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THE FOLLOWING OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THIS OFFERING CIRCULAR MAY ONLY BE DISTRIBUTED OUTSIDE THE UNITED STATES TO PERSONS THAT ARE NOT U.S. PERSONS AS DEFINED IN REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE SECURITIES ACT). ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITIES IN ANY JURISDICTION. THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS.

Confirmation of your Representation: In order to be eligible to view this Offering Circular or make an investment decision with respect to the securities, you must be a person other than a U.S. person (within the meaning of Regulation S under the Securities Act) who is outside the United States. By accepting the email and accessing this Offering Circular, you shall be deemed to have represented to us that you and any customers you represent are not a U.S. person; the electronic mail address that you have given to us and to which this e-mail has been delivered is not located in the U.S., its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands), any State of the United States or the District of Columbia; and that you consent to delivery of such Offering Circular by electronic transmission.

You are reminded that this Offering Circular has been delivered to you on the basis that you are a person into whose possession this Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Offering Circular to any other person.

Any materials relating to the potential offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the potential offering be made by a licensed broker or dealer and any underwriter or any affiliate of any underwriter is a licensed broker or dealer in that jurisdiction, any offering shall be deemed to be made by the underwriter or such affiliate on behalf of the Issuer in such jurisdiction.

Under no circumstances shall this Offering Circular constitute an offer to sell or the solicitation of an offer to buy any securities in any jurisdiction. Recipients of this Offering Circular who intend to subscribe for or purchase the securities are reminded that any subscription or purchase may only be made on the basis of the information contained in the final Offering Circular. This Offering Circular may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply.

This Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of Barclays Bank PLC, HSBC Bank plc, Lloyds TSB Bank plc and The Royal Bank of Scotland plc, any person who controls any such persons, or any of their respective directors, officers, employees, agents or affiliates accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from Barclays Bank PLC, HSBC Bank plc, Lloyds TSB Bank plc and The Royal Bank of Scotland plc.

SPD Finance UK plc
(*incorporated with limited liability in England and Wales, registered number 07662877*)

£350,000,000 5.875 per cent. Guaranteed Notes due 2026

unconditionally and irrevocably guaranteed by

SP Distribution Limited
(*incorporated with limited liability in Scotland, registered number SC189125*)

Issue price: 99.22 per cent.

The £350,000,000 5.875 per cent. Guaranteed Notes due 2026 (the **Notes**) are issued by SPD Finance UK plc (the **Issuer**). The payments of all amounts in respect of the Notes will be unconditionally and irrevocably guaranteed by SP Distribution Limited (the **Guarantor**).

The Notes will bear interest at a rate of 5.875 per cent. per annum. The Issuer will pay interest on the Notes on 17 July of each year. The first such payment of interest will be made on 17 July 2012, in respect of the period from and including 18 July 2011 to but excluding 17 July 2012.

The Issuer may, at its option, redeem all, but not some only, of the Notes in accordance with those provisions described under "*Conditions of the Notes - Redemption at the option of the Issuer*". Also, the Issuer may, at its option, redeem all, but not some only, of the Notes at any time at par plus accrued interest, in the event of certain tax changes as described under "*Conditions of the Notes - Redemption for taxation reasons*". In addition, upon the occurrence of certain events described under "*Conditions of the Notes - Redemption at the Option of the Noteholders*", holders of the Notes may require the Issuer to redeem or, at the option of the Issuer, purchase (or procure the purchase of) the Notes at par plus accrued interest. The Notes mature on 17 July 2026.

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the **UK Listing Authority**) for the Notes to be admitted to the Official List of the UK Listing Authority (the **Official List**) and to the London Stock Exchange plc (the **London Stock Exchange**) for the Notes to be admitted to trading on the London Stock Exchange's regulated market (the **Market**). The London Stock Exchange's regulated market is a regulated market for the purposes of Directive 2004/39/EC (the **Markets in Financial Instruments Directive)**. References in this Offering Circular to Notes being listed (and all related references) shall mean that such Notes have been admitted to trading on the Market and have been admitted to the Official List.

The Notes will be rated A3 by Moody's Investors Service, Inc. (**Moody's**) and A- by Standard & Poor's Credit Market Services Europe Limited (**S&P**) as further described on page 11 of this Offering Circular. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. As at the date of this Offering Circular, Moody's and S&P are established in the European Union and have applied for registration under Regulation (EC) No. 1060/2009, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation (as defined below) unless the rating is provided by a credit rating agency operating in the European Union before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused.

The Notes will initially be represented by a temporary global note (the **Temporary Global Note**), without interest coupons, which will be deposited on or about 18 July 2011 (the **Closing Date**) with a common depository for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**). Interests in the Temporary Global Note will be exchangeable for interests in a permanent global note (the **Permanent Global Note** and, together with the Temporary Global Note, the **Global Notes**), without interest coupons, on or after 28 August 2011 (the **Exchange Date**), upon certification as to non-U.S. beneficial ownership. Interests in the Permanent Global Note will be exchangeable for definitive Notes only in certain limited circumstances - see "*Summary of the Notes while in Global Form*".

An investment in Notes involves certain risks. Prospective investors should have regard to the factors described under the heading "Risk Factors" on page 5.

Lead Managers

Barclays Capital **HSBC**

Lloyds Bank Corporate Markets **The Royal Bank of Scotland**

The date of this Offering Circular is 13 July 2011

This Offering Circular comprises a prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the **Prospectus Directive**).

The Issuer and the Guarantor (the **Responsible Person(s)**) accept responsibility for the information contained in this Offering Circular. To the best of the knowledge of the Issuer and the Guarantor (each having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Issuer and the Guarantor, having made all reasonable enquiries, confirm that this Offering Circular contains all material information with respect to the Issuer and the Guarantor and the Notes (including all information which, according to the particular nature of the Issuer, the Guarantor and of the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and the Guarantor and of the rights attaching to the Notes), that the information contained or incorporated in this Offering Circular is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Offering Circular are honestly held and that there are no other facts the omission of which would make this Offering Circular or any of such information or the expression of any such opinions or intentions misleading. The Issuer and the Guarantor accept responsibility accordingly.

The Managers (as described under "*Subscription and Sale*", below) have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Managers as to the accuracy or completeness of the information contained or incorporated in this Offering Circular or any other information provided by the Issuer or the Guarantor in connection with the offering of the Notes. No Manager accepts any liability in relation to the information contained or incorporated by reference in this Offering Circular or any other information provided by the Issuer or the Guarantor in connection with the offering of the Notes or their distribution.

No person is or has been authorised by the Issuer or the Guarantor to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other information supplied in connection with the offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Guarantor or any of the Managers.

Neither this Offering Circular nor any other information supplied in connection with the offering of the Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer, the Guarantor or any of the Managers that any recipient of this Offering Circular or any other information supplied in connection with the offering of the Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and/or the Guarantor. Neither this Offering Circular nor any other information supplied in connection with the offering of the Notes constitutes an offer or invitation by or on behalf of the Issuer or the Guarantor or any of the Managers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of the Notes shall in any circumstances imply that the information contained herein concerning the Issuer and/or the Guarantor is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Offering of the Notes is correct as of any time subsequent to the date indicated in the document containing the same. The Managers expressly do not undertake to review the financial condition or affairs of the Issuer or the Guarantor during the life of the Notes or to advise any investor in the Notes of any information coming to their attention. The Notes have not been and will not be registered under the United

States Securities Act of 1933, as amended, (the **Securities Act**) and are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to U.S. persons. For a further description of certain restrictions on the offering and sale of the Notes and on distribution of this document, see "*Subscription and Sale*" below.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer, the Guarantor and the Managers do not represent that this Offering Circular may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Guarantor or the Managers which is intended to permit a public offering of the Notes or the distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States and the European Economic Area (including the United Kingdom) see "*Subscription and Sale*".

This Offering Circular has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of the offering contemplated in this Offering Circular may only do so in circumstances in which no obligation arises for the Issuer or any of the Managers to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor the Managers have authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or the Managers to publish or supplement a prospectus for such offer.

IN CONNECTION WITH THE ISSUE OF THE NOTES, HSBC BANK PLC AS STABILISING MANAGER (THE STABILISING MANAGER) (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

All references in this document to ***Sterling*** and **£** refer to the currency of the United Kingdom.

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RISK FACTORS

Each of the Issuer and the Guarantor believes that the following factors may affect its ability to fulfil its obligations under the Notes. All of these factors are contingencies which may or may not occur and neither the Issuer nor the Guarantor is in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with the Notes are described below.

Each of the Issuer and the Guarantor believes that the factors described below represent the principal risks inherent in investing in the Notes at the date of this Offering Circular, but the inability of the Issuer or the Guarantor to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons which may not be considered significant risks by the Issuer and the Guarantor based on information currently available to them or which they may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision.

Factors that may affect the Issuer's ability to fulfil its obligations under the Notes

The Issuer’s principal purpose is to provide funding, through the international capital markets, to the Guarantor. Therefore, the Issuer’s ability to fulfil its obligations under the Notes is entirely dependent on the performance of the Guarantor, as a result of which, in considering the risks that may affect the Issuer’s ability to fulfil such obligations, potential investors should focus on the risk factor analysis set out below in respect of the Guarantor and its ability to fulfil its obligations under the Guarantee, which is equally meaningful to the Issuer’s ability to fulfil its obligations under the Notes.

Factors that may affect the Guarantor's ability to fulfil its obligations under the Guarantee

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

Changes in Law or Regulation and Decisions by Governmental Bodies or Regulators

The Guarantor is subject to regulation by the Gas and Electricity Markets Authority, to the Electricity Act 1989 and to other UK and EU legislation. Consequently, changes in law or regulation or regulatory policy in or decisions or rulings by The Office of Gas and Electricity Markets (**Ofgem**) or other bodies, could have a material adverse impact on the Guarantor’s results of operations, cash flows, the financial condition of the Guarantor’s business and the ability to develop that business in the future. Failure by the Guarantor to comply with the terms of its distribution licence may lead to Ofgem making an enforcement order or levying a fine on the Guarantor. While the Licence may be terminated on 30 days’ notice in exceptional circumstances, such as in the event of insolvency proceedings or for non-compliance with an enforcement order after three months, it continues indefinitely until revoked following no less than 25 years' written notice. Ofgem has formal powers to propose modifications to the Guarantor's licence.

Environmental and Health and Safety Laws or Regulations

Aspects of the Guarantor’s activities are potentially dangerous, such as the operation of its distribution network and the distribution of electricity. The Guarantor is subject to laws and regulations relating to pollution, the protection of the environment and the use and disposal of hazardous substances and waste materials. These expose the Guarantor to costs and liabilities relating to the Guarantor's operations and properties whether current, including those inherited from predecessor bodies, or formerly owned by the Guarantor and sites used for the disposal of its waste. The Guarantor is also subject to laws and regulations in Great Britain governing health and safety matters protecting its employees and the public. The Guarantor commits significant resources towards ensuring compliance with the above mentioned laws and regulations. Nevertheless, a major safety or environmental impact incident could expose employees, contractors and third parties to the risk of injury, therefore exposing the Guarantor to potential liability and/or loss of reputation. In addition, breaches of applicable environmental or health and safety laws or regulations could expose the Guarantor to penalties, claims for financial compensation and/or adverse regulatory consequences. Furthermore, there can be no assurance that costs of compliance with applicable environmental standards and regulations will not increase and any such increased costs could adversely affect the Guarantor's financial performance.

Network or IT Systems failure or interruption, or damage to infrastructure

The Guarantor's business is heavily reliant on information technology (**IT**) systems and the network infrastructure. The Guarantor may suffer a major network failure or interruption, or may not be able to carry out critical non-network operations. Operational performance could be materially adversely affected by a failure to maintain the health of the system or network, inadequate forecasting of demand, inadequate record keeping or failure of information systems and supporting technology. This could cause the Guarantor to fail to meet the standards of service with which the Guarantor is bound to comply requiring the payment of specific penalties for default, or it could cause the Guarantor to be in breach of a licence, approval, regulatory requirement or contractual obligation, which could result in adverse regulatory and financial consequences.

In addition, the Guarantor may be affected by other potential events that are largely outside the Guarantor's control such as the impact of weather, unlawful or unintentional acts of third parties or force majeure. Terrorist attacks, sabotage or other intentional acts may also damage the Guarantor's assets or otherwise significantly affect corporate activities. Whilst the Guarantor has in place measures to manage the risk that it sustains an adverse financial impact through inability to carry on its operations and has in place business continuity and IT disaster recovery plans, the risk remains that any failure or interruption could cause the Guarantor to fail to meet agreed standards of service or be in breach of a licence, approval, regulatory requirement or contractual obligation and could result in adverse regulatory and financial consequences. Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that the Issuer or the Group will be unable to comply with its obligations as a company or group with securities admitted to the Official List.

Financing

The Guarantor's financial position could be affected by significant changes in interest rates and financial market conditions. The Guarantor's business is currently financed through cash generated from its ongoing operations and intercompany loans. Restrictions imposed by regulators may also limit the manner in which the Guarantor services the financial requirements of its business. As evidenced during recent periods, financial markets can be subject to periods of volatility and shortages of liquidity and if the Guarantor were unable to access the capital markets or other sources of finance at competitive rates for a prolonged period, the Guarantor's cost of financing may increase and the discretionary and uncommitted elements of its proposed capital investment programme may need to be reconsidered. The occurrence of any such events could have a material adverse impact on the Guarantor's business, results of operations and prospects.

Existing Guarantee

The Guarantor, along with SP Transmission Limited and ScottishPower Generation Limited, provide an unconditional, irrevocable joint and several guarantee to the bond and debt holders of Scottish Power UK plc for obligations outstanding as at 1st October 2001, this being the date that the assets and licences owned by

Scottish Power UK plc had to be transferred into these companies in order to comply with certain requirements under the Utilities Act 2000. If Scottish Power UK plc fails to pay interest and or principal of the guaranteed debt then liability to pay will fall jointly and severally on the three companies. The occurrence of any such event could have a material adverse impact on the Guarantor's ability to pay interest and/or principal of the Notes.

Inflation and deflation

The Guarantor's business is subject to price controls set by Ofgem. The Guarantor's income under its price controls in Great Britain is linked to the retail price index. There is a risk that the Guarantor's results of operations and cash flows may be adversely affected if its costs increase by more than the retail price index or if its costs do not decline if the retail price index decreases.

Project Delivery

Project execution in general may be subject to commercial, construction, technical, contractor, planning permission, relevant approvals and economic risks. Failure to deliver planned new projects to successful technical and commercial operation, could have a material adverse effect on the Guarantor's business, results of operations, operating costs, prospects and/or financial condition.

Compliance with competition and procurement laws

The Guarantor as owner and operator of some of the key energy infrastructure and services in Great Britain may have associated obligations under competition law. In addition, the Guarantor is subject to public procurement law and the provisions of Directive 2004/17/EC (the "**Utilities Directive**"). Whilst the Guarantor has policies and procedures in place which seek to ensure compliance with the relevant competition and procurement legislation, any failure by the Guarantor to comply with relevant law could result in penalties being imposed on the Guarantor. The imposition of any such penalties may have an adverse effect on the Guarantor's business, results of operations, prospects and/or financial condition.

Business Performance

Earnings maintenance and growth from the Guarantor's regulated electricity business will be affected by the Guarantor's ability to meet or exceed efficiency targets and service quality standards set by, or agreed with, Ofgem If the Guarantor does not meet these targets and standards, it may not achieve the expected benefits, its business may be materially adversely affected and its performance, results of operations and reputation may be materially harmed.

Litigation

The Guarantor is, from time to time, involved in legal proceedings. Any adverse result in relation to any such proceedings could have an adverse effect on the Guarantor's financial position, reputation and profitability.

Insurance

The Guarantor seeks to maintain insurance cover on all its key property and liability exposures in the international insurance market. No assurance can be given that the insurance cover acquired by the Guarantor provides adequate or sufficient cover for all events or incidents. The international insurance market is volatile and therefore there can be no guarantee that existing cover will remain available or will be available at commercially acceptable premia.

Pension Scheme

The Guarantor and its affiliate SP Power Systems Limited participate in the ScottishPower Pension Scheme (SPPS) that covers substantially all of its employees. In 1999 the original SPPS that was in place at privatisation, were closed to new members. This was replaced with a lower cost arrangement for new members, the Final Salary Life Plan. This in turn was closed in 2006 and replaced with a money purchase stakeholder defined contribution scheme for new members from April 2006. This has an employer contribution rate of 6% compared with the current final salary employer's contribution rate of 21.8%.

Estimates of the amount and timing of future funding for the Final Salary section of the scheme are based on various actuarial assumptions and other factors including, among other things, the actual and projected market performance of the scheme assets, future long-term bond yields, average life expectancies and relevant legal requirements. The impact of these assumptions and other factors may require the Guarantor to make additional contributions to these pension schemes which, to the extent they were not recoverable under its price control, could materially adversely affect the Guarantor's results of operations and financial condition.

Factors which are material for the purpose of assessing the market risks associated with the Notes

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Notes unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

The Notes contain an optional redemption feature, which is likely to limit their market value.

During any period when the Issuer may elect to redeem the Notes, the market value of the Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem the Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Risks related to the Notes generally

Set out below is a brief description of certain risks relating to the Notes generally:

Modification

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to or for the benefit of an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

Change of law

The conditions of the Notes are based on English law in effect as at the date of this Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Offering Circular.

Denominations involve integral multiples: definitive Notes

The Notes have denominations consisting of a minimum of £100,000 or its equivalent plus one or more higher integral multiples of £1,000 or its equivalent. It is possible that the Notes may be traded in amounts that are not integral multiples of £100,000 or its equivalent. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than £100,000 or its equivalent in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to £100,000 or its equivalent.

If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of £100,000 or its equivalent may be illiquid and difficult to trade.

Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally

The Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes and the Guarantor will make any payments under the Guarantee in Sterling. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than Sterling. These include the risk that exchange rates may significantly change (including changes due to devaluation of Sterling or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to Sterling would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of them.

Credit ratings may not reflect all risks

Moody's and S&P have assigned credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. In general, European regulated investors are restricted under Regulation (EC) No. 1060/2009 (the **CRA Regulation**) from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended).

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the notes are legal investments for it, (2) the notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of the notes under any applicable risk-based capital or similar rules.

TERMS AND CONDITIONS OF THE NOTES

The issue of the Notes was authorised by a resolution of the Board of Directors of SPD Finance UK plc (the **Issuer**) passed on 6 July 2011 and the guarantee of the Notes was authorised by a resolution of the Board of Directors of SP Distribution Limited (the **Guarantor**) passed on 6 July 2011. The Guarantor has, for the benefit of the Noteholders, executed and delivered a deed of guarantee (the **Deed of Guarantee**) dated 18 July 2011 under which it has guaranteed the due and punctual payment of all amounts due by the Issuer under the Notes as and when the same shall become due and payable. A fiscal agency agreement dated 18 July 2011 (the **Fiscal Agency Agreement**) has been entered into in relation to the Notes between the Issuer, the Guarantor, The Bank of New York Mellon, London Branch as fiscal agent and the paying agents named in it. The fiscal agent and the paying agents for the time being are referred to below respectively as the **Fiscal Agent** and the **Paying Agents** (which expression shall include the Fiscal Agent). The Fiscal Agency Agreement includes the form of the Notes and the coupons relating to them (the **Coupons**). Copies of the Fiscal Agency Agreement and the Deed of Guarantee are available for inspection during normal business hours at the specified offices of the Paying Agents. The holders of the Notes (the **Noteholders**) and the holders of the Coupons (whether or not attached to the relevant Notes) (the **Couponholders**) are deemed to have notice of all the provisions of the Fiscal Agency Agreement applicable to them.

