor to increase power capacity to smaller substation footprints through wider adoption of digital technology. The company is also working on developing non-build commercial solutions as a cheaper alternative to investing in major infrastructure where this can be achieved.

The company, supported by other transmission licensees and academics, were successful in securing funding from Ofgem for the Visualisation of Real Time System Dynamics project ("VISOR") under the Network Innovation Competition ("NIC") mechanism in late 2013. The trial project commenced in 2014 and completed on schedule during 2016/17. The Wide Area Monitoring ("WAM") system proposed for development and trial of VISOR will provide a new insight to the capability and dynamic performance of the transmission system in both planning and operational time-scales.

The VISOR trial will provide the system operator with the ability and confidence to utilise the full capacity of the network where increasing volumes of wind generation lead to more volatile system flows, resulting in greater operating margins to maintain and manage network security. The WAM system will also provide transmission network owners with a risk-mitigating measure in a period of uncertainty to help safeguard the network against high impact low probability events that may result in partial or widespread system failure.

**SP TRANSMISSION PLC**  
**STRATEGIC REPORT *continued***

**PROJECTS *continued***

*Network innovation continued*

In September 2015, the company was successful in securing funding under the Innovation Rollout Mechanism ("IRM") from Ofgem. The IRM is there to help realise proven innovations that will provide long-term value for money to consumers, before the next price control period. The funding supports a new type of conductor on parts of the company's network to increase capacity; the alternative is to completely rebuild sections of network. The associated projects were completed on schedule in Autumn 2016.

**LIQUIDITY AND CASH MANAGEMENT**

*Cash and net debt*

Net cash flows from operating activities increased by £0.4 million to £265.1 million for the year, as detailed on page 24. As detailed in the table below, net debt decreased by £0.4 million to £1,178.5 million. This was as a result of capital repayments of £122.0 million on long-term loans with Scottish Power UK plc ("SPUK") plus an increase of £5.5 million in cash offset by an increase of £127.1 million in on-demand loan with SPUK.

		2017	2016
	Notes	£m	£m
<b>Analysis of net debt</b>			
Cash	(a)	10.0	4.5
Loans payable to Iberdrola group companies	(b)	(1,188.5)	(1,183.4)
<b>Net debt</b>		<b>(1,178.5)</b>	<b>(1,178.9)</b>

(a) As detailed on the balance sheet, refer to page 21.

(b) Loans payable to Iberdrola group companies, refer to Note 15 on page 36.

*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. On 24 October 2016, the company issued 185,000,000 new ordinary shares of £1 each to SPENH at par. These funds were subsequently used to reduce the company's indebtedness.

Treasury services are provided by SPL. ScottishPower has a risk policy within treasury and financing which is designed to ensure that the company's exposure to variability of cash flows and asset values due to fluctuations in market interest rates and exchange rates are minimised and managed at acceptable risk levels. Further details of the treasury and interest policy for ScottishPower and how it manages them is included in Note 4 of the most recent Annual Report and Accounts of SPL.

As part of the exercise to achieve legal separation of 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 to SPUK for debt existing in that company at 1 October 2001.

*Liquidity and maintenance of investment grade credit rating*

The directors confirm that the company remains a going concern on the basis of its future cash flow forecasts and that it has sufficient working capital for present requirements. It is anticipated that the company will continue to have a level of liquidity at least sufficient to maintain an investment grade credit rating. The directors consider that sufficient funding, should it be necessary, 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 30.

**HEALTH AND SAFETY**

Energy Networks is compliant with relevant health and safety legislation, such as The Health and Safety at Work Etc. Act 1974, The Electricity, Safety, Quality and Continuity Regulations ("ESQCR") 2002 and the Electricity at Work Regulations 1989. Further, Energy Networks' management systems are independently externally assessed and certificated to the latest international standards, notably the Occupational Health and Safety Advisory Services Standard 18001 ("OHSAS 18001").

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

**SP TRANSMISSION PLC**  
**STRATEGIC REPORT *continued***

**HEALTH AND SAFETY *continued***

Energy Networks' plan for continuous improvement is illustrated by both internal and external management system assessments returning positive findings. The commitment to promptly investigate incidents to identify root causes remains steadfast and is given the highest priority with a Panel of Inquiry established whenever there is a significant incident. In addition to a focus on safety, Energy Networks continues to put the "health" into health and safety, with robust risk based health surveillance programmes for employees together with more general well-being initiatives.

Energy Networks works closely with the industry trade body, the Energy Networks Association, to ensure that good practice is shared and innovation is promoted.

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

	Notes	Actual Year ended 31 March	Target Year ended 31 March
		2017	2017
Total recordable incident rate	(a)	0.36	0.23
Lost time accidents		7	7
Occupational health monitoring	(b)	113%	90%
Audit and inspection programme completion	(c)	109%	100%

(a) Total recordable incident rate is the summation of any incidents, be they lost time, medical treatment or leading to some work restriction per 100,000 hours worked.

(b) Occupational health monitoring is a measure of how Energy Networks meets its planned forecasts for those staff assessed as at risk.

(c) Audit and inspection programme completion is the measurement of the planned internal management system audits and Energy Networks compliance inspections, both against Energy Networks' own staff and contracting partners.

During the year there has been a continued focus on employee involvement in health and safety with corporate memory Safety Stand downs being held covering specific issues that are topical and specifically targeting root cause and learning from incidents. The stand-downs provide a forum for raising awareness and allow employees to openly debate and improve areas by focusing on changing behaviours.

Public safety engagement and education promotion has continued with a particular focus and engagement with the agricultural community.

**PRINCIPAL RISKS AND UNCERTAINTIES**

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

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

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

SCOTTISHPOWER	
RISK	RESPONSE
Material deterioration in the relatively stable and predictable UK regulatory and political environment, including any sudden changes of policy, or new initiatives in the retail market outside the framework of the Competition and Markets Authority ("CMA") investigation outcome.	Positive and transparent engagement with all appropriate stakeholders to ensure that long-term regulatory stability and political consensus is maintained and public backing is secured for the necessary investment in the UK energy system. Providing stakeholders with evidence of the risks of ad hoc intervention in markets.

**SP TRANSMISSION PLC**  
**STRATEGIC REPORT *continued***

**PRINCIPAL RISKS AND UNCERTAINTIES *continued***

<b>SCOTTISHPOWER</b>	
<b>RISK</b>	<b>RESPONSE</b>
Impacts arising from the UK decision to leave the European Union ("EU") or market reactions to events during the negotiation. These impacts could include further depreciation in the value of Sterling and other financial instruments. In the longer term there could be negative or positive changes in the UK economy and in the political and regulatory environment in which the company operates.	In addition to monitoring ongoing developments related to "Brexit" the treasury risk management policy is in place to hedge financial risks which are the most prevalent in the short term. Any longer term impact on the UK economy and its impact on the group and specific business units will be managed in line with developments.
A major health and safety incident in the course of operations could impact staff, contractors, communities or the environment.	ScottishPower's Health and Safety function provides specialist services and support for the businesses in relation to health and safety. A comprehensive framework of health and safety policy and procedures, alongside audit programmes, is established throughout ScottishPower, which aim to ensure not only continuing legal compliance but also drive towards best practice in all levels of its health and safety operations.
Breach in cyber security and unwanted infiltration of the ScottishPower IT infrastructure by internal and external parties.	Implementation of a cyber-risk policy which provides the framework for mitigation. Proactive approach to identifying where ScottishPower is vulnerable and addressing these points through technical solutions. Educating company employees as to how behaviour can reduce this risk. Embedding cyber security in all projects where appropriate.

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

<b>NETWORKS</b>	
<b>RISK</b>	<b>RESPONSE</b>
Failure to deliver the Transmission outputs agreed with the Regulator in the current price control.	Mitigating actions include formulating detailed investment, resource, outage and contingency plans supported by an extensive procurement strategy. Good communication and co-ordination of activities across the business is integral to success, complemented by a comprehensive monitoring regime that provides early warning of potential issues.
Security of Supply due to potential asset failures alongside reduced generation capacity.	Risk based asset investment programme in place, business continuity and emergency planning well established including Black Start. "Strategic Spares" policy in place.
Failure to protect customer service performance.	Well-established customer service processes to respond to power loss, including storm readiness. Priority Service Register to protect vulnerable customers in the event of power loss. Implementation of a single emergency number to route customer queries.

**SP TRANSMISSION PLC**  
**STRATEGIC REPORT *continued***

**PRINCIPAL RISKS AND UNCERTAINTIES *continued***

NETWORKS	
RISK	RESPONSE
Inability to recruit or retain an appropriately skilled workforce.	A Strategic Work Force Planning and Implementation plan that incorporates; a) retirement profiles with demographics; b) one year ahead Strategic Recruitment; and c) ten year Strategic Recruitment plan. Identification of business critical roles and succession planning.

