SP TRANSMISSION LIMITED

CORPORATE REPORT & REGULATORY ACCOUNTS

for the year ended 31 March 2012

Registered No. SC189126

SP TRANSMISSION LIMITED

CORPORATE REPORT and REGULATORY ACCOUNTS

for the year ended 31 March 2012

CONTENTS

SP TRANSMISSION LIMITED
DIRECTORS' REPORT

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

ACTIVITIES AND REVIEW

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

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

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

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

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

The transmission business has agreed a one year RPI-X based roll-over price review that sets revenues for the year ended 31 March 2013.

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

KEY FACTORS AFFECTING THE BUSINESS

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

- Deliver returns at, or in excess of, allowed regulated returns
- Deliver investment programme and operational improvements
- Improve security of supply and network performance

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

PRINCIPAL RISKS AND RISK MANAGEMENT ACTIVITIES

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

Risks relating to the company's business

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

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

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

During 2011/12 the ScottishPower governance structure was supported by a risk policy approved by the Board of directors of Iberdrola ("the Iberdrola Board") and adopted by the Board of directors of Scottish Power Limited (“the ScottishPower Board”). Further information is provided in the Identification and Evaluation of Risks and Control Objectives section of the Corporate Governance Statement on page 16 of this Corporate Report.

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

(a) Revenue risk

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

(b) Treasury management

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

PRINCIPAL RISKS AND RISK MANAGEMENT ACTIVITIES *continued*

(b) Treasury management *continued*

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

(c) Credit risk

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

Insurance

For the year ended 31 March 2012, the company's main insurance strategy was to procure cover from external insurance markets.

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

OPERATIONAL ASSETS OF THE COMPANY

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

	Year ended 31 March 2012	Year ended 31 March 2011
Franchise area (km^2)	**22,950**	22,950
System maximum demand (GW)	**3.9**	4.4
Length of overhead lines (km)	**3,767**	3,762
Length of underground cables (km)	**259**	246

PROJECTS

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

In February 2012, National Grid and SP Transmission announced the award of contracts to Siemens and cable manufacturer Prysmian to build the first ever sub-sea electricity link between Scotland and England & Wales. The link will be the longest high capacity high voltage direct current ("HVDC") cable in the world. The major grid upgrade will increase the capacity of electricity flowing between England and Scotland by more than 2GW, allowing new renewable energy projects to be developed in Scotland that could power three million homes with clean energy and at the same time help meet Scottish and UK Government carbon reduction targets.

Due to be operational by 2016, the 260 mile long high voltage cable link will run from Hunterston in Ayrshire to a landing point on the Wirral peninsula. Subject to planning approvals, this new link will be one of the first major upgrades to be delivered as part of ScottishPower's approved plans.

SP TRANSMISSION LIMITED
DIRECTORS' REPORT *continued*

PROJECTS *continued*

The announcement came shortly after Ofgem agreed to fast track ScottishPower's plans for transmission network upgrades between 2013 and 2021, with much of the pre-engineering, planning and preparatory works currently underway. The full £2.6 billion investment over this period will increase capacity from Scotland to England from 3.3GW to close to 7GW by 2021. The under-sea link is one of several strategic projects designed to transport more power from Scotland to England and complements existing reinforcement projects like the construction of a new 400kV double-circuit overhead link between Beauly and Denny. This circuit is necessary to increase power transfers to central Scotland, arising from new renewable generation in the North of Scotland.

In December 2009, the Scottish Government granted consent for the Beauly-Denny 400kV overhead line, subject to appropriate visual mitigation measures. Since then, extensive liaison has taken place with the local community to develop visual mitigation measures in an attempt to fully comply with planning conditions attached to the consent. This has taken considerable time and a submission was made to the Scottish Government in August 2011. A decision is not expected until August 2012. ScottishPower are making every effort to progress enabling works at, and around Denny. However, full construction will not commence until Autumn 2012, at the earliest, on both the overhead line and substation at Denny, with anticipated completion during 2015.

ScottishPower has been making good progress with a project to increase reactive compensation in central Scotland. Major construction works continue at Strathaven, Windyhill, Elvanfoot, Moffat and Longannet which will increase the power transfer capacity of the Scotland-England interconnector to 3.3GW (from 2.8GW) by 2013.

Significant progress has been made on pre-engineering works for a further two strategic reinforcement projects; both designed to strengthen the power links between the West and East of Scotland and further increase the transport of power from Scotland to England. One of these projects will be the first use of series compensation on overhead lines in the UK. The projects are scheduled to commence construction in 2012/13 and are planned to complete in 2015/16. Once operational they will take the power transfer capability between Scotland and England up to 4.4GW.

In 2011/12 activity focused on development and construction works for the connection of numerous wind farm generation projects and associated reinforcement requirements. This included undertaking pre-engineering works to ensure that connection dates could be met, subject to planning permissions and customer requirements. Clyde (North) and Whitelee Extension windfarms (around 621MW of new capacity) were connected in December 2011. Development and construction works will continue on around 2GW of new wind farm capacity, including Fallago, Harestanes, Aikengall II, with expected substantive completion in the period to 2016/17.

Whilst there has been significant construction activity associated with renewable generation activity, there has also been significant reinforcement works undertaken to improve the security of supply to existing customers. An increase in underlying electricity demand in and around the West of Glasgow has necessitated the establishment of a new Grid Supply Point near Glasgow city centre. A site has been chosen at the existing Energy Networks' depot at St Vincent Crescent - construction work continues and ScottishPower are on schedule for completion during 2013.

