

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

Registered No. SC189125

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for the year ended 31 March 2013

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SP DISTRIBUTION LIMITED DIRECTORS' REPORT

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

ACTIVITIES AND REVIEW

The principal activity of SP Distribution Limited ("the company"), registered company number SC189125, is the ownership of the electricity distribution network within the Central and Southern Scotland area. The network is used to distribute electricity, which has been transmitted to grid supply points, for electricity supply companies for onward sales to their customers.

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

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

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

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

KEY FACTORS AFFECTING THE BUSINESS

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

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

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

PRINCIPAL RISKS AND RISK MANAGEMENT ACTIVITIES

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

SP DISTRIBUTION LIMITED

DIRECTORS' REPORT *continued*

PRINCIPAL RISKS AND RISK MANAGEMENT ACTIVITIES *continued*

Risks relating to the company's business

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

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

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

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

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

(a) Revenue risk

The majority of the revenue generated by the company is subject to regulation by the Gas and Electricity Markets Authority ("GEMA"). Regulatory controls include price controls which restrict the average amount, or total amount, charged for a bundle of services.

(b) Treasury management

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

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

SP DISTRIBUTION LIMITED

DIRECTORS' REPORT *continued*

PRINCIPAL RISKS AND RISK MANAGEMENT ACTIVITIES *continued*

Risks relating to the company's business continued

(c) Credit risk

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

Insurance

For the year ended 31 March 2013, the company's main insurance strategy was to procure cover from external insurance markets.

The company conducts periodic reviews of the business requirements and evaluates alternative risk mitigation strategies to ensure that the most effective and economic cover is secured.

OPERATIONAL ASSETS OF THE COMPANY

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

		Year ended 31 March 2013	Year ended 31 March 2012
	Note		
Franchise area (km ²)		22,950	22,950
System maximum demand (MW)		3,673	3,611
Distributed energy (GWh)		19,537	19,341
Length of overhead lines (circuit km)	(a)	19,478	21,103
Length of underground cables (circuit km)	(a)	38,334	42,924

(a) An audit of the inventory of network assets was undertaken during 2012/13 to validate key asset categories. This identified a change to the network length of overhead line and underground cable which are reflected in the table.

PROJECTS

Network growth

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

Although no major connections activity was completed during 2012/13 the company continues to support local authority and private developers' enquiries through the provision of new electrical connections, network alterations and, in conjunction with key stakeholders, connection of new generation plant to the network.

The company continues to reinforce the electricity network to support underlying load growth and address local issues. Major reinforcement projects at Netherton and Tranent were completed in 2012/13 and a number of projects that commenced construction in 2011/12 at Armadale, Dumbarton and Ayr will complete later in 2013. New projects commenced during the year at Castlandhill and Netherdale.

Reinforcement projects to address specific fault-level issues continued at Kilmarnock, Port Dundas, Elderslie, Giffnock and Sighthill, and are scheduled for completion during 2013/14.

Asset modernisation

A major replacement of transmission infrastructure at Dewar Place near the financial centre of Edinburgh has continued, necessitating extensive replacement of distribution switchgear, transformers and cables. This work is ongoing and on schedule to complete during 2013. Replacement of 33kV switchgear was completed at Coatbridge, New Cumnock and Grangemouth during the year and work is ongoing to replace 33kV switchgear at Devol Moor and Strathaven.

SP DISTRIBUTION LIMITED

DIRECTORS' REPORT *continued*

PROJECTS *continued*

Asset modernisation continued

Replacement of 33kV transformers was also completed at Caterpillar, Gatehouse River, Lethanhill and West Linton during the year and in terms of the wider modernisation of distribution substations, over 310 poor condition and obsolete ring main units and multi-panel boards were replaced with modern switchgear.

In addition to performance and reliability benefits from modern switchgear, there are environmental improvements through reduced use of oil as an insulating medium. These substation sites can facilitate remote-control switching from the Operational Control Centre that will further improve system performance and customer service.

In order to protect the long-term integrity of the electrical assets a major civil infrastructure programme has continued and involves refurbishment of foundations, support structures and buildings.

The company's extensive modernisation of internal mains low-voltage service cables in local authority residential accommodation has continued through 2012/13. This work will continue for the foreseeable future to modernise the main electrical infrastructure in all local authority housing stock.

The company continues to modernise its extensive overhead line network in order to improve condition and resilience to abnormal weather events. Major overhead line projects involving the complete rebuild of two 33kV overhead line circuits out of Newarthill were completed in 2012/13. Further work to replace 33kV overhead line circuits out of Linmill, Coylton and Bonnybridge have commenced and will be completed during 2013/14. In order to complement these full rebuild projects and further improve the performance and reliability of the overhead line network, the extensive overhead line refurbishment programme initiated in 2010 will continue until at least 2030.

On the overhead line network, the first phase of the major low ground clearance programme has been completed, with the removal of over 8000 clearance defects. This programme will continue throughout the foreseeable future and into the ED1 period.

Other

Construction work on the Power Network Demonstration Centre, a collaboration between the Regulated Business, Scottish and Southern Energy plc and the University of Strathclyde, was completed in 2012/13. The centre has now been formally opened and will serve as a focal point for the development of future network technology and practices.

SP DISTRIBUTION LIMITED

DIRECTORS' REPORT *continued*

OPERATIONAL FINANCIAL PERFORMANCE

Ofgem requires all licensees operating electricity distribution systems to report annually on their performance. Statistics remain provisional until they are audited and subsequently published by Ofgem. Consequently, the provisional statistics contained in the table below may differ to the statistics published by Ofgem. The company expects the 2012/13 Electricity Distribution Quality of Service Report to be published online at www.ofgem.gov.uk from December 2013.

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

		Actual Year ended 31 March 2013	Target Year ended 31 March 2013	Actual Year ended 31 March 2012	Target Year ended 31 March 2012
	Notes				
Quality of service					
Customer minutes lost ("CML")	(a)	45.7	61.5	48.8	63.5
Customer interruptions ("CI")	(b)	51.6	60.1	52.5	60.1
Average time off supply (minutes)		89	102	93	106
Electricity supply availability		99.99%	99.99%	99.99%	99.99%
Quality of Telephone Response (mean score)	(c)	n/a	n/a	4.5	4.4
Customer performance					
Broader Customer Service Measure	(d)	7.8	8.3	n/a	n/a
Energy Ombudsman (customer complaints)	(e)	8	-	6	-

- (a) CML is reported as the average number of minutes that a customer is without power during a year due to power cuts which last for three minutes or more.
- (b) CI are reported as the number of customers, per 100 customers, that are affected during the year by power cuts which last three minutes or more.
- (c) Quality of Telephone Response assesses the politeness, usefulness and speed of telephone response, measuring customer satisfaction on a scale of 1 to 5. This is then weighted by a factor of customers who are unsuccessful in contacting SPD on its emergency telephone line. This measure was replaced by the Broader Customer Service Measure from 1 April 2012.
- (d) On 1 April 2012 Ofgem replaced the Telephony Response Measure with a broader measure of customer satisfaction which consists of three components: a customer satisfaction survey, complaints metric and stakeholder engagement. Attached to the new measure are financial rewards and penalties related to Distribution Network Operator ("DNO") performance.
- (e) The Energy Ombudsman, an independent body, monitors and adjudicates complaint cases.