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

During the year to 31 March 2017 the ScottishPower governance structure was supported by risk policies approved by the Board of Directors of Iberdrola and adopted by the Board of Directors of Scottish Power Limited ("the ScottishPower Board"). Further information is provided in the 'Identification and evaluation of risks and control objectives' section of the Corporate Governance Statement on page 17.

The company manages financial risk exposure in three key areas: revenue risk, treasury management and credit risk.

**(a) Revenue risk**

The majority of the revenue generated by the company is subject to regulation by the GEMA. Regulatory controls include price controls which restrict the average amount, or total amount, charged for a bundle of services.

**(b) Treasury management**

The company is exposed to various financial risks including liquidity risk, interest rate risk and foreign exchange risk. Treasury services are provided by SPL. Liquidity risk is managed by Iberdrola Group Treasury, who are responsible for arranging banking facilities on behalf of ScottishPower. ScottishPower's financing structure is determined by its position in the wider Iberdrola group and interest rate risk managed on an Iberdrola group wide basis. Exposure to fluctuating interest rates is managed by issuing a proportion of debt at fixed rates, refinancing risk is managed by issuing debt with various maturity dates. Foreign exchange risk in relation to procurement contracts is managed through use of foreign exchange forward contracts.

**(c) Credit risk**

The company has credit guidelines to mitigate against credit risk. The company employs specific eligibility criteria in determining appropriate limits for each prospective counterparty and supplements this with letters of credit and collateral where appropriate. Credit exposures are then monitored on a daily basis.

*Insurance*

For the year ended 31 March 2017, the company's main insurance strategy was to procure cover from external insurance markets. The company conducts periodic reviews of the business requirements and evaluates alternative risk mitigation strategies to ensure that the most effective and economic cover is secured.

**ON BEHALF OF THE BOARD**



Scott Mathieson  
 Director

12 July 2017

## SP TRANSMISSION PLC DIRECTORS' REPORT

The directors present their report and audited Regulatory Accounts for the year ended 31 March 2017. References to 'ScottishPower' below apply fully to 'the company'.

### INFORMATION CONTAINED WITHIN THE STRATEGIC REPORT

The directors have chosen to disclose information on the following, required by Companies Act 2006 to be included in the Directors' Report, within the Strategic Report, found on pages 1 to 10:

- information on financial risk management and policies; and
- information regarding future developments of the business.

### RESULTS AND DIVIDENDS

The net profit for the year amounted to £146.4 million (2016 £160.2 million). The aggregate dividends paid during the year amounted to £72.0 million (2016 £10.0 million).

### ENVIRONMENTAL MANAGEMENT AND REGULATION

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

### EMPLOYEES

#### *Employment regulation*

ScottishPower has well-defined policies in place throughout its businesses to ensure compliance with applicable laws and related codes of practice. These policies cover a wide range of employment issues such as disciplinary, grievance, harassment, discrimination, stress, anti-bribery and 'whistleblowing' and have been brought together in the Code of Ethics of Iberdrola and its group of companies (which also outlines expectations for employees' conduct).

#### *Training*

ScottishPower has a continuing commitment to training and personal development for its employees with over 2,700 (2015 2,500) training events and over 139,000 hours (2015 169,000) undertaken in the year ended 2016. Much of the training is focused on health and safety and technical training ensuring field staff are safe and competent. In addition ScottishPower recruits over 100 craft and engineering trainees annually who undertake a formal, structured training programme, leading towards a recognised apprenticeship or formal engineering qualification. Team leaders and managers also participate in core management skills training and there are management development programmes and modules aimed at increasing our leadership capability.

#### *Employee feedback and consultation*

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

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

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

#### *Equality and diversity*

ScottishPower recognises the importance of difference and respects individuality as part of its ongoing commitment to promoting equality and diversity. ScottishPower also understands that diversity goes beyond legally compliant policies and practices and includes a focus on creating an innovative, integrated organisation where people feel valued, inspiring them to perform at their best.

## SP TRANSMISSION PLC DIRECTORS' REPORT *continued*

### EMPLOYEES *continued*

#### *Equality and diversity continued*

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

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

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

#### *Employment of disabled persons*

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

#### *Employee health and wellbeing*

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

#### *Employee volunteering*

ScottishPower prides itself in being a good corporate neighbour, providing support to the communities it serves in each of its businesses. Volunteering is central to community involvement and ScottishPower has an excellent track record in this area. ScottishPower's company-wide Volunteering Policy has been actively utilised by employees during 2016. This policy gives all registered volunteers, on an annual basis, an opportunity to take an additional one day's paid leave, to be used as a volunteering day.

## COMMUNITY RELATIONSHIPS

### *Community relationships*

Building the trust of communities has been part of ScottishPower's core values for many years. ScottishPower has a significant presence in many communities and aims to conduct its activities responsibly, in a way that is considerate to local communities and makes a positive contribution to society.

#### *Community consultation*

ScottishPower engages with communities across its operations, where new and modernising developments are planned. The key areas where ScottishPower's business interacts with the community include the siting of new facilities, such as wind farms, the presence of distribution and transmission lines and routine maintenance and upkeep work. ScottishPower takes a proactive approach to providing good information from pre-planning through to construction.

ScottishPower maintains strong relationships with local communities by working with community groups, elected representatives, interest groups and individuals ensuring that those affected by the work are aware of what's happening in their area in advance, allowing communities to have their say. This is of particular importance to the business as a developer, owner and operator with longstanding relationships in many of the communities in which it works.

## SP TRANSMISSION PLC

### DIRECTORS' REPORT *continued*

#### COMMUNITY RELATIONSHIPS *continued*

##### *Community consultation continued*

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

Many of ScottishPower's assets, such as pylons, are situated on land not owned by ScottishPower, therefore it is important that effective policies are in place to ensure that the safety and integrity of the plant is maintained, while respecting the needs of the landowner, the local community and the general public. Energy Networks and those working on its behalf adhere to a Grantors Charter which sets out guidance of commitment to grantors and has been prepared in consultation with key stakeholders.

#### POLITICAL DONATIONS AND EXPENDITURE

ScottishPower is a politically neutral organisation. It is subject to the Political Parties, Elections and Referendums Act 2000, which defines political "donations" and "expenditure" in wider terms than would be commonly understood by these phrases. During the regulatory year ended 31 March 2017, ScottishPower paid a total of £22,010 (2016 £20,000) for the sponsorship of conferences and events – activities that may be regarded as falling within the terms of the Act.

The recipients of these payments were:

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

The above amounts were for sponsored receptions at the 2016 conferences of the above parties. These occasions provide an important opportunity for ScottishPower to represent its views on a non-partisan basis to politicians from across the political spectrum and were open to everyone attending the conference, including party members, non-governmental organisations, the media and trade unions. The payments do not indicate support for any particular party.

#### DIRECTORS

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

Wendy Barnes  
Elizabeth Haywood  
Scott Mathieson  
Frank Mitchell  
Pearse Murray

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

#### DIRECTORS' INDEMNITY

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

#### DISCLOSURE OF INFORMATION TO AUDITORS

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

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

**SP TRANSMISSION PLC**  
**DIRECTORS' REPORT *continued***

**AUDITOR**

Ernst & Young LLP were re-appointed as auditor of the company for the year ended 31 March 2017.

**ON BEHALF OF THE BOARD**



**Scott Mathieson**

Director

12 July 2017

## SP TRANSMISSION PLC

### CORPORATE GOVERNANCE STATEMENT

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

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

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

#### ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES

##### *Board and management meetings*

During the regulatory year, the company was governed by a Board ("the SP Transmission Board") consisting of five directors bringing a broad range of skills and experience to the company, two of which are independent non-executive directors. The immediate parent of the company is SPENH. The SPENH Board of Directors ("SPENH Board") is responsible for the effective day to day operation and management of the Regulated Business within ScottishPower, in accordance with the strategy set by the ScottishPower Board.

Oversight is provided at ScottishPower group level by the ScottishPower Board (which includes four independent non-executive directors), other than on those matters reserved for the SPENH Board (which includes two independent non-executive directors, who also reside on the SP Transmission Board).

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 comprised the Chairman Armando Martínez Martínez and six other directors as at 31 March 2017.

The directors of SPENH and their classification are shown below.