There is a forecast increase in electricity demand in the East of Glasgow due to the 2014 Commonwealth Games. As a result reinforcement works are taking place around Dalmarnock Grid Supply Site to increase capacity and improve the security of supply as this area of Glasgow undergoes extensive redevelopment. The Glasgow Gateway project to develop a smart grid has developed through discussions with the Commonwealth Games Committee and Glasgow City Council.

SP TRANSMISSION LIMITED
DIRECTORS' REPORT *continued*

OPERATIONAL PERFORMANCE OF THE COMPANY

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

	Notes	**Year ended 31 March 2012**	Year ended 31 March 2011
Annual system availability	(a)	**94.41%**	94.60%
Winter peak system availability		**97.46%**	97.17%
Annual reliability of supply	(b)	**99.99%**	99.99%
Annual number of loss of supply incidents		**17**	10
1. Affecting >3 customers		**7**	1
2. Affecting <3 customers		**10**	9

(a) Annual system availability details the overall availability of the licensee's transmission circuits, with any reduction below 100% being due to planned outages and faults.

(b) Annual reliability of supply is calculated by deducting the total estimated unsupplied energy from all loss of supply incidents (i.e. faults that cause a loss of supply) from the total energy that would have been supplied by the transmission systems and dividing by the latter.

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

OPERATIONAL FINANCIAL PERFORMANCE

	Year ended 31 March 2012 £m	Year ended 31 March 2011 £m
Revenue	**232.0**	219.0
Profit from operations	**169.5**	157.6
Profit before tax	**154.3**	143.6
Net assets	**566.6**	474.5
Net capital investment	**155.3**	126.4
Cash inflow from operating activities	**166.3**	170.8
Purchase of tangible fixed assets (cash flow)	**148.7**	(137.4)
Net debt	**(449.3)**	(422.0)

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 £169.5 million, an increase of £11.9 million compared to the prior year, and net profit was £123.5 million, an increase of £12.0 million compared to the prior year.

Revenue increased by £13.0 million on the prior year, as a result of higher base revenues and increased revenue from recharges to recover higher property rates.

Outside services have decreased, primarily as a result of lower corporate recharges offset by higher operating expenditure costs in relation to maintenance and telecoms.

OPERATIONAL FINANCIAL PERFORMANCE *continued*

Taxes other than income tax have increased by £1.1 million as a result of business rates revaluation.

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

Net finance costs were slightly higher compared to the prior year due to an increase in interest payable to Iberdrola group companies.

The **income tax expense** has decreased compared to the prior year due to the impact of reducing corporation tax rates being offset by a slight increase in taxable profits.

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

Cash and net debt

In the year the company generated £166.3 million of cash from operating activities (2011 £170.8 million). This was used to fund investment in property, plant and equipment of £148.7 million (2011 £137.4 million) and settle interest charges amounting to £14.9 million (2011 £13.9 million). A dividend of £30.0 million was paid during the year (2011 £35.0 million).

Net capital investment

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

Net capital investment for the year was £155.3 million consisting of fixed asset additions of £158.0 million less capital contributions received of £2.7 million. This compares to fixed asset additions of £137.2 million for the year ended 31 March 2011 less capital contributions received of £10.8 million.

The company earns allowed returns on this extensive capital programme. The net investment of £155.3 million (2011 £126.4 million) comprised £54.2 million in relation to growth of the network (2011 £61.8 million) and £101.1 million (2011 £64.6 million) in relation to refurbishment of the network.

Approximately 65% (2011 54%) of the company's net investment related to non-load investment, the majority of which relates to expenditure identified as being necessary for the ongoing integrity and safety of the network as its age increases.

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

The scale of investment is consistent with Ofgem's five year Transmission Price Control Review ("Price Review") period allowed capital expenditure programme.

RESULTS AND DIVIDENDS

The net profit for the year amounted to £123.5 million (2011 £111.5 million). The aggregate dividends paid during the year amounted to £30.0 million (2011 £35.0 million).

CAPITAL AND DEBT STRUCTURE

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

CAPITAL AND DEBT STRUCTURE *continued*
As part of the exercise to achieve legal separation of SPUK's businesses pursuant to the provisions of the Utilities Act 2000, the company and other subsidiary companies of SPUK were each required to jointly provide guarantees to external lenders of SPUK for debt existing in that company at 1 October 2001.

Funding
The overall movement in net debt during the year was an increase of £27.3 million to £449.3 million. The movement in net debt comprised an increase in short-term debt of £27.3 million to finance operating activities net of returns on investments, capital expenditure, servicing of finance and taxation.

The company has net current liabilities of £226.3 million at 31 March 2012 (2011 £196.4 million), which includes loan borrowings of £164.3 million (2011 £137.0 million). This short-term loan from Scottish Power UK plc represents drawings under a working capital facility.

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

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

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

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

Key strategies for SP Transmission Limited until the end of the current RPI-X based transmission price review period and beyond are:
- ensure the public safety and the safety of employees;
- deliver improved customer service through more efficient processes, systems and higher first-time resolution;
- deliver value for money to customers through improved security of supply and network performance;
- maximise the financial benefit to be obtained from the available incentives to deliver returns at, or in excess of, allowed regulated returns; and
- achieve investor objectives on sustainable returns on investment.

UK ELECTRICITY REGULATION

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

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

The primary objective of regulation of the electricity industry is the promotion of competition, while ensuring that demand can be met and companies are able to finance their activities. However, it is recognised that the development of competitive markets is not appropriate in the transmission of electricity. Regulatory controls are therefore deemed necessary to protect customers and the electricity 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.