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

During 2012/13 the supply of energy to customers was disrupted by two storm events; wind and gales in April 2012, and a snow storm in March 2013. These events met the 'exceptional event' exclusion criterion that Ofgem have applied to previous events of this kind. The above CML and CI values have been adjusted accordingly to reflect the underlying performance of the network as measured and incentivised by Ofgem. During 2011/12 there were six exceptional storm events.

A new measure of customer satisfaction called the 'Broader Customer Service Measure' was introduced from 1 April 2012, which combines the results of a more detailed customer satisfaction survey, complaints and stakeholder engagement. For the 2012/13 regulatory year SP Distribution was ranked 12 out of 14 DNO's with an overall score of 7.77 out of 10. The mean score for the industry (8.00) sets the threshold for DNO penalty or reward. The estimated penalty attached to SP Distribution's performance is approximately £950,000.

SP DISTRIBUTION LIMITED
DIRECTORS' REPORT *continued*

OPERATIONAL FINANCIAL PERFORMANCE *continued*

Business activities

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

	Total	Distribution	Excluded	Metering	De
For the year ended 31 March 2013	£m	(DUOS) £m	services £m	£m	minimus £m
Revenue	380.6	365.7	-	14.9	-
Procurements	(15.0)	(15.0)	-	-	-
	365.6	350.7	-	14.9	-
Staff costs	(0.7)	(0.7)	-	-	-
Outside services	(57.8)	(40.9)	(10.9)	(4.5)	(1.5)
Other operating income	25.1	1.5	22.1	-	1.5
	(33.4)	(40.1)	11.2	(4.5)	-
Taxes (other than income tax)	(40.0)	(40.0)	-	-	-
	292.2	270.6	11.2	10.4	-
Depreciation and amortisation charges, allowances and provisions	(86.5)	(57.6)	(13.2)	(15.7)	-
PROFIT/(LOSS) FROM OPERATIONS	205.7	213.0	(2.0)	(5.3)	-
Property, plant and equipment asset additions	219.0	142.5	72.7	3.8	-

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

The financial position of the company at the Regulatory year end was satisfactory. The majority of revenue generated by the company is subject to regulation by GEMA.

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

The company's profit from operations was £205.7 million, an increase of £1.6 million compared to the prior year, and net profit was £152.7 million, an increase of £0.6 million compared to the prior year.

Revenue increased on the prior year reflecting higher base revenue.

Procurements have decreased mainly due to lower network costs in relation to the Low Carbon Networks Fund.

Outside services have increased primarily as a result of higher recharges from SPPS due to increased activity in the provision of asset management services. In addition, outside services have been impacted by the change in accounting estimate as discussed at Note 1.

Other operating income has decreased as a result of lower contributions received from customers and less property rental income received.

Taxes other than income tax have increased on the prior year due to an increase in property taxes following a rates revaluation.

Depreciation and amortisation charge, allowances and provisions has increased on the prior year due to an increased depreciation charge with the ongoing capital additions being brought in during the year, this has been partially offset by a reduction in charges and provisions. In addition, the depreciation charge has been impacted by the change in accounting estimate as discussed at Note 1.

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

SP DISTRIBUTION LIMITED

DIRECTORS' REPORT *continued*

OPERATIONAL FINANCIAL PERFORMANCE *continued*

The **income tax expense** has decreased compared with the prior year due to a decrease in profits and the effect of adjustments in respect of prior years, offset by the lesser impact of reducing corporation tax rates.

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

Cash and net debt

During the year the company generated £329.4 million of cash from operating activities (2012 £269.2 million). This was used to fund investment in property, plant and equipment of £195.2 million (2012 £199.6 million), and settle interest paid of £23.0 million (2012 £10.6 million). During the year, the company entered into a £425.0 million long term loan with Scottish Power UK plc ("SPUK") and paid dividends of £468.0 million (2012 £95.0 million).

Net capital investment

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

Net capital investment for the year was £146.3 million consisting of fixed asset additions of £219.0 million less capital contributions received of £72.7 million. This compares to fixed asset additions of £209.2 million for the year ended 31 March 2012 less capital contributions received of £43.1 million.

Property, plant and equipment additions in relation to growth of the network amounted to £94.1 million (2012 £46.0 million) less capital contributions of £72.7 million (2012 £43.1 million). This investment delivers new connections to the distribution network and increases in network capacity. Property, plant and equipment additions in relation to modernisation of the network to maintain safety, security and reliability of supplies, amounted to £124.9 million (2012 £163.2 million).

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

RESULTS AND DIVIDENDS

The net profit for the year amounted to £152.7 million (2012 £152.1 million). The aggregate dividends paid during the year amounted to £468.0 million (2012 £95.0 million).

CAPITAL AND DEBT STRUCTURE

The company is funded by a combination of debt and equity in accordance with the directors' objectives of establishing an appropriately funded business consistent with the requirements of the Utilities Act 2000 and the objectives of the Iberdrola group. All the equity is held by the company's immediate parent undertaking, SPENH.

As part of the exercise to achieve legal separation of the business of SPUK pursuant to the provisions of the Utilities Act 2000, the company and other subsidiary companies of SPUK were each required to jointly provide guarantees to external lenders of SPUK for debt existing in that company at 1 October 2001.

Treasury and interest policy

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

SP DISTRIBUTION LIMITED

DIRECTORS' REPORT *continued*

CAPITAL AND DEBT STRUCTURE *continued*

Funding

At the end of the year the company had net debt of £820.6 million (2012 £463.4 million) and net current liabilities of £5.7 million at 31 March 2013 (2012 £46.1 million).

Liquidity and maintenance of investment grade credit rating

The directors confirm that the company remains a going concern on the basis of its future cash flow forecasts and has sufficient working capital for present requirements. It is anticipated that the company will continue to have a level of liquidity at least sufficient to maintain an investment grade credit rating. The directors consider that sufficient funding will be made available to the company to continue operations and to meet liabilities as they fall due. Further details of the going concern considerations made by the directors of the company are set out in Note 27.

STRATEGIC PLAN

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

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

Key strategies for SP Distribution Limited until the end of DPCR5 and beyond are:

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

UK ELECTRICITY REGULATION

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

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

SP DISTRIBUTION LIMITED

DIRECTORS' REPORT *continued*

UK ELECTRICITY REGULATION *continued*

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

The current price control framework in which the company operates is DPCR5. DPCR5 covers the period from 1 April 2010 to 31 March 2015.