1. FORM, DENOMINATION AND TITLE

(a) **Form and denomination:** The Notes are serially numbered and in bearer form in the denominations of £100,000 and integral multiples of £1,000 in excess thereof up to and including £199,000, each with Coupons attached on issue.

(b) **Title:** Title to the Notes and Coupons passes by delivery. The holder of any Note or Coupon will be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on it, or its theft or loss) and no person will be liable for so treating the holder.

2. GUARANTEE AND STATUS

(a) **Guarantee:** The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Notes and the Coupons. Its obligations in that respect (the **Guarantee**) are set out in the Deed of Guarantee.

(b) **Status:** The Notes and Coupons constitute (subject to Condition 3) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes and the Coupons and of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 3, at all times rank at least equally with all their respective other present and future unsecured and unsubordinated obligations.

3. NEGATIVE PLEDGE

(a) So long as any of the Notes or Coupons remain outstanding:

(i) neither the Issuer nor the Guarantor will create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest (**Security**) (other than Permitted Security) upon the whole or any part of its undertaking, assets or revenues present or future to secure any Relevant Indebtedness, or any guarantee of, or indemnity in respect of, any Relevant Indebtedness;

(ii) each of the Issuer and the Guarantor will procure that no other person creates or permits to subsist any Security (other than Permitted Security) upon the whole or any part of the undertaking, assets or revenues present or future of that other person to secure (A) any of the Issuer's Relevant Indebtedness or the Guarantor's Relevant Indebtedness, or any guarantee of or indemnity in respect of any of the Issuer's Relevant Indebtedness or the Guarantor's Relevant Indebtedness or (B) where the person in question is a Subsidiary of the Guarantor, any of the Relevant Indebtedness of any person other than (1) that Subsidiary of the Guarantor or (2) if that Subsidiary is not a Relevant Subsidiary, any other Subsidiary of the Guarantor (which is not the Issuer or a Relevant Subsidiary), or in each case any guarantee of, or indemnity in respect of, any such Relevant Indebtedness; and

(iii) each of the Issuer and the Guarantor will procure that no person other than the Guarantor gives any guarantee of, or indemnity in respect of, any of its Relevant Indebtedness,

unless, at the same time or prior thereto, the Issuer's obligations under the Notes and Coupons or, as the case may be, the Guarantor's obligations under the Guarantee (aa) are secured equally and rateably therewith or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be, or (bb) have the benefit of such other security, guarantee, indemnity or other arrangement as shall be approved by an Extraordinary Resolution (as defined in the Fiscal Agency Agreement) of the Noteholders.

(b) For the purposes of these Conditions

Permitted Security means any Security created in respect of any Relevant Indebtedness of a company which has merged with the Guarantor or one of its Subsidiaries or which has been acquired by the Guarantor or one of its Subsidiaries, provided that such security was already in existence at the time of the merger or the acquisition, was not created for the purpose of financing the merger or the acquisition and is not increased in amount and not extended following the merger or the acquisition;

person means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having a separate legal personality;

Relevant Indebtedness means any present or future indebtedness for borrowed money of the Guarantor, the Issuer or any other person or entity in the form of, or represented by, notes, debentures, loan stock or other securities which are or are capable of being quoted, listed or ordinarily dealt in on any stock exchange, over the counter market or other securities market (for which purpose any such notes, debentures, loan stock or other securities shall be deemed not to be capable of being so quoted, listed or ordinarily dealt in if the terms of the issue thereof expressly so provide);

Relevant Subsidiary means a Subsidiary of the Guarantor which holds a Relevant Licence (as defined in Condition 5(c) (v)); and

Subsidiary means, at any particular time, a subsidiary within the meaning of section 1159 of the Companies Act 2006.

4. INTEREST

The Notes bear interest from and including 18 July 2011 at the rate of 5.875 per cent. per annum, payable annually in arrear in equal instalments of £58.75 per Calculation Amount (as defined below) on 17 July in each year (each an **Interest Payment Date**), except that the first payment of interest to be made on 17 July 2012, will be in respect of the period from and including 18 July 2011 to but excluding 17 July 2012 and will amount to £58.59 per Calculation Amount. Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant holder, and (b) the day seven days after the Fiscal Agent has notified Noteholders of receipt of all sums due in respect of all the Notes up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these terms and conditions (the **Conditions**)).

Save as provided above in relation to equal instalments, if the Accrual Period is equal to or shorter than the Determination Period during which it falls, the day-count fraction will be the number of days in the Accrual Period divided by the number of days in such Determination Period, where:

Accrual Period means the relevant period for which interest is to be calculated (from and including the first such day to but excluding the last); and

Determination Period means the period from and including 17 July in any year to but excluding the next 17 July.

In these Conditions, the period beginning on and including 18 July 2011 and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an **Interest Period**.

Interest in respect of any Note shall be calculated per £1,000 in principal amount of the Notes (the **Calculation Amount**). The amount of interest payable per Calculation Amount for any period shall, save as provided above in relation to equal instalments, be equal to the product of 5.875 per cent., the Calculation Amount and the day-count fraction for the relevant period, rounding the resulting figure to the nearest pence (half a pence being rounded upwards).

5. REDEMPTION, PURCHASE AND OPTIONS

(a) Final Redemption

Unless previously redeemed or purchased and cancelled as provided below, each Note will be redeemed at its principal amount on 17 July 2026.

(b) Redemption for taxation reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their principal amount, (together with interest accrued to the date fixed for redemption), if (i) the Issuer (or, if the Guarantee were called, the Guarantor) has or will become obliged to pay additional amounts as provided or referred to in Condition 7 as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or, any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 18 July 2011, and (ii) such obligations cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such additional amounts if a payment in respect of the Notes (or the

Guarantee, as the case may be) were then due. Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Fiscal Agent a certificate signed by a director of the Issuer (or the Guarantor, as the case may be) stating that the Issuer (or the Guarantor, as the case may be) is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer (or the Guarantor, as the case may be) so to redeem have occurred.

(c) **Redemption at the Option of the Noteholders**

(i) If, at any time while any of the Notes remains outstanding a Restructuring Event occurs and within the Restructuring Period, either (subject as provided below including in the definition of Put Event):

(A) if at the time such Restructuring Event occurs the Notes are rated by a Rating Agency, a Rating Downgrade in respect of such Restructuring Event also occurs; or

(B) if at the time such Restructuring Event occurs the Notes do not have a rating from a Rating Agency, a Negative Rating Event in respect of such Restructuring Event also occurs,

then, unless prior to the occurrence of a Restructuring Event the Issuer shall have given a notice under Condition 5(b) in respect of the Notes, the holder of each Note shall, upon the giving of a Put Event Notice (as defined below), have the option (the **Put Option**) to require the Issuer to redeem or, at the option of the Issuer, purchase (or procure the purchase of) that Note on the Put Date (as defined below), at its principal amount together with (or, where purchased, together with an amount equal to) interest (if any) accrued to (but excluding) the Put Date.

(ii) Promptly upon, and in any event within 14 days after, the Issuer or the Guarantor becoming aware that a Put Event has occurred, the Issuer or the Guarantor shall, give notice (a **Put Event Notice**) to the Noteholders in accordance with Condition 13 specifying the nature of the Put Event and the procedure for exercising the Put Option.

(iii) To exercise the Put Option, the holder of a Note must deliver such Note to the specified office of any Paying Agent, on a day which is a business day in the place of such specified office falling within the period (the **Put Period**) of 30 days after that on which a Put Event Notice is given, accompanied by a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a **Put Notice**) and in which the holder shall specify a bank account complying with the requirements of Condition 6 (*Payments*) to which payment is to be made under this Condition 5. The Paying Agent to which such Note and Put Notice are delivered shall issue to the Noteholder concerned a non-transferable receipt in respect of the Note so delivered. Payment in respect of any Note so delivered shall be made, if the holder duly specifies a sterling account with a bank in London in the Put Notice to which payment is to be made, on the Put Date by transfer to that bank account and, in every other case, on or after the Put Date in each case against presentation and surrender or (as the case may be) endorsement of such receipt at any specified office of any Paying Agent, subject in any such case as provided in Condition 6. A Put Notice, once given, shall be irrevocable. For the purposes of these Conditions and the Fiscal Agency Agreement, receipts issued pursuant to this Condition 5 shall be treated as if they were Notes.

The Issuer shall redeem or, at the option of the Issuer, purchase (or procure the purchase of) the relevant Note on the applicable Put Date unless previously redeemed or purchased.

If this Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg to exercise the right to require redemption of this Note the holder of this Note must, within the notice period, give notice to the Paying Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on its instruction by Euroclear or Clearstream, Luxembourg or any common depositary for them to the Paying Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time and, if this Note is represented by a Global Note, at the same time present or procure the presentation of the relevant Global Note to the Paying Agent for notation accordingly.

(iv) A Rating Downgrade or a Negative Rating Event shall be deemed not to have occurred as a result or in respect of a Restructuring Event if the Rating Agency making the relevant reduction in rating or, where applicable, declining to assign a rating of at least Investment Grade as provided in this Condition 5 does not announce or publicly confirm or inform the Issuer, the Guarantor or any Noteholder in writing at its request that the reduction or, where applicable, declining to assign a rating of at least Investment Grade was the result, in whole or in part, of any event or circumstance comprised in or arising as a result of the applicable Restructuring Event.

(v) For the purposes of these Conditions:

Distribution Licence means the distribution licence held or deemed to be held by the Guarantor under the Electricity Legislation, including any such licence issued in substitution therefor;

Electricity Legislation means the Electricity Act 1989 (as amended by section 30 of the Utilities Act 2000), as amended, modified, supplemented or substituted from time to time, including any regulations prescribed and promulgated pursuant thereto;

Investment Grade in relation to a rating means that the relevant Rating Agency has designated the rating as BBB-, Baa3 or their respective equivalents or better;

a **Negative Rating Event** shall be deemed to have occurred if following a Restructuring Event (a) the Issuer does not, during the Restructuring Period, seek, and thereupon use all reasonable endeavours to obtain, a rating of the Notes from a Rating Agency or (b) it does so seek and use such endeavours but, it has not, as a result of such Restructuring Event, obtained in respect of the Notes a rating of at least Investment Grade from at least one Rating Agency by no later than the end of the Restructuring Period;

Put Date means the fifteenth day after the expiry of the Put Period;

a **Put Event** occurs in the case of the occurrence of a Restructuring Event, where there shall be in respect of such Restructuring Event a Rating Downgrade or a Negative Rating Event that occurs during the Restructuring Period and continues to exist on the last day of the Restructuring Period;

Rating Agency means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Incorporated, Moody's Investors Service Inc. and Fitch, Inc. or any of their respective subsidiaries or affiliates and **Rating Agencies** shall be construed accordingly;

a **Rating Downgrade** shall be deemed to have occurred in respect of a Restructuring Event if the then current rating assigned to the Notes by any Rating Agency (whether provided by a Rating Agency at the invitation of the Issuer or by its own volition) is withdrawn or reduced from an Investment Grade rating to a non-Investment Grade rating or, if the Rating Agency shall then have already rated the Notes below Investment Grade (as described above), the rating is lowered one full rating category;

Relevant Licences means the Distribution Licence and in any such case, and from time to time any other licence(s), exemption(s), permission(s) or other authorisation(s) relating to the transmission of electricity granted under the Electricity Legislation to the Guarantor or any of its wholly-owned Subsidiary as contemplated in the exception to paragraph (A) of the definition of Restructuring Event and **Relevant Licence** shall be construed accordingly;

Responsible Authority means the Government of the United Kingdom or any subdivision thereof, the Gas and Electricity Markets Authority and the Office of Gas and Electricity Markets or other regulatory department, body, instrumentality, agency or authority of the United Kingdom or of any subdivision thereof having jurisdiction over the Guarantor's electricity transmission operations or a material amount of the Guarantor's assets or revenues, but excluding the Guarantor acting in such capacity;

Restructuring Event means the occurrence of any one or more of the following events:

(A) the Responsible Authority gives the Guarantor or any Subsidiary of the Guarantor written notice of revocation, termination or withdrawal of any Relevant Licence; or

i. the Guarantor or any Subsidiary of the Guarantor agrees in writing with the Responsible Authority to any revocation, termination, withdrawal or surrender of any Relevant Licence; or

ii. any original or delegated legislation is enacted revoking, terminating or withdrawing any Relevant Licence,

except in any such case in circumstances where licence(s), exemption(s), permission(s) or other authorisation(s) (as the case may be) is or are granted on terms not materially less favourable under the Electricity Legislation to the Guarantor or one or more Subsidiaries of the Guarantor; or

(B) any modification (other than a modification which is of a formal, minor or technical nature) is made to the terms and conditions of any Relevant Licence on or after 18 July 2011 unless a certificate is issued signed by two directors of the Guarantor in good faith to the effect that the modified terms and conditions are not materially less favourable to the business of the

Group and to the business of the member of the Group holding the Relevant Licence;

Restructuring Period means, if at any time a Restructuring Event occurs, the period of 90 days starting from and including the day on which that Restructuring Event occurs; and.

Transmission Licence means the transmission licence held or deemed to be held by the Guarantor under the Electricity Legislation, including any such licence issued in substitution therefor.

(d) **Redemption at the option of the Issuer**

Unless a Put Event Notice has been given pursuant to Condition 5(c), the Issuer may at any time, having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 13 (which notice shall be irrevocable and shall specify the date fixed for redemption (the **Optional Redemption Date**)) redeem all, but not some only, of the Notes at a redemption price per Note equal to the greater of the following, in each case together with interest accrued to but excluding the Optional Redemption Date:

(i) 100 per cent. of the nominal amount of the Note; and

(ii) the price (as reported in writing to the Issuer, the Guarantor and the Fiscal Agent by a financial adviser appointed by the Issuer and the Guarantor) expressed as a percentage at which the Gross Redemption Yield on the Notes on the Calculation Date is equal to the Gross Redemption Yield at 11.00 a.m. (London time) on the Calculation Date of the 5.00 per cent. U.K. Government Treasury Stock March 2025 (or, where such financial adviser notifies the Issuer, the Guarantor and the Fiscal Agent that, for reasons of illiquidity or otherwise, such stock is not appropriate for such purpose, such other government stock as such financial adviser may recommend, the maturity of which most closely matches the maturity of the Note). For such purposes, **Calculation Date** means the date which is the third London Business Day prior to the Optional Redemption Date and **Gross Redemption Yield** means a yield calculated in accordance with generally accepted market practice at such time, as notified to the Issuer, the Guarantor and the Fiscal Agent by such financial adviser.

(e) **Notice of redemption**

All Notes in respect of which any notice of redemption is given under this Condition shall be redeemed on the date specified in such notice in accordance with this Condition.

(f) **Purchases**

The Issuer, the Guarantor and any Subsidiary of the Guarantor may at any time purchase Notes (provided that all unmatured Coupons are attached or surrendered therewith) in the open market or otherwise at any price. The Notes so purchased, which held by or on behalf of the Issuer, the Guarantor or any Subsidiary of the Guarantor, shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 11(a).

(g) **Cancellation**

All Notes purchased by or on behalf of the Issuer, the Guarantor or any of the Guarantor's Subsidiaries may be surrendered for cancellation by surrendering each such Note together with all unmatured Coupons to the Fiscal Agent and, if so surrendered, will, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Coupons). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer and the Guarantor in respect of any such Notes shall be discharged.

6. PAYMENTS

(a) **Method of Payment:** Payments of principal and interest will be made against presentation and surrender (or, in the case of a partial payment, endorsement) of Notes or the appropriate Coupons (as the case may be) at the specified office of any Paying Agent by sterling cheque drawn on, or by transfer to a sterling account maintained by the payee with, a bank in London. Payments of interest due in respect of any Note other than on presentation and surrender of matured Coupons shall be made only against presentation and either surrender or endorsement (as appropriate) of the relevant Note.

(b) **Payments subject to fiscal laws:** All payments are subject in all cases to any applicable laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7. No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(c) **Surrender of unmatured Coupons:** Each Note should be presented for redemption together with all unmatured Coupons relating to it, failing which the amount of any such missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon which the sum of principal so paid bears to the total principal amount due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relevant missing Coupon not later than 10 years after the Relevant Date (as defined in Condition 7) for the relevant payment of principal.

(d) **Payments on business days:** A Note or Coupon may only be presented for payment on a day which is a business day in the place of presentation and, in the case of payment by transfer to a sterling account, in London. No further interest or other payment will be made as a consequence of the day on which the relevant Note or Coupon may be presented for payment under this Condition 6 falling after the due date. In this Condition **business day** means a day on which commercial banks and foreign exchange markets are open in the relevant city.

(e) **Paying Agents:** The initial Paying Agents and their initial specified offices are listed below. The Issuer and the Guarantor reserve the right at any time to vary or terminate the appointment of any Paying Agent and appoint additional or other Paying Agents, provided that they will maintain (i) a Fiscal Agent, (ii) Paying Agents having specified offices in at least two major European cities and (iii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000.

7. TAXATION

All payments of principal and interest by or on behalf of the Issuer or the Guarantor in respect of the Notes and the Coupons or (as the case may be) under the Guarantee shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the United Kingdom or, any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event the Issuer or, as the case may be, the Guarantor shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note or Coupon presented for payment or (as the case may be) under the Deed of Guarantee:

(a) **Other connection:** by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of his having some connection with the United Kingdom, other than the mere holding of the Note or Coupon; or

(b) **Presentation more than 30 days after the Relevant Date:** more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting such Note or Coupon for payment on the last day of such period of 30 days; or

(c) **Payment to individuals:** where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(d) **Payment by another Paying Agent:** by or on behalf of a Noteholder or a Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union.

Relevant Date means whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received in London by the Fiscal Agent on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Noteholders. Any reference in these Conditions to principal and/or interest shall be deemed to include any additional amounts which may be payable under this Condition.

8. EVENTS OF DEFAULT

If any of the following events occurs and is continuing:

(a) **Non-Payment**: default is made for more than 14 days (in the case of interest) or seven days (in the case of principal) in the payment on the due date of interest or principal in respect of any of the Notes; or

(b) **Breach of Other Obligations**: the Issuer or the Guarantor does not perform or comply with any one or more of its other obligations under or in respect of the Notes, the Fiscal Agency Agreement or the Deed of Guarantee which default is incapable of remedy or is not remedied within 30 days after notice of such default shall have been given to the Fiscal Agent at its specified office by any Noteholder; or

(c) **Cross-Default**: (i) subject as provided below, any Relevant Indebtedness incurred by the Issuer or the Guarantor or any Relevant Subsidiary becomes (or becomes capable of being declared) due and payable prior to its stated maturity otherwise than at the option of the Issuer or the Guarantor, as the case may be, or, provided that no event of default on such Relevant Indebtedness, however described, has occurred, at the option of any person entitled to such Relevant Indebtedness, or (ii) any Relevant Indebtedness of the Issuer or of the

Guarantor or of any Relevant Subsidiary is not paid when due or, as the case may be, within any applicable grace period, or (iii) the Issuer, the Guarantor or any Relevant Subsidiary fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any Relevant Indebtedness, provided that the aggregate amount of the Relevant Indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition 8(c) have occurred equals or exceeds £40,000,000 or its equivalent in other currencies.