From 1 April 2007, the Price Review took effect. This was subsequently extended by one year. The final proposals comprise a set of fixed revenue allowances for the duration of the Price Review, supplemented by revenue drivers which will allow revenues to be adjusted automatically in response to capacity demand by network users.

Ofgem has introduced a regulatory regime designed to facilitate efficient investment in the transmission network to support new sources of electricity and maintain high levels of reliability and has recognised the need for significant investment to support the replacement of ageing assets. A suite of incentives has also been developed for transmission licensees to encourage behaviour which benefits consumers in terms of standards of network reliability and innovation to improve the future operation of networks.

The structure of this Price Review control review has been used to set the revenues for the period to 31 March 2013.

A revised eight year price control has been agreed for the period to 31 March 2021 which is the first based on the RIIO model.

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 TRANSMISSION 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 Employers Forum on Disability, which provide support, guidance and sharing of best practice to enable companies to become disability confident.

Positive about disabled people - double tick accreditation

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

ENVIRONMENTAL REGULATION

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

HEALTH AND SAFETY *continued*

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

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

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

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

(a) Behavioural Safety Audits are conducted through structured safety observations to compare how current conditions and work practices match standard conditions and work practices. Results of these audits are used by the business to address safety issues effectively.
(b) Near miss reports centre on preventing unsafe acts or situations occurring by initiating immediate investigation and remedial action.
(c) Accident free days represent the number of days since the last lost time accident.

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

COMMUNITY RELATIONSHIPS

Community relationships

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

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

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

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

Investing in the Community

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

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

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

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

POLITICAL DONATIONS AND EXPENDITURE

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

The recipients of these payments were:

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

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

SP TRANSMISSION LIMITED
DIRECTORS' REPORT *continued*

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

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

Scott Mathieson
Frank Mitchell

DISCLOSURE OF INFORMATION TO AUDITORS
Each person who is a director at the date of approval of this report confirms that:

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

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

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

On behalf of the board

Scott Mathieson
Director
13 July 2012

SP TRANSMISSION LIMITED
CORPORATE GOVERNANCE STATEMENT

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

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

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

BOARD AND MANAGEMENT MEETINGS
The company is governed by a Board (the "SP Transmission Board") consisting of two directors who bring a broad range of skills and experience to the company. Both are full-time employees of ScottishPower. On 1 July 2011 as part of a group restructuring exercise, SPENH, an immediate subsidiary of SPUK, acquired the entire issued share capital of SP Transmission Limited. 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 three independent non-executive directors), other than on those matters reserved for the SPENH Board.

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

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

SPENH BOARD
The SPENH Board comprises the Chairman Javier Villalba Sánchez and five other directors. The directors of SPENH are shown below.

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

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

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

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

SP TRANSMISSION LIMITED
CORPORATE GOVERNANCE STATEMENT *continued*

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

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

DIRECTORS

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

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

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

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

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

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

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

SP TRANSMISSION LIMITED
CORPORATE GOVERNANCE STATEMENT *continued*

SCOTTISHPOWER AUDIT AND COMPLIANCE COMMITTEE ("ACC") *continued*
The ACC comprises three members. The Chairman of the ACC has relevant accounting and financial experience, and there is one independent member on the ACC as indicated in the table below.

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

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

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

IBERDROLA NOMINATING AND COMPENSATION COMMITTEE ("INCC")
There is no separate Nomination or Remuneration Committee within ScottishPower. Instead nomination and remuneration matters relevant to ScottishPower and the company are dealt with by the INCC. The members of the INCC are:

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

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

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

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

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

INTERNAL CONTROL *continued*

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

IDENTIFICATION AND EVALUATION OF RISKS AND CONTROL OBJECTIVES

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

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

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

CAPITAL INVESTMENT

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

MONITORING AND CORRECTIVE ACTION

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

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

AUDITOR INDEPENDENCE

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

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

SP TRANSMISSION LIMITED
CORPORATE GOVERNANCE STATEMENT *continued*

SOCIAL, ENVIRONMENTAL AND ETHICAL MATTERS

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

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

Standard Condition B1 of the Electricity Transmission Licence requires the directors to prepare Regulatory Accounts, for each regulatory year, which presents fairly the assets, liabilities, reserves and provisions of, or reasonably attributable to, the company and of the revenues, costs and cash flows of, or reasonably attributable to, the company for the year. In preparing the Regulatory Accounts, the directors are required to:

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 and Standard Condition B1 as applicable. They are also responsible for the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

SP TRANSMISSION LIMITED
INDEPENDENT AUDITORS' REPORT

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

We have audited the Regulatory Accounts of the Company for the year ended 31 March 2012 (the "Regulatory Accounts") which comprise the Balance Sheet, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Cash Flow Statement, and the related notes 1 to 28.

These Regulatory Accounts have been prepared in accordance with the basis of preparation and accounting policies set out on pages 25 to 27.

This report is made, on terms that have been agreed, solely to the Company and the Authority in order to meet the requirements of Standard Condition B1 of the Transmission Licence ("the Regulatory Licence"). Our audit work has been undertaken so that we might state to the Company and the Authority those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under the Regulatory Licence to procure such a report and (b) to facilitate the carrying out by the Authority of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Authority, for our audit work, for this report or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF THE AUTHORITY, DIRECTORS AND AUDITORS

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

SCOPE OF THE AUDIT OF THE REGULATORY ACCOUNTS

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

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Standard Condition B1 of the company's Regulatory Licence. Where Standard Condition B1 does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Regulatory Accounts are consistent with those used in the preparation of the statutory financial statements of the company. Furthermore, as the nature, form and content of Regulatory Accounts are determined by the Authority, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK & Ireland).