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

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

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

On 28 September 2012 Ofgem published a consultation document on their proposed approach to the next electricity distribution price control (RIIO-ED1). The price control will set the outputs that the 14 electricity distribution companies (DNOs) need to deliver for their consumers and the associated revenues they are allowed to collect for the eight-year period from 1 April 2015 to 31 March 2023.

This will be the first electricity distribution price control to reflect the new RIIO (Revenue = Incentives + Innovation + Outputs) model. RIIO is designed to provide companies with strong incentives to meet the challenges of delivering a low carbon, sustainable energy sector, with appropriate rewards to promote timely investment in the networks.

Following responses to their consultation, Ofgem published their decision on the strategy for RIIO-ED1 in early March 2013 and distribution companies are now developing well-justified business plans setting out their outputs, and how they propose to deliver them, for submission to Ofgem in July 2013. The final price control proposal for RIIO-ED1 is expected to be published in November 2014, and in the meantime the company continues to engage closely and constructively with Ofgem throughout the review.

EMPLOYEES

Employment regulation

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

SP DISTRIBUTION LIMITED

DIRECTORS' REPORT *continued*

EMPLOYEES *continued*

Employee consultation

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

Equal opportunities

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

Employment of disabled persons

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

Positive about disabled people - Double tick accreditation

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

ENVIRONMENTAL REGULATION

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

HEALTH AND SAFETY

The prevention of harm to employees, contractors and members of the public and the protection of business assets and operational capability is a key priority for the Regulated Business. The organisation has continued to strive for improved performance and both internal and external assessments have again returned positive findings. The main business areas within the Regulated Business achieved Integrated Management System certification in 2012. The number of lost time accidents reported to the Health and Safety Executive ("HSE") under The Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995 ("RIDDOR"), has decreased to four from seven in the previous year. The commitment to investigate accidents and incidents to address root causes remains steadfast and is given the highest priority with Panels of Inquiry being established whenever there is a significant incident.

SP DISTRIBUTION LIMITED

DIRECTORS' REPORT *continued*

HEALTH AND SAFETY *continued*

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

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

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

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

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

(b) Near miss reports centre on preventing unsafe acts or conditions occurring by initiating immediate investigation and remedial action. It is a forward looking measure where reporting is proactively encouraged. Indeed a higher number of near miss reports against target is a positive result. The information received allows common themes to be identified and lessons learned to prevent accidents in the future.

(c) Total Recordable Incident Rate is the summation of any incidents, be they lost time, medical treatment or leading to some work restriction per 100,000 hours worked. The business has seen a 50% reduction in total incidents over a 12 month period.

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

Employee well-being is also encouraged through a variety of health and fitness education activities. Public safety information and education promotion have continued through a mixture of internet, community and schools teaching programmes.

COMMUNITY RELATIONSHIPS

Community relationships

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

The Fundación Iberdrola is responsible for coordinating, driving and promoting the social and environmental activities of the Iberdrola group. ScottishPower's community investment activity is aligned to the Fundación's four key themes: Training & Research, Sustainability & Biodiversity, Art & Culture and Cooperation and Solidarity.

ScottishPower engages with communities across its operations, particularly where new developments are planned, to ensure Community groups can have a say in the planning process.

SP DISTRIBUTION LIMITED

DIRECTORS' REPORT *continued*

COMMUNITY RELATIONSHIPS *continued*

Community consultation

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

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

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

Investing in the community

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

During the year ended 31 December 2012, ScottishPower's businesses contributed £6.2 million in community support activity of which £3.9 million was contributed to registered charitable organisations. The £6.2 million total incorporated £1.8 million categorised as charitable gifts, £2.8 million categorised as community investment and £1.6 million categorised as commercial initiatives, given in cash, through staff time and in-kind donations.

These figures are compiled from ScottishPower's Community Database, which provides an analysis of community investment activity, which is submitted annually in a return to the LBG. The figures provided above will form part of the company's 2013 return and have not yet been audited by LBG.

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

POLITICAL DONATIONS AND EXPENDITURE

ScottishPower is a politically neutral organisation. It is subject to the Political Parties, Elections and Referendums Act 2000, which defines political "donations" and "expenditure" in wider terms than would be commonly understood by these phrases. During the year ended 31 March 2013, ScottishPower paid a total of £23,000 for the sponsorship of conferences and events – activities which may be regarded as falling within the terms of the Act.

The recipients of these payments were:

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

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

SP DISTRIBUTION LIMITED
DIRECTORS' REPORT *continued*

CREDITOR PAYMENT POLICY AND PRACTICE

ScottishPower's policy and practice is to settle terms of payment when agreeing the terms of the transaction, to include the terms in contracts and to pay in accordance with its contractual and legal obligations. At the year-end there were no external trade creditors outstanding. Therefore the company's creditor days were nil (2012 nil).

DIRECTORS

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

Scott Mathieson
Frank Mitchell

DISCLOSURE OF INFORMATION TO AUDITORS

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

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

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

AUDITORS

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

ON BEHALF OF THE BOARD



Scott Mathieson
Director
12 July 2013

SP DISTRIBUTION LIMITED

CORPORATE GOVERNANCE STATEMENT

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

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

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

Administrative, management and supervisory bodies

Board and management meetings

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

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

In addition to formal SP Distribution and SPENH Board meetings, which are convened as required, the directors and other senior managers within the Regulatory Business hold monthly management meetings which review strategy, operational performance and risk issues on behalf of both the company and other companies within the Regulated Business.

The directors of the company are subject to annual evaluation of their performance in respect of their executive responsibilities as part of the performance management system which is in place throughout ScottishPower.

SPENH Board

The SPENH Board comprises the Chairman Javier Villalba Sánchez and six other directors. The directors of SPENH and their classification are shown below.

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

SP DISTRIBUTION LIMITED

CORPORATE GOVERNANCE STATEMENT *continued*

Administrative, management and supervisory bodies *continued*

SPENH Board *continued*

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

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

ScottishPower Board

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

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

Directors

José Ignacio Sánchez Galán (Chairman)	Non-independent, non-executive director
Lord Kerr of Kinlochard GCMG (Vice Chairman)	Independent non-executive director (appointed Vice Chairman 18 April 2012)
José Miguel Alcolea Cantos	Non-independent, executive director
Keith Anderson	Non-independent, executive director
Fernando Becker Zuazua	Non-independent, executive director (resigned 31 May 2012)
Professor Susan Deacon	Independent non-executive director (appointed 18 July 2012)
Sir Tom Farmer CVO CBE KCSG	Independent non-executive director
Rt Hon Lord Macdonald of Tradeston CBE	Independent non-executive director
Juan Carlos Rebollo Liceaga	Non-independent, executive director
José Sainz Armada	Non-independent, executive director
José Luis San Pedro Gerenabarrena	Non-independent, executive director (resigned 31 May 2012)