Armando Martínez Martínez	Chairman
Frank Mitchell	Chief Executive Officer
Antonio Espinosa de los Monteros	
José Izaguirre Nazar	
Scott Mathieson	
Nicola Connelly	(resigned 1 February 2017)
Wendy Barnes	Independent non-executive director
Elizabeth Haywood	Independent non-executive director

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

Armando Martínez Martínez	Attended all meetings
Frank Mitchell	Attended all meetings
Antonio Espinosa de los Monteros	Attended all meetings
José Izaguirre Nazar	Attended all meetings
Scott Mathieson	Attended all meetings
Nicola Connelly	Attended three meetings
Wendy Barnes	Attended all meetings
Elizabeth Haywood	Attended all meetings

**SP TRANSMISSION PLC**  
**CORPORATE GOVERNANCE STATEMENT *continued***

**ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES *continued***

***ScottishPower Audit and Compliance Committee ("ACC")***

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

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

The ACC comprises three members, including two independents, as indicated in the table below. The ACC met five times during the year under review. The members of the ACC and their attendance record are shown in the table below.

Professor Sir James McDonald (Chairman)	External independent, attended all meetings
Professor Susan Deacon	External independent, attended all meetings
Juan Carlos Rebollo Liceaga	Attended four meetings

***Iberdrola Appointments and Remuneration Committees***

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

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

The members of the IRC are:

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

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

**INTERNAL CONTROL**

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

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

**SP TRANSMISSION PLC**  
**CORPORATE GOVERNANCE STATEMENT *continued***

**INTERNAL CONTROL *continued***

ScottishPower has a set of Anti-Bribery and Corruption policies and procedures, Crime Prevention and Anti-Fraud guidelines, and Speaking Out guidelines in place. Together with the Code of Ethics, these policies, procedures and guidelines provide mechanisms to ensure that instances of fraud, bribery, corruption or other criminal or unethical behaviour are identified, reported and investigated. The Speaking Out guidelines incorporate a confidential external reporting service operated by an independent provider. These guidelines, which are applicable to employees and suppliers of the company, cover any incident, issue, behaviour or practice which does not comply with The Code of Ethics, including fraud, bribery, theft, misuse of company resources and conflicts of interest. There is also a process in existence within ScottishPower whereby all members of staff may report any financial irregularities to the Audit and Risk Supervision Committee of Iberdrola.

**IDENTIFICATION AND EVALUATION OF RISKS AND CONTROL OBJECTIVES**

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

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

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

**CAPITAL INVESTMENT**

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

**MONITORING AND CORRECTIVE ACTION**

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

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

**AUDITOR INDEPENDENCE**

The Audit, Risk and Supervision Committee of Iberdrola, which comprises non-executive directors, is responsible for the nomination of the external auditors. This committee and the firm of external auditors have safeguards to avoid the possibility that the auditors' objectivity and independence could be compromised.

Where the work to be undertaken is of a nature that is generally considered reasonable to be completed by the external auditors for sound commercial and practical reasons, including confidentiality, the conduct of such work is permissible provided that all necessary internal governance requirements have been met.

**SOCIAL, ENVIRONMENTAL AND ETHICAL MATTERS**

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

Further information regarding the SEE matters can be found in the 'Corporate Responsibility' section of the ScottishPower website [www.scottishpower.com](http://www.scottishpower.com).

## SP TRANSMISSION PLC

### STATEMENT OF DIRECTORS' RESPONSIBILITIES

#### In respect of the Regulatory Accounts and the compliance with Standard Licence Condition B1

Standard Condition B1 of the Electricity Transmission Licence requires the directors to prepare Regulatory Accounts, for each regulatory year, which presents fairly the assets, liabilities, reserves and provisions of, or reasonably attributable to, the company and of the revenues, costs and cash flows of, or reasonably attributable to, the company for the year. The directors confirm that these Regulatory Accounts comply with Standard Licence Condition B1 in all aspects except with respect to the nature of the audit opinion. Ofgem have consented to this having regard to the guidance contained in the Institute of Chartered Accountants in England and Wales ("ICAEW") Technical Release TECH02/16AAF. In preparing the Regulatory Accounts, the directors are required to:

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 and Standard Condition 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 plc ("the company")

We have audited the Regulatory Accounts of the company for the year ended 31 March 2017 (the "Regulatory Accounts") which comprise the Balance Sheet, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Cash Flow Statement, and the related notes 1 to 30.

These Regulatory Accounts have been prepared in accordance with the basis of preparation and accounting policies set out on pages 25 to 30.

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

### RESPECTIVE RESPONSIBILITIES OF THE AUTHORITY DIRECTORS AND AUDITOR

As explained more fully in the Statement of Directors' Responsibilities set out on page 18, the directors are responsible for the preparation of the Regulatory Accounts. Our responsibility is to audit and express an opinion on the Regulatory Accounts in accordance with International Standards on Auditing (UK and Ireland), except as stated in the 'Scope of the audit of the Regulatory Accounts' section below, and having regard to the guidance contained in ICAEW Technical Release TECH 02/16AAF 'Reporting to Regulators on Regulatory Accounts'. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### SCOPE OF THE AUDIT OF THE REGULATORY ACCOUNTS

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

We have not assessed whether the accounting policies are appropriate to the circumstances of the company where these are laid down by Standard Condition 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).

### OPINION ON THE REGULATORY ACCOUNTS

In our opinion the Regulatory Accounts:

- have been properly prepared in accordance with Standard Condition B1 of the company's Regulatory Licence and the accounting policies.

### EMPHASIS OF MATTER - BASIS OF PREPARATION

Without modifying our opinion, we draw attention to the fact that the Regulatory Accounts have been prepared in accordance with Standard Condition B1 of the company's Regulatory Licence and the accounting policies set out in the statement of accounting policies. The nature, form and content of Regulatory Accounts are determined by the Authority. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Authority's purposes. Accordingly we make no such assessment.

## INDEPENDENT AUDITOR'S REPORT

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

### EMPHASIS OF MATTER - BASIS OF PREPARATION *continued*

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

### OTHER MATTERS

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the company for the year ended 31 December 2016 on which we reported on 30 March 2017, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the company (our "statutory audit") was made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our statutory audit work was undertaken so that we might state to the company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

*Ernst & Young LLP*  
Ernst & Young LLP  
Statutory Auditor  
Glasgow  
*12 July 2017*

**SP TRANSMISSION PLC**  
**BALANCE SHEETS**  
**as at 31 March 2017 and 31 March 2016**

	Notes	2017 £m	2016 £m
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Intangible assets	4	-	-
Property, plant and equipment		2,658.5	2,352.0
Property, plant and equipment in use	5	1,811.1	1,545.8
Property, plant and equipment in the course of construction	5	847.4	806.2
Financial assets		0.5	0.9
Investments in joint ventures	6	-	-
Finance lease receivables	7	0.5	0.9
<b>NON-CURRENT ASSETS</b>		<b>2,659.0</b>	<b>2,352.9</b>
<b>CURRENT ASSETS</b>			
Trade and other receivables	8	14.4	3.6
Financial assets		1.2	1.9
Finance lease receivables	7	0.3	0.3
Derivative financial instruments	9, 16	0.9	1.6
Cash	9	10.0	4.5
<b>CURRENT ASSETS</b>		<b>25.6</b>	<b>10.0</b>
<b>TOTAL ASSETS</b>		<b>2,684.6</b>	<b>2,362.9</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Of shareholders of the parent		991.9	722.4
Share capital	11, 12	385.0	200.0
Hedge reserve	12	(0.3)	(10.4)
Retained earnings	12	607.2	532.8
<b>TOTAL EQUITY</b>		<b>991.9</b>	<b>722.4</b>
<b>NON-CURRENT LIABILITIES</b>			
Deferred income	13	88.5	73.9
Provisions	14	-	0.7
Bank borrowings and other financial liabilities		853.0	897.0
Loans and other borrowings	15	853.0	897.0
Trade and other payables	17	0.2	0.2
Deferred tax liabilities	18	138.1	127.4
<b>NON-CURRENT LIABILITIES</b>		<b>1,079.8</b>	<b>1,099.2</b>
<b>CURRENT LIABILITIES</b>			
Provisions	14	0.7	-
Bank borrowings and other financial liabilities		336.0	287.3
Loans and other borrowings	15	335.5	286.4
Derivative financial instruments	9, 16	0.5	0.9
Trade and other payables	17	264.5	239.1
Current tax liabilities		11.7	14.9
<b>CURRENT LIABILITIES</b>		<b>612.9</b>	<b>541.3</b>
<b>TOTAL LIABILITIES</b>		<b>1,692.7</b>	<b>1,640.5</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,684.6</b>	<b>2,362.9</b>

Approved by the Board on 12 July 2017 and signed on its behalf by:



Scott Mathieson  
Director

The accompanying Notes 1 to 30 are an integral part of the balance sheets as at 31 March 2017 and 31 March 2016.