SP TRANSMISSION LIMITED
INDEPENDENT AUDITORS' REPORT *continued*

OPINION ON THE REGULATORY ACCOUNTS
In our opinion the Regulatory Accounts:

- fairly present in accordance with Standard Condition B1 of the company's Regulatory Licence and the accounting policies set out on pages 25 to 27, the state of the Company's affairs at 31 March 2012 and its profit and its cash flow for the year then ended; and
- have been properly prepared in accordance with Standard Condition B1 of the company's Regulatory Licence and the accounting policies.

BASIS OF PREPARATION
Without modifying our opinion, we draw attention to the fact that the Regulatory Accounts have been prepared in accordance with Standard Condition B1 of the company's Regulatory Licence and the accounting policies set out in the statement of accounting policies.

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

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

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

Ernst & Young LLP

Ernst & Young LLP
Statutory Auditor
Glasgow
18 July 2012

SP TRANSMISSION LIMITED
BALANCE SHEETS
as at 31 March 2012 and 31 March 2011

	Notes	2012 £m	2011 £m
ASSETS			
NON-CURRENT ASSETS			
Intangible assets		**1.4**	2.1
Other intangible assets	3	1.4	2.1
Property, plant and equipment	4	**1,234.5**	1,102.8
Property, plant and equipment in use		782.7	764.9
Property, plant and equipment in course of construction		451.8	337.9
Investments	5	**-**	-
Financial assets		**2.3**	2.6
Finance lease receivables	6	2.3	2.6
NON-CURRENT ASSETS		**1,238.2**	1,107.5
CURRENT ASSETS			
Trade and other receivables	9	**7.1**	2.0
Financial assets		**0.2**	0.3
Finance lease receivables	6	0.2	0.3
CURRENT ASSETS		**7.3**	2.3
TOTAL ASSETS		**1,245.5**	1,109.8
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the Parent		**566.6**	474.5
Share capital	10,11	200.0	200.0
Hedge reserve	11	(1.4)	-
Retained earnings	11	368.0	274.5
TOTAL EQUITY		**566.6**	474.5
NON-CURRENT LIABILITIES			
Deferred income	12	**44.4**	42.4
Bank borrowings and other financial liabilities		**286.9**	285.0
Loans and other borrowings	13	285.0	285.0
Derivative financial instruments	14	1.9	-
Trade and other payables	15	**0.2**	-
Deferred tax liabilities	16	**113.8**	109.2
NON-CURRENT LIABILITIES		**445.3**	436.6
CURRENT LIABILITIES			
Bank borrowings and other financial liabilities		**164.3**	137.0
Loans and other borrowings	13	164.3	137.0
Trade and other payables	15	**50.9**	41.7
Current tax liabilities		**18.4**	20.0
CURRENT LIABILITIES		**233.6**	198.7
TOTAL LIABILITIES		**678.9**	635.3
TOTAL EQUITY AND LIABILITIES		**1,245.5**	1,109.8

Approved by the Board on 13 July 2012 and signed on its behalf by:

Scott Mathieson
Director

The accompanying notes 1 to 28 are an integral part of the balance sheets as at 31 March 2012 and 31 March 2011.

SP TRANSMISSION LIMITED
INCOME STATEMENTS
for the years ended 31 March 2012 and 31 March 2011

	Notes	**2012** **£m**	2011 £m
Revenue		232.0	219.0
		232.0	219.0
Staff costs	17	(0.9)	(0.6)
Outside services		(12.2)	(15.2)
Other operating income		4.0	2.8
		(9.1)	(13.0)
Taxes other than income tax		(26.4)	(25.3)
		196.5	180.7
Depreciation and amortisation charge, allowances and provisions	18	(27.0)	(23.1)
PROFIT FROM OPERATIONS		**169.5**	157.6
Losses on disposal of non-current assets		-	(0.4)
Finance income	19	0.3	0.3
Finance costs	20	(15.5)	(13.9)
PROFIT BEFORE TAX		**154.3**	143.6
Income tax	21	(30.8)	(32.1)
NET PROFIT FOR THE YEAR	11	**123.5**	111.5

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

All results relate to continuing operations.

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

SP TRANSMISSION LIMITED
STATEMENTS OF COMPREHENSIVE INCOME
for the years ended 31 March 2012 and 31 March 2011

	2012 £m	2011 £m
NET PROFIT FOR THE YEAR	**123.5**	111.5
OTHER COMPREHENSIVE INCOME		
Cash flow hedges:		
Change in the value of cash flow hedges	(1.9)	-
Tax on items relating to cash flow hedges	0.5	-
	(1.4)	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**122.1**	111.5

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

STATEMENTS OF CHANGES IN EQUITY
for the years ended 31 March 2012 and 31 March 2011

	Ordinary share capital £m	Hedge reserve £m	Retained earnings £m	Total equity £m
At 1 April 2010	200.0	-	198.0	398.0
Total comprehensive income for the year	-	-	111.5	111.5
Dividends	-	-	(35.0)	(35.0)
At 1 April 2011	200.0	-	274.5	474.5
Total comprehensive income for the year	-	(1.4)	123.5	122.1
Dividends	-	-	(30.0)	(30.0)
At 31 March 2012	**200.0**	**(1.4)**	**368.0**	**566.6**