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

José Ignacio Sánchez Galán	Attended all meetings
Lord Kerr of Kinlochard GCMG	Attended all meetings
José Miguel Alcolea Cantos	Attended all meetings
Keith Anderson	Attended all meetings
Fernando Becker Zuazua	Attended no meetings
Professor Susan Deacon	Attended three meetings
Sir Tom Farmer CVO CBE KCSG	Attended three meetings
Rt Hon Lord Macdonald of Tradeston CBE	Attended all meetings
Juan Carlos Rebollo Liceaga	Attended all meetings
José Sainz Armada	Attended all meetings
José Luis San Pedro Gerenabarrena	Attended two meetings

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

SP DISTRIBUTION LIMITED

CORPORATE GOVERNANCE STATEMENT *continued*

Administrative, management and supervisory bodies *continued*

ScottishPower Audit and Compliance Committee ("ACC")

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

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

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

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

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

Iberdrola Appointments and Remuneration Committee ("IARC")

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

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

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

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

Internal control

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

SP DISTRIBUTION LIMITED

CORPORATE GOVERNANCE STATEMENT *continued*

Internal control *continued*

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

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

Identification and evaluation of risks and control objectives

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

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

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

Capital investment

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

Monitoring and corrective action

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

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

SP DISTRIBUTION LIMITED
CORPORATE GOVERNANCE STATEMENT *continued*

Auditor independence

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

Where the work to be undertaken is of a nature that is generally considered reasonable to be completed by the external auditors for sound commercial and practical reasons, including confidentiality, the conduct of such work is permissible provided that it has been pre-approved by the ScottishPower Board.

Social, environmental and ethical matters

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

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

SP DISTRIBUTION LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITY

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

To the Gas and Electricity Markets Authority ("the Authority") and to SP Distribution Limited ("the company")

We have audited the Regulatory Accounts of the Company for the year ended 31 March 2013 (the "Regulatory Accounts") which comprise the Balance Sheet, Income Statement, Statement of Changes in Equity, Cash Flow Statement, and the related notes 1 to 27.

These Regulatory Accounts have been prepared in accordance with the basis of preparation and accounting policies set out on pages 26 to 28.

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

RESPECTIVE RESPONSIBILITIES OF THE AUTHORITY DIRECTORS AND AUDITORS

As explained more fully in the Statement of Directors' Responsibilities set out on page 19, the directors are responsible for the preparation of the Regulatory Accounts and for their fair presentation in accordance with the basis of preparation and accounting policies. Our responsibility is to audit and express an opinion on the Regulatory Accounts in accordance with International Standards on Auditing (UK and Ireland), except as stated in the 'Scope of the audit of the Regulatory Accounts' below, and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE REGULATORY ACCOUNTS

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

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

INDEPENDENT AUDITOR'S REPORT *continued*

OPINION ON THE REGULATORY ACCOUNTS

In our opinion the Regulatory Accounts:

- fairly present in accordance with Standard Condition 44 of the company's Regulatory Licence and the accounting policies set out on pages 26 to 28, the state of the Company's affairs at 31 March 2013 and its profit and its cash flow for the year then ended; and
- have been properly prepared in accordance with Standard Condition 44 of the company's Regulatory Licence and the accounting policies.

BASIS OF PREPARATION

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

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

OTHER MATTERS

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

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company for the year ended 31 December 2012 on which we reported on 28 March 2013, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



Ernst & Young LLP
Statutory Auditor
Glasgow
12 July 2013

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

	Notes	2013 £m	2012 £m
ASSETS			
NON-CURRENT ASSETS			
Intangible assets		1.1	2.5
Other intangible assets	3	1.1	2.5
Property, plant and equipment		2,353.4	2,219.7
Property, plant and equipment in use	4	2,157.8	1,930.1
Property, plant and equipment in course of construction	4	195.6	289.6
Investments	5	0.1	0.1
NON-CURRENT ASSETS		2,354.6	2,222.3
CURRENT ASSETS			
Trade and other receivables	8	158.7	95.7
Current financial assets		3.1	-
Cash and cash equivalents	6	3.1	-
CURRENT ASSETS		161.8	95.7
TOTAL ASSETS		2,516.4	2,318.0
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the Parent		761.6	1,076.9
Share capital	9, 10	300.0	300.0
Retained earnings	10	461.6	776.9
TOTAL EQUITY		761.6	1,076.9
NON-CURRENT LIABILITIES			
Deferred income	11	446.2	386.7
Provisions	12	0.7	-
Bank borrowings and other financial liabilities		921.2	495.8
Loans and other borrowings	13	921.2	495.8
Trade and other payables	14	21.3	13.3
Deferred tax liabilities	15	197.9	203.5
NON-CURRENT LIABILITIES		1,587.3	1,099.3
CURRENT LIABILITIES			
Provisions	12	2.7	4.8
Bank borrowings and other financial liabilities		-	0.3
Loans and other borrowings	13	-	0.3
Trade and other payables	14	139.6	107.4
Current tax liabilities		25.2	29.3
CURRENT LIABILITIES		167.5	141.8
TOTAL LIABILITIES		1,754.8	1,241.1
TOTAL EQUITY AND LIABILITIES		2,516.4	2,318.0

Approved by the Board on 12 July 2013 and signed on its behalf by:



Scott Mathieson
Director

The accompanying notes 1 to 27 are an integral part of the balance sheets as at 31 March 2013 and 31 March 2012.

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

	Notes	2013 £m	2012 £m
Revenue		380.6	361.2
Procurements		(15.0)	(17.1)
		365.6	344.1
Staff costs	16	(0.7)	(0.7)
Outside services		(57.8)	(53.0)
Other operating income		25.1	25.8
		(33.4)	(27.9)
Taxes other than income tax		(40.0)	(38.9)
		292.2	277.3
Depreciation and amortisation charge, allowances and provisions	17	(86.5)	(73.2)
PROFIT FROM OPERATIONS		205.7	204.1
Finance income	18	1.0	1.5
Finance costs	19	(27.3)	(22.6)
PROFIT BEFORE TAX		179.4	183.0
Income tax	20	(26.7)	(30.9)
NET PROFIT FOR THE YEAR		152.7	152.1

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

All results relate to continuing operations.

The accompanying notes 1 to 27 are an integral part of the income statements for the years ended 31 March 2013 and 31 March 2012.

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

	Ordinary share capital £m	Retained earnings £m	Total equity £m
At 1 April 2011	300.0	719.8	1,019.8
Total comprehensive income for the year	-	152.1	152.1
Dividends	-	(95.0)	(95.0)
At 1 April 2012	300.0	776.9	1,076.9
Total comprehensive income for the year	-	152.7	152.7
Dividends	-	(468.0)	(468.0)
At 31 March 2013	300.0	461.6	761.6

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

The accompanying notes 1 to 27 are an integral part of the statements of changes in equity for the years ended 31 March 2013 and 31 March 2012.