**SP TRANSMISSION PLC**  
**INCOME STATEMENTS**  
**for the years ended 31 March 2017 and 31 March 2016**

	Notes	2017 £m	2016 £m
<b>Revenue</b>		<b>315.8</b>	<b>314.5</b>
<b>GROSS MARGIN</b>		<b>315.8</b>	<b>314.5</b>
<b>NET OPERATING EXPENSES</b>		<b>(32.1)</b>	<b>(24.7)</b>
<b>Net personnel expenses</b>		<b>(1.1)</b>	<b>(0.9)</b>
Staff costs	19	(1.1)	(0.9)
<b>Net external expenses</b>		<b>(31.0)</b>	<b>(23.8)</b>
External services		(39.9)	(35.0)
Other operating income		8.9	11.2
<b>Taxes other than income tax</b>	20	<b>(26.4)</b>	<b>(24.9)</b>
<b>EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION</b>		<b>257.3</b>	<b>264.9</b>
Depreciation and amortisation charge, allowances and provisions	21	(54.5)	(49.6)
<b>OPERATING PROFIT</b>		<b>202.8</b>	<b>215.3</b>
Finance income	22	0.1	0.3
Finance costs	23	(31.9)	(32.8)
<b>PROFIT BEFORE TAX</b>		<b>171.0</b>	<b>182.8</b>
Income tax	24	(24.6)	(22.6)
<b>NET PROFIT FOR THE YEAR</b>		<b>146.4</b>	<b>160.2</b>

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

All results relate to continuing operations.

The accompanying Notes 1 to 30 are an integral part of the income statements for the years ended 31 March 2017 and 31 March 2016.

**SP TRANSMISSION PLC**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
for the years ended 31 March 2017 and 31 March 2016

	Note	2017 £m	2016 £m
<b>NET PROFIT FOR THE YEAR</b>		<b>146.4</b>	<b>160.2</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
Items that will not be reclassified to the income statement:			
Cash flow hedges:			
Change in the value of cash flow hedges recognised	12	12.6	12.0
Tax relating to cash flow hedges	12	(2.5)	(2.4)
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>10.1</b>	<b>9.6</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>156.5</b>	<b>169.8</b>

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

**STATEMENTS OF CHANGES IN EQUITY**  
for the years ended 31 March 2017 and 31 March 2016

	Ordinary share capital £m	Hedge reserve £m	Retained earnings £m	Total equity £m
At 1 April 2015	200.0	(20.0)	382.6	562.6
Total comprehensive income for the year	-	9.6	160.2	169.8
Dividends	-	-	(10.0)	(10.0)
At 1 April 2016	200.0	(10.4)	532.8	722.4
Total comprehensive income for the year	-	10.1	146.4	156.5
Share capital issued	185.0	-	-	185.0
Dividends	-	-	(72.0)	(72.0)
<b>At 31 March 2017</b>	<b>385.0</b>	<b>(0.3)</b>	<b>607.2</b>	<b>991.9</b>

The accompanying Notes 1 to 30 are an integral part of the statements of comprehensive income and the statements of changes in equity for the years ended 31 March 2017 and 31 March 2016.

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

	2017 £m	2016 £m
<b>Cash flows from operating activities</b>		
Profit before tax	171.0	182.8
Adjustments for:		
Depreciation and impairment	53.9	49.0
Transfer of assets from customers	(1.8)	(1.8)
Finance income and costs	31.8	32.5
Write-off of non-current assets	0.7	0.5
Changes in working capital:		
Change in trade and other receivables	(10.4)	19.0
Change in trade and other payables	23.0	(1.9)
Assets received from customers	16.4	14.6
Income taxes paid	(19.6)	(30.2)
Interest received	0.1	0.2
<b>Net cash flows from operating activities (i)</b>	<b>265.1</b>	<b>264.7</b>
<b>Cash flows from investing activities</b>		
Investments in property, plant and equipment	(340.1)	(360.4)
<b>Net cash flows from investing activities (ii)</b>	<b>(340.1)</b>	<b>(360.4)</b>
<b>Cash flows from financing activities</b>		
Decrease in amounts due to Iberdrola group companies	(122.0)	(44.0)
Share capital issued	185.0	-
Dividends paid to company's equity holders	(72.0)	(10.0)
Interest paid	(37.6)	(38.1)
<b>Net cash flows from financing activities (iii)</b>	<b>(46.6)</b>	<b>(92.1)</b>
<b>Net decrease in cash and cash equivalents (i)+(ii)+(iii)</b>	<b>(121.6)</b>	<b>(187.8)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>(159.9)</b>	<b>27.9</b>
<b>Cash and cash equivalents at end of year</b>	<b>(281.5)</b>	<b>(159.9)</b>
Cash and cash equivalents at end of year comprises:		
Cash	10.0	4.5
Payables due to Iberdrola group companies - loans	(291.5)	(164.4)
<b>Cash flow statement cash and cash equivalents</b>	<b>(281.5)</b>	<b>(159.9)</b>

The accompanying Notes 1 to 30 are an integral part of the cash flow statements for the years ended 31 March 2017 and 31 March 2016.

**SP TRANSMISSION PLC**  
**NOTES TO ACCOUNTS**  
**31 March 2017**

**1 BASIS OF PREPARATION**

**A COMPANY INFORMATION**

SP Transmission plc ("the company"), registered company number SC189126, is a private company limited by shares, incorporated in Scotland and its registered address is Ochil House, 10 Technology Avenue, Hamilton International Technology Park, Blantyre, Scotland, G72 0HT.

**B BASIS OF PREPARATION OF THE ACCOUNTS**

The Accounts have been prepared in accordance with Standard Condition B1 of the company's Regulatory Licence and International Accounting Standards ("IAS"), IFRSs and International Financial Reporting Interpretations Committee ("IFRIC") Interpretations (collectively referred to as IFRS), as adopted by the EU as at the date of approval of these Accounts and which are mandatory for the financial year ended 31 March 2017. The company's accounting reference date is 31 December to match that of its ultimate parent undertaking, Iberdrola, S.A.. Standard Condition B1 of the Electricity Transmission Licence requires the directors to prepare Regulatory Accounts, for each regulatory year, with the same content and format as the most recent statutory accounts of the company. The references made to the financial year within these Regulatory Accounts refer to the year from 1 April 2016 to 31 March 2017. Consequently the Corporate Report and Regulatory Accounts for the year ended 31 March 2017 are separate from the Annual Report and Accounts of the company which have been prepared for the year ended 31 December 2016. The Accounts are prepared in accordance with the Accounting Policies set out in Note 2.

The Accounts contain information about SP Transmission plc as an individual company and do not contain consolidated information as an investor in a joint venture. The company is exempt under Section 400 of the Companies Act 2006 from the requirements to prepare consolidated Accounts as it and its joint venture investment are included by full consolidation in the consolidated Accounts of Iberdrola, S.A., a company incorporated in Spain.

**C ACCOUNTING STANDARDS**

In preparing these Accounts, the company has applied all relevant IAS, IFRS and IFRIC Interpretations which have been adopted by the EU as of the date of approval of these Accounts and which are mandatory for the financial year ended 31 March 2017.

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

<b>Standard</b>	<b>Note</b>
• Amendments to IAS 1 'Presentation of Financial Statements: Disclosure Initiative'	(a)
• Amendments to IAS 16 'Property, Plant and Equipment' and IAS 38 'Intangible Assets' – 'Clarification of Acceptable Methods of Depreciation and Amortisation'	(a)
• Amendments to IAS 16 'Property, Plant and Equipment' and IAS 41 'Agriculture' – 'Bearer Plants'	(a)
• Amendments to IAS 27 'Separate Financial Statements: Equity Method in Separate Financial Statements'	(a)
• Amendments to IFRS 11 'Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations'	(a)
• Annual Improvements to IFRS Standards 2012-2014 Cycle	(a)
• Amendments to IFRS 10 'Consolidated Financial Statements', IFRS 12 'Disclosure of Interests in Other Entities' and IAS 28 'Investments in Associates and Joint Ventures' - 'Investment Entities: Applying the Consolidated Exception'	(a)

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

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

<b>Standard</b>	<b>Notes</b>	<b>IASB effective date (for periods commencing on or after)</b>	<b>Planned date of application by the company</b>
• Amendments to IAS 12 'Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses'	(b), (c), (d)	1 January 2017	1 April 2018
• Amendments to IAS 7 'Statement of Cash Flows: Disclosure Initiative'	(b), (c), (d)	1 January 2017	1 April 2018
• Annual Improvements to IFRS Standards 2014 – 2016 Cycle	(b), (c), (e)	1 January 2017 & 1 January 2018	1 April 2018