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

SP TRANSMISSION LIMITED
CASH FLOW STATEMENTS
for the years ended 31 March 2012 and 31 March 2011

	2012 £m	2011 £m
Cash flows from operating activities		
Profit before tax	154.3	143.6
Adjustments for:		
Depreciation and amortisation	26.0	22.9
Transfer of assets from customers	(0.7)	(0.8)
Finance income and costs	15.2	13.6
Losses from disposal of non-current assets	1.0	0.4
Changes in working capital:		
Change in trade and other receivables	(4.7)	-
Change in trade and other payables	(0.5)	1.8
Assets received from customers	2.7	10.8
Income taxes paid	(27.3)	(21.8)
Interest received	0.3	0.3
Net cash flows from operating activities (i)	**166.3**	170.8
Cash flows from investing activities		
Investments in property, plant and equipment	(148.7)	(137.4)
Net cash flows from investing activities (ii)	**(148.7)**	(137.4)
Cash flows from financing activities		
Dividends paid to company's equity holders	(30.0)	(35.0)
Interest paid	(14.9)	(13.9)
Net cash flows from financing activities (iii)	**(44.9)**	(48.9)
Net decrease in cash and cash equivalents (i)+(ii)+(iii)	**(27.3)**	(15.5)
Cash and cash equivalents at beginning of year	**(137.0)**	(121.5)
Cash and cash equivalents at end of year	**(164.3)**	(137.0)

Cash and cash equivalents at end of year comprises:

	2012 £m	2011 £m
Payables due to Iberdrola group companies - loans	(164.3)	(137.0)
Cash flow statement cash and cash equivalents	**(164.3)**	(137.0)

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

SP TRANSMISSION LIMITED
NOTES TO THE ACCOUNTS
31 March 2012

1 BASIS OF PREPARATION OF THE ACCOUNTS

The Accounts have been prepared in accordance with Standard Condition B1 of the company's Regulatory Licence and International Accounting Standards ("IAS"), International Financial Reporting Standards ("IFRS") and International Finance Reporting Interpretations Committee ("IFRIC") Interpretations (collectively referred to as IFRSs), as adopted by the European Union ("EU") as at the date of approval of these Accounts and which are mandatory for the financial year ended 31 March 2012. The company's accounting reference date is 31 December to match that of its ultimate parent undertaking, Iberdrola, S.A. Standard Condition B1 of the Electricity Distribution Licence requires the directors to prepare regulatory accounts, for each regulatory year, with the same content and format as the most recent statutory accounts of the company. The references made to the financial year within these Regulatory Accounts refer to the year from 1 April 2011 to 31 March 2012. Consequently the Corporate Report & Regulatory Accounts for the year ended 31 March 2012 are separate from the Directors' Report and Accounts of the company which have been prepared for the year ended 31 December 2011. The Accounts are prepared in accordance with the Accounting Policies set out in Note 2.

2 ACCOUNTING POLICIES

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

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

A. REVENUE

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

B. INTANGIBLE ASSETS

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

C. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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.

2 ACCOUNTING POLICIES *continued*

E. LEASED ASSETS

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

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

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

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

F. FINANCIAL INSTRUMENTS

F1. ACCOUNTING POLICIES UNDER IAS 39

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

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

(c) In the cash flow statement, cash and cash equivalents comprise the net of current loans receivable and payable from group companies.

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

(e) All interest bearing loans and borrowings are initially recognised at fair value, net of directly attributable transaction costs. Interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

F2. HEDGE ACCOUNTING

Hedge accounting is applied when certain conditions required by IAS 39 'Financial Instruments: Recognition and Measurement' are met. Hedge accounting for the company falls into the following categories:

F2.1 CASH FLOW HEDGES

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

F2.2 HEDGE EFFECTIVENESS

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

F2.3 DISCONTINUING HEDGE ACCOUNTING

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

2 ACCOUNTING POLICIES *continued*

F. FINANCIAL INSTRUMENTS *continued*

F3. VALUATION OF FINANCIAL INSTRUMENTS

In those circumstances where IAS 39 requires financial instruments to be recognised in the balance sheet at fair value, the company's valuation strategies for derivative and other financial instruments utilise as far as possible quoted prices in an active trading market. In the absence of quoted prices for identical or similar assets or liabilities, it is sometimes necessary to apply valuation techniques where contracts are marked using approved models. Models are used for developing both the forward curves and the valuation metrics of the instruments themselves where the instruments are complex combinations of standard or non-standard products. All models are subject to rigorous testing prior to being approved for valuation and subsequent continuous testing and approval procedures designed to ensure the validity and accuracy of the model assumptions and inputs.