Paragraph (i) above shall not apply to Relevant Indebtedness which is Relevant Indebtedness of a Relevant Subsidiary and becomes (or becomes capable of being declared) due and payable prior to its stated maturity solely as a result of an event of default triggered by the acquisition of that Relevant Subsidiary by the Guarantor (or any of its Subsidiaries), provided that this exception shall not apply if such Relevant Indebtedness (I) has become (or is declared to become) due and payable, and (II) is not paid in full when so due and payable; or

(d) **Enforcement Proceedings**: any distress, attachment, execution or other legal process which is material in the context of the issue and offering of the Notes is levied, enforced or sued on or against any part of the property, assets or revenues of the Issuer or the Guarantor or any of the Guarantor's Subsidiaries and is not discharged or stayed within 90 days; or

(e) **Security Enforced**: any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or the Guarantor or any of the Guarantor's Subsidiaries which is material in the context of the issue and offering of the Notes becomes enforceable and any step is taken to enforce it (including the taking of possession by or the appointment of a receiver, administrative receiver, manager or other similar person); or

(f) **Insolvency, etc**: (i) the Issuer or the Guarantor or any Relevant Subsidiary becomes, or is adjudicated to be, insolvent or is adjudicated to be unable to pay its debts as they fall due, (ii) an administrator or liquidator of the Issuer or the Guarantor or any Relevant Subsidiary or the whole or any part of the undertaking, assets and revenues of the Issuer or the Guarantor or any Relevant Subsidiary is appointed (or application for any such appointment is made), or (iii) the Issuer or the Guarantor or any Relevant Subsidiary takes any action for a general readjustment or deferment of its obligations or makes a general assignment or arrangement or composition with or for the benefit of its creditors generally or declares a moratorium in respect of its indebtedness or guarantees given by it; or

(g) **Winding-up**: an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer or the Guarantor or any Relevant Subsidiary, or the Issuer or the Guarantor or any Relevant Subsidiary shall cease or through an official action of its board of directors threaten to cease to carry on all or a substantial part of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution of the Noteholders or (ii) in the case of a Relevant Subsidiary, whereby the undertaking or assets of the Relevant Subsidiary are transferred to or otherwise vested in (A) the Issuer or the Guarantor or another Relevant Subsidiary or (B) any other person provided, in this case, that the undertaking or assets are transferred to that person for full consideration on an arm's length basis and the proceeds of the consideration are applied as soon as practicable by the Relevant Subsidiary in its business or operations or the business or operations of the Issuer or the Guarantor or another Relevant Subsidiary;

(h) **Authorisation and Consents**: any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer and the Guarantor lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under the Notes and the Deed of Guarantee, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Notes and the Deed of Guarantee admissible in evidence in the courts of England is not taken, fulfilled or done; or

(i) **Illegality**: it is or will become unlawful for the Issuer or the Guarantor to perform or comply with any one or more of its obligations under any of the Notes or the Deed of Guarantee; or

(j) **Analogous Events**: any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs; or

(k) **Guarantee**: the Guarantee is not (or is claimed by the Guarantor not to be) in full force and effect; or

(l) **Nationalisation**: any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the Guarantor or any of its Relevant Subsidiaries,

then any Note may, by notice in writing given to the Fiscal Agent at its specified office by the holder, be declared immediately due and payable whereupon it shall become immediately due and payable at its principal amount together with accrued interest without further formality unless such event of default shall have been remedied prior to the receipt of such notice by the Fiscal Agent.

In this Condition, **Relevant Indebtedness**, **Relevant Subsidiary** and **Subsidiary** shall have the respective meanings given to them in Condition 3.

9. PRESCRIPTION

Claims in respect of principal and interest will become void unless presentation for payment is made as required by Condition 6 within a period of 10 years in the case of principal and five years in the case of interest from the appropriate Relevant Date.

10. REPLACEMENT OF NOTES AND COUPONS

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Fiscal Agent subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer and the Guarantor may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

11. MEETINGS OF NOTEHOLDERS, MODIFICATION AND SUBSTITUTION

(a) **Meetings of Noteholders:** The Fiscal Agency Agreement contains provisions for convening meetings of Noteholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions. Such a meeting may be convened by Noteholders holding not less than 10 per cent in principal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Notes or the dates on which interest is payable in respect of the Notes, (ii) to reduce or cancel the principal amount of, or interest on, the Notes, (iii) to change the currency of payment of the Notes or the Coupons, (iv) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, or (v) to modify or cancel the Guarantee, in which case the necessary quorum will be two or more persons holding or representing not less than 75 per cent, or at any adjourned meeting not less than 25 per cent, in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

The Fiscal Agency Agreement provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in principal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) **Modification of Fiscal Agency Agreement:** The Issuer and the Guarantor shall only permit any modification of, or any waiver or authorisation of any breach or proposed breach of or any failure to comply with, the Fiscal Agency Agreement, if to do so could not reasonably be expected to be prejudicial to the interests of the Noteholders.

(c) **Substitution:**

(i) The Issuer and the Guarantor may at any time, without the consent of the Noteholders or the Couponholders, substitute for such Issuer any company which is wholly-owned by the Guarantor (the **Substitute**) upon notice by such Issuer, the Guarantor and the Substitute to be given in accordance with Condition 13, provided that:

(A) no Event of Default has occurred in respect of the Notes;

(B) no payment in respect of the Notes or the Coupons or the Deed of Guarantee (as the case may be) is at the relevant time overdue;

(C) the Substitute shall, by means of a deed poll in the form scheduled to the Fiscal Agency Agreement as Schedule 5 (the **Deed Poll**), agree to indemnify each Noteholder and Couponholder against any tax, duty, assessment or governmental charge which is imposed on it by (or by any authority in or of) the jurisdiction of the country of the Substitute's residence for tax purposes and, if different, of its incorporation with respect to any Note or Coupon and which would not have been so imposed had the substitution not been made, as well as against any tax, duty, assessment or governmental charge, and any cost or expense, relating to the substitution;

(D) where the Substitute is not the Guarantor, the obligations of the Substitute under the Deed Poll, the Notes and Coupons shall be unconditionally and irrevocably guaranteed by the Guarantor by means of the Deed Poll;

(E) all action, conditions and things required to be taken, fulfilled and done (including the obtaining of any necessary consents) to ensure that the Deed

Poll, the Notes and Coupons represent valid, legally binding and enforceable obligations of the Substitute and in the case of the Deed Poll of the Guarantor have been taken, fulfilled and done and are in full force and effect;

(F) the Substitute shall have become party to the Fiscal Agency Agreement with any appropriate consequential amendments, as if it had been an original party to it;

(G) legal opinions shall have been delivered to the Fiscal Agent from lawyers of recognised standing in each jurisdiction referred to in (cc) above, in Scotland and in England as to the fulfilment of the requirements of this Condition 11(c) and the other matters specified in the Deed Poll and that the Notes and Coupons are legal, valid and binding obligations of the Substitute;

(H) each stock exchange on which the Notes are listed shall have confirmed that, following the proposed substitution of the Substitute, the Notes will continue to be listed on such stock exchange;

(I) Standard & Poor's and Moody's shall have confirmed that following the proposed substitution of the Substitute, the credit rating of the Notes will not be adversely affected;

(J) if applicable, the Substitute has appointed a process agent as its agent in England to receive service of process on its behalf in relation to any legal proceedings in the courts of England arising out of or in connection with the Notes; and

(K) the Issuer shall have given at least 14 days' prior notice of such substitution to the Noteholders, stating that copies, or pending execution the agreed text, of all documents in relation to the substitution which are deferred to above, to which might otherwise reasonably be regarded as material to Noteholders, will be available for inspection at the specified office of each of the Paying Agents.

(ii) Upon the execution of the Deed Poll and the delivery of the legal opinions, the Substitute shall succeed to, and be substituted for, and may exercise every right and power, of the Issuer under the Notes and the Fiscal Agency Agreement with the same effect as if the Substitute had been named as the Issuer herein, and the Issuer shall be released from its obligations under the Notes and under the Fiscal Agency Agreement.

(iii) After a substitution pursuant to Condition 11(c)(i), the Substitute may, without the consent of any Noteholder, effect a further substitution. All of the provisions specified in Conditions 11(c)(i) and 11(c)(ii) shall apply *mutatis mutandis*, and references in these Conditions to the Issuer shall, where the context so requires, be deemed to be or include references to any such further Substitute.

(iv) After a substitution pursuant to Conditions 11(c)(i) or 11(c)(iii) any Substitute may, without the consent of any Noteholder, reverse the substitution, *mutatis mutandis*.

(v) The Deed Poll and all documents relating to the substitution shall be delivered to, and kept by, the Fiscal Agent. Copies of such documents will be available free of charge at the specified office of each of the Paying Agents.

12. FURTHER ISSUES

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes.

13. NOTICES

Notices to Noteholders will be valid if published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*) or if such publication shall not be practicable, in an English language newspaper of general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with this Condition.

14. CURRENCY INDEMNITY

Sterling is the sole currency of account and payment for all sums payable by the Issuer or the Guarantor under or in connection with the Notes and the Coupons, including damages. Any amount received or recovered in a currency other than sterling (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the insolvency, winding-up or dissolution of the Issuer or the Guarantor or otherwise) by any Noteholder or Couponholder in respect of any sum expressed to be due to it from the Issuer or Guarantor shall only constitute a discharge to the Issuer and Guarantor to the extent of the sterling amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that sterling amount is less than the sterling amount expressed to be due to the recipient under any Note or Coupon, the Issuer or the Guarantor (as the case may be) shall indemnify it against any loss sustained by it as a result. In any event, the Issuer or the Guarantor (as the case may be) shall indemnify the recipient against the cost of making any such purchase. For the purposes of this Condition, it will be sufficient for the Noteholder or Couponholder, as the case may be, to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Issuer’s and Guarantor’s other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Noteholder or Couponholder and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note or Coupon or any other judgment or order.

15. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

16. GOVERNING LAW

(a) **Governing Law:** The Fiscal Agency Agreement, the Deed of Guarantee, the Notes and the Coupons and any non-contractual obligations arising out of or in connection with them are governed by and shall be construed in accordance with English law.

(b) **Jurisdiction:** The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Notes, the Coupons or the Guarantee and accordingly any legal action or proceedings arising out of or in connection with the Notes, the Coupons or the Guarantee (**Proceedings**) may be brought in such courts. Each of the Issuer and the Guarantor irrevocably submits to the jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This Condition is for the benefit of each of the Noteholders and Couponholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

SUMMARY OF THE NOTES WHILE IN GLOBAL FORM

The Temporary Global Note and the Global Note contain provisions which apply to the Notes while they are in global form, some of which modify the effect of the terms and conditions of the Notes set out in this document. The following is a summary of certain of those provisions:

1. EXCHANGE

The Temporary Global Note is exchangeable in whole or in part for interests in the Global Note on or after a date which is expected to be 18 July 2011, upon certification as to non-U.S. beneficial ownership in the form set out in the Temporary Global Note. The Global Note is exchangeable in whole but not, except as provided in the next paragraph, in part (free of charge to the holder) for the Definitive Notes described below (i) if the Global Note is held on behalf of a clearing system and such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so or (ii) if principal in respect of any Notes is not paid when due and payable. Thereupon, the holder may give notice to the Fiscal Agent of its intention to exchange the Global Note for Definitive Notes on or after the Exchange Date specified in the notice.

If principal in respect of any Notes is not paid when due and payable the holder of the Global Note may, by notice to the Fiscal Agent (which may but need not be the default notice referred to in "–Default" below), require the exchange of a specified principal amount of the Global Note (which may be equal to or (provided that, if the Global Note is held by or on behalf of a clearing system, that clearing system agrees) less than the outstanding principal amount of Notes represented thereby) for Definitive Notes on or after the Exchange Date (as defined below) specified in such notice.

On or after any Exchange Date the holder of the Global Note may surrender the Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Fiscal Agent. In exchange for the Global Note, or on endorsement in respect of the part thereof to be exchanged, the Issuer shall deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated Definitive Notes (having attached to them all Coupons in respect of interest which has not already been paid on the Global Note), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in Schedule 1 to the Fiscal Agency Agreement. On exchange in full of the Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with any relevant Definitive Notes.

Exchange Date means a day falling not less than 60 days or, in the case of exchange pursuant to (ii) above, 30 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Fiscal Agent is located and, except in the case of exchange pursuant to (i) above, in the cities in which the relevant clearing system is located.

2. PAYMENTS

No payment will be made on the Temporary Global Note unless exchange for an interest in the Global Note is improperly withheld or refused. Payments of principal and interest in respect of Notes represented by the Global Note will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of the Global Note to or to the order of the Fiscal Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes. Condition 6(e)(iii) and Condition 7(d) will apply to the Definitive Notes only. For the purpose of any payments made in respect of a Global Note, Condition 6(d) (*Payments on business days*) shall not apply, and all such payments shall be made on a day on which commercial banks and foreign exchange markets are open in the financial centre of the currency of the Notes.

3. NOTICES

So long as the Notes are represented by the Global Note and the Global Note is held on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions.

4. PRESCRIPTION

Claims against the Issuer in respect of principal and interest on the Notes while the Notes are represented by the Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 7).

5. MEETINGS

The holder of the Global Note shall (unless the Global Note represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, as having one vote in respect of each £1,000 in principal amount of Notes.

6. PURCHASE AND CANCELLATION

Cancellation of any Note required by the Conditions to be cancelled following its purchase will be effected by reduction in the principal amount of the Global Note.

7. DEFAULT

The Global Note provides that the holder may cause the Global Note or a portion of it to become due and payable in the circumstances described in Condition 8 by stating in the notice to the Fiscal Agent the principal amount of Notes which is being declared due and payable. If principal in respect of any Note is not paid when due and payable, the holder of the Global Note may elect that the Global Note becomes void as to a specified portion and that the persons entitled to such portion, as accountholders with a clearing system, acquire direct enforcement rights against the Issuer under further provisions of the Global Note executed by the Issuer as a deed poll.

8. PUT OPTION

The Noteholders' put option in Condition 5(c) may be exercised by the holder of the Global Note, giving notice to the Fiscal Agent of the principal amount of Notes in respect of which the option is exercised and presenting the Global Note for endorsement of exercise within the time limits specified in Condition 5(c).

FORM OF GUARANTEE

This is the text of the form of guarantee in respect of £350,000,000 5.875 per cent. Guaranteed Notes due 2026

THIS DEED is made on 18 July 2011

BY

1 **SP DISTRIBUTION LIMITED** (the **Guarantor**); and

IN FAVOUR OF

2 **THE NOTEHOLDERS** (as defined in the Conditions).

3 **THE RELEVANT ACCOUNT HOLDERS** (as defined in the Permanent Global Note described below).

WHEREAS

A SPD Finance UK plc proposes to issue (the **Issuer**) £350,000,000 5.875 per cent. guaranteed notes due 2026 (the **Notes** which expression shall, if the context so admits, include the Global Notes either in temporary or permanent form) in connection with which the Issuer and the Guarantor have entered into a fiscal agency agreement (the **Fiscal Agency Agreement**) dated 18 July 2011 made between the Issuer, the Guarantor and The Bank of New York Mellon, London Branch as fiscal agent relating to the Notes.

B The Guarantor has duly authorised the giving of a guarantee in respect of the Notes.

THIS DEED WITNESSES as follows:

1. Interpretation

1(A) All terms and expressions which have defined meanings in the Conditions, the Subscription Agreement or the Fiscal Agency Agreement shall have the same meanings in this Deed of Guarantee except where the context requires otherwise or unless otherwise stated.

1(B) Any reference in this Deed of Guarantee to a Clause is, unless otherwise stated, to a clause hereof.

1(C) All references in this Deed of Guarantee to an agreement, instrument or other document (including the Conditions, the Subscription Agreement and the Fiscal Agency Agreement) shall be construed as a reference to that agreement, instrument or other document as the same may be amended, supplemented, replaced or novated from time to time.

1(D) Any reference in this Agreement to any legislation (whether primary legislation or regulations or other subsidiary legislation made pursuant to primary legislation) shall be construed as a reference to such legislation as the same may have been, or may from time to time be, amended or re-enacted.

1(E) The Notes shall have the benefit of this Deed of Guarantee.

1(F) Clause headings are for ease of reference only.

2. Guarantee and Indemnity

2(A) The Guarantor hereby unconditionally and irrevocably guarantees :

(1) to each Noteholder the due and punctual payment of any and every sum or sums of money which the Issuer shall at any time be liable to pay under or pursuant to any Note as and when the same shall become due and payable and agrees unconditionally to pay to such Noteholder, forthwith upon demand by such Noteholder in sterling and in the manner prescribed by the Conditions for payments by the Issuer thereunder, any and every sum or sums of money which the Issuer shall at any time be liable to pay under or pursuant to such Note and which the Issuer shall have failed to pay at the time such demand is made; and

(2) to each Relevant Account Holder the due and punctual payment of all amounts due to such Relevant Account Holder under or pursuant to any Note as and when the same shall become due and payable and agrees unconditionally to pay to such Relevant Account Holder, forthwith on demand by such Relevant Account Holder in sterling and in the manner and in the currency prescribed the Conditions for payments by the relevant Issuer thereunder, any and every sum or sums of money which the relevant Issuer shall at any time be liable to pay under or pursuant to such Note and which the relevant Issuer shall have failed to pay at the time demand is made.

2(B) As a separate, additional and continuing obligation, the Guarantor unconditionally and irrevocably undertakes to each Noteholder and each Relevant Account Holder that, should any amount referred to in Clause 2(A) not be recoverable from the Guarantor thereunder for any reason whatsoever (including, without limitation, by reason of any Note or any provision of any Note being or becoming void, unenforceable or otherwise invalid under any applicable law) then, notwithstanding that the same may have been known to such Noteholder or Relevant Account Holder, the Guarantor will, as a sole, original and independent obligor, upon first written demand under Clause 2(A), make payment of such amount by way of a full indemnity in such currency and otherwise in such manner as is provided for in the Notes and indemnify each Noteholder and each Relevant Account Holder against all losses, claims, costs, charges and expenses to which it may be subject or which it may incur under or in connection with the Conditions of the Notes or this Deed of Guarantee.

3. Taxes and Withholdings

The Guarantor covenants in favour of each Noteholder and each Relevant Account Holder that it will duly perform and comply with its obligations expressed to be undertaken by it in Condition 8.

4. Preservation of Rights

4(A) The obligations of the Guarantor herein contained shall be deemed to be undertaken as sole or principal debtor.

4(B) The obligations of the Guarantor herein contained shall constitute and be continuing obligations notwithstanding any settlement of account or other matters or things whatsoever and, in particular but without limitation, shall not be considered satisfied by any partial payment or satisfaction of all or any of the Issuer's obligations under any Note and shall continue in full force and effect in respect of each Note until final repayment in full of all amounts owing by the Issuer thereunder and total satisfaction of all the Issuer's actual and contingent obligations thereunder.

4(C) The obligations expressed to be assumed by the Guarantor herein will not be discharged, nor will its liability under such obligations be affected, by anything which would not discharge its obligations or affect its liability if it were the sole principal debtor, including:

(1) the winding-up or dissolution of the Issuer or analogous proceeding in any jurisdiction or any change in its status, function, control or ownership; or

(2) any of the obligations of the Issuer under any of the Notes being or becoming illegal, invalid or unenforceable in any respect; or

(3) time or other indulgence being granted or agreed to be granted to the Issuer in respect of its obligations under any of the Notes; or

(4) any amendment to, or any variation, waiver or release of, any obligation of the Issuer under any of the Notes; or

(5) any other act, event or omission which, but for this Clause 4(C), would or might operate to discharge, impair or otherwise affect the obligations of the Guarantor herein contained or any of the rights, powers or remedies conferred upon the Noteholders, the Relevant Account Holders or any of them by this Deed of Guarantee or by law.