SP DISTRIBUTION LIMITED
CASH FLOW STATEMENTS
for the years ended 31 March 2013 and 31 March 2012

	2013	2012
	£m	£m
Cash flows from operating activities		
Profit before tax	179.4	183.0
Adjustments for:		
Depreciation and amortisation	84.6	69.9
Change in provisions	0.1	2.2
Transfer of assets from customers	(13.2)	(11.2)
Finance income and costs	26.3	21.1
Net losses on write-off/disposal of non-current assets	2.1	0.9
Changes in working capital:		
Change in trade and other receivables	1.9	8.0
Change in trade and other payables	39.8	3.9
Provisions paid	(1.5)	(0.4)
Assets received from customers	45.4	43.1
Income taxes paid	(36.4)	(52.9)
Interest received	0.9	1.6
Net cash flows from operating activities (i)	329.4	269.2
Cash flows from investing activities		
Investments in subsidiaries	-	(0.1)
Investments in property, plant and equipment	(195.2)	(199.6)
Net cash flows from investing activities (ii)	(195.2)	(199.7)
Cash flows from financing activities		
Increase/(decrease) in amounts due to Iberdrola group companies	425.0	(4.2)
Dividends paid to company's equity holders	(468.0)	(95.0)
Interest paid	(23.0)	(10.6)
Net cash flows from financing activities (iii)	(66.0)	(109.8)
Net increase/(decrease) in cash and cash equivalents (i)+(ii)+(iii)	68.2	(40.3)
Cash and cash equivalents at beginning of year	32.4	72.7
Cash and cash equivalents at end of year	100.6	32.4
Cash and cash equivalents at end of year comprises:		
Balance sheet cash and cash equivalents and term deposits	3.1	-
Bank overdraft	-	(0.3)
Receivables due from Iberdrola group companies - loans	97.5	32.7
Cash flow statement cash and cash equivalents	100.6	32.4

The accompanying notes 1 to 27 are an integral part of the cash flow statements for the years ended 31 March 2013 and 31 March 2012.

SP DISTRIBUTION LIMITED
NOTES TO ACCOUNTS
31 March 2013

1 BASIS OF PREPARATION OF THE ACCOUNTS

The Accounts have been prepared in accordance with Standard Condition 44 of the company's Regulatory Licence and International Accounting Standards ("IAS"), International Financial Reporting Standards ("IFRSs") and International Finance Reporting Interpretations Committee ("IFRIC") Interpretations (collectively referred to as IFRS), as adopted by the European Union ("EU") as at the date of approval of these Accounts and which are mandatory for the financial year ended 31 March 2013. The company's accounting reference date is 31 December to match that of its ultimate parent undertaking, Iberdrola S.A. Standard Condition 44 of the Electricity Distribution Licence requires the directors to prepare regulatory accounts, for each regulatory year, with the same content and format as the most recent statutory accounts of the company. The references made to the financial year within these Regulatory Accounts refer to the year from 1 April 2012 to 31 March 2013. Consequently the Corporate Report & Regulatory Accounts for the year ended 31 March 2013 are separate from the Directors' Report and Accounts of the company which have been prepared for the year ended 31 December 2012. The Accounts are prepared in accordance with the Accounting Policies set out in Note 2.

In order to better align its accounting estimates with that applied by the Iberdrola group and within the industry, the company reduced the estimated useful life of its underground cable assets to 40 years and revised its methodology for recovering indirect costs. These changes in estimates were applied prospectively as from 1 January 2013. The impact of these changes has been to reduce the net profit of the company for the year ended 31 March 2013 by £8.4 million and £4.3 million respectively.

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 FINANCIAL ASSETS AND LIABILITIES**
- F TRANSFER OF ASSETS FROM CUSTOMERS**
- G TAXATION**

A REVENUE

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

B INTANGIBLE ASSETS (COMPUTER SOFTWARE COSTS)

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

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

2 ACCOUNTING POLICIES *continued*

C PROPERTY, PLANT AND EQUIPMENT

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

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

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

D IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

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

E FINANCIAL ASSETS AND LIABILITIES

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

F TRANSFER OF ASSETS FROM CUSTOMERS

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

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

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

2 ACCOUNTING POLICIES *continued*

G TAXATION

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

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

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

3 INTANGIBLE ASSETS

		Computer software
Year ended 31 March 2012	Note	£m
Cost:		
At 1 April 2011 and 31 March 2012	(a)	15.7
Amortisation:		
At 1 April 2011		11.8
Amortisation for the year		1.4
At 31 March 2012		13.2
Net book value:		
At 31 March 2012		2.5
At 1 April 2011		3.9
		Computer software
Year ended 31 March 2013		£m
Cost:		
At 1 April 2012 and 31 March 2013	(a)	15.7
Amortisation:		
At 1 April 2012		13.2
Amortisation for the year		1.4
At 31 March 2013		14.6
Net book value:		
At 31 March 2013		1.1
At 1 April 2012		2.5

(a) The cost of fully amortised computer software still in use at 31 March 2013 was £9.9 million (2012 £9.5 million).

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

4 PROPERTY, PLANT AND EQUIPMENT

(a) Movements in property, plant and equipment

	Operating plant - distribution facilities £m	Operating plant - other (note (i)) £m	Other items of property, plant and equipment in use £m	Operating plant in progress (note (ii)) £m	Total £m
Year ended 31 March 2012					
Cost:					
At 1 April 2011	2,435.4	243.0	33.2	273.4	2,985.0
Additions	-	5.9	-	203.3	209.2
Transfers from in progress to plant in use	185.4	0.9	0.8	(187.1)	-
Disposals	(6.2)	(0.3)	-	-	(6.5)
At 31 March 2012	2,614.6	249.5	34.0	289.6	3,187.7
Depreciation:					
At 1 April 2011	735.8	145.3	24.0	-	905.1
Charge for the year	51.4	16.2	0.9	-	68.5
Disposals	(5.6)	-	-	-	(5.6)
At 31 March 2012	781.6	161.5	24.9	-	968.0
Net book value:					
At 31 March 2012	1,833.0	88.0	9.1	289.6	2,219.7
At 1 April 2011	1,699.6	97.7	9.2	273.4	2,079.9
The net book value of property, plant and equipment at 31 March 2012 is analysed as follows:					
Property, plant and equipment in use	1,833.0	88.0	9.1	-	1,930.1
Property, plant and equipment in the course of construction	-	-	-	289.6	289.6
At 31 March 2012	1,833.0	88.0	9.1	289.6	2,219.7