F4. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

G. TRANSFERS OF ASSETS FROM CUSTOMERS

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

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

H. TAXATION

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

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

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

3 INTANGIBLE ASSETS

Year ended 31 March 2011	Other intangible assets - Computer software £m
Cost:	
At 1 April 2010 and 31 March 2011	5.0
Amortisation:	
At 1 April 2010	2.2
Amortisation for the year	0.7
At 31 March 2011	2.9
Net book value:	
At 31 March 2011	2.1
At 1 April 2010	2.8

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

4 PROPERTY, PLANT AND EQUIPMENT

(a) Movements in property, plant and equipment

Year ended 31 March 2011	Operating plant - transmission facilities £m	Operating plant - other (note (i)) £m	Other items of property, plant and equipment in use £m	Operating plant in progress (note (ii)) £m	Other items of property, plant and equipment in progress £m	Total £m
Cost:						
At 1 April 2010	860.8	61.9	17.5	370.0	-	1,310.2
Additions	-	-	3.1	126.4	7.7	137.2
Transfers from in progress to plant in use	162.8	3.0	-	(165.8)	-	-
Disposals	(5.1)	-	-	-	(0.4)	(5.5)
At 31 March 2011	1,018.5	64.9	20.6	330.6	7.3	1,441.9
Depreciation:						
At 1 April 2010	290.5	31.7	0.7	-	-	322.9
Charge for the year	19.0	2.1	0.2	-	-	21.3
Disposals	(5.1)	-	-	-	-	(5.1)
At 31 March 2011	304.4	33.8	0.9	-	-	339.1
Net book value:						
At 31 March 2011	714.1	31.1	19.7	330.6	7.3	1,102.8
At 1 April 2010	570.3	30.2	16.8	370.0	-	987.3

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

Property, plant and equipment in use	714.1	31.1	19.7	-	-	764.9
Property, plant and equipment in the course of construction	-	-	-	330.6	7.3	337.9
At 31 March 2011	714.1	31.1	19.7	330.6	7.3	1,102.8

4 PROPERTY, PLANT AND EQUIPMENT *continued*

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

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

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

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

(i) The category "Operating plant - other" principally comprises meters and measuring devices.
(ii) The category "Plant in progress" principally comprises transmission facilities in the course of construction.
(iii) The cost of fully depreciated property, plant and equipment still in use at 31 March 2012 was £50.5 million (2011 £48.2 million).
(iv) Included within the cost of property, plant and equipment are assets in use not subject to depreciation, being land of £10.3 million (2011 £19.4 million).

(b) Operating lease arrangements

Operating lease receivables	2012 £m	2011 £m
The future minimum lease payments receivable under non-cancellable operating leases are as follows:		
Within one year	**0.2**	0.1
Between one and five years	**0.5**	0.4
More than five years	**-**	0.1
	0.7	0.6

(c) Capital commitments

	2012 £m	2011 £m
Contracted but not provided	**235.9**	197.4

5 INVESTMENTS

	Shares in jointly controlled entity £
At 1 April 2010 , 1 April 2011 and 31 March 2012	**50**

Joint venture	**Place of incorporation or registration**	**Class of share capital**	**Proportion of shares held (note (a))**	**Activity**
NGET/SPT Upgrades Limited	England	Ordinary B shares £1	100%	Engineering services

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

6 FINANCE LEASE RECEIVABLES

	2012 £m	2011 £m
Amounts receivable under finance leases:		
Current receivables	**0.2**	0.3
Non-current receivables	**2.3**	2.6
	2.5	2.9
Gross receivables from finance leases:		
Within one year	**0.4**	0.5
Between one and five years	**1.9**	2.0
More than five years	**1.0**	2.0
	3.3	4.5
Unearned future finance income on finance leases	**(0.8)**	(1.6)
Net investment in finance leases	**2.5**	2.9
The net investment in finance leases is analysed as follows:		
Within one year	**0.2**	0.3
Between one and five years	**1.4**	0.8
More than five years	**0.9**	1.8
	2.5	2.9

7 MEASUREMENT OF FINANCIAL INSTRUMENTS

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

		2012		2011	
	Notes	**Carrying amount £m**	**Fair value £m**	Carrying amount £m	Fair value £m
Financial assets					
Receivables		**7.1**	**7.1**	2.0	2.0
Finance lease receivables		**2.5**	**2.5**	2.9	2.9
Financial liabilities					
Loans with Iberdrola group companies	(a)	**(449.3)**	**(553.0)**	(422.0)	(534.8)
Derivative financial instruments	(b)	**(1.9)**	**(1.9)**	-	-
Payables	(c)	**(13.6)**	**(13.6)**	(26.0)	(26.0)

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

(a) The carrying value of loans and other borrowings are accounted for at amortised cost. The carrying value of short term debt is a reasonable approximation of fair value. The fair value of all other debt is calculated using a discounted cash flow.

(b) Further detail on derivative financial instruments is disclosed in Note 14.

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

7 MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES *continued*

The company holds certain financial instruments which are measured in the balance sheet at fair value. The company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

All derivatives held by the company are Level 2.

8 LIQUIDITY ANALYSIS

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

	2012						
Cash outflows	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 and thereafter £m	**Total £m**
Loans with Iberdrola group companies	179.1	13.5	13.8	14.1	14.9	466.5	**701.9**
Payables*	10.3	0.2	-	-	-	-	**10.5**
	189.4	**13.7**	**13.8**	**14.1**	**14.9**	**466.5**	**712.4**

	2011						
Cash outflows	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 and thereafter £m	Total £m
Loans with Iberdrola group companies	150.3	15.3	17.0	18.3	19.2	522.1	742.2
Payables*	23.5	-	-	-	-	-	23.5
	173.8	15.3	17.0	18.3	19.2	522.1	765.7

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

9 TRADE AND OTHER RECEIVABLES

	Note	**2012 £m**	2011 £m
Current receivables:			
Receivables due from jointly controlled entities - trade		**5.7**	0.6
Trade receivables	(a)	**0.8**	0.9
Other receivables		**0.6**	0.5
		7.1	2.0

(a) Trade receivables are stated net of allowance for impairment of doubtful debts of £nil (2011 £0.1 million). Provisions for doubtful debts have been estimated by management, taking into account future cash flows, based on prior experience, ageing analysis and an assessment of the current economic environment within which the company operates. The income statement impact on change in bad debt for the year to 31 March 2012 is £nil (2011 £nil).