4(D) Any settlement or discharge between the Guarantor and the Noteholders, the Relevant Account Holders or any of them shall be conditional upon no payment to the Noteholders, the Relevant Account Holders or any of them by the Issuer or any other person on the Issuer's behalf being avoided or reduced by virtue of any provisions or enactments relating to bankruptcy, insolvency or liquidation for the time being in force and, in the event of any such payment being so avoided or reduced, the Noteholders and the Relevant Account Holders shall each be entitled to recover the amount by which such payment is so avoided or reduced from the Guarantor subsequently as if such settlement or discharge had not occurred.

4(E) No Noteholder or Relevant Account Holder shall be obliged before exercising any of the rights, powers or remedies conferred upon it by this Deed of Guarantee or by law:

(1) to make any demand of the Issuer, other than (in the case of the a Noteholder) the presentation of the relevant Note; or

(2) to take any action or obtain judgment in any court against the Issuer; or

(3) to make or file any claim or proof in a winding-up or dissolution (ontbinding) of the Issuer and, save as aforesaid, the Guarantor hereby expressly waives, in respect of each Note, presentment, demand and protest and notice of dishonour.

4(F) The Guarantor agrees that so long as any amounts are or may be owed by the Issuer under any of the Notes or the Issuer is under any actual or contingent obligations thereunder, the Guarantor shall not exercise rights which the Guarantor may at any time have by reason of performance by the Guarantor of its obligations hereunder:

(1) to be indemnified by the Issuer; and/or

(2) to claim any contribution from any other guarantor of the Issuer's obligations under the Notes; and/or

(3) to take the benefit (in whole or in part) of any security taken pursuant to, or in connection with, any of the Notes issued by the Issuer, by all or any of the persons to whom the benefit of the Guarantor's obligations are given; and/or

(4) to be subrogated to the rights of any Noteholder or Relevant Account Holder against the Issuer in respect of amounts paid by the Guarantor pursuant to the provisions of this Deed of Guarantee.

4(G) The obligations of the Guarantor hereunder will at all times rank as described in Condition 3.

5. Deposit of Deed of Guarantee

An original of this Deed of Guarantee shall be deposited with and held by the Fiscal Agent until the date on which all the obligations of the Issuer under or in respect of the Notes have been discharged in full. The Guarantor hereby acknowledges the right of every Noteholder and every Relevant Account Holder to the production of this Deed of Guarantee.

6. Stamp Duties

The Guarantor will promptly pay any stamp duty or other documentary taxes (including any penalties and interest in respect thereof) payable in connection with the execution, delivery, performance and enforcement of this Deed of Guarantee, and will indemnify and hold harmless each Noteholder and each Relevant Account Holder on demand from all liabilities arising from any failure to pay, or delay in paying, such taxes.

7. Currency Indemnity

If any sum due from the Guarantor under this Deed of Guarantee or any order or judgment given or made in relation thereto has to be converted from the currency (the **first currency**) in which the same is payable under this Deed of Guarantee or such order or judgment into another currency (the **second currency**) for the purpose of (a) making or filing a claim or proof against the Guarantor, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to this Deed of Guarantee, the Guarantor shall indemnify each Noteholder and Relevant Account Holder on demand against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder or Relevant Account Holder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof. This indemnity constitutes a separate and independent obligation of the Guarantor and shall give rise to a separate and independent cause of action.

8. Deed Poll; Benefit of Guarantee

8(A) This Deed of Guarantee shall take effect as a Deed Poll for the benefit of the Noteholders and the Relevant Account Holders from time to time and for the time being.

8(B) The Guarantor hereby acknowledges and covenants that the obligations binding upon it contained herein are owed to, and shall be for the benefit of, each and every Noteholder and Relevant Account Holder, and that each Noteholder and each Relevant Account Holder shall be entitled severally to enforce the said obligations against the Guarantor.

8(C) The Guarantor may not assign or transfer all or any of its rights, benefits and obligations hereunder except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation of the Guarantor on terms approved by an Extraordinary Resolution of the Noteholders .

9. Provisions Severable

Each of the provisions in this Deed of Guarantee shall be severable and distinct from the others and the illegality, invalidity or unenforceability of any one or more provisions under the law of any jurisdiction shall not affect or impair the legality, validity or enforceability of any other provisions in that jurisdiction nor the legality, validity or enforceability of any provisions under the law of any other jurisdiction.

10. Notices

Notices to the Guarantor will be deemed to be validly given if delivered at SP Distribution Limited, Alderston House, Dove Wynd, Strathclyde Business Park, Bellshill, ML4 3FF, United Kingdom (or at such other address and for such other attention as may have been notified to Noteholders in accordance with the Conditions of the Notes), or sent by fax (fax no: + 44 (0) 141 6145 289). A notice or communication will be deemed received (if by fax) when a transmission report shows the fax has been sent, (if by telex) when a confirmed answer is received at the end of the transmission and (if by writing) when delivered, provided that any notice or communication which is received outside business hours or on a non-business day in Scotland shall be deemed received at the opening of business on the next following business day in Scotland.

11. Law and Jurisdiction

11(A) **Governing Law:** This Deed of Guarantee and any non-contractual obligations arising out of or in connection with it are governed by and shall be construed in accordance with English law.

11(B) **English courts:** The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**"), arising from or connected with this Deed of Guarantee (including a dispute regarding the existence, validity or termination of this Deed of Guarantee) or the consequences of its nullity.

11(C) **Appropriate forum**: The Guarantor agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.

11(D) **Rights of the Noteholders and Relevant Account Holders:** Clause 11(B) (English courts) is for the benefit of the Noteholders and the Relevant Account Holders only. As a result, nothing in this Clause 11 (Law and Jurisdiction) prevents the Noteholders and Relevant Account Holders from taking proceedings relating to a Dispute (**Proceedings**) in any other courts with jurisdiction. To the extent allowed by law, the Noteholders and Relevant Account Holders may take concurrent Proceedings in any number of jurisdictions.

This deed has been duly executed on the date stated at the beginning.

IN WITNESS WHEREOF this deed has been executed as a deed by the Guarantor and is intended to be and is hereby delivered on the date first above written.

USE OF PROCEEDS

The net proceeds of the issue of the Notes, amounting to approximately £345,782,500, will be on lent to the Guarantor and applied to prepay some of its existing inter-group debt and for the general corporate purposes of the Guarantor.

The expenses in connection with the admission to trading are expected to amount to £17,725.

DESCRIPTION OF THE ISSUER

General information

SPD Finance UK plc (the **Issuer**), a wholly-owned subsidiary of SP Distribution Limited (**SP Distribution**), was incorporated as a public limited company on 8 June 2011 under the laws of England and Wales. The registered office of the Issuer is 11 Old Jewry, 7th Floor, London EC2R 8DU, United Kingdom with telephone number + 44 (0)20 7776 9700. The Issuer is registered in Companies House under number 7662877. The Issuer was incorporated for an indefinite period.

Share capital

The Issuer's issued and paid-up share capital is £50,000 divided into 50,000 ordinary shares of £1.00 each. The whole of the issued and paid-up share capital of the Issuer is owned by SP Distribution. There are currently no arrangements in place which may at a future date result in a change of control of the Issuer. There are no measures in place to ensure that the control of the Issuer by SP Distribution is not abused.

Business

The Issuer is a finance company which is authorised to raise funds by issuing negotiable instruments in the capital and money markets. The net proceeds from the issuance of these instruments will be on lent to SP Distribution. SP Distribution will then use the proceeds to prepay some of its existing inter-group debt and for the general corporate purposes of SP Distribution. The Issuer is dependent on SP Distribution to service its obligations under these instruments.

The principal objects of the Issuer include amongst others, the issuance of debentures, debt instruments and other debt securities which may be traded in domestic and international markets.

Since the date of its incorporation, the Issuer has not traded.

Directors

The members of the Issuer's Board of Directors are detailed in the following table:

Name	**Function**
Mr. Jesús Martínez Pérez	Director
Mr. Roberto Orjales Venero	Director
Mr. Donald James Wright	Director
Ms. Nicola Connelly	Director
Mr. Douwe Terpstra	Director

The address of each director is 11 Old Jewry, 7th Floor, London EC2R 8DU, United Kingdom.

There are no potential conflicts of interest between the Board of Directors duties to the Issuer and their private interests or other duties. None of the members of the Board of Directors performs any significant activities outside the Issuer.

Material contracts

The material contracts entered into by the Issuer (other than in its ordinary course of business) which are relevant to its ability to meet its obligations in respect of the issue of the Notes are the Subscription Agreement, the Agency Agreement and the Intercompany Loan Agreement for the on-lending of the Notes' proceeds to SP Distribution.

DESCRIPTION OF THE GUARANTOR

General information

SP Distribution Limited (**SP Distribution** or the **Guarantor**) was incorporated as a limited liability company on 7 September 1998 under the laws of Scotland. The registered office of the Guarantor is 1 Atlantic Quay, Robertson Street, Glasgow, G2 8SP, with telephone number +44 (0) 141 248 8200. The Guarantor is registered in Companies House under number SC189125. The Issuer was incorporated for an indefinite period.

Share capital and major shareholders

The Guarantor's issued and paid-up share capital is £300,000,000 divided into 300,000,000 ordinary shares of £1 each. The whole of the issued and paid-up share capital of the Guarantor is indirectly owned by Scottish Power Limited (**Scottish Power**), which in turn is an wholly-owned subsidiary of Iberdrola, S.A. (**Iberdrola**).

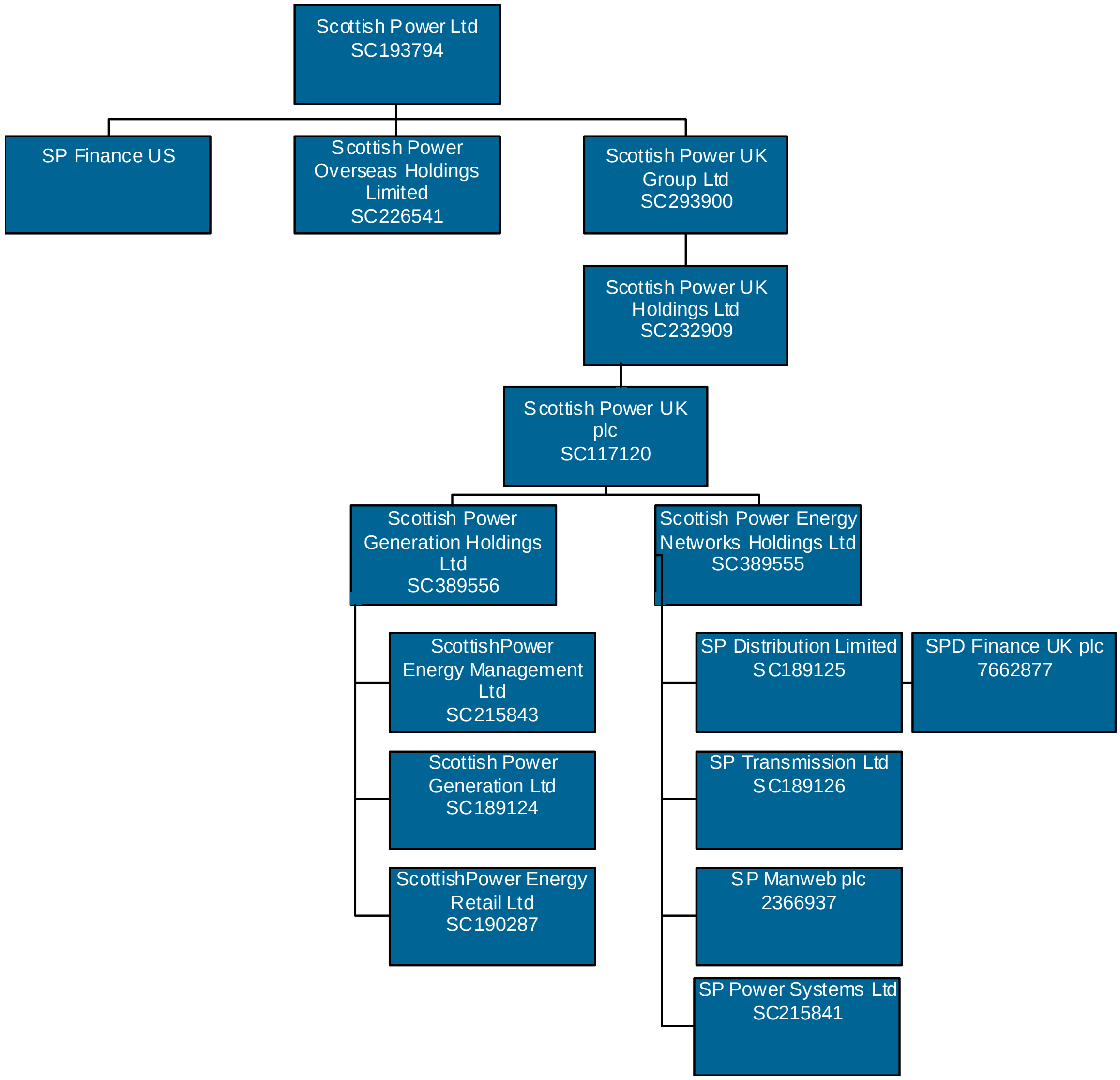
There are currently no arrangements in place, the operation of which may at a future date result in a change of control of the Guarantor or Scottish Power. There are no measures in place to ensure that the control of the Guarantor by Scottish Power or Iberdrola is not abused.

Group structure

The ultimate parent of SP Distribution is Iberdrola which is listed on the Madrid stock exchange. Scottish Power, the UK operations of Iberdrola, operates on divisional lines and the activities of SP Distribution fall within the Energy Networks division (**Energy Networks**).

SP Distribution Limited, SP Manweb plc and SP Transmission Limited (all subsidiary companies of Scottish Power Energy Networks Holdings Limited), are the "asset-owner companies" within Energy Networks holding Scottish Power's regulated assets and distribution and transmission licences. SP Power Systems Ltd (**Power Systems**) provides asset-management expertise and conducts the day-to-day operation of the networks.

The structure of the Scottish Power group is set out below:



Business

Activities and review

The principal activity of SP Distribution is the ownership and operation of the electricity distribution network within the area of Scottish Power Limited (**Scottish Power**), SP Distribution's ultimate UK parent undertaking. The distribution network is used to distribute electricity, which has been transmitted to grid supply points, for electricity supply companies for onward sale to their customers.

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

SP Distribution accepted the Ofgem electricity Distribution Price Control 5 (**DPC5**), which will apply to the business over five years beginning 1 April 2010. The predicted outcome of the review is a slight decrease in regulated revenue over the five year period resulting from pre-privatisation assets becoming fully depreciated. This is offset by increased revenues as a result of increased allowances for higher capital investment to maintain the ageing network and allowances for pension costs. In addition, incentive mechanisms relating to efficiency, reliability and customer service will lead to additional revenue or penalties. During the period that DPC5 will apply, the allowed capital expenditure for SP Distribution will be almost £1 billion.

Significant investment in the electricity network continued in 2010 within SP Distribution. The agreed capital expenditure programme within SP Distribution's price over the five-year period from 2010 to 2015 is focused on network reinforcement, expansion and driving improved network performance.

UK electricity regulation

The principal pieces of legislation forming the regulatory framework for SP Distribution's operations are the Electricity Act 1989, as amended by the Utilities Act 2000, the Energy Act 2004 and the relevant EU Directives and Regulations e.g. the Second and Third EU Energy packages and EU Procurement Directive.

The Utilities Act 2000 introduced a legal framework for energy company licences based on standard conditions in operation across Great Britain (**GB**) and, taken together with requirements of the Department of Business, Enterprise and Regulatory Reform and licence changes introduced by the electricity and gas industry regulators, defines the regulatory framework within which SP Distribution's electricity distribution business must operate.

The Utilities Act 2000 transferred the functions of the previous electricity and gas industry regulators to the Gas and Electricity Markets Authority (the **Authority**). The administrative body supporting the Authority is Ofgem:

- The Authority is responsible for granting new licences or licence extensions for each participant in the GB electricity market.

- 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 the Authority.

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

The primary objective of regulation of the electricity industry is the promotion of competition, while ensuring that demand can be met and companies are able to finance their activities. As Distribution Network Operators are a natural monopoly their activities are wholly regulated by the Gas and Electricity markets Authority and regulatory price controls are 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 of such changes.

Price cap regulation, as operated in the UK, is performance-based; any benefits delivered by exceeding targets for output incentives or efficiency achieved through efficient management may be retained by SP Distribution for a period of up to five years.

The main incentive schemes in operation by Ofgem focus on:

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

Under the first three of these schemes, SP Distribution is rewarded or penalised by increases or decreases to their allowed revenue depending upon its performance against pre-specified targets. For the customer satisfaction scheme the incentive is dependent upon the relative performance against other Distribution Network Operators (**DNOs**).

Key factors affecting the business

To manage the key drivers impacting the operational and financial performance of SP Distribution the objectives of SP Distribution are as follows:

- Improve security of supply and network performance;
- Deliver improved customer performance; and
- Deliver returns at, or in excess of, allowed regulated returns (excess returns being permissable).

These objectives have to be achieved within the conditions of the DPC5.

Operational assets of SP Distribution

SP Distribution's Electricity Distribution Licence (the **licence**) requires the directors to prepare regulatory accounts to 31 March for each regulatory year. Reporting of operational data is aligned to the regulatory year end. Consequently the latest available data has been disclosed in the table below.

The table below provides key non-financial information relating to SP Distribution's operational assets for the years ended 31 March 2011 and 2010:

	Year Ended 31 March 2011	**Year ended 31 March 2010**
Franchise area (km^2)	22,950	22,950
System maximum demand (MW)	4,024	3,952

Distributed energy (GWh)	20,023	20,321
Length of overhead lines (km)	20,971	21,245
Length of underground cables (km)	42,302	42,507

Projects

During 2010, a number of projects were undertaken to facilitate new demand and generation connections and to improve the overall condition, performance and resilience of the distribution network.

Construction work is progressing having started started in 2010 on a number of renewable generation projects, including Burnfoot, Glenkerie and Kelburne wind farms and Rothes Biomass plant that are forecast for completion during 2011/12. A major renewable generation connection was completed at Pateshill wind farm in 2010.

The reinforcement of the electricity network to support under-lying load growth and address local issues is ongoing on an annual basis. Major reinforcement projects at Rottenrow and Prestonpans were completed in 2010, whilst a number of new projects commenced at Leven, Lanark, Netherton and Tranent. In addition, reinforcement to address fault-level issues commenced at Kilmarnock, Port Dundas and Elderslie in 2010. They are scheduled for completion by 2012.

A new electricity supply was completed in 2010 to support the re-development of the Southern General Hospital, Glasgow. A number of other connections were provided in response to local authority and private developers' enquiries.

Extensive diversions of electrical infrastructure for the Bathgate to Airdrie Rail Link project were completed in 2010. Diversionary works commenced in 2010 at the Waverley Railway Project and are scheduled to continue into 2011/12.

A major replacement of transmission infrastructure at Dewar Place near the financial centre of Edinburgh necessitated extensive replacement of distribution switchgear, transformers and cables in 2010. This work is ongoing and on schedule to complete during 2012. In terms of wider modernisation of the distribution substations over 300 obsolete ring main units and multi-panel boards were replaced with modern switchgear. These substation sites will facilitate remote-control switching from the Operational Control Centre that will further improve system performance and customer service.

During 2010, extensive modernisation of internal mains low-voltage service cables in local authority residential accommodation took place.