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

**1 BASIS OF PREPARATION *continued***

**C ACCOUNTING STANDARDS *continued***

<b>Standard <i>continued</i></b>	<b>Notes</b>	<b>IASB effective date (for periods commencing on or after)</b>	<b>Planned date of application by the company</b>
• IFRS 9 'Financial Instruments'	(f)	1 January 2018	1 April 2018
• IFRS 15 'Revenue from Contracts with Customers' (including Amendments to IFRS 15 'Effective date of IFRS 15')	(g)	1 January 2018	1 April 2018
• Clarifications to IFRS 15 'Revenue from Contracts with Customers'	(c), (g)	1 January 2018	1 April 2018
• Amendments to IAS 40 'Investment Property: Transfers of Investment Property'	(b), (c)	1 January 2018	1 April 2018
• Amendments to IFRS 2 'Share-based Payments: Clarification and Measurement of Share-based Payment Transactions'	(b), (c)	1 January 2018	1 April 2018
• Amendments to IFRS 4 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts'	(b), (c)	1 January 2018	1 April 2018
• IFRIC 22 'Foreign Currency Transactions and Advance Consideration'	(b), (c)	1 January 2018	1 April 2018
• IFRS 16 'Leases'	(c), (h)	1 January 2019	1 April 2019
• IFRS 17 'Insurance Contracts'	(b), (c)	1 January 2021	1 April 2021
• IFRS 14 'Regulatory Deferral Accounts'	(b), (c), (i)	1 January 2016	To be decided
• Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures' – 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'	(b), (c), (i)	Deferred indefinitely	To be decided

(b) The future application of this pronouncement is not expected to have a material impact on the company's accounting policies, financial position or performance.

(c) This pronouncement has not yet been endorsed by the EU.

(d) Despite the IASB effective date of 1 January 2017, this pronouncement has yet to be endorsed by the EU (expected 2017). The endorsement notice will be reviewed for specific guidance but in the absence of further information it is anticipated that the company will apply this pronouncement from the accounting period following endorsement i.e. 1 April 2018.

(e) This pronouncement includes amendments to three standards. The amendments to IFRS 1 'First-time Adoption of International Financial Reporting Standards' and IAS 28 'Investments in Associates and Joint Ventures' have an effective date of 1 January 2018. The amendments to IFRS 12 'Disclosure of Interests in Other Entities' have an effective date of 1 January 2017. Despite this, the pronouncement has yet to be endorsed by the EU (expected 2017). The endorsement notice will be reviewed for specific guidance but in the absence of further information it is anticipated that the company will apply this pronouncement from the accounting period following endorsement i.e. 1 April 2018.

(f) The company is currently analysing the impact of implementing IFRS 9 'Financial Instruments' ('IFRS 9') which is effective for the company from 1 April 2018. Following a preliminary analysis, the company provisionally expects that financial assets will be measured at amortised cost, except for equity instruments and derivative financial instruments that will be measured at fair value. The company intends to apply the general approach to the recognition of expected credit losses to all financial assets; except for trade receivables and leases to which the simplified approach will be taken regardless of whether they contain a significant financing component. The probability of default is not expected to be significant given the high credit quality of the financial assets. It is anticipated that more hedging instruments and hedged items will qualify for hedge accounting under IFRS 9. This analysis will continue in 2017.

(g) The company is currently analysing the impact of implementing IFRS 15 'Revenue from Contracts with Customers' and the associated amendments and clarifications, all of which are effective for the company as from 1 April 2018. Following a preliminary analysis of income earning arrangements no significant impact is expected. This analysis will continue in 2017.

(h) The company is currently analysing the impact of implementing IFRS 16 'Leases' ('IFRS 16') which is effective for the company from 1 April 2019. The company's principal leases relate to land and property. Most of these leases are currently classified as operating leases under IAS 17 'Leases'. The company expects to recognise 'right-of-use' assets and corresponding lease liabilities. The value of these is expected to be greater than the future minimum lease payments disclosed in Note 5(b). The company expects to take the exemptions in relation to short-term leases and leases of low-value assets. The company does not intend to bring leases of intangible assets within scope of IFRS 16. On transition, the modified retrospective method is expected to be applied and the new lease definition applied to all existing contracts at this point. The company is currently modifying its IT systems in order to adapt to the new requirements. This analysis will continue in 2017.

(i) The endorsement process of this interim standard has not been launched as the EU has decided to wait for the final standard to be issued.

(j) The IASB set the effective date of this pronouncement as periods commencing on or after 1 January 2016. However, in December 2015, the IASB postponed the effective date indefinitely pending the outcome of its research project on the equity method of accounting. The EU endorsement process for this pronouncement has been postponed, awaiting a revised exposure draft from the IASB. The effective date will be amended in due course.

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

**2 ACCOUNTING POLICIES**

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

- A REVENUE**
- B INTANGIBLE ASSETS (COMPUTER SOFTWARE COSTS)**
- C PROPERTY, PLANT AND EQUIPMENT**
- D IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS**
- E LEASED ASSETS**
- F FINANCIAL INSTRUMENTS**
- G TRANSFER OF ASSETS FROM CUSTOMERS**
- H TAXATION**
- I RETIREMENT BENEFITS**

**A REVENUE**

Revenue comprises charges made to the Great Britain system operator for use of the transmission network. Revenue is recognised in the month it is billed. Revenue excludes Value Added Tax. Revenue consists entirely of sales made in the UK.

**B INTANGIBLE ASSETS (COMPUTER SOFTWARE COSTS)**

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

**C PROPERTY, PLANT AND EQUIPMENT**

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

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

	<b>Years</b>
Transmission facilities	40
Meters and measuring devices	2 - 10
Other facilities and other items of property, plant and equipment	3 - 25

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

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

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

**2 ACCOUNTING POLICIES *continued***

**E LEASED ASSETS**

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date; whether fulfilment of the arrangement is dependent on the use of a specific asset(s) or the arrangement conveys a right to use the asset(s), 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 the 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.

**F FINANCIAL INSTRUMENTS**

**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, except where the loan or borrowing is a hedged item in an effective fair value hedging relationship (see F3 below).

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 on the next page).

**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 Annual Report and Accounts of SPL.

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

**2 ACCOUNTING POLICIES *continued***  
**F FINANCIAL INSTRUMENTS *continued***

**F3. HEDGE ACCOUNTING**

Hedge accounting is applied when certain conditions required by IAS 39 are met. Hedge accounting falls into the following category:

**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%.

**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.

**G TRANSFER OF ASSETS FROM CUSTOMERS**

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

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

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

**2 ACCOUNTING POLICIES *continued***

**H TAXATION**

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

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

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

**I RETIREMENT BENEFITS**

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

**3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In preparing the Accounts in conformity with IFRSs, the company is required to make estimates and assumptions that impact on the reported amounts of revenues, expenses, assets and liabilities of the company. Actual results may differ from these estimates. The critical accounting judgement and key source of estimation uncertainty is discussed below and should be read in conjunction with the full statement of Accounting Policies at Note 2.

**IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT**

In certain circumstances, property, plant and equipment are required to be reviewed for impairment. When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of the expected future cash flows of the relevant Cash Generating Unit ("CGU"), or disposal value if higher. The discount rate applied is based on ScottishPower's weighted average cost of capital with appropriate adjustments for the risks associated with the CGU. Estimates of cash flows involve a significant degree of judgement and are consistent with management's plans and forecasts.

At 31 March 2017, the carrying value of property, plant and equipment amounted to £2,658.5 million (2016 £2,352.0 million).

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

**4 INTANGIBLE ASSETS**

		Computer software
	Note	£m
<b>Year ended 31 March 2016</b>		
Cost:		
At 1 April 2015		5.0
Disposals		(0.2)
<b>At 31 March 2016</b>	(a)	4.8
Amortisation:		
At 1 April 2015		5.0
Disposals		(0.2)
<b>At 31 March 2016</b>		4.8
Net book value:		
<b>At 1 April 2015 and 31 March 2016</b>		-
<b>Year ended 31 March 2017</b>		
Cost:		
At 1 April 2016		4.8
Disposals		(4.8)
<b>At 31 March 2017</b>	(a)	-
Amortisation:		
At 1 April 2016		4.8
Disposals		(4.8)
<b>At 31 March 2017</b>		-
Net book value:		
<b>At 1 April 2016 and 31 March 2017</b>		-

(a) The cost of fully amortised computer software still in use at 31 March 2017 was £nil (2016 £4.8 million).