10 SHARE CAPITAL

	2012 £m	2011 £m
Authorised:		
200,000,000 ordinary shares of £1 each (2011 200,000,000)	**200.0**	200.0
	200.0	200.0
Allotted, called up and fully paid shares:		
200,000,000 ordinary shares of £1 each (2011 200,000,000)	**200.0**	200.0
	200.0	200.0

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

	Ordinary share capital £m	Hedge reserve (note (a)) £m	Retained earnings (note (b)) £m	Total £m
At 1 April 2010	200.0	-	198.0	398.0
Profit for the year attributable to equity holders of SP Transmission Limited	-	-	111.5	111.5
Dividends	-	-	(35.0)	(35.0)
At 1 April 2011	200.0	-	274.5	474.5
Profit for the year attributable to equity holders of SP Transmission Limited	-	-	123.5	123.5
Change in the value of cash flow hedges	-	(1.9)	-	(1.9)
Tax on items relating to cash flow hedges	-	0.5	-	0.5
Dividends	-	-	(30.0)	(30.0)
At 31 March 2012	**200.0**	**(1.4)**	**368.0**	**566.6**

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

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

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

Year ended 31 March 2012	At 1 April 2010 and 1 April 2011 £m	Removed from equity and recognised in carrying amount of hedged items £m	**At 31 March 2012 £m**
Cash flow hedges			
Foreign exchange rate hedges	-	(1.9)	**(1.9)**
Tax effect	-	0.5	**0.5**
	-	(1.4)	**(1.4)**

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

	2012 £m
2-3 years	(0.2)
3-4 years	(1.0)
4-5 years	(0.2)
	(1.4)

12 DEFERRED INCOME

Year ended 31 March 2011	At 1 April 2010 £m	Receivable during year £m	Released to income statement £m	At 31 March 2011 £m
Transfer of assets from customers	32.4	10.8	(0.8)	42.4
Total deferred income	32.4	10.8	(0.8)	42.4

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

13 LOANS AND OTHER BORROWINGS

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

Analysis by instrument and maturity	Note	Interest rate	Maturity	2012 £m	2011 £m
Intercompany loan with SPL		3.858%	29 January 2019	**75.0**	75.0
Intercompany loan with SPUK	(i)	LIBOR + 3.365%	28 January 2029	**210.0**	210.0
Intercompany loan with SPUK		Base + 1%	On demand	**164.3**	137.0
Total debt				**449.3**	422.0

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

Analysis of total loans and other borrowings	2012 £m	2011 £m
Non-current	**285.0**	285.0
Current	**164.3**	137.0
	449.3	422.0

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

(b) Borrowing facilities

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

14 DERIVATIVE FINANCIAL INSTRUMENTS

Analysis of derivative financial instruments - carrying value

	Non-current liabilities	
Cash flow hedges - foreign exchange rate	**2012 £m**	2011 £m
Hedging derivatives	**1.9**	-
	1.9	-

15 TRADE AND OTHER PAYABLES

	2012 £m	2011 £m
Current trade and other payables:		
Payables due to Iberdrola group companies - trade	**8.8**	23.0
Payables due to jointly controlled entities - trade	**1.4**	-
Payables due to Iberdrola group companies - interest	**3.1**	2.5
Other tax payables	**10.9**	7.5
Payments received on account	**26.6**	8.2
Other payables	**0.1**	0.5
	50.9	41.7
Non-current trade and other payables:		
Other payables	**0.2**	-
	0.2	-

16 DEFERRED TAX

Deferred tax provided in the Accounts is as follows:

	Property, plant and equipment £m	Derivative financial instruments £m	Total £m
Deferred tax provided at 1 April 2010	102.7	-	102.7
Charge to income statement	6.5	-	6.5
Deferred tax provided at 1 April 2011	109.2	-	109.2
Charge to income statement	5.1	-	5.1
Recorded in the statement of comprehensive income	-	(0.5)	(0.5)
Deferred tax provided at 31 March 2012	**114.3**	**(0.5)**	**113.8**

16 DEFERRED TAX *continued*

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

In July 2012, the rate of tax effective from 1 April 2013 was substantively enacted at 23% and a further reduction of 1% is expected. The estimated impact of these changes will be reductions of £4.7 million in the property, plant and equipment element of the deferred tax provision in each of the next two years. It is not possible to quantify the impact of the rate reductions on the other elements of the deferred tax balance.

17 EMPLOYEE INFORMATION

(a) Staff costs

	Note	**2012 £'000**	2011 £'000
Wages and salaries		**632**	465
Social security costs		**69**	44
Pension and other costs		**156**	92
Total employee costs	(i)	**857**	601

(i) The employee costs for the years ended 31 March 2012 and 31 March 2011 include those in respect of one director, Scott Mathieson. The emoluments of the other director of the company for the years ended 31 March 2012 and 31 March 2011 are included within the employee costs of other ScottishPower group companies, as he does not have a contract of service with the company. Details of directors' emoluments are set out in Note 25.