The extensive overhead line network continues to undergo modernisation to improve condition and resilience to abnormal weather events. Major overhead line projects involving rebuilding of the 33kV overhead lines from Linn Mill to Corra Linn/Symington and Strathaven to Leonards Chapel were completed in 2010. A new project to replace the 33kV overhead lines between New Cumnock and Coylton also commenced in 2010. In order to complement the rebuild projects and further improve the performance and reliability of the overhead line network an extensive refurbishment programme was initiated in 2010 and will continue until at least 2030.

Through the undertaking of detailed network analysis, network controllable points and automation have been positioned to minimise the duration of supply interruptions caused by unplanned outages and to aid the restoration of customers on circuits that are not affected by the fault. By the end of December 2010 over 2,500 secondary substation sites were remotely-controlled, thus facilitating a quicker return to service of electricity supplies to customers.

SP Distribution's inspection and maintenance policy is designed to achieve compliance with legal and licence obligations, including the Electricity Safety, Quality and Continuity Regulations (**ESQCR**). During 2010, condition-based maintenance techniques were utilised to ensure that asset condition and performance are sustained until future maintenance or replacement is undertaken. To improve network resilience and comply with ESQCR guidelines, the vegetation management programme frequency is a 3-year cycle. This programme continues to be undertaken in accordance with policy.

As part of Ofgem's Innovation Funding Initiative, SP Distribution has established industrial, manufacturing and academic partnerships aimed at improving the performance of the network and is currently developing new network designs to accommodate distributed generation.

Operational performance

Ofgem requires all licensees operating electricity distribution systems to report annually on their performance. Statistics remain provisional until they are audited and subsequently published by Ofgem. Consequently, the provisional statistics contained in the table below may differ to the statistics published by Ofgem.

The table below provides key non-financial information relating to SP Distribution's performance during the years ending 31 March 2011 and 2010:

	Notes	**Actual Year ended 31-Mar-11**	**Target Year ended 31-Mar-11**	**Actual Year ended 31-Mar-10**	**Target Year ended 31-Mar-10**
Quality of Service					
- Customer minutes Lost (**CML**)	(a) (c)	49.5	65.5	51.1	50.4
- Customer interruptions (**CI**)	(b) (c)	50.8	60.1	51.7	60.8
Average time off supply (minutes)		97	109	99	82
Electricity supply availability		99.99%	99.99%	99.99%	99.99%
Quality of Response (mean score)	(d)	4.42	4.40	4.33	4.35

(a) CML are reported as the average number of minutes that a customer is without power during a year due to power cuts which last for three minutes of more.

(b) CI are reported as the number of customers, per 100 customers, that are affected by power cuts which last three minutes or more during 2010.

(c) During the winter of 2009/10, the supply of energy to customers was disrupted by one storm event. This event met the "exceptional event" exclusions criteria that Ofgem have applied to previous events of this kind. The above CML and CI values have been adjusted accordingly to reflect the underlying performance of the network as measured and incentivised by Ofgem.

(d) Quality of Response assesses the speed and quality of telephone response, measuring customer satisfaction on a scale of 1 to 5. DNOs are subject to a sliding-scale financial penalty if their annual mean performance deteriorated below 4.1.

Employees

In 2010 and 2009, SP Distribution's workforce totalled 9 and 7 respectively.

Financial review

Operational financial performance

The table below provides key financial information relating to SP Distribution's performance for the years ending 31 December 2009 and 2010:

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Revenue	386	353
Profit from Operations	246	232
Profit before tax	228	204
Non Current Assets	2,065	1964
Total Equity	956	839
Cash inflow from operating activities	287	274
Net cash flows from investing activities	(170)	(167)
Net Debt	(475)	(512)

SP Distribution's profit from operations was £245.7 million, an increase of £14.0 million compared to the prior year, and net profit in 2010 was £172.1 million, an increase of £25.5 million compared to the prior year.

Revenue in 2010 increased on the prior year as a result of the price control review, higher recovery of rates and higher volumes in the latter part of 2010.

Procurements in 2010 are in line with the prior year. Outside services increased as a result of higher costs from SP Power Systems for the provision of asset management services and the introduction of electricity supply costs for sub-stations (required by DPC5). Offsetting this were lower rechargeable costs (offset in other operating income).

Other operating income decreased in 2010 on the prior year as a result of lower rechargeable costs (offset in outside services). Depreciation and amortisation charge, allowances and provisions has increased in 2010 on the prior year due to higher depreciation charges.

Net finance costs were lower in 2010 compared to the prior year due to a combination of lower levels of net debt and lower interest rates.

Despite higher profits before tax, the income tax expense decreased on the prior year. This is largely a result of the impact of lowering the corporation tax rate in future years, resulting in a credit to the income statement. Overall, the directors were satisfied with the level of business and 2010 end financial position of SP Distribution.

Net capital investment

Scottish Power'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 2010 was £145 million consisting of tangible fixed asset additions of £169 million less capital contributions received of £24 million. This compares to tangible fixed asset additions of £162 million for the year ending 31 December 2009 less capital contributions received of £31 million.

SP Distribution earns allowed returns on this extensive capital programme. In 2010, the cashflow from investing activities of £170 million (2009: £167 million) comprised £39 million in relation to growth of the network (2009: £17 million), £131 million (2009: £150 million) in relation to refurbishment of the network and £1 million (2009: £1 million) in relation to investment in non-operational assets.

In 2010 approximately 77% (2009: 90%) of SP Distribution'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.

Cash and net debt

For 2010, SP Distribution generated £287 million of cash from operating activities (2009: £274 million). This was used to fund net investing activities of £170 million (2009: £167 million), settle net interest charges amounting to £25 million (2009: £14 million) and repay the EIB loan of £48 million. The amount owed by its intermediate parent company, Scottish Power UK plc, through the working capital facility (this value represents short term surplus liquidity transferred to the central group treasury bank account of Scottish Power UK plc) decreased by £10.5 million to £25.1 million (2009:£35.6 million). A dividend of £55.0 million was paid during 2010 to Scottish Power UK plc the sole shareholder (2009:£35.0 million).

Funding

At 31 December 2010, SP Distribution had net debt of £474.9 million (2009 £512.4 million).

SP Distribution 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.

The overall movement in net debt during 2010 was a decrease of £37 million to £475 million. The movement in net debt comprised a decrease in short-term debt of £48 million representing the repayment of an EIB loan offset by a £11 million reduction in the working capital receivable.

SP Distribution had current assets of £112 million at 31 December 2010 (2009: £101 million) and current liabilities of £151 million at 31 December 2010 (2009: £175million).

The directors consider that sufficient funding will be made available to SP Distribution by Scottish Power to continue operations and to meet liabilities as they fall due.

The short-term loan to the immediate parent company represents drawings under a working capital facility.

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

Results and dividend

SP Distribution's net profit for 2010 amounted to £172.1 million (2009: £146.6 million). The aggregate dividends paid to Scottish Power UK plc (the sole shareholder) during 2010 amounted to £55.0 million (2009: £35.0 million).

Directors and management structure

The members of the Guarantor's Board of Directives are detailed in the following table:

Name	**Function**
Scott Mathieson	Director
Frank Mitchell	Director

The address of each director is New Alderston House, Dove Wynd, Strathclyde Business Park, Bellshill, ML4 3FF, United Kingdom.

There are no potential conflicts of interest between the Board of Directors duties to the Guarantor and their private interests or other duties. None of the members of the Board of Directors performs any significant activities outside the Guarantor.

Material contracts

The material contracts entered into by the Guarantor (other than in its ordinary course of business) which are relevant to its ability to meet its obligations in respect of the issue of the Guarantee are: Intercompany Loan Agreement for the on-lending of the Notes' proceeds from SPD Finance UK plc.

Recent events

There are no recent events particular to the Guarantor that are, to a material extent, relevant to the evaluation of its solvency.

Generally, in order to more closely match with the Iberdrola group's operational control and monitoring framework SP Distribution Limited was moved on 1 July 2011 from being a direct 100% owned subsidiary of Scottish Power UK plc to being a 100% indirect subsidiary of Scottish Power UK plc. The new intermediate holding company, Scottish Power Energy Networks Holdings Ltd also owns SP Transmission Ltd, SP Manweb plc and SP Power Systems Limited. This group of companies are collectively known as the **Regulated Businesses**.

TAXATION

United Kingdom

The following applies only to persons who are the beneficial owners of Notes and is a summary of the Issuer's understanding of current law and HM Revenue and Customs (HMRC) practice in the United Kingdom relating to certain aspects of United Kingdom taxation. Some aspects do not apply to certain classes of person (such as dealers and persons connected with the Issuer) to whom special rules may apply. The United Kingdom tax treatment of prospective Noteholders and Couponholders depends on their individual circumstances and may be subject to change in the future. Prospective Noteholders and Couponholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.

Interest on the Notes

Payment of interest on the Notes

Payments of interest on the Notes by the Issuer may be made without deduction of or withholding on account of United Kingdom income tax provided that the Notes continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007 (the **Act**). The London Stock Exchange is a recognised stock exchange. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000) and admitted to trading on the London Stock Exchange. Provided, therefore, that the Notes become and remain so listed, interest on the Notes will be payable by the Issuer without withholding or deduction on account of United Kingdom tax.

Interest on the Notes may also be paid by the Issuer without withholding or deduction on account of United Kingdom tax where at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Notes is paid reasonably believes) that the beneficial owner is within the charge to United Kingdom corporation tax or is a partnership, each member of which is within the charge to the United Kingdom corporation tax as regards the payment of interest, provided that HMRC has not given a direction (in circumstances where it has reasonable grounds to believe that it is likely that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

In other cases, an amount must generally be withheld from payments of interest by the Issuer on the Notes on account of United Kingdom income tax at the basic rate (currently 20 per cent.). However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Noteholder, HMRC can issue a direction to the Issuer to pay interest to the Noteholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

Any payments of interest on the Notes made by the Guarantor under the Guarantee may be required to be made under deduction of United Kingdom income tax at the basic rate (subject to the availability of reliefs or any direction to the contrary from HMRC, as set out in the previous paragraph).

Noteholders may wish to note that, in certain circumstances, HMRC has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays or credits interest to or receives interest for the benefit of a Noteholder. Information so obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities in other countries.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to or for the benefit of an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

Further United Kingdom Income Tax Issues

Interest on the Notes constitutes United Kingdom source income for tax purposes and, as such, may be subject to income tax by direct assessment even where paid without withholding.

However, interest with a United Kingdom source received without deduction or withholding on account of United Kingdom tax will not be chargeable to United Kingdom tax in the hands of a Noteholder (other than certain trustees) who is not resident for tax purposes in the United Kingdom unless that Noteholder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the Notes are attributable (and where that Noteholder is a company, unless that Noteholder carries on a trade in the United Kingdom through a permanent establishment in connection with which the interest is received or to which the Notes are attributable). There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers). The provisions of an applicable double taxation treaty may also be relevant for such Noteholders.

United Kingdom Corporation Tax Payers

In general, Noteholders which are within the charge to United Kingdom corporation tax will be charged to tax as income on all returns, profits or gains on, the Notes (whether attributable to currency fluctuations or otherwise) broadly in accordance with their statutory accounting treatment.

Other United Kingdom Tax Payers

Taxation of Chargeable Gains

The Notes will constitute "qualifying corporate bonds" within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, a disposal by a Noteholder of a Note will not give rise to a chargeable gain or an allowable loss for the purposes of the UK taxation of chargeable gains.

Accrued Income Scheme

On a disposal of Notes by a Noteholder, any interest which has accrued since the last interest payment date may be chargeable to tax as income under the rules of the accrued income scheme as set out in Part 12 of the Act, if that Noteholder is resident or ordinarily resident in the United Kingdom or carries on a trade in the United Kingdom through a branch or agency to which the Notes are attributable.

Stamp Duty and Stamp Duty Reserve Tax (SDRT)

No United Kingdom stamp duty or SDRT is payable on the issue of the Notes or on a transfer by delivery of the Notes.

SUBSCRIPTION AND SALE

Barclays Bank PLC, HSBC Bank plc, Lloyds TSB Bank plc and The Royal Bank of Scotland plc (the **Managers**) have, pursuant to a Subscription Agreement (the **Subscription Agreement**) dated 13 July 2011, jointly and severally agreed, subject to the satisfaction of certain conditions, to subscribe or procure subscribers for the Notes at the issue price of 99.22 per cent. of the principal amount of Notes, less a combined management, underwriting, selling and structuring commission of 0.425 per cent. of the principal amount of the Notes. The Issuer will also reimburse the Managers in respect of certain of their expenses, and has agreed to indemnify the Managers against certain liabilities, incurred in connection with the issue of the Notes. The Subscription Agreement may be terminated in certain circumstances prior to payment of the Issuer.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meaning given to them by Regulation S under the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder, including the D Rules.

Each Manager has represented and agreed that, except as permitted by the Subscription Agreement, it has not offered, sold or delivered and will not offer, sell or deliver the Notes (a) as part of their distribution at any time or (be) otherwise until 40 days after the later of the commencement of the offering and the Closing Date within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

United Kingdom

Each Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (as amended, the **FSMA**)) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

General

No action has been taken by the Issuer, the Guarantor or any of the Managers that would, or is intended to, permit a public offer of the Notes in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Manager has undertaken that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

GENERAL INFORMATION

Authorisation

1. The issue of the Notes was duly authorised by a resolution of the Board of Directors of the Issuer dated 6 July 2011 and the giving of the Guarantee was duly authorised by a resolution of the Board of Directors of the Guarantor dated 6 July 2011.

Listing

2. It is expected that official listing will be granted on or about 18 July 2011 subject only to the issue of the Temporary Global Note. Application has been made to the UK Listing Authority for the Notes to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's regulated market.

Clearing Systems

3. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN for this issue is XS0649291944 and the Common Code is 064929194.

   The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brusssels, Belgium and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

No significant change

4. There has been no significant change in the financial or trading position of the Guarantor since 31 December 2010 and there has been no material adverse change in the financial position or prospects of the Guarantor since 31 December 2010.

5. There has been no significant change in the financial or trading position of the Issuer since the date of incorporation on 8 June 2011 and there has been no material adverse change in the financial position or prospects of the Issuer since the date of its incorporation on 8 June 2011.

Litigation

6. Neither the Issuer nor the Guarantor is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or the Guarantor are aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Issuer or the Guarantor.

Auditors

7. The auditors of the Issuer are Ernst & Young LLP, which is registered to carry out audit work by the Institute of Chartered Accountants in England and Wales. The Issuer has not prepared, nor has it been required to prepare, any financial statements since the date of its incorporation. The auditors of the Issuer have no material interest in the Issuer.

8. The auditors of the Guarantor are Ernst & Young LLP, who have audited the Guarantor's accounts, without qualification, in accordance with International Financial Reporting Standards (as issued by the International Accounting Standards Board) (**IFRS**) as adopted by the European Commission for

the financial years ended on 31 December 2010 and 2009. The auditors of the Guarantor have no material interest in the Guarantor.

U.S. tax

9. The Notes and Coupons will contain the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

Documents Available

10. For the period of 12 months following the date of this Offering Circular, copies of the following documents will be available for inspection from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in London:

    (a) the Memorandum and Articles of Association of the Issuer and of the Guarantor;

    (b) the auditors report and audited consolidated annual financial statements of the Guarantor for the financial years ended 31 December 2010 and 2009;

    (c) the Agency Agreement and the Guarantee; and

    (d) a copy of this Offering Circular together with any supplement to this Offering Circular.

Managers transacting with the Issuer and the Guarantor

11. Certain of the Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer,the Guarantor and their affiliates in the ordinary course of business.

Interests of natural legal persons involved in the issue of the Notes.

12. Save for the commissions described under "*Subscription and Sale*" above, so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer.

Post-Issuance Information

13. The Issuers do not intend to provide any post-issuance information, except if required by any applicable laws and regulations.

Yield

14. On the basis of the issue price of the Notes of 99.22 per cent. of their principal amount, the yield on the Notes is 5.955 per cent. on an annual basis.

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SP DISTRIBUTION LIMITED
DIRECTORS' REPORT AND ACCOUNTS

for the year ended 31 December 2010

Registered No. SC189125

SP DISTRIBUTION LIMITED

DIRECTORS' REPORT AND ACCOUNTS
For the year ended 31 December 2010

CONTENTS

SP DISTRIBUTION LIMITED
DIRECTORS' REPORT

The directors present their report and audited Accounts for the year ended 31 December 2010.

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

The ultimate parent of the company is Iberdrola, S.A. ("Iberdrola") which is listed on the Madrid stock exchange. ScottishPower, the UK operations of Iberdrola, operates on divisional lines and the activities of the company fall within the Energy Networks division ("Energy Networks").

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

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

The company accepted The Office of Gas and Electricity Markets ("Ofgem") electricity Distribution Price Control 5 ("DPC5") which will apply to the business over the five years beginning 1 April 2010. The outcome of the review is a slight decrease in regulated revenue over the five year period resulting from pre-privatisation assets becoming fully depreciated. This is offset by increased revenues as a result of increased allowances for higher capital investment to maintain the ageing network and allowances for pension costs. In addition, incentive mechanisms relating to efficiency, reliability and customer service will lead to additional revenue or penalties. During DPC5 the allowed capital expenditure for the company is almost £1 billion.

The company's Accounts for the year ended 31 December 2010 have been prepared for the first time in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"), with prior year comparatives restated on a consistent basis. Details of the basis of preparation of the Accounts under IFRS are set out at Note 1 and the detailed disclosures concerning the transition from UK Generally Accepted Accounting principles ("UK GAAP") to IFRS are set out in Note 27.

KEY FACTORS AFFECTING THE BUSINESS
The company's objectives to manage the key drivers impacting financial performance are as follows:

- Deliver returns at, or in excess of, allowed regulated returns
- Deliver improved customer performance
- Improve security of supply and network performance

These objectives need to be achieved within the conditions of the DPC5.

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

SP DISTRIBUTION LIMITED
DIRECTORS' REPORT *continued*

OPERATIONAL ASSETS OF THE COMPANY

The company's Electricity Distribution Licence ("the licence") requires the directors to prepare regulatory accounts to 31 March for each regulatory year. Reporting of operational data is aligned to the regulatory year end. Consequently the latest available data has been disclosed in the table below.

The table below provides key non-financial information relating to the company's operational assets during the year ended 31 March 2010:

	Year ended 31 March 2010	Year ended 31 March 2009
Franchise area (km^2)	**22,950**	22,950
System maximum demand (MW)	**3,952**	3,796
Distributed energy (GWh)	**20,321**	20,937
Length of overhead lines (km)	**21,245**	21,237
Length of underground cables (km)	**42,507**	41,994

OPERATIONAL PERFORMANCE OF THE COMPANY

The company's Electricity Distribution Licence ("the licence") requires the directors to prepare regulatory accounts to 31 March for each regulatory year. Reporting of operational data is aligned to the regulatory year end. Consequently the latest available data has been disclosed in the table below.

The table below provides key non-financial information relating to the company's performance during the year ended 31 March 2010:

	Notes	Actual Year ended 31 March 2010	Target Year ended 31 March 2010	Actual Year ended 31 March 2009	Target Year ended 31 March 2009
Quality of service					
Customer minutes lost ("CML")	(a)	**51.1**	**50.4**	48.5	54.0
Customer interruptions ("CI")	(b)	**51.7**	**60.8**	55.7	60.8
Average time off supply (minutes)		**99**	**82**	87	88
Electricity supply availability		**99.99%**	**99.99%**	99.99%	99.99%
Quality of response (mean score)	(d)	**4.33**	**4.35**	4.26	4.20
Customer performance					
Energywatch (customer complaints) to 30 September 2008	(e)	**-**	**-**	1	6
Energy Ombudsman (customer complaints) from 1 October 2008	(e)	**4**	**-**	3	-

(a) CML are reported as the average number of minutes that a customer is without power during a year due to power cuts which last for three minutes of more.