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

**5 PROPERTY, PLANT AND EQUIPMENT**

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

	Transmission facilities	Other facilities (Note (i))	Other items of property, plant and equipment (Note (ii))	Plant in progress (Note (iii))	Total
<b>Year ended 31 March 2016</b>					
Cost:					
At 1 April 2015	1,784.9	78.5	24.8	566.7	2,454.9
Additions (Note (iv))	-	-	-	394.3	394.3
Transfers from in progress to plant in use	153.3	0.4	-	(153.7)	-
Disposals	(8.0)	-	-	-	(8.0)
Impairment (Note (v))	-	-	-	(1.1)	(1.1)
<b>At 31 March 2016</b>	<b>1,930.2</b>	<b>78.9</b>	<b>24.8</b>	<b>806.2</b>	<b>2,840.1</b>
Depreciation:					
At 1 April 2015	402.7	43.9	1.1	-	447.7
Depreciation for the year	45.0	2.8	0.1	-	47.9
Disposals	(7.5)	-	-	-	(7.5)
<b>At 31 March 2016</b>	<b>440.2</b>	<b>46.7</b>	<b>1.2</b>	<b>-</b>	<b>488.1</b>
Net book value:					
<b>At 31 March 2016</b>	<b>1,490.0</b>	<b>32.2</b>	<b>23.6</b>	<b>806.2</b>	<b>2,352.0</b>
<b>At 1 April 2015</b>	<b>1,382.2</b>	<b>34.6</b>	<b>23.7</b>	<b>566.7</b>	<b>2,007.2</b>
The net book value of property plant and equipment at 31 March 2016 is analysed as follows:					
Property, plant and equipment in use	1,490.0	32.2	23.6	-	1,545.8
Property, plant and equipment in the course of construction	-	-	-	806.2	806.2
	<b>1,490.0</b>	<b>32.2</b>	<b>23.6</b>	<b>806.2</b>	<b>2,352.0</b>

	Transmission facilities	Other facilities (Note (i))	Other items of property, plant and equipment (Note (ii))	Plant in progress (Note (iii))	Total
<b>Year ended 31 March 2017</b>					
Cost:					
At 1 April 2016	1,930.2	78.9	24.8	806.2	2,840.1
Additions (Note (iv))	-	-	-	361.1	361.1
Transfers from in progress to plant in use	319.9	-	-	(319.9)	-
Disposals	(8.7)	-	-	-	(8.7)
<b>At 31 March 2017</b>	<b>2,241.4</b>	<b>78.9</b>	<b>24.8</b>	<b>847.4</b>	<b>3,192.5</b>
Depreciation:					
At 1 April 2016	440.2	46.7	1.2	-	488.1
Depreciation for the year	51.0	2.9	-	-	53.9
Disposals	(8.0)	-	-	-	(8.0)
<b>At 31 March 2017</b>	<b>483.2</b>	<b>49.6</b>	<b>1.2</b>	<b>-</b>	<b>534.0</b>
Net book value:					
<b>At 31 March 2017</b>	<b>1,758.2</b>	<b>29.3</b>	<b>23.6</b>	<b>847.4</b>	<b>2,658.5</b>
<b>At 1 April 2016</b>	<b>1,490.0</b>	<b>32.2</b>	<b>23.6</b>	<b>806.2</b>	<b>2,352.0</b>
The net book value of property plant and equipment at 31 March 2017 is analysed as follows:					
Property, plant and equipment in use	1,758.2	29.3	23.6	-	1,811.1
Property, plant and equipment in the course of construction	-	-	-	847.4	847.4
	<b>1,758.2</b>	<b>29.3</b>	<b>23.6</b>	<b>847.4</b>	<b>2,658.5</b>

- (i) The category "Other facilities" principally comprises other technical installations and communications equipment.
- (ii) The category "Other items of property, plant and equipment in use" principally comprises land.
- (iii) The category "Plant in progress" principally comprises transmission facilities in the course of construction.
- (iv) During the year ended 31 March 2017, additions of £290.1 million (2016 £309.2 million) were purchased from the asset management entity Power Systems and £68.3 million (2016 £49.4 million) from a joint venture, NGET/SPT Upgrades Limited ("NGET") as noted within Note 28.
- (v) The Impairment charge of £1.1 million made during the year ended 31 March 2016 was in respect of assets in relation to the East Coast HVDC project. The cost has been charged to 'Depreciation and amortisation charge, allowances and provisions' in the income statement.
- (vi) Interest on the funding attributable to major capital projects was capitalised during the year at a rate of 3.62% (2016 3.62%).
- (vii) The cost of fully depreciated property, plant and equipment still in use at 31 March 2017 was £86.6 million (2016 £59.3 million).
- (viii) Included within the cost of property, plant and equipment are assets in use not subject to depreciation, being land of £23.2 million (2016 £23.2 million).

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

5 PROPERTY, PLANT AND EQUIPMENT *continued*

(b) Operating lease arrangements

	2017 £m	2016 £m
<b>Operating lease receivables</b>		
The future minimum lease payments receivable under non-cancellable operating leases are as follows:		
Within one year	0.1	0.2
Between one and five years	0.1	0.2
	<b>0.2</b>	<b>0.4</b>

The company leases buildings as a lessor under operating leases. The leases have varying terms, escalation clauses and renewal rights.

(c) Capital commitments

	2017 £m	2016 £m
Contracted but not provided	<b>387.6</b>	<b>637.1</b>

(d) Research and development expenditure

The amount of research and development expenditure recognised as an expense during the year was £1.0 million (2016 £0.3 million).

6 INVESTMENT IN JOINT VENTURE

		Shares in joint venture £
<b>At 1 April 2015, 1 April 2016 and 31 March 2017</b>		
		<b>50</b>
<b>Subsidiaries</b>	<b>Principal activity</b>	<b>Registered office and country of incorporation</b>
NGET/SPT Upgrades Limited	Development of offshore HVDC West Coast transmission link	England and Wales (see Note (b))
		2017
		2016

(a) This investment in 100% of the 'A' ordinary shares represents 50% of the joint venture's total issued share capital.

(b) The address of the registered office of this joint venture is 1-3 Strand, London, England, WC2N 5EH.

7 FINANCE LEASE RECEIVABLES

	2017 £m	2016 £m
<b>Amounts receivable under finance leases:</b>		
Current receivables	0.3	0.3
Non-current receivables	0.5	0.9
	<b>0.8</b>	<b>1.2</b>
<b>Gross receivables from finance leases:</b>		
Within one year	0.4	0.3
Between one and five years	0.5	1.1
	<b>0.9</b>	<b>1.4</b>
<b>Unearned future finance income on finance leases</b>	<b>(0.1)</b>	<b>(0.2)</b>
<b>Net investment in finance leases</b>	<b>0.8</b>	<b>1.2</b>

The net investment in finance leases is analysed as follows:

Within one year	0.3	0.3
Between one and five years	0.5	0.9
	<b>0.8</b>	<b>1.2</b>

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

**8 TRADE AND OTHER RECEIVABLES**

	2017 £m	2016 £m
<b>Current receivables:</b>		
Trade receivables and accrued income	11.4	0.6
Prepayments with joint arrangements	3.0	3.0
	<b>14.4</b>	<b>3.6</b>

**9 MEASUREMENT OF FINANCIAL INSTRUMENTS**

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

	Notes	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
<b>Financial assets</b>					
Finance lease receivables		0.8	0.8	1.2	1.2
Derivative financial instruments	(a)	0.9	0.9	1.6	1.6
Receivables	(b)	11.4	11.4	0.6	0.6
Cash	(c)	10.0	10.0	4.5	4.5
<b>Financial liabilities</b>					
Derivative financial instruments	(a)	(0.5)	(0.5)	(0.9)	(0.9)
Loans and other borrowings	(d)	(1,188.5)	(1,375.8)	(1,183.4)	(1,351.1)
Payables	(b)	(216.4)	(216.4)	(201.3)	(201.3)

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

- (a) Further details on derivative financial instruments are disclosed within Note 16.
- (b) Balances outwith the scope of IFRS 7 'Financial Instruments: Disclosure' ("IFRS 7") have been excluded, namely prepayments, payments received on account and other tax payables.
- (c) As a general rule, cash deposited with banks earns interest at rates similar to market rates on daily deposits.
- (d) The carrying value of loans and other borrowings are accounted for at amortised cost. The carrying value of short term debt is a reasonable approximation of fair value. The fair value of long-term debt is calculated using a discounted 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.

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

**10 LIQUIDITY ANALYSIS**

**Maturity profile of financial liabilities**

The table below summarises the maturity profile of the company's financial liabilities based on contractual undiscounted payments.