	Operating plant - distribution facilities £m	Operating plant - other (note (i)) £m	Other items of property, plant and equipment in use £m	Operating plant in progress (note (ii)) £m	Total £m
Year ended 31 March 2013					
Cost:					
At 1 April 2012	2,614.6	249.5	34.0	289.6	3,187.7
Additions	27.3	3.8	-	187.9	219.0
Transfers from in progress to plant in use	280.2	1.7	-	(281.9)	-
Disposals	(13.0)	(2.7)	-	-	(15.7)
At 31 March 2013	2,909.1	252.3	34.0	195.6	3,391.0
Depreciation:					
At 1 April 2012	781.6	161.5	24.9	-	968.0
Charge for the year	66.6	16.6	-	-	83.2
Disposals	(11.2)	(2.4)	-	-	(13.6)
At 31 March 2013	837.0	175.7	24.9	-	1,037.6
Net book value:					
At 31 March 2013	2,072.1	76.6	9.1	195.6	2,353.4
At 1 April 2012	1,833.0	88.0	9.1	289.6	2,219.7
The net book value of property, plant and equipment at 31 March 2013 is analysed as follows:					
Property, plant and equipment in use	2,072.1	76.6	9.1	-	2,157.8
Property, plant and equipment in the course of construction	-	-	-	195.6	195.6
At 31 March 2013	2,072.1	76.6	9.1	195.6	2,353.4

- (i) The category "Operating plant - other" principally comprises meters and measuring devices.
- (ii) The category "Operating plant in progress" principally comprises distribution facilities in the course of construction.
- (iii) Additions of £191.7 million (2012 £209.2 million) were purchased from asset management entity SPPS, as shown in Note 24.
- (iv) The cost of fully depreciated property, plant and equipment still in use at 31 March 2013 was £270.3 million (2012 £239.8 million).
- (v) Included within the cost of property, plant and equipment are assets in use not subject to depreciation, being land of £7.3 million (2012 £7.3 million).

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

4 PROPERTY, PLANT AND EQUIPMENT *continued*

(b) Operating lease arrangements

	2013	2012
	£m	£m
(i) Operating lease payments		
Minimum lease payments under operating leases recognised as an expense in the year	0.2	-
Contingent based operating lease rents recognised as an expense in the year	0.1	0.1
Sublease payments recognised as an expense in the year	0.1	0.1
	0.4	0.2

	2013	2012
	£m	£m
(ii) Operating lease commitments		
The future minimum lease payments under non-cancellable operating leases are as follows:		
Within one year	0.1	0.2
Between one and five years	0.4	0.5
More than five years	0.2	0.3
	0.7	1.0

	2013	2012
	£m	£m
(iii) Operating lease receivables		
The future minimum lease payments receivable under non-cancellable operating leases are as follows:		
Within one year	0.6	0.7
Between one and five years	0.3	1.4
	0.9	2.1

(c) Capital commitments

	2013	2012
	£m	£m
Contracted but not provided	192.3	194.7

5 INVESTMENTS

	Investment in subsidiaries £000	Other unlisted investments £000	Total £000
At 1 April 2011	-	6	6
Additions	50	-	50
At 1 April 2012 and 31 March 2013	50	6	56

Subsidiaries	Place of incorporation or registration	Class of share capital	Proportion of shares held	Activity
SPD Finance UK plc ("SPDF")	England	Ordinary shares £1	100%	Finance company

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

6 MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

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

	Notes	2013		2012	
		Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Financial assets					
Current receivables	(a)	158.7	158.7	95.7	95.7
Cash	(b)	3.1	3.1	-	-
Financial liabilities					
Loans and borrowings - external	(c)	-	-	(0.3)	(0.3)
Loans payable to Iberdrola group companies	(c)	(921.2)	(1,060.3)	(495.8)	(539.8)
Payables	(a)	(91.2)	(91.2)	(58.1)	(58.1)

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

- (a) Balances outwith the scope of IFRS 7 'Financial Instruments: Disclosures' have been excluded, namely, payments on account and other taxes and social security.
- (b) As a general rule, cash deposited with banks earn interest at rates similar to market rates on daily deposits.
- (c) The carrying value of loans and other borrowings are accounted for at amortised cost. The carrying value of short-term debt is a reasonable approximation of fair value. The fair value of long-term debt is calculated using the most recently traded price to the year end date where available, or alternatively a discounted cash flow.

7 LIQUIDITY ANALYSIS

Maturity profile of financial liabilities

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

	2013						Total £m
	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2018 and thereafter £m	
Cash outflows							
Loans with Iberdrola	37.0	121.3	34.1	119.6	32.4	970.4	1,314.8
Payables*	50.8	-	-	-	-	21.3	72.1
	87.8	121.3	34.1	119.6	32.4	991.7	1,386.9

	2012						Total £m
	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2017 and thereafter £m	
Cash outflows							
External borrowings	0.3	-	-	-	-	-	0.3
Loans with Iberdrola	23.2	23.1	22.8	23.2	24.0	714.4	830.7
Payables*	29.6	-	-	-	-	13.3	42.9
	53.1	23.1	22.8	23.2	24.0	727.7	873.9

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

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

8 TRADE AND OTHER RECEIVABLES

	Notes	2013 £m	2012 £m
Current receivables:			
Receivables due from Iberdrola group companies - trade		21.2	22.6
Receivables due from Iberdrola group companies - loans	(a)	97.5	32.7
Receivables due from Iberdrola group companies - interest		0.2	0.1
Trade receivables and accrued income	(b)	35.5	31.4
Other receivables		4.3	8.9
		158.7	95.7

- (a) Interest on current loans due from Iberdrola group companies is payable at 1% above the Bank of England base rate and the loans are repayable on demand.
- (b) Trade receivables are stated net of allowance for impairment of doubtful debts of £0.6 million (2012 £0.8 million). Trade receivables are assumed to approximate their fair values due to the short term nature of trade receivables. Provisions for doubtful debts have been estimated by management, taking into account future cash flows, based on prior experience, ageing analysis and an assessment of the current economic environment within which the company operates. The income statement credit on change in bad debt for the year to 31 March 2013 is £0.3 million (2012 charge of £0.2 million).
- (c) At 31 March 2013 trade receivables of £5.3 million (2012 £3.4 million) were past due but not impaired.

	2013 £m	2012 £m
Past due but not impaired:		
Less than 3 months	4.4	1.5
Between 3 and 6 months	0.3	0.5
Between 6 and 12 months	0.3	0.5
After more than 12 months	0.3	0.9
	5.3	3.4

9 SHARE CAPITAL

	2013 £m	2012 £m
Authorised:		
300,000,000 ordinary shares of £1 each (2012 300,000,000)	300.0	300.0
Allotted, called up and fully paid shares:		
300,000,000 ordinary shares of £1 each (2012 300,000,000)	300.0	300.0

10 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF SP DISTRIBUTION LIMITED

	Ordinary share capital £m	Retained earnings (note (a)) £m	Total £m
At 1 April 2011	300.0	719.8	1,019.8
Profit for the year attributable to equity holders of SP Distribution Limited	-	152.1	152.1
Dividends	-	(95.0)	(95.0)
At 1 April 2012	300.0	776.9	1,076.9
Profit for the year attributable to equity holders of SP Distribution Limited	-	152.7	152.7
Dividends	-	(468.0)	(468.0)
At 31 March 2013	300.0	461.6	761.6