(b) CI are reported as the number of customers, per 100 customers, that are affected by power cuts which last three minutes or more during the year.

(c) During the winter of 2009/10, the supply of energy to customers was disrupted by one storm event. This event met the 'exceptional event' exclusions criteria that Ofgem have applied to previous events of this kind. The above CML and CI values have been adjusted accordingly to reflect the underlying performance of the network as measured and incentivised by Ofgem. During 2008/09 there were no exceptional storm events.

(d) Quality of Response assesses the speed and quality of telephone response, measuring customer satisfaction on a scale of 1 to 5. DNOs are subject to a sliding-scale penalty if their annual mean performance deteriorated below 4.1.

(e) Up to 30 September 2008 Ofgem monitored the number of customer complaints received by Energywatch, the independent consumer organisation. From 1 October 2008 the Energy Ombudsman, an independent body, was set up to monitor complaint cases. Energywatch actual and target figures are provided in the above table for the period 1 April 2008 to 30 September 2008 and for Energy Ombudsman for the period 1 October 2008 to 31 March 2010.

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

Customer satisfaction is a measure of customer service, namely Quality of Response, which measures telephone answering. Performance is scored directly by the customer. Performance monitoring for the Quality of Response measure is undertaken using league tables of performance and it is performance relative to other companies that is incentivised. Performance against this measure forms part of the regular reporting to Ofgem.

OPERATIONAL FINANCIAL PERFORMANCE
The company's profit from operations was £245.7 million, an increase of £14.0 million compared to the prior year, and net profit was £172.1 million, an increase of £25.5 million compared to the prior year.

Revenue increased on the prior year as a result of the price control review, higher recovery of rates and higher volumes in the latter part of the year.

Procurements are in line with the prior year.

Outside services have increased as a result of higher costs from SP Power Systems for the provision of asset management services and the introduction of electricity supply costs for sub-stations (required by DPC5). Offsetting this are lower rechargeable costs (offset in other operating income).

Other operating income has decreased on the prior year as a result of lower rechargeable costs (offset in outside services).

Depreciation and amortisation charge, allowances and provisions has increased on the prior year due to higher depreciation charges.

Net finance costs were lower compared to the prior year due to a combination of lower levels of net debt and lower interest rates.

Despite higher profits before tax, the **income tax** expense decreased on the prior year. This is largely a result of the impact of lowering the corporation tax rate in future years, resulting in a credit to the income statement.

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

RESULTS AND DIVIDENDS
The net profit for the year amounted to £172.1 million (2009: £146.6 million). The aggregate dividends paid during the year amounted to £55.0 million (2009: £35.0 million).

FINANCING REVIEW
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, Scottish Power UK plc.

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

SP DISTRIBUTION LIMITED
DIRECTORS' REPORT *continued*

Treasury and interest policy
Treasury services are provided by ScottishPower. ScottishPower and its subsidiary undertakings ("ScottishPower group") have a risk policy within treasury and financing which is designed to ensure that the company's exposure to variability of cash flows and asset values due to fluctuations in market interest rates and inflation are minimised and managed at acceptable risk levels. Further details of the treasury and interest policy for the ScottishPower group and how it manages them is included in the Directors' Report and Accounts of Scottish Power UK Holdings Limited ("SPUKH") for the year ended 31 December 2010.

Funding
At the end of the year the company had net debt of £474.9 million (2009 £512.4 million).

Liquidity
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 26.

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 S.A. and its group of companies (which also outlines expectations for employees' conduct). This document was recently re-launched to employees in November 2010.

Employee consultation
ScottishPower's businesses use employee/staff surveys and other tools to understand the key issues for employees within each business unit. Regular consultation takes place 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 of 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 Directors' Report and Accounts of SPUKH for the year ended 31 December 2010.

HEALTH AND SAFETY
The company has a clear strategy to continue to improve health and safety performance using ScottishPower group health and safety standards. A more extensive description of how the ScottishPower group addresses health and safety requirements can be found in the Directors' Report and Accounts of SPUKH for the year ended 31 December 2010.

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

Scott Mathieson
Frank Mitchell

CREDITOR PAYMENT POLICY AND PRACTICE
The group'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 (2009 nil).

SP DISTRIBUTION LIMITED
DIRECTORS' REPORT *continued*

DIRECTORS' RESPONSIBILITIES FOR THE ACCOUNTS
The directors are responsible for preparing the Directors' Report and Accounts in accordance with applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

The directors are responsible for preparing Accounts for each financial period which give a true and fair view, in accordance with IFRSs, of the state of affairs of the company and of the profit or loss for that period. In preparing those 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 Accounts; and
- prepare the 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 to enable them to ensure that the Accounts comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

- so far as he or she is aware, there is no relevant audit information of which the company's auditors are unaware; and
- he or she has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's 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 December 2010.

ON BEHALF OF THE BOARD

Frank Mitchell
Director
18 May 2011

INDEPENDENT AUDITORS' REPORT

to the member of SP Distribution Limited

We have audited the Accounts of SP Distribution Limited for the year ended 31 December 2010 which comprise the Balance Sheet, Income Statement, Statement of Changes in Equity, Cash Flow Statement, and the related notes 1 to 27. These Accounts have been prepared under the accounting policies set out therein. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's member, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's member those matters we are required to state in an auditors' report 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 company's member as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' Responsibilities Statement set out onpage F9 the directors are responsible for the preparation of the Accounts and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Accounts in accordance with the applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE ACCOUNTS

An audit involves obtaining evidence about the amounts and disclosures in the Accounts sufficient to give reasonable assurance that the 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 Accounts. In addition, we read all the financial and non-financial information in the Directors' Report and Accounts to identify material inconsistencies with the audited accounts. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON ACCOUNTS

In our opinion:

- the Accounts give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profit for the year then ended;
- the Accounts have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- the Accounts have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' Report for the financial year for which the Accounts are prepared is consistent with the Accounts.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Christabel Cowling (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Glasgow
18 May 2011

SP DISTRIBUTION LIMITED
BALANCE SHEETS
at 31 December 2010, 31 December 2009 and 1 January 2009

	Notes	31 December 2010 £m	31 December 2009 £m	1 January 2009 £m
ASSETS				
NON-CURRENT ASSETS				
Intangible assets		**4.4**	**6.2**	**6.4**
Other intangible assets	4	4.4	6.2	6.4
Property, plant and equipment		**2,060.8**	**1,957.3**	**1,859.1**
Property, plant and equipment in use	5	1,802.7	1,758.3	1,582.6
Property, plant and equipment in course of construction	5	258.1	199.0	276.5
NON-CURRENT ASSETS		**2,065.2**	**1,963.5**	**1,865.5**
CURRENT ASSETS				
Current trade and other receivables	6,7	**112.1**	**100.5**	**64.6**
Current financial assets		**-**		**0.1**
Cash and cash equivalents	7	-	-	0.1
CURRENT ASSETS		**112.1**	**100.5**	**64.7**
TOTAL ASSETS		**2,177.3**	**2,064.0**	**1,930.2**
EQUITY AND LIABILITIES				
EQUITY				
Of shareholders of the Parent		**956.4**	**839.3**	**537.3**
Share capital	8,9	300.0	300.0	109.6
Retained earnings	9	656.4	539.3	427.7
TOTAL EQUITY		**956.4**	**839.3**	**537.3**
NON-CURRENT LIABILITIES				
Deferred income	10	**354.7**	**342.2**	**321.3**
Bank borrowings and other non-current financial liabilities		**500.0**	**500.0**	**48.0**
Loans and other borrowings	11	500.0	500.0	48.0
Deferred tax liabilities	12	**214.8**	**207.4**	**193.3**
NON-CURRENT LIABILITIES		**1,069.5**	**1,049.6**	**562.6**
CURRENT LIABILITIES				
Provisions	13	**3.0**	**1.6**	**0.5**
Bank borrowings and other current financial liabilities		**-**	**48.0**	**713.0**
Loans and other borrowings	11	-	48.0	713.0
Trade and other payables	14	**119.0**	**104.6**	**98.4**
Current tax liabilities		**29.4**	**20.9**	**18.4**
CURRENT LIABILITIES		**151.4**	**175.1**	**830.3**
TOTAL LIABILITIES		**1,220.9**	**1,224.7**	**1,392.9**
TOTAL EQUITY AND LIABILITIES		**2,177.3**	**2,064.0**	**1,930.2**

Approved by the Board on 18 May 2011 and signed on its behalf by:

Frank Mitchell
Director

The accompanying notes 1 to 27 are an integral part of the balance sheets as at 31 December 2010 , 31 December 2009 and 1 January 2009.

SP DISTRIBUTION LIMITED

INCOME STATEMENTS

for the years ended 31 December 2010 and 31 December 2009

	Notes	2010 £m	2009 £m
Revenue		386.0	352.7
Procurements		(11.8)	(11.8)
		374.2	340.9
Staff costs	15	(0.6)	(0.5)
Outside services		(48.1)	(43.0)
Other operating income		24.7	26.6
		(24.0)	(16.9)
Taxes (other than income tax)		(35.1)	(29.4)
		315.1	294.6
Depreciation and amortisation charge, allowances and provisions	16	(69.4)	(62.9)
PROFIT FROM OPERATIONS		**245.7**	231.7
Gains on disposal of non-current assets		0.3	-
Losses on disposal of non-current assets		-	(1.3)
Finance income	17	1.4	0.7
Finance costs	18	(19.4)	(26.8)
PROFIT BEFORE TAX		**228.0**	204.3
Income tax	19	(55.9)	(57.7)
NET PROFIT FOR THE YEAR	9	**172.1**	146.6

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

All results relate to continuing operations.

The accompanying notes 1 to 27 are an integral part of the income statements for the years ended 31 December 2010 and 31 December 2009.

SP DISTRIBUTION LIMITED

STATEMENTS OF CHANGES IN EQUITY

for the years ended 31 December 2010 and 31 December 2009

	Ordinary share capital £m	Retained earnings £m	Total equity £m
At 1 January 2009	109.6	427.7	537.3
Total comprehensive income for the year	-	146.6	146.6
Share capital issued	190.4	-	190.4
Dividends	-	(35.0)	(35.0)
At 1 January 2010	300.0	539.3	839.3
Total comprehensive income for the year	-	172.1	172.1
Dividends	-	(55.0)	(55.0)
At 31 December 2010	**300.0**	**656.4**	**956.4**

Total comprehensive income for the year comprises net profit for the year.

The accompanying notes 1 to 27 are an integral part of the statement of changes in equity for the years ended 31 December 2010 and 31 December 2009.

SP DISTRIBUTION LIMITED

CASH FLOW STATEMENTS

for the years ended 31 December 2010 and 31 December 2009

	2010 £m	2009 £m
Cash flows from operating activities		
Profit before tax	228.0	204.3
Adjustments for:		
Depreciation and amortisation	67.1	60.5
Change in provisions	1.4	1.1
Transfer of assets from customers	(11.0)	(10.4)
Finance income and costs	18.0	26.1
(Gains)/losses from disposal of non-current assets	(0.3)	1.3
Changes in working capital:		
Change in trade and other receivables	(21.7)	(0.3)
Change in trade payables	21.2	0.6
Assets received from customers	23.5	31.3
Income taxes paid	(40.0)	(41.1)
Interest received	1.0	0.7
Net cash flows from operating activities (i)	**287.2**	**274.1**
Cash flows from investing activities		
Investments in property, plant & equipment	(170.8)	(167.0)
Proceeds from disposal of property, plant & equipment	0.7	0.2
Net cash flows from investing activities (ii)	**(170.1)**	**(166.8)**
Financing activities		
Increase in amounts due from Iberdrola group companies	-	500.0
Dividends paid to company's equity holders	(55.0)	(35.0)
Share capital issued	-	190.4
Interest paid	(24.6)	(14.2)
Repayments of borrowing	(48.0)	(30.0)
Net cash flows from financing activities (iii)	**(127.6)**	**611.2**
Net (decrease)/increase in cash and cash equivalents (i)+(ii)+(iii)	**(10.5)**	**718.5**
Cash and cash equivalents at beginning of year	**35.6**	**(682.9)**
Cash and cash equivalents at end of year	**25.1**	**35.6**

Cash and cash equivalents at end of year comprises:

Receivables due from Iberdrola group companies - loans	25.1	35.6
Cash flow statement cash and cash equivalents	**25.1**	**35.6**

The group loan arrangements of ScottishPower Limited and its subsidiaries (including SP Distribution Limited) were restructured during the year ended 31 December 2009. As a consequence of this loan restructuring, the company has classified group loans payable within one year as cash equivalents for the purposes of the cash flow statement. This is consistent with the way in which the group manages its group loan current balances; that is, on a net basis.

The accompanying notes 1 to 27 are an integral part of the cash flow statement for the years ended 31 December 2010 and 31 December 2009.

SP DISTRIBUTION LIMITED
NOTES TO THE ACCOUNTS
31 December 2010

1 BASIS OF PREPARATION OF THE ACCOUNTS

The company is required by law to prepare accounts and to deliver them to the Registrar of Companies. The Accounts have been prepared in accordance with International Accounting Standards ("IAS"), International Financial Reporting Standards ("IFRS") and International Finance Reporting Interpretations Committee ("IFRIC") Interpretations (collectively referred to as IFRS), as adopted by the EU as at the date of approval of these Accounts and which are mandatory for the financial year ended 31 December 2010. The Accounts are prepared in accordance with the Accounting Policies set out in Note 2 'Accounting Policies'.

The company's Accounts are prepared for the first time in accordance with IFRS. In previous years, the Accounts were prepared in accordance with UK Generally Accepted Accounting principles ("UK GAAP"). The disclosures concerning the transition from UK GAAP to IFRS required by IFRS 1 'First-time Adoption of International Financial Reporting Standards' (Revised 2007) are set out in Note 27 to the Accounts.

The cash flow statement prepared in conformity with IFRS is set out on page F14In prior years, the Accounts were prepared under UK GAAP and the company took advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 'Cash Flow Statements' (Revised 1996) as the company was included in the Accounts of Iberdrola S.A., which were publicly available.

In addition, the format of the company's income statement has been changed to align with the format applied by Iberdrola S.A., the ultimate parent company. The principal change from the company's previous format is that expenditure is now analysed by nature rather than by function.

2 ACCOUNTING POLICIES

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

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

A. REVENUE

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

B. INTANGIBLE ASSETS (COMPUTER SOFTWARE COSTS)

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

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

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

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

E. FINANCIAL ASSETS AND LIABILITIES

(a) 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.

2 ACCOUNTING POLICIES *continued*

(b) Cash and cash equivalents and term deposits in the balance sheet comprise cash on hand and term deposits which are readily convertible into a known amount of cash without a significant risk of changes in value. In the cash flow statement, cash and cash equivalents exclude term deposits which have a maturity of more than 90 days at the date of acquisition and include bank overdrafts repayable on demand the next business day and the net of current loans receivable and payable from group companies.

(c) Trade payables are recognised and carried at original invoice amount.

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

F. TRANSFERS OF ASSETS FROM CUSTOMERS

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

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

G. TAXATION

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

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

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

3 UK ELECTRICITY REGULATION

The Utilities Act 2000, which defines the regulatory framework within which the company's electricity distribution business must operate, transferred the functions of the previous electricity and gas regulators to the Gas and Electricity Markets Authority ("the Authority"). The administrative body supporting the Authority is Ofgem. Ofgem is responsible for monitoring compliance with the conditions of licences and, where necessary, enforcing them through procures laid down in the Electricity Act 1989, as amended by the Utilities Act 2000, on behalf of the Authority.

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

The primary objective of regulation of the electricity industry is the promotion of competition, while ensuring that demand can be met and companies are able to finance their activities. However, it is recognised that the development of competitive markets is not appropriate in the distribution of electricity. Regulatory controls are therefore deemed necessary to protect customers and the electricity distribution business is subject to price controls which restrict the average amount, or total amount, charged for a bundle of services. Ofgem undertakes periodic price reviews and sets price caps every five years. DPC5 covers the period from 1 April 2010 to 31 March 2015.

The main incentive schemes operated by Ofgem in the DPC5 focus on:
Quality of Supply including:
- number of interruptions to customers' supplies;
- length of those interruptions;
- quality of telephone response to customers;

Network losses;
Network outputs (e.g. volumes of assets replaced/ refurbished, network capacity delivered); and
Broad measure of customer satisfaction.

Under the first three of these the company is rewarded or penalised depending upon its performance against pre-specified targets, which the company believes it will outperform and earn financial rewards in DPC5. For customer satisfaction the incentive is dependent upon the relative performance against other Distribution Network Operators ("DNOs").

SP DISTRIBUTION LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2010

4 INTANGIBLE ASSETS

Year ended 31 December 2009	Other intangible assets - Computer software £m
Cost:	
At 1 January and 31 December 2009	15.9
Amortisation:	
At 1 January 2009	9.5
Amortisation for the year	0.2
At 31 December 2009	9.7
Net book value:	
At 31 December 2009	6.2
At 1 January 2009	6.4

Year ended 31 December 2010	Other intangible assets - Computer software £m
Cost:	
At 1 January and 31 December 2010	15.9
Amortisation:	
At 1 January 2010	9.7
Amortisation for the year	1.8
At 31 December 2010	11.5
Net book value:	
At 31 December 2010	4.4
At 1 January 2010	6.2

5 PROPERTY, PLANT AND EQUIPMENT
(a) Movements in property, plant and equipment

Year ended 31 December 2009	Operating plant - Distribution facilities £m	Operating plant - Other (note (i)) £m	Other items of property, plant and equipment in use £m	Plant in progress (note (ii)) £m	Other items of property, plant and equipment in progress £m	Total £m
Cost:						
At 1 January 2009	2,110.0	231.6	24.2	267.4	9.1	2,642.3
Additions	-	-	1.7	160.4	-	162.1
Transfers to operating plant from in progress	227.6	10.1	0.2	(237.7)	(0.2)	-
Transfer to fellow subsidiary (note (iii))	-	-	(2.1)	-	-	(2.1)
Disposals	(6.2)	(5.5)	-	-	-	(11.7)
At 31 December 2009	2,331.4	236.2	24.0	190.1	8.9	2,790.6
Depreciation:						
At 1 January 2009	642.5	117.1	23.6	-	-	783.2
Charge for the year	45.1	14.9	0.3	-	-	60.3
Disposals	(5.6)	(4.6)	-	-	-	(10.2)
At 31 December 2009	682.0	127.4	23.9	-	-	833.3
Net book value:						
At 31 December 2009	1,649.4	108.8	0.1	190.1	8.9	1,957.3
At 1 January 2009	1,467.5	114.5	0.6	267.4	9.1	1,859.1
The net book value of property, plant and equipment at 31 December 2009 is analysed as follows:						
Property, plant and equipment in use	1,649.4	108.8	0.1	-	-	1,758.3
Property, plant and equipment in the course of construction	-	-	-	190.1	8.9	199.0
	1,649.4	108.8	0.1	190.1	8.9	1,957.3

5 PROPERTY, PLANT AND EQUIPMENT *continued*

Year ended 31 December 2010	Operating plant - Distribution facilities £m	Operating plant - Other (note (i)) £m	Other items of property, plant and equipment in use £m	Plant in progress (note (ii)) £m	Other items of property, plant and equipment in progress £m	Total £m
Cost:						
At 1 January 2010	2,331.4	236.2	24.0	190.1	8.9	2,790.6
Additions	-	8.2	0.4	160.6	-	169.2
Transfers to operating plant from in progress	90.9	1.7	8.9	(92.6)	(8.9)	-
Disposals	(5.2)	(3.0)	-	-	-	(8.2)
At 31 December 2010	**2,417.1**	**243.1**	**33.3**	**258.1**	**-**	**2,951.6**
Depreciation:						
At 1 January 2010	682.0	127.4	23.9	-	-	833.3
Charge for the year	48.5	16.8	-	-	-	65.3
Disposals	(5.1)	(2.7)	-	-	-	(7.8)
At 31 December 2010	**725.4**	**141.5**	**23.9**	**-**	**-**	**890.8**
Net book value:						
At 31 December 2010	**1,691.7**	**101.6**	**9.4**	**258.1**	**-**	**2,060.8**
At 1 January 2010	1,649.4	108.8	0.1	190.1	8.9	1,957.3
The net book value of property, plant and equipment at 31 December 2010 is analysed as follows:						
Property, plant and equipment in use	1,691.7	101.6	9.4	-	-	1,802.7
Property, plant and equipment in the course of construction	-	-	-	258.1	-	258.1
	1,691.7	**101.6**	**9.4**	**258.1**	**-**	**2,060.8**

(i) The category "Operating plant - Other" principally comprises meters and measuring devices.