(b) Employee numbers

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

	Year end 2012	**Average 2012**	Year end 2011	Average 2011
Administrative	**8**	**8**	9	7
Total	**8**	**8**	9	7

(c) Pensions

The company's contributions payable in the year were £112,000 (2011 £92,000). 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 2011, the deficit in the Scottish Power group's defined benefit schemes in the UK amounted to £212.1 million (31 December 2010 £160.8 million). The employer contribution rate for these schemes in the year ended 31 December 2011 was 21.8%-23.3%. The employer contribution rate for the year ending 31 December 2012 is expected to be consistent with the year ended 31 December 2011.

18 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS

	2012 £m	2011 £m
Property, plant and equipment depreciation charge	**25.3**	21.3
Intangible asset amortisation	**0.7**	0.7
Charges and provisions and allowances	**1.0**	1.1
	27.0	23.1

19 FINANCE INCOME

	2012 £m	2011 £m
Interest receivable on finance leases	**0.3**	0.3

20 FINANCE COSTS

	2012 £m	2011 £m
Interest payable to Iberdrola group companies	**15.5**	13.9

21 INCOME TAX

	2012 £m	2011 £m
Current tax:		
UK Corporation tax	**25.7**	25.6
Current tax for the year	**25.7**	25.6
Deferred tax:		
Origination and reversal of temporary differences	**14.7**	14.9
Impact of rate change on deferred tax	**(9.6)**	(8.4)
Deferred tax for the year	**5.1**	6.5
Income tax expense for the year	**30.8**	32.1

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

	2012 £m	2011 £m
Corporation tax at 26% (2011 28%)	**40.1**	40.2
Impact of tax rate change	**(9.6)**	(8.4)
Other permanent difference	**0.3**	0.3
Income tax expense for the year	**30.8**	32.1

22 FINANCIAL COMMITMENTS

Other contractual commitments

	2012 £m	2011 £m
Provision of asset management services from SPPS	**11.2**	8.1

The contract in place for the provision for asset management services provided by SP Power Systems Limited expires on 31 March 2013.

23 DIVIDENDS

	2012 pence per ordinary share	2011 pence per ordinary share	2012 £m	2011 £m
Interim dividend paid	**15.0**	17.5	**30.0**	35.0

24 CONTINGENT LIABILITIES

As part of the exercise to achieve legal separation of SPUK's businesses pursuant to the provision of the Utilities Act 2000, the company and other subsidiary companies of SPUK were each required to jointly provide guarantees to external lenders to SPUK for debt existing in that company at 1 October 2001. The value of debt guaranteed by these companies, which was still outstanding at 31 March 2012 was £1,197.7 million (2011 £1,364.2 million).

25 RELATED PARTY TRANSACTIONS

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

	2012					2011			
	Ultimate UK parent (SPL)	**Immediate parent (SPENH) (note(i))**	**Immediate parent (SPUK) (note(i))**	**Other Iberdrola group companies**	**Jointly controlled entity**	Ultimate UK parent (SPL)	Immediate parent (SPUK)	Other Iberdrola group companies	Jointly controlled entity
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m
Types of transaction									
Sales and rendering of services	**-**	**-**	**-**	**-**	**1.6**	-	-	-	1.8
Purchases and receipt of services	**-**	**-**	**(0.1)**	**(11.3)**	**-**	-	(1.6)	(11.3)	(2.3)
Finance costs	**(2.9)**	**-**	**(3.3)**	**(9.3)**	**-**	(2.9)	(11.0)	-	-
Purchases of property, plant and equipment	**-**	**-**	**-**	**(158.0)**	**-**	-	-	(137.2)	-
Dividends paid	**-**	**(30.0)**	**-**	**-**	**-**	-	(35.0)	-	-
Balances outstanding									
Trade receivables	**-**	**-**	**-**	**-**	**5.7**	-	-	-	0.6
Loans payable	**(75.0)**	**-**	**-**	**(374.3)**	**-**	(75.0)	(347.0)	-	-
Derivative financial liabilities	**(1.9)**	**-**	**-**	**-**	**-**	-	-	-	-
Trade payables	**-**	**-**	**-**	**(8.8)**	**(1.4)**	-	-	(23.0)	-
Interest payable	**(0.5)**	**-**	**-**	**(2.6)**	**-**	(0.5)	(2.0)	-	-

(i) On 1 July 2011, as part of a a group restructuring exercise, SPUK transferred its investment in the company to SPENH. Transactions with SPUK for 2011 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 2012, SPUK made pension contributions of £112,000 on behalf of the company (2011 £92,000).

(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 group, it has not been possible to apportion the remuneration specifically in respect of services to this company. One of the key management personnel is paid by another company within the group.

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

(c) Directors' remuneration

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

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

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

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

(iii) One of the directors was paid by another company within the group.

25 RELATED PARTY TRANSACTIONS *continued*

(c) Directors' remuneration *continued*

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

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

(v) The highest paid director received a benefit under a long term incentive scheme during the year ended 31 March 2012 and in the prior year.

(d) Ultimate parent company and immediate parent company

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

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

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

26 AUDITORS' REMUNERATION

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

27 ACCOUNTING DEVELOPMENTS

In preparing these Accounts, the company has applied all relevant IAS, IFRS, and IFRIC Interpretations which have been adopted by the EU as of the date of approval of these Accounts and which are mandatory for the financial year ended 31 March 2012. In addition, the EU has adopted the following IFRS standards which is not mandatory for the year ended 31 March 2012:

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

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

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

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

The company is currently considering the impact of these pronouncements.

28 GOING CONCERN

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

The company has recorded a profit after tax in both the current year and previous financial years and the company's balance sheet shows that it has net current liabilities of £226.3 million and net assets of £566.6 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 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.