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

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

11 DEFERRED INCOME

	At 1 April 2011 £m	Receivable during year £m	Released to Income statement £m	At 31 March 2012 £m
Year ended 31 March 2012				
Transfer of assets from customers	354.8	43.1	(11.2)	386.7

	At 1 April 2012 £m	Receivable during year £m	Released to Income statement £m	At 31 March 2013 £m
Year ended 31 March 2013				
Transfer of assets from customers	386.7	72.7	(13.2)	446.2

12 PROVISIONS

		At 1 April 2011 £m	New provisions £m	Utilised during the year £m	At 31 March 2012 £m
Year ended 31 March 2012	Notes				
Contract termination costs	(a)	2.7	1.1	-	3.8
Environmental costs	(b)	0.3	1.1	(0.4)	1.0
		3.0	2.2	(0.4)	4.8

		At 1 April 2012 £m	New provisions £m	Utilised during the year £m	At 31 March 2013 £m
Year ended 31 March 2013	Notes				
Contract termination costs	(a)	3.8	-	(1.5)	2.3
Environmental costs	(b)	1.0	0.1	-	1.1
		4.8	0.1	(1.5)	3.4

		2013 £m	2012 £m
Analysis of total provisions			
Current		2.7	4.8
Non-current		0.7	-
		3.4	4.8

- (a) The provision for contract termination costs relates to likely contractor payments following the termination of contracts. Costs are expected to be incurred in the next financial year.
- (b) The provision for environmental costs relates to obligations under the Control of Asbestos at Work Regulations. The timeframe for the surveys to be completed at each substation was reassessed during the year, with £0.7 million being considered to be non-current. The remainder of the costs are expected to be incurred in the next financial year.

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

13 LOANS AND OTHER BORROWINGS

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

Analysis by instrument and maturity	Notes	Interest rate*	Maturity	2013 £m	2012 £m
Bank overdraft		Base + 1%	On demand	-	0.3
Intercompany loan with SPL	(i)	LIBOR + 0.34%	17 December 2018	150.0	150.0
Intercompany loan with SPDF		5.875%	17 July 2026	346.2	345.8
Intercompany loan with SPUK	(ii)	3.416%	21 December 2022	425.0	-
Total debt				921.2	496.1

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

Analysis of total loans and other borrowings	2013 £m	2012 £m
Current	-	0.3
Non-current	921.2	495.8
	921.2	496.1

- (i) For LIBOR linked debt, a 1% increase in the LIBOR rate would result in a £1.5 million increase in the full year interest charge. Base is not expected to change in the short term.
- (ii) Under the conditions of the long term loan agreement between the company and SPUK, the loan is payable in bi-annual instalments commencing on 21 December 2014, or 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.

(b) Borrowing facilities

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

14 TRADE AND OTHER PAYABLES

	2013 £m	2012 £m
Current trade and other payables:		
Payables due to Iberdrola group companies - trade	48.2	24.6
Payables due to Iberdrola group companies - interest	19.1	15.2
Other taxes and social security	10.2	14.0
Payments received on account	59.5	48.6
Other payables	2.6	5.0
	139.6	107.4
Non-current trade and other payables:		
Payables due to Iberdrola group companies - trade	21.3	13.3

15 DEFERRED TAX

Deferred tax provided in the Accounts is as follows:

	Property, plant and equipment £m
Deferred tax provided at 1 April 2011	206.7
Credit to income statement	(3.2)
Deferred tax provided at 1 April 2012	203.5
Credit to income statement	(5.6)
Deferred tax provided at 31 March 2013	197.9

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

Reductions of another 3% were substantively enacted on 2 July 2013 and will reduce the deferred tax provision. The estimated impact of these changes will be a reduction of £25.8 million.

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

16 EMPLOYEE INFORMATION

(a) Staff costs

	Note	2013 £'000	2012 £'000
Wages and salaries		556	535
Social security costs		51	52
Pension and other costs		130	108
Total employee costs	(i)	737	695

- (i) The employee costs do not include the directors of the company as they do not have a contract of service with the company. The emoluments of all directors are included within the employee costs of other ScottishPower group companies. Details of directors' emoluments are set out in Note 24.

(b) Employee numbers

The year end and average numbers of employees (full and part-time) employed by the company, including executive directors, were:

	Year end 2013	Average 2013	Year end 2012	Average 2012
Administrative	10	10	9	10

(c) Pensions

The company's contributions payable in the year were £129,600 (2012 £108,000). The company contributes to the ScottishPower group's defined benefit and defined contribution schemes in the UK. Full details of these schemes are provided in the most recent Directors' Report & Accounts of SPUKH. As at 31 December 2012, the deficit in the ScottishPower group's defined benefit schemes in the UK amounted to £498.7 million (2011 £212.1 million). The employer contribution rate for these schemes in the year ended 31 December 2012 was 21.8%-23.3%. The March 2012 valuation is ongoing and may result in changes to the employer contribution rates for 2013.

17 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS

	2013 £m	2012 £m
Property, plant and equipment depreciation charge	83.2	68.5
Intangible asset amortisation	1.4	1.4
Charges and provisions and allowances	1.9	3.3
	86.5	73.2

18 FINANCE INCOME

	2013 £m	2012 £m
Interest receivable from Iberdrola group companies	1.0	1.5

19 FINANCE COSTS

	2013 £m	2012 £m
Interest on amounts payable to Iberdrola group companies	27.3	22.6

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

20 INCOME TAX

	2013	2012
	£m	£m
Current tax:		
UK Corporation tax	36.7	34.1
Adjustments in respect of prior years	(4.4)	-
Current tax for the year	32.3	34.1
Deferred tax:		
Origination and reversal of temporary differences	7.1	13.8
Adjustments in respect of prior years	(3.8)	-
Impact of rate change on deferred tax	(8.9)	(17.0)
Deferred tax credit for the year	(5.6)	(3.2)
Income tax expense for the year	26.7	30.9

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

	2013	2012
	£m	£m
UK Corporation tax at 24% (2012 26%)	43.1	47.6
Impact of rate change from headline corporation tax rate	0.5	-
Adjustments in respect of prior years	(8.2)	-
Impact of tax rate change	(8.9)	(17.0)
Other permanent difference	0.2	0.3
Income tax expense for the year	26.7	30.9

21 DIVIDENDS

	2013	2012	2013	2012
	pence per ordinary share	pence per ordinary share	£m	£m
Interim dividend paid	156.0	31.7	468.0	95.0

22 CONTINGENT LIABILITIES

As part of the exercise to achieve legal separation of SPUK's businesses pursuant to the provision of the Utilities Act 2000, the company and other subsidiary companies of SPUK were each required to jointly provide guarantees to external lenders 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 2013 was £1,205.1 million (2012 £1,197.7 million).

The company has unconditionally and irrevocably guaranteed the debt of SPDF. The value of debt guaranteed at 31 March 2013 was £350.0 million (2012 £350.0 million).