(ii) The category "Plant in progress" principally comprises distribution facilities in the course of construction.

(iii) During the year ended 31 December 2009 computer equipment with a cost of £2.1 million and no accumulated depreciation was transferred to a fellow subsidiary company.

(iv) The cost of fully depreciated property, plant and equipment still in use at 31 December 2010 was £115.5 million (31 December 2009 £134.7 million, 1 January 2009 £127.9 million).

(v) Included within the cost of property, plant and equipment are assets in use not subject to depreciation, being land, of £7.2 million (31 December 2009 £9.9 million, 1 January 2009 £9.5 million).

(b) Operating lease arrangements

Operating lease payments	2010 £m	2009 £m
Contingent based operating lease rents recognised as an expense in the year	**0.1**	0.1
Sublease payments recognised as an expense in the year	**0.1**	0.1
	0.2	0.2
The future minimum lease payments under non-cancellable operating leases are as follows:		
Within one year	**0.2**	0.2
Between one and five years	**0.7**	0.7
More than five years	**0.6**	0.7
	1.5	1.6

Operating lease receivables	2010 £m	2009 £m
The future minimum lease payments receivable under non-cancellable operating leases are as follows:		
Within one year	**0.6**	0.6
Between one and five years	**1.0**	1.4
More than five years	**0.1**	0.1
	1.7	2.1

5 PROPERTY, PLANT AND EQUIPMENT *continued*

(c) Capital commitments

	31 December 2010 £m	31 December 2009 £m	1 January 2009 £m
Contracted but not provided	**192.1**	162.1	131.5

6 TRADE AND OTHER RECEIVABLES

	Notes	31 December 2010 £m	31 December 2009 £m	1 January 2009 £m
Current receivables:				
Receivables due from Iberdrola group companies - trade		**30.7**	26.3	30.6
Receivables due from Iberdrola group companies - loans	(a)	**25.1**	35.6	-
Trade receivables and accrued income	(b)	**39.7**	34.5	31.7
Prepayments		**-**	1.4	1.3
Other receivables		**16.6**	2.7	1.0
		112.1	100.5	64.6

(a) The loans receivable from Iberdrola group companies comprise loans that are repayable on demand and have an interest rate payable of 1% above the Royal Bank of Scotland base rate.

(b) Trade receivables are stated net of allowance for impairment of doubtful debts of £1.6 million (31 December 2009 £1.2 million, 1 January 2009 £1.7 million). Trade receivables are assumed to approximate their fair values due to the short term nature of trade receivables. Provisions for doubtful debts have been estimated by management, taking into account future cash flows, based on prior experience, ageing analysis and an assessment of the current economic environment within which the group operates. The income statement impact on change in bad debt for the year to 31 December 2010 is £0.3 million (31 December 2009 £1.3 million, 1 January 2009 £0.7 million).

(c) At 31 December 2010 trade receivables of £31.4 million (31 December 2009 £34.0 million, 1 January 2009 £34.5 million) were past due but not impaired.

	31 December 2010 £m	31 December 2009 £m	1 January 2009 £m
Past due but not impaired:			
Less than 3 months	**25.7**	29.7	28.7
Between 3 and 6 months	**0.3**	1.2	0.4
Between 6 and 12 months	**0.5**	0.9	1.8
After more than 12 months	**4.9**	2.2	3.6
	31.4	34.0	34.5

7 FINANCIAL ASSETS

Categories of financial assets	Notes	31 December 2010 £m	31 December 2009 £m	1 January 2009 £m
Cash	(a)	**-**	-	0.1
Receivables	(b)	**112.1**	99.1	63.3
Total		**112.1**	99.1	63.4

(a) As a general rule, cash deposited with banks earns interest at rates similar to market rates on daily deposits.

(b) Balances outwith the scope of IFRS 7, principally prepayments have been excluded.

(c) The fair values of the financial assets are not materially different from their book values.

8 SHARE CAPITAL

	31 December 2010 £m	31 December 2009 £m	1 January 2009 £m
Authorised:			
300,000,000 ordinary shares of £1 each			
(31 December 2009 300,000,000; 1 January 2009 200,000,000)	**300.0**	300.0	200.0
	300.0	300.0	200.0
Allotted, called up and fully paid shares:			
300,000,000 ordinary shares of £1 each			
(31 December 2009 300,000,000; 1 January 2009 109,600,000)	**300.0**	300.0	109.6
	300.0	300.0	109.6

On 26 January 2009, the authorised share capital of the company was increased from £200.0 million to £300.0 million by the creation of 100 million ordinary shares of £1 each, ranking pari passu in all respects with the existing ordinary shares of the company. On the same date, 190.4 million ordinary shares were issued at par to the immediate parent company, Scottish Power UK plc. The share proceeds were used to partially repay group loan borrowings.

9 ANALYSIS OF MOVEMENT IN EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF SP DISTRIBUTION LIMITED

	Ordinary share capital £m	Retained earnings (note (a)) £m	Total £m
At 1 January 2009	109.6	427.7	537.3
Profit for the year attributable to equity holders of SP Distribution Limited	-	146.6	146.6
Share capital issued (see note 8)	190.4	-	190.4
Dividends	-	(35.0)	(35.0)
At 31 December 2009	300.0	539.3	839.3
Profit for the year attributable to equity holders of SP Distribution Limited	-	172.1	172.1
Dividends	-	(55.0)	(55.0)
At 31 December 2010	**300.0**	**656.4**	**956.4**

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

10 DEFERRED INCOME

Year ended 31 December 2009	At 1 January 2009 £m	Receivable during year £m	Released to income statement £m	At 31 December 2009 £m
Transfers of assets from customers	321.3	31.3	(10.4)	342.2
Total deferred income	321.3	31.3	(10.4)	342.2

Year ended 31 December 2010	At 1 January 2010 £m	Receivable during year £m	Released to income statement £m	**At 31 December 2010 £m**
Transfers of assets from customers	342.2	23.5	(11.0)	**354.7**
Total deferred income	342.2	23.5	(11.0)	**354.7**

11 FINANCIAL LIABILITIES

(a) Categories of financial liabilities

	Notes	31 December 2010 £m	31 December 2009 £m	1 January 2009 £m
Loans and other borrowings (current and non-current):				
External borrowings	(i)	-	48.0	78.0
Loans with Iberdrola group companies	(i)	**500.0**	500.0	683.0
		500.0	548.0	761.0
Other financial liabilities:				
Payables	(ii)	**75.6**	71.1	58.4
Total		**575.6**	619.1	819.4

11 FINANCIAL LIABILITIES *continued*

(i) Loans and other borrowings are accounted for at amortised cost. Refer to Note 11(c) for further analysis of external borrowings.

(ii) Balances outwith the scope of IFRS 7, principally payments received on account, and other amounts not contractually committed, have been excluded. The fair values of payables disclosed are not materially different from their book values.

(iii) The loans with Iberdrola group companies comprise loans with Scottish Power Limited and Scottish Power UK plc. The loan from Scottish Power Limited carries a variable rate of 6 months GBP LIBOR plus 34 basis points. The loan from Scottish Power UK plc carries a variable rate of 12 months GBP LIBOR plus 336.5 basis points. Under the conditions of the long term loan agreement between SP Distribution Limited and Scottish Power UK plc, SP Distribution Limited 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 Scottish Power UK plc with written notice at least 5 business days before the intended repayment date.

(b) The table below analyses the company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	31 December 2010								
	Carrying value £m	**Contractual cash flows £m**	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 3 years £m	Between 3 and 4 years £m	Between 4 and 5 years £m	Between 5 and 10 years £m	10 years and thereafter £m
Loans and other borrowings (current and non-current):									
Loans with Iberdrola group companies	500.0	1,045.9	19.0	21.1	24.5	28.9	31.4	313.2	607.8
	500.0	1,045.9	19.0	21.1	24.5	28.9	31.4	313.2	607.8
Other financial liabilities:									
Payables	75.6	75.6	75.6	-	-	-	-	-	-
	575.6	1,121.5	94.6	21.1	24.5	28.9	31.4	313.2	607.8

	31 December 2009								
	Carrying value £m	Contractual cash flows £m	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 3 years £m	Between 3 and 4 years £m	Between 4 and 5 years £m	Between 5 and 10 years £m	10 years and thereafter £m
Loans and other borrowings (current and non-current):									
External borrowings	48.0	48.8	48.8	-	-	-	-	-	-
Loans with Iberdrola group companies	500.0	1,115.0	24.1	25.1	28.7	33.4	35.4	327.9	640.4
	548.0	1,163.8	72.9	25.1	28.7	33.4	35.4	327.9	640.4
Other financial liabilities:									
Payables	71.1	71.1	71.1	-	-	-	-	-	-
	619.1	1,234.9	144.0	25.1	28.7	33.4	35.4	327.9	640.4

	1 January 2009								
	Carrying value £m	Contractual cash flows £m	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 3 years £m	Between 3 and 4 years £m	Between 4 and 5 years £m	Between 5 and 10 years £m	10 years and thereafter £m
Loans and other borrowings (current and non-current):									
External borrowings	78.0	83.3	33.8	49.5	-	-	-	-	-
Loans with Iberdrola group companies	683.0	688.9	688.9	-	-	-	-	-	-
	761.0	772.2	722.7	49.5	-	-	-	-	-
Other financial liabilities:									
Payables	58.4	58.4	58.4	-	-	-	-	-	-
	819.4	830.6	781.1	49.5	-	-	-	-	-

11 FINANCIAL LIABILITIES *continued*

(c) Analysis of debt and treasury instruments by category of instrument and maturity

	31 December 2010									
	Debt £m	Derivative £m	Total £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 and thereafter £m
Loans in Sterling									
- Other financial operations	500.0	-	500.0	-	-	-	-	-	500.0
- Unpaid accrued interest	15.1	-	15.1	15.1	-	-	-	-	-
Total debt	**515.1**	-	**515.1**	**15.1**	-	-	-	-	**500.0**

	31 December 2009		
	Debt £m	Derivative £m	Total £m
Loans in Sterling			
- Other financial operations	548.0	-	548.0
- Unpaid accrued interest	20.3	-	20.3
Total debt	**568.3**		**568.3**

	1 January 2009		
	Debt £m	Derivative £m	Total £m
Loans in Sterling			
- Other financial operations	761.0	-	761.0
- Unpaid accrued interest	7.7	-	7.7
Total debt	**768.7**		**768.7**

The average weighted interest rate on the above debt at 31 December 2010 is 3.7% (31 December 2009 4.6%, 1 January 2009 3.3%).

(i) Other financial operations are comprised of loans with Iberdrola group companies and European Investment Bank loans.

(ii) Debt with the European Investment Bank which may have to be renegotiated or shored up with additional guarantees in the event of a significant rating downgrade totalled £nil (31 December 2009 £48.0 million, 1 January 2009 £78.0 million).

Interest rate analysis of debt

	31 December 2010 £m	31 December 2009 £m	1 January 2009 £m
Variable rate	**515.1**	519.5	689.3
Fixed rate	-	48.8	79.4
	515.1	568.3	768.7

The reference interest rates for the floating rate borrowings are LIBOR (London Inter Bank Offer Rate) and Base Rate (The Royal Bank of Scotland Base Rate).

Based on the floating rate debt of £515.1 million at 31 December 2010 (31 December 2009 £519.5 million, 1 January 2009 £689.3 million) a 10 basis point change in interest rates would result in an annual change in profit before tax of £0.5 million (31 December 2009 £0.5 million, 1 January 2009 £0.7 million). There would be no impact on equity.

(d) Fair value of external borrowings

	31 December 2010 £m	31 December 2009 £m	1 January 2009 £m
Fair value of external borrowings	-	49.4	81.4
Fair value of external borrowings with fixed interest rate	-	49.4	81.4

(e) Borrowing facilities

The company has undrawn committed borrowing facilities at 31 December 2010 of £nil (31 December 2009 £nil, 1 January 2009 £nil).

SP DISTRIBUTION LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2010

12 DEFERRED TAX

Deferred tax provided in the Accounts is as follows:

	Accelerated capital allowances £m
Deferred tax provided at 1 January 2009	193.3
Charge to income statement	14.1
Deferred tax provided at 1 January 2010	207.4
Charge to income statement	7.4
Deferred tax provided at 31 December 2010	**214.8**

In his budget speech of 22 June 2010, the Chancellor announced that the main rate of UK corporation tax would be reduced from the current rate of 28% to 24% on 1 April 2014 by a series of 1% annual reductions. In his budget speech in March 2011, he announced that there would be a 2% reduction on 1 April 2011 to 26% and this was enacted on 29 March 2011 by Budget Resolution under the Provisional Collection of Taxes Act. Further 1% reductions will continue to apply, now lowering the rate to 23% on 1 April 2014.

The reduction to 27% was included in the Finance Act that received Royal Assent on 27 July 2010. As this change was enacted at the balance sheet date and reduces the tax rate expected to apply when temporary differences reverse, it had the effect of reducing the deferred tax liability by £7.9 million. The reduction to 26%, however, was not enacted at the balance sheet date. The further rate reductions are to be incorporated within future Finance Acts and hence will not be substantively enacted until later periods. It is expected this will result in total reductions of £32 million to the deferred tax liability. The reduction is expected to be £16 million in the year ended 31 December 2011 with two further reductions of £8 million.

13 PROVISIONS

Year ended 31 December 2009	Note	At 1 January 2009 £m	New provisions £m	Released during the year £m	At 31 December 2009 £m
Contract termination costs		0.5	-	-	0.5
Environmental costs		-	1.1	-	1.1
	(a)	0.5	1.1	-	1.6

Year ended 31 December 2010	Notes	At 1 January 2010 £m	New provisions £m	Released during the year £m	**At 31 December 2010 £m**
Contract termination costs	(b)	0.5	2.2	-	**2.7**
Environmental costs	(c)	1.1	-	(0.8)	**0.3**
	(a)	1.6	2.2	(0.8)	**3.0**

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

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

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

14 TRADE AND OTHER PAYABLES

	31 December 2010 £m	31 December 2009 £m	1 January 2009 £m
Current trade and other payables:			
Payables due to Iberdrola group companies - trade and other	**54.1**	36.1	41.7
Payables due to Iberdrola group companies - interest	**15.1**	19.5	6.3
Other taxes and social security	**5.4**	5.9	6.0
Payments received on account	**38.0**	27.6	34.0
Other payables	**6.4**	15.5	10.4
	119.0	104.6	98.4

15 EMPLOYEE INFORMATION

(a) Staff costs

	2010 £'000	2009 £'000
Wages and salaries	**443**	403
Social security costs	**39**	33
Pension and other costs	**89**	67
Total employee costs	**571**	503

The employee costs do not included the directors of the company as they do not have a contract of service with the company. The emoluments of all the directors are included within the employee costs of other ScottishPower group companies. Details of directors' emoluments are set out in Note 23.

(b) Employee numbers

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

	Year end 2010	Average 2010	Year end 2009	Average 2009
Administrative	9	8	7	8
Total	9	8	7	8

(c) Pensions

The company's contributions payable in the year were £89,000 (2009 £67,000). 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 Scottish Power UK Holdings Limited Directors' Report & Accounts. As at 31 December 2010, the deficit in the Scottish Powergroup's defined benefit schemes in the UK amounted to £160.8 million (2009 £119.3 million). The employer contribution rate for these schemes in the year ended 31 December 2010 was 21.8%-23.3%. The employer contribution rate for the year ending 31 December 2011 is expected to be consistent with the year ended 31 December 2010.

16 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS

	2010 £m	2009 £m
Property, plant and equipment depreciation charge	**65.3**	60.3
Intangible asset amortisation	**1.8**	0.2
Charges and provisions	**2.3**	2.4
	69.4	62.9

17 FINANCE INCOME

	2010 £m	2009 £m
Interest receivable from Iberdrola group companies	**1.4**	0.7
	1.4	0.7

18 FINANCE COSTS

	2010 £m	2009 £m
Interest on bank loans and overdrafts	**0.7**	3.2
Interest on amounts due to Iberdrola group companies	**18.7**	23.6
	19.4	26.8

19 INCOME TAX

	2010 £m	2009 £m
Current tax:		
UK Corporation tax	**49.8**	43.5
Adjustments in respect of prior years	**(1.3)**	0.1
Current tax for the year	**48.5**	43.6
Deferred tax:		
Origination and reversal of temporary differences	**13.6**	14.0
Tax rate change applied to temporary differences at start of period	**(7.4)**	-
Adjustments in respect of prior years	**1.2**	0.1
Deferred tax for the year	**7.4**	14.1
Income tax expense for the year	**55.9**	57.7

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

	2010 £m	2009 £m
Corporation tax at 28%	**63.8**	57.2
Adjustments in respect of prior periods	**(0.1)**	0.2
Impact of tax rate change	**(7.9)**	-
Other permanent differences	**0.1**	0.3
Income tax expense for the year	**55.9**	57.7

20 DIVIDENDS

	2010 pence per ordinary share	2009 pence per ordinary share	2010 £m	2009 £m
Interim dividend paid	18.3	11.7	55.0	35.0

21 CONTINGENT LIABILITIES

As part of the exercise to achieve legal separation of Scottish Power UK plc's businesses pursuant to the provision of the Utilities Act 2000, SP Distribution Limited and other subsidiary companies of Scottish Power UK plc were each required to jointly provide guarantees to external lenders to Scottish Power UK plc for debt existing in that company at 1 October 2001. The value of debt guaranteed by these companies, which was still outstanding at 31 December 2010 was £1,420.6 million (31 December 2009 £1,564.2 million, 1 January 2009 £1,636.2 million).

22 FINANCIAL COMMITMENTS

Other contractual commitments

	31 December 2010 £m	31 December 2009 £m	1 January 2009 £m
Provision of asset management services from SP Power Systems Limited	**7.8**	17.4	15.7

The contract in place for the provision for asset management services provided by SP Power Systems Limited expires on 31 March 2011. Discussions are well progressed towards agreeing a revised contract for the duration of DPC5.