	2017						2023 and thereafter £m	Total £m
	2018 £m	2019 £m	2020 £m	2021 £m	2022 £m			
<b>Cash outflows</b>								
Derivative financial instruments	125.7	-	-	-	-	-	-	125.7
Loans and other borrowings	369.2	228.9	71.3	148.0	68.5	555.3	1,441.2	
Payables*	210.4	0.2	-	-	-	-	-	210.6
	<b>705.3</b>	<b>229.1</b>	<b>71.3</b>	<b>148.0</b>	<b>68.5</b>	<b>555.3</b>	<b>1,777.5</b>	
2016								
<b>Cash outflows</b>	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	2022 and thereafter £m	Total £m	2016 £m
Derivative financial instruments	171.8	-	-	-	-	-	-	171.8
Loans and other borrowings	323.0	76.7	228.7	69.3	146.0	605.6	1,449.3	
Payables*	194.7	0.2	-	-	-	-	-	194.9
	<b>689.5</b>	<b>76.9</b>	<b>228.7</b>	<b>69.3</b>	<b>146.0</b>	<b>605.6</b>	<b>1,816.0</b>	

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

**11 SHARE CAPITAL**

	2017 £m	2016 £m
<b>Authorised:</b>		
385,000,000 ordinary shares of £1 each (2016 200,000,000)	<b>385.0</b>	200.0
<b>Allotted, called up and fully paid shares:</b>		
385,000,000 ordinary shares of £1 each (2016 200,000,000)	<b>385.0</b>	200.0

(a) On 24 October 2016, the company issued 185,000,000 new ordinary shares of £1 each to SPENH at par consideration.

**12 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF SP TRANSMISSION PLC**

	Ordinary share capital (Note (a)) £m	Hedge reserve (Note (b)) £m	Retained earnings (Note (c)) £m	Total £m
At 1 April 2015	200.0	(20.0)	382.6	562.6
Profit for the year attributable to equity holders of SP Transmission plc	-	-	160.2	160.2
Changes in the value of cash flow hedges	-	12.0	-	12.0
Tax relating to cash flow hedges	-	(2.4)	-	(2.4)
Dividends	-	-	(10.0)	(10.0)
At 1 April 2016	200.0	(10.4)	532.8	722.4
Profit for the year attributable to equity holders of SP Transmission plc	-	-	146.4	146.4
Changes in the value of cash flow hedges	-	12.6	-	12.6
Tax relating to cash flow hedges	-	(2.5)	-	(2.5)
Share capital issued	185.0	-	-	185.0
Dividends	-	-	(72.0)	(72.0)
<b>At 31 March 2017</b>	<b>385.0</b>	<b>(0.3)</b>	<b>607.2</b>	<b>991.9</b>

(a) On 24 October 2016, the company issued 185,000,000 new ordinary shares of £1 each to SPENH at par consideration.  
 (b) 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.  
 (c) Retained earnings comprise the cumulative balance of profits and losses recognised in the financial statements as adjusted for transactions with shareholders, principally dividends.

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

**12 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF SP TRANSMISSION PLC *continued***

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

<b>Cash flow hedges</b>	<b>Foreign exchange</b>		
	<b>rate hedges</b>	<b>Tax effect</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
At 1 April 2015	(25.0)	5.0	(20.0)
Effective cash flow hedges recognised	8.2	(1.6)	6.6
Removed from equity and recognised in carrying amount of hedged items	3.8	(0.8)	3.0
At 1 April 2016	(13.0)	2.6	(10.4)
Effective cash flow hedges recognised	8.9	(1.8)	7.1
Removed from equity and recognised in carrying amount of hedged items	3.7	(0.7)	3.0
<b>At 31 March 2017</b>	<b>(0.4)</b>	<b>0.1</b>	<b>(0.3)</b>

(e) All amounts included in the hedge reserve as at 31 March 2017 are due to mature within one year (2016 due within one year).

**13 DEFERRED INCOME**

<b>Year ended 31 March 2016</b>	<b>At</b>	<b>Receivable</b>	<b>Released</b>	<b>At</b>
	<b>1 April</b>	<b>during</b>	<b>to income</b>	<b>31 March</b>
	<b>2015</b>	<b>year</b>	<b>statement</b>	<b>2016</b>
<b>Transfer of assets from customers</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Transfer of assets from customers	61.1	14.6	(1.8)	73.9

<b>Year ended 31 March 2017</b>	<b>At</b>	<b>Receivable</b>	<b>Released</b>	<b>At</b>
	<b>1 April</b>	<b>during</b>	<b>to income</b>	<b>31 March</b>
	<b>2016</b>	<b>year</b>	<b>statement</b>	<b>2017</b>
<b>Transfer of assets from customers</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Transfer of assets from customers	73.9	16.4	(1.8)	88.5

**14 PROVISIONS**

<b>Year ended 31 March 2017</b>	<b>Note</b>	<b>At</b>	<b>At</b>	<b>At</b>
		<b>1 April</b>	<b>1 April</b>	<b>31 March</b>
		<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>Onerous contracts</b>	<b>(a)</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Onerous contracts	(a)	0.7	0.7	0.7

(a) The above provision for onerous contracts relates to unavoidable project costs which may be reduced dependant on the project outcome. This is expected to be concluded in the regulatory year 2017/18.

**15 LOANS AND OTHER BORROWINGS**

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

<b>Instrument</b>	<b>Notes</b>	<b>Interest rate*</b>	<b>Maturity</b>	<b>2017</b>	<b>2016</b>
Loans with group companies - SPUK	(i)	Base + 1%	On demand	291.5	164.4
Loans with group companies - SPL		3.858%	29 January 2019	75.0	75.0
Loans with group companies - SPUK	(ii), (iii)	3.416%	21 December 2022	156.0	208.0
Loans with group companies - SPUK	(ii), (iv)	3.570%	20 December 2023	176.0	176.0
Loans with group companies - SPUK	(ii), (v)	2.821%	31 March 2025	280.0	350.0
Loans with group companies - SPUK	(i), (ii)	LIBOR + 3.365%	28 January 2029	210.0	210.0
				1,188.5	1,183.4

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

<b>Maturity</b>	<b>2017</b>	<b>2016</b>
	<b>£m</b>	<b>£m</b>
<b>Non-current</b>	<b>853.0</b>	<b>897.0</b>
<b>Current</b>	<b>335.5</b>	<b>286.4</b>
	<b>1,188.5</b>	<b>1,183.4</b>

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

**15 LOANS AND OTHER BORROWINGS *continued***

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

- (i) A 1% increase in the LIBOR rate and Base rate would result in a £5.0 million increase in the full year interest charge.
- (ii) Under the conditions of the long term loan agreements between the company and SPUK, the company has an option, without fee or penalty, to make a repayment in whole or in part, of the then outstanding loan principal, plus accrued interest thereon, by providing SPUK with written notice at least five business days before the intended repayment date.
- (iii) The intercompany loan with SPUK that is due to mature in December 2022 is repayable in equal instalments every two years. The repayment of £52.0 million that was due in 2016 was classified as current in the 2016 analysis above.
- (iv) The intercompany loan with SPUK that is due to mature in December 2023 is repayable in equal instalments every two years. The repayment of £44.0 million that is due in 2017 has been classified as current in the 2017 analysis above.
- (v) The intercompany loan with SPUK that is due to mature in March 2025 is repayable in equal instalments every two years. The first repayment of £70.0 million that was due in March 2017 was classified as current in the 2016 analysis above.

**(b) Borrowing facilities**

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

**16 DERIVATIVE FINANCIAL INSTRUMENTS**

**Analysis of carrying value of derivative financial instruments – carrying value**

	2017				2016			
	Assets		Liabilities		Assets		Liabilities	
	Current £m	Non- current £m	Current £m	Non- current £m	Current £m	Non- current £m	Current £m	Non- current £m
<b>Hedging derivatives</b>								
Foreign exchange rate	0.9	-	(0.5)	-	1.6	-	(0.9)	-

**17 TRADE AND OTHER PAYABLES**

	Note	2017 £m	2016 £m
<b>Current trade and other payables:</b>			
Payables due to Iberdrola group companies - trade		31.1	29.4
Payables due to Iberdrola group companies - interest		5.8	6.4
Other taxes and social security		12.7	13.0
Payments received on account		35.6	25.0
Other payables	(a)	179.3	165.3
		264.5	239.1
<b>Non-current other payables:</b>			
Other payables		0.2	0.2

(a) Current other payables mainly comprises payables in respect of capital expenditure.