23 FINANCIAL COMMITMENTS

Other contractual commitments

	2013	2012
	£m	£m
Provision of asset management services from SPPS	69.7	21.8

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

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

24 RELATED PARTY TRANSACTIONS

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

	2013				2012				
	Ultimate UK parent (SPL) £m	Immediate parent (SPENH) £m	Subsidiary (SPDF) £m	Other Iberdrola group companies £m	Ultimate UK parent (SPL) £m	Immediate parent (SPENH) (note(i)) £m	Immediate parent (SPUK) (note(i)) £m	Subsidiary (SPDF) £m	Other Iberdrola group companies £m
Types of transaction									
Sales and rendering of services	-	-	-	144.9	-	-	-	-	139.1
Purchases and receipt of services	-	-	(0.1)	(53.1)	-	-	(0.2)	-	(45.8)
Finance income	-	-	-	1.0	-	-	0.4	-	1.1
Finance costs	(2.1)	-	(21.0)	(4.2)	(2.3)	-	(4.5)	(14.7)	(1.1)
Purchases of property, plant and equipment	-	-	-	(191.7)	-	-	-	-	(209.2)
Dividends paid	-	(468.0)	-	-	-	(95.0)	-	-	-
Balances outstanding									
Loans receivable	-	-	-	97.5	-	-	-	-	32.7
Trade receivables	-	-	-	21.2	-	-	-	-	22.6
Interest receivable	-	-	-	0.2	-	-	-	-	0.1
Loans payable	(150.0)	-	(346.2)	(425.0)	(150.0)	-	-	(345.8)	-
Trade payables	-	-	-	(69.5)	-	-	-	-	(37.9)
Interest payable	(0.4)	-	(14.5)	(4.2)	(0.7)	-	-	(14.5)	-

- (i) On 1 July 2011, as part of a group restructuring exercise, SPUK transferred its investment in the company to SPENH. Transactions with SPUK for 2012 in respect of the period from 1 April 2011 to 30 June 2011 are included within "Immediate parent (SPUK)". Transactions with SPUK in respect of the period from 1 July 2011 to 31 March 2012 and balances outstanding with SPUK at 31 March 2012 are included within "Other Iberdrola group companies". Transactions with SPENH are in respect of the period from 1 July 2011 to 31 March 2012.
- (ii) During the year ended 31 March 2013, SPUK made pension contributions of £129,600 on behalf of the company (2012 £108,000).
- (iii) The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

(b) Remuneration of key management personnel

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

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

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

24 RELATED PARTY TRANSACTIONS *continued*

(c) Directors' remuneration

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

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

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

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

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

(d) Ultimate parent company and immediate parent company

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

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

On 1 July 2011, as part of a group restructuring exercise to align the operational structure of ScottishPower with the operational structure of Iberdrola S.A., ownership of the company was transferred from Scottish Power UK plc to SPENH (an immediate subsidiary of SPUK).

25 AUDITORS' REMUNERATION

	2013	2012
	£m	£m
Audit of the company's annual accounts and regulatory accounts	0.1	0.1

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

26 ACCOUNTING DEVELOPMENTS

In preparing these Accounts, the company has applied all relevant IAS, IFRS and IFRIC Interpretations which have been adopted by the EU as of the date of approval of these Accounts and which are mandatory for the financial year ended 31 March 2013.

For the year ended 31 March 2013, the company has applied the following amendment for the first time:

- Amendments to IFRS 7 'Financial Instruments: Disclosures – Transfers of Financial Assets'

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

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

Standard	Notes	IASB Effective Date (for periods commencing on or after)	Planned date of application by the Company
• Amendments to IAS 1 'Presentation of Items of Other Comprehensive Income'	(a)	1 July 2012	1 April 2013
• IAS 19 (Revised) 'Employee Benefits'	(a)	1 January 2013	1 April 2013
• IFRS 9 'Financial Instruments' and subsequent amendments	(b), (c)	1 January 2015	1 April 2015
• Amendments to IAS 12 'Income Taxes: Deferred tax - Recovery of Underlying Assets'	(a), (d)	1 January 2012	1 April 2013
• IFRS 10 'Consolidated Financial Statements'	(a), (e)	1 January 2013	1 April 2013
• IFRS 11 'Joint Arrangements'	(a), (e)	1 January 2013	1 April 2013
• IFRS 12 'Disclosure of Interests in Other Entities'	(a), (e)	1 January 2013	1 April 2013
• IFRS 13 'Fair Value Measurement'	(f)	1 January 2013	1 April 2013
• IAS 27 (Revised) 'Separate Financial Statements'	(a), (e)	1 January 2013	1 April 2013
• IAS 28 (Revised) 'Investments in Associates and Joint Ventures'	(a), (e)	1 January 2013	1 April 2013
• Amendments to IFRS 7 'Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities'	(a)	1 January 2013	1 April 2013
• Amendments to IAS 32 'Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities'	(a)	1 January 2014	1 April 2014
• Amendments to IFRS 10, IFRS 11 and IFRS 12 'Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance'	(a), (e)	1 January 2013	1 April 2013
• Amendments to IFRS 10, IFRS 12 and IAS 27 'Investment Entities'	(b), (c)	1 January 2014	1 April 2014
• Annual Improvements to IFRSs (2009-2011)	(a)	1 January 2013	1 April 2013
• IFRIC 21 'Levies'	(b), (c)	1 January 2014	1 April 2014
• Amendment to IAS 36 'Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets'	(b), (c)	1 January 2014	1 April 2014
• Amendment to IAS 39 'Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting'	(b), (c)	1 January 2014	1 April 2014
(a) The company considers that the future application of this standard/amendment will not have a significant effect on the results or financial policy of the company.			
(b) These pronouncements have not yet been adopted by the EU.			
(c) The company is currently considering the impact of these pronouncements.			
(d) The IASB effective date of this amendment was for periods commencing on or after 1 January 2012. However the amendment was not effective in the EU until 1 January 2013, until periods commencing on or after 1 January 2013.			
(e) The IASB effective date of these pronouncements is for periods commencing on or after 1 January 2013. However the EU permits adoption of these pronouncements commencing no later than 1 January 2014, with early application permitted.			
(f) The application of IFRS 13 for the first time as from 1 April 2013 is not expected to have a significant impact on the company's results or financial policy as the measurement framework is not significantly different to the company's current practice. Additional disclosures regarding assets and liabilities measured at fair value and the sensitivity around the fair values will be required.			
(g) The company has chosen not to early adopt any of these standards/amendments for year ended 31 March 2013.			

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

27 GOING CONCERN

The company's business activities, together with the factors likely to affect its future development and position, are set out in the Directors' Report on pages 1 to 13.

The company has recorded a profit after tax in both the current year and previous financial years and the company's balance sheet shows that it has net current liabilities of £5.7 million and net assets of £761.6 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.