**18 DEFERRED TAX**

Deferred tax provided in the Accounts is as follows:

	Property, plant and equipment £m	Derivative financial instruments £m	Total £m
At 1 April 2015	127.9	(5.0)	122.9
Charge to income statement	2.1	-	2.1
Recorded in the statement of comprehensive income	-	2.4	2.4
At 1 April 2016	130.0	(2.6)	127.4
Charge to income statement	8.2	-	8.2
Recorded in the statement of comprehensive income	-	2.5	2.5
<b>At 31 March 2017</b>	<b>138.2</b>	<b>(0.1)</b>	<b>138.1</b>

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

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

**19 EMPLOYEE INFORMATION**

**(a) Staff costs**

	2017 £m	2016 £m
Wages and salaries	0.7	0.7
Social security costs	0.1	0.1
Pension and other costs	0.3	0.1
<b>Total staff costs</b>	<b>1.1</b>	<b>0.9</b>

(i) The employee costs for the years ended 31 March 2017 and 31 March 2016 include those in respect of one director, Scott Matheson. The emoluments of the other directors of the company for the years ended 31 March 2017 and 31 March 2016 are included within the employee costs of another ScottishPower group company, as they do not have a contract of service with the company. Details of directors' emoluments are set out in Note 28.

**(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 2017	Average 2017	Year end 2016	Average 2016
Administrative staff	11	10	9	9

The year end and average numbers of full time equivalent staff employed by the company match those stated above.

**(c) Pensions**

The company's contributions payable in the year were £178,600 (2016 £144,300). The company contributes to the ScottishPower group's defined benefit and defined contribution schemes in the UK. Full details of these schemes are provided in the most recent Annual Report and Accounts of SPL. As at 31 December 2016, the deficit in ScottishPower's defined benefit schemes in the UK amounted to £442.5 million (2015 £264.4 million). The employer contribution rate for these schemes in the year ended 31 December 2016 was 30.1% - 31.0%.

**20 TAXES OTHER THAN INCOME TAX**

	2017 £m	2016 £m
Property taxes	26.4	24.9

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

	2017 £m	2016 £m
Property, plant and equipment depreciation charge	53.9	47.9
Charges and provisions, allowances and impairment of assets	0.6	1.7
	<b>54.5</b>	<b>49.6</b>

**22 FINANCE INCOME**

	2017 £m	2016 £m
Interest receivable on finance leases	0.1	0.1
Interest receivable from Iberdrola group companies	-	0.2
	<b>0.1</b>	<b>0.3</b>

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

**23 FINANCE COSTS**

	2017 £m	2016 £m
Interest on amounts due to Iberdrola group companies	37.0	37.1
Foreign exchange losses	-	0.1
	<b>37.0</b>	<b>37.2</b>
Capitalised interest	(5.1)	(4.4)
	<b>31.9</b>	<b>32.8</b>

**24 INCOME TAX**

	2017 £m	2016 £m
Current tax:		
UK Corporation tax	17.7	22.4
Adjustments in respect of prior years	(1.3)	(1.9)
<b>Current tax charge for the year</b>	<b>16.4</b>	<b>20.5</b>
Deferred tax:		
Origination and reversal of temporary differences	16.7	14.7
Adjustments in respect of prior years	1.2	2.0
Impact of tax rate change	(9.7)	(14.6)
<b>Deferred tax for the year</b>	<b>8.2</b>	<b>2.1</b>
<b>Income tax charge for the year</b>	<b>24.6</b>	<b>22.6</b>

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

	2017 £m	2016 £m
Corporation tax at 20% (2016 20%)	34.2	36.6
Adjustments in respect of prior periods	(0.1)	0.1
Impact of tax rate change	(9.7)	(14.6)
Other permanent differences	0.2	0.3
<b>Impact of rate change from headline corporation tax rate</b>	<b>-</b>	<b>0.2</b>
<b>Income tax charge for the year</b>	<b>24.6</b>	<b>22.6</b>

The rate of UK Corporation Tax reduced from 21% to 20% on 1 April 2015. Legislation has been enacted to reduce the rate of UK Corporation Tax to 19% on 1 April 2017 and to 17% on 1 April 2020. These changes reduce the tax rates expected to apply when temporary differences reverse and impact the deferred tax charge.

**25 FINANCIAL COMMITMENTS**

**Other contractual commitments**

	2016 £m	2015 £m
Provision of asset management services from Power Systems	33.7	30.9

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

**26 DIVIDENDS**

	2017 pence per ordinary share	2016 pence per ordinary share	2017 £m	2016 £m
Interim dividend paid	18.7	5.0	72.0	10.0

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

**27 CONTINGENT LIABILITIES**

**Debt guarantees**

As part of the exercise to achieve legal separation of SPUK's businesses pursuant to the provision of the Utilities Act 2000, the company and other subsidiary companies of SPUK were each required to jointly provide guarantees to external lenders of SPUK for debt existing in that company at 1 October 2001. The value of debt guaranteed by these companies, which was still outstanding at 31 March 2017, was £1,027.3 million (2016 £1,223.0 million).

**Legal proceedings**

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

**28 RELATED PARTY TRANSACTIONS**

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

	2017				2016			
	UK parent (SPL) £m	Immediate parent (SPENH) £m	Other Iberdrola group companies £m	Jointly controlled entities £m	UK parent (SPL) £m	Immediate parent (SPENH) £m	Other Iberdrola group companies £m	Jointly controlled entities £m
<b>Types of transaction</b>								
Sales and rendering of services	-	-	-	2.4	-	-	0.4	2.6
Purchases and receipt of services	-	-	(35.3)	-	-	-	(32.2)	-
Purchases of property, plant and equipment	-	-	(290.1)	(68.3)	-	-	(309.2)	(49.4)
Interest income	-	-	-	-	-	-	0.2	-
Interest costs	(2.9)	-	(34.1)	-	(2.9)	-	(34.2)	-
Changes in the value of cash flow hedge reserve	(12.6)	-	-	-	(12.0)	-	-	-
Dividends paid	-	(72.0)	-	-	-	(10.0)	-	-
<b>Balances outstanding</b>								
Trade and other receivables	-	-	-	3.0	-	-	-	3.0
Derivative financial assets	0.9	-	-	-	1.6	-	-	-
Loans payable	(75.0)	-	(1,113.5)	-	(75.0)	-	(1,108.4)	-
Trade and other payables	(0.1)	-	(31.0)	-	-	-	(29.4)	-
Interest payable	(0.5)	-	(5.3)	-	(0.5)	-	(5.9)	-
Derivative financial liabilities	(0.5)	-	-	-	(0.9)	-	-	-

(i) During the year ended 31 March 2017, SPUK made pension contributions of £178,600 on behalf of the company (2016 £144,300).

(ii) 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 ScottishPower group, it has not been possible to apportion the remuneration specifically in respect of services to this company. Of the twelve (2016 eight) key management personnel, only one (2016 one) is remunerated by this company.

	2017 £000	2016 £000
Short-term employee benefits	1,717	1,762
Post-employment benefits	244	346
Share-based payments	127	620
	2,088	2,728

**SP TRANSMISSION PLC**  
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**28 RELATED PARTY TRANSACTIONS *continued***

**(c) Directors' remuneration**

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

	2017 £000	2016 £000
<b>Executive directors</b>		
Aggregate remuneration in respect of qualifying services	1,069	1,052
Number of directors who exercised share options	2	2
Number of directors who received shares under a long-term incentive scheme	-	3
Number of directors accruing retirement benefits under a defined benefit scheme	2	2
	2017 £000	2016 £000
<b>Highest paid director</b>		
Aggregate remuneration	614	580
Accrued pension benefit	92	90

(i) The highest paid director received shares under a long-term incentive scheme during 2016 only.  
(ii) The highest paid director exercised share options during both years.

**(d) Ultimate parent company and immediate parent company**

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

Copies of the Consolidated Accounts of Iberdrola, S.A. may be obtained from Iberdrola, S.A. at its registered office; Torre Iberdrola, Plaza Euskadi 5, 48009, Bilbao, Spain. Copies of the Consolidated Accounts of SPENH may be obtained from Scottish Power Energy Networks Holdings Limited at its registered office; Ochil House, 10 Technology Avenue, Hamilton International Technology Park, Blantyre G72 0HT, Scotland.

**29 AUDITOR'S REMUNERATION**

	2017 £m	2016 £m
Audit of the company's annual Accounts	0.1	0.1

**30 GOING CONCERN**

The company's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report on pages 1 to 10.

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 £587.3 million and net assets of £991.9 million at its most recent balance sheet date.

The company is ultimately owned by Iberdrola, S.A. and it participates in the Iberdrola group's centralised treasury arrangements and so shares banking facilities with its parent companies and fellow subsidiaries. As a consequence, the company depends, in part, on the ability of the Iberdrola group to continue as a going concern. The directors have considered the company's funding relationship with Iberdrola to date and have considered available relevant information relating to Iberdrola's ability to continue as a going concern. In addition, the directors have no reason to believe that 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.