23 RELATED PARTY TRANSACTIONS

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

Type of related party	Sales/(purchases) to/(from) related parties 2010 £m	2009 £m	Amounts due from/(to) related parties 31 December 2010 £m	31 December 2009 £m	1 January 2009 £m
Sales					
Fellow ScottishPower subsidiary companies	**153.8**	153.7	**30.5**	26.3	30.6
Fellow Iberdrola subsidiary companies	-	-	**0.2**	-	-
Purchases					
Fellow ScottishPower subsidiary companies	**(46.8)**	(38.2)	**(54.1)**	(35.4)	(41.0)
Fellow Iberdrola subsidiary companies	-	-	-	(0.7)	(0.7)

(i) Sales comprises revenue from related parties which is included within "Revenue" in the income statement and management charge and other income which is included within "Other operating income".

(ii) Purchases comprise purchases from related parties which is included within "Procurements" in the income statement and management charge and other costs which is included within "Outside Services".

(b) Funding transactions and balances arising in the normal course of business

Type of related party	Interest receivable from related parties 2010 £m	2009 £m	Amounts due from related parties 31 December 2010 £m	31 December 2009 £m	1 January 2009 £m
Fellow ScottishPower subsidiary companies	**1.4**	0.7	**25.1**	35.6	-

Type of related party	Interest payable to related parties 2010 £m	2009 £m	Amounts due to related parties 31 December 2010 £m	31 December 2009 £m	1 January 2009 £m
Ultimate UK parent company	**1.9**	2.6	**150.1**	150.1	689.3
Fellow ScottishPower subsidiary companies	**16.8**	21.0	**365.0**	369.4	-

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

(ii) During the year ended 31 December 2010, dividends paid to the immediate parent company amounted to £55.0 million (£35.0 million).

(iii) During the year ended 31 December 2010, the company's immediate parent company, Scottish Power UK plc made pension contributions of £89,000 on behalf of the company (31 December 2009 £67,000).

(c) Remuneration of key management personnel

The remuneration of the key management personnel of the company (which comprises the Board of Directors) of the company is set out below.

Type of related party	2010 £'000	2009 £'000
Short-term employee benefits	**412**	546
Post-employment benefits	**242**	79
	654	625

(d) 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 ScottishPower group as a whole, it has not been possible to apportion the emoluments specifically in respect of services to this company.

Executive directors	2010 £'000	2009 £'000
Basic salary	**290**	283
Bonuses	**115**	257
Benefits in kind	**7**	6
Total	**412**	546

(i) Two directors (2009 two) had retirement benefits accruing under defined benefit pension schemes.

23 RELATED PARTY TRANSACTIONS *continued*

Highest paid director	2010 £'000	2009 £'000
Basic salary	192	151
Bonuses	77	134
Benefits in kind	1	-
Total	270	285

(i) The amount of pension benefit accrued for the highest paid director at 31 December 2010 was £71,482 (2009 £94,050).

(e) Ultimate 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., Calle Gardoqui 8, Bilbao, Spain. Copies of the Consolidated Accounts of Scottish Power UK plcmay be obtained from The Secretary, Scottish Power UK plc 1 Atlantic Quay, Glasgow, G2 8SP.

24 AUDITORS' REMUNERATION

Type of related party	2010 £'000	2009 £'000
Audit of the company's annual and regulatory accounts	105	98

For the year ended 31 December 2010, the total audit fees paid to the auditors of £105,000 (2009 £98,000) were charged to profit from operations.

25 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 December 2010.

In particular, the group has adopted IFRIC 18 'Transfers of Assets from Customers' for year end 31 December 2010. IFRIC 18 applies to agreements in which an entity receives from its customers items of property, plant and equipment 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, and those in which the entity receives cash from customer for the construction of such items of property, plant and equipment.

If the items of property, plant and equipment transferred meet the definition of an asset set out in the Framework of IFRSs, they are measured at fair value. As the group considers the installation received as payment for ongoing access to the supply of the goods and services, the fair value is credited to the income statement over the period of the agreement with the customer. There has been no change to the company's policy as a result of adopting IFRIC 18. The company's policy in relation to transfers of assets from customers is set out in Note 2.

In addition, the EU has adopted certain revised IAS and IFRIC interpretations which are not mandatory for the year ended 31 December 2010.

In addition, the International Accounting Standards Board has also issued a number of pronouncements which have not yet been adopted by the EU and a number of exposure drafts. The company is currently considering the impact of these pronouncements.

26 GOING CONCERN

The company's business activities together with the factors likely to affect its future development and position are set out in the Directors' Report on pages F4 to F9.

The company has recorded a profit after tax in both the current and previous financial years and the company's balance sheet shows that it has net current liabilities of £39.3 million and net assets of £956.4 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.

27 RECONCILIATION OF PREVIOUSLY REPORTED ACCOUNTS UNDER UK GAAP TO IFRS

The company's financial statements for the year ended 31 December 2010 are its first annual financial statements prepared under accounting policies that comply with IFRS.

SP Distribution Limited's transition date to IFRS is 1 January 2009. The company prepared its opening IFRS balance sheet as at that date.

The following disclosures are provided:

(a) Reconciliation of the Profit and Loss Account under UK GAAP to the Income Statement under IFRS for the year ended 31 December 2009;

(b) Reconciliation of the Balance Sheet under UK GAAP to IFRS as at 1 January 2009;

(c) Reconciliation of the Balance Sheet under UK GAAP to IFRS as at 31 December 2009;

(d) Notes to the balance sheet reclassifications; and

(e) Notes to the IFRS remeasurements.

The format of the income statement and balance sheet has been prepared in accordance with the requirements of IAS 1 and reflects the impact of adopting IFRS compliant Accounts. This is also the first year that the company Accounts has presented a cash flow statement. In prior years due to the company Accounts being prepared under UK GAAP, the company had taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 'Cash Flow Statements (revised 1996)' as the company was included in the Accounts of Iberdrola S.A., which were publicly available.

As stated in the accounting policies the format of the Company's income statement has been changed to align with the format applied by Iberdrola S.A., the ultimate parent company. The principal change from the Company's previous format is that expenditure is now analysed by nature rather than function. Therefore, staff costs, depreciation and amortisation charges and taxes (other than income taxes), previously included within cost of sales, transmission and distribution costs and administrative expenses, are now shown separately. Costs relating directly to revenue have now been included within procurements, other costs are included in outside services. Certain non-energy related income, previously accounted for within revenue, has now been reclassified to other operating income. The above changes have no impact on profit before operations.

The UK GAAP column of the reconciliation of the Profit and Loss Account under UK GAAP to the Income Statement under IFRS for the year ended 31 December 2009 has been presented reflecting these format changes.

SP DISTRIBUTION LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2010

27 RECONCILIATION OF PREVIOUSLY REPORTED ACCOUNTS UNDER UK GAAP TO IFRS *continued*

(a) Reconciliation of the Profit and Loss Account under UK GAAP to the Income Statement under IFRS for the year ended 31 December 2009

	UK GAAP £m	IFRS Reclassifications and remeasurements £m	IFRS £m
Revenue	352.7	-	352.7
Procurements	(11.8)	-	(11.8)
	340.9	-	340.9
Staff costs	(0.5)	-	(0.5)
Outside services	(43.0)	-	(43.0)
Other operating income	26.6	-	26.6
	(16.9)	-	(16.9)
Taxes (other than income tax)	(29.4)	-	(29.4)
	294.6	-	294.6
Depreciation and amortisation charge, allowances and provisions	(62.9)	-	(62.9)
PROFIT FROM OPERATIONS	231.7	-	231.7
Losses on disposal of non-current assets	(1.3)	-	(1.3)
Finance income	0.7	-	0.7
Finance costs	(26.8)	-	(26.8)
PROFIT BEFORE TAX	204.3	-	204.3
Income tax	(57.7)	-	(57.7)
NET PROFIT FOR THE YEAR	146.6	-	146.6

SP DISTRIBUTION LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2010

27 RECONCILIATION OF PREVIOUSLY REPORTED ACCOUNTS UNDER UK GAAP TO IFRS *continued*

(b) Reconciliation of the Balance Sheet under UK GAAP to IFRS as at 1 January 2009

	UK GAAP £m	IFRS Reclassific-ations £m	IFRS Remeasure-ments £m	IFRS £m
ASSETS				
NON-CURRENT ASSETS				
Intangible assets	**-**	**6.4**	**-**	**6.4**
Other intangible assets	-	6.4	-	6.4
Property, plant and equipment	**1,865.5**	**(6.4)**	**-**	**1,859.1**
Property, plant and equipment in use	1,589.0	(6.4)	-	1,582.6
Property, plant and equipment in the course of construction	276.5	-	-	276.5
NON-CURRENT ASSETS	**1,865.5**	**-**	**-**	**1,865.5**
CURRENT ASSETS				
Current trade and other receivables	**64.6**	**-**	**-**	**64.6**
Current financial assets	**0.1**	**-**	**-**	**0.1**
Cash and cash equivalents	0.1	-	-	0.1
CURRENT ASSETS	**64.7**	**-**	**-**	**64.7**
TOTAL ASSETS	**1,930.2**	**-**	**-**	**1,930.2**
EQUITY AND LIABILITIES				
EQUITY				
Of shareholders of the parent	**546.4**	**-**	**(9.1)**	**537.3**
Share capital	109.6	-	-	109.6
Retained earnings	436.8	-	(9.1)	427.7
TOTAL EQUITY	**546.4**	**-**	**(9.1)**	**537.3**
NON-CURRENT LIABILITIES				
Deferred income	**321.3**	**-**	**-**	**321.3**
Provisions	**0.5**	**(0.5)**	**-**	**-**
Bank borrowings and other non-current financial liabilities	**48.0**	**-**	**-**	**48.0**
Loans and other borrowings	48.0	-	-	48.0
Deferred tax liabilities	**184.2**	**-**	**9.1**	**193.3**
NON-CURRENT LIABILITIES	**554.0**	**(0.5)**	**9.1**	**562.6**
CURRENT LIABILITIES				
Provisions	**-**	**0.5**	**-**	**0.5**
Bank borrowings and other current financial liabilities	**713.0**	**-**	**-**	**713.0**
Loans and other borrowings	713.0	-	-	713.0
Trade and other payables	**116.8**	**(18.4)**	**-**	**98.4**
Current tax liabilities	**-**	**18.4**	**-**	**18.4**
CURRENT LIABILITIES	**829.8**	**0.5**	**-**	**830.3**
TOTAL LIABILITIES	**1,383.8**	**-**	**9.1**	**1,392.9**
TOTAL EQUITY AND LIABILITIES	**1,930.2**	**-**	**-**	**1,930.2**

27 RECONCILIATION OF PREVIOUSLY REPORTED ACCOUNTS UNDER UK GAAP TO IFRS *continued*

(c) Reconciliation of the Balance Sheet under UK GAAP to IFRS as at 31 December 2009

	UK GAAP £m	IFRS Reclassific-ations £m	IFRS Remeasure-ments £m	IFRS £m
ASSETS				
NON-CURRENT ASSETS				
Intangible assets	**-**	**6.2**	**-**	**6.2**
Other intangible assets	-	6.2	-	6.2
Property, plant and equipment	**1,963.5**	**(6.2)**	**-**	**1,957.3**
Property, plant and equipment in use	1,764.5	(6.2)	-	1,758.3
Property, plant and equipment in the course of construction	199.0	-	-	199.0
NON-CURRENT ASSETS	**1,963.5**	**-**	**-**	**1,963.5**
CURRENT ASSETS				
Current trade and other receivables	**100.5**	**-**	**-**	**100.5**
CURRENT ASSETS	**100.5**	**-**	**-**	**100.5**
TOTAL ASSETS	**2,064.0**	**-**	**-**	**2,064.0**
EQUITY AND LIABILITIES				
EQUITY				
Of shareholders of the parent	**848.4**	**-**	**(9.1)**	**839.3**
Share capital	300.0	-	-	300.0
Retained earnings	548.4	-	(9.1)	539.3
TOTAL EQUITY	**848.4**	**-**	**(9.1)**	**839.3**
NON-CURRENT LIABILITIES				
Deferred income	**342.2**	**-**	**-**	**342.2**
Provisions	**1.6**	**(1.6)**	**-**	**-**
Bank borrowings and other non-current financial liabilities	**500.0**	**-**	**-**	**500.0**
Loans and other borrowings	500.0	-	-	500.0
Deferred tax liabilities	**198.3**	**-**	**9.1**	**207.4**
NON-CURRENT LIABILITIES	**1,042.1**	**(1.6)**	**9.1**	**1,049.6**
CURRENT LIABILITIES				
Provisions	**-**	**1.6**	**-**	**1.6**
Bank borrowings and other current financial liabilities	**48.0**	**-**	**-**	**48.0**
Loans and other borrowings	48.0	-	-	48.0
Trade and other payables	**125.5**	**(20.9)**	**-**	**104.6**
Current tax liabilities	**-**	**20.9**	**-**	**20.9**
CURRENT LIABILITIES	**173.5**	**1.6**	**-**	**175.1**
TOTAL LIABILITIES	**1,215.6**	**-**	**9.1**	**1,224.7**
TOTAL EQUITY AND LIABILITIES	**2,064.0**	**-**	**-**	**2,064.0**

27 RECONCILIATION OF PREVIOUSLY REPORTED ACCOUNTS UNDER UK GAAP TO IFRS *continued*

(d) Notes to the balance sheet reclassifications

Certain balances, previously reported under UK GAAP, have been reclassified to comply with the format of the Company Accounts as presented under IFRS. None of these reclassifications have any impact on the Company's previously reported net assets or shareholders funds.

(i) IAS 1 – Presentation of Financial Statements
Provision for liabilities and charges due within one year of £1.6 million at 31 December 2009 (1 January 2009 £0.5 million), previously presented within non-current liabilities, have been reclassified and shown within current liabilities.

(ii) IAS 12 – Income Taxes
Current corporate tax balances of £20.9 million at 31 December 2009 (1 January 2009 £18.4 million), previously included within current trade and other payables, have been shown separately on the face of the balance sheet.

(iii) IAS38 – Intangible Assets
Certain non-current assets at 31 December 2009, being capitalised software of £6.2 million (1 January 2009 £6.4 million) previously included within tangible assets (property, plant and equipment) have been reclassified as intangible assets as required by IAS 38.

(e) Notes to the balance sheet remeasurements

(i) IAS 12 – Income Taxes
Under UK GAAP, deferred tax is provided based on timing differences, whilst IFRS has a wider scope and requires deferred tax to be provided on temporary differences.

In accordance with the requirements of IFRS, deferred tax has been provided on the temporary difference relating to assets that qualify for Industrial Buildings Allowances.

SP Distribution Limited

Directors' Report and Accounts

for the year ended 31 December 2009

Registered No: SC 189125

Directors' Report and Accounts for the year ended 31 December 2009

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SP Distribution Limited

Directors' Report

The directors present their report and audited Accounts for the year ended 31 December 2009.

Business Review

Activities and review

The principal activity of SP Distribution Limited ("the company"), registered company number SC 189125, is the ownership and operation of the electricity distribution network within the area of Scottish Power Limited ("ScottishPower"), the company's ultimate UK parent undertaking. The network is used to distribute electricity, which has been transmitted to grid supply points, for electricity supply companies for onward sale to their customers.

The ultimate parent of the company is Iberdrola, S.A. ("Iberdrola") which is listed on the Madrid stock exchange. ScottishPower, the UK operations of Iberdrola, operates on divisional lines and the activities of the company fall within Energy Networks division ("Energy Networks").

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

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

Significant investment in the electricity network continued in the year. The allowed capital expenditure programme over the five-year period from 2005 to 2010 focuses on network reinforcement, expansion and driving improved network performance.

Following careful consideration, ScottishPower accepted Ofgem's proposals for the electricity Distribution Price Control ("DPC5") for the five year period from 1 April 2010. ScottishPower welcomes DPC5's transparency and predictability, and believes that, by fully implementing Iberdrola's global model for excellence, ScottishPower will be able to achieve the level of return that the Iberdrola group's investors demand. This will require taking advantage of the opportunities included in a number of key areas within Ofgem's proposals in respect of taking strong efficiency measures and through the incentives mechanisms.

On 26 January 2009 the company increased its authorised share capital to 300 million £1 ordinary shares and issued £190 million of ordinary shares to its immediate parent company, Scottish Power UK plc. The share proceeds were used to partially repay group loan borrowings from Scottish Power UK plc.

UK electricity regulation

The Utilities Act 2000, which defines the regulatory framework within which the company's electricity distribution business must operate, transferred the functions of the previous electricity and gas industry regulators to the Gas and Electricity Markets Authority ("the Authority"). The administrative body supporting the Authority is the Office of Gas and Electricity Markets ("Ofgem").

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 the Authority.

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

UK electricity regulation - continued

The primary objective of regulation of the electricity industry is the promotion of competition, while ensuring that demand can be met and companies are able to finance their activities. However, it is recognised that the development of competitive markets is not appropriate in the distribution of electricity. Regulatory controls are therefore deemed necessary to protect customers and the electricity distribution business is subject to price controls which restrict the average amount, or total amount, charged for a bundle of services. Ofgem undertakes periodic price reviews and sets price caps every five years. The electricity Distribution Price Control ("DPC4") covers the period from 1 April 2005 to 31 March 2010 and provided for higher allowed revenues through higher allowances for tax and pension costs and an increase in the level of allowed capital expenditure.

DPC5 accepted by ScottishPower will apply to the business over the five years from 1 April 2010. The outcome of the review is the result of working closely and constructively with Ofgem to reach agreement and reflects slight decreases in revenues over the five year period resulting from pre-privatisation assets becoming fully depreciated offset by increased revenues mainly due to increased allowances for higher capital investment to maintain the ageing network, and allowances for pension costs.

Price cap regulation, as operated in the UK, is performance-based; any benefits achieved through efficient management may be retained by the company for a period of up to five years.

The main incentive schemes operated by Ofgem in the DPC4 period focused on:

- Quality of Supply including:
  - number of interruptions to customers' supplies;
  - length of those interruptions;
  - quality of telephone response to customers; and
- Network losses.

In DPC5 two additional main incentive schemes will also apply:

- Network outputs (e.g. volumes of assets replaced/refurbished, network capacity delivered); and
- Broad measure of customer satisfaction.

Under the first three of these the company is rewarded or penalised depending upon its performance against pre-specified targets, which the company believes it will outperform and earn financial rewards in DPC5. For customer satisfaction the incentive is dependent upon the relative performance against other Distribution Network Operators ("DNOs").

SP Distribution Limited

Directors' Report - continued

Key factors affecting the business

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

- Improve security of supply and network performance
- Deliver improved customer performance
- Deliver returns at, or in excess of, allowed regulated returns

The company's Electricity Distribution Licence ("the licence") requires the directors to prepare regulatory accounts to 31 March for each regulatory year. Reporting of operational data is aligned to the regulatory year end. Consequently the latest available data has been disclosed in the tables below.

Operational assets of the company

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

Franchise area (km^2)	**22,950**	22,950
System maximum demand (MW)	**3,796**	3,889
Distributed energy (GWh)	**20,937**	20,994
Length of overhead lines (km)	**21,237**	21,118
Length of underground cables (km)	**41,994**	41,245

Operational performance

Ofgem requires all licensees operating electricity distribution systems to report annually on their performance. Statistics remain provisional until they are audited and subsequently published by Ofgem. Consequently, the audited statistics contained in the table below may differ to the provisional statistics contained in the company's Corporate Report and Regulatory Accounts for the year ended 31 March 2009. The 2008/09 Electricity Distribution Quality of Service Report, published by Ofgem on 18 December 2009, can be found on online at www.ofgem.gov.uk.

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

Quality of Service			
- Customer minutes lost ("CML")	(a)	**48.5**	54.0
- Customer interruptions ("CI")	(b)	**55.7**	60.8
Average time off supply (minutes)		**87.0**	88.0
Electricity supply availability		**99.99%**	99.99%
Quality of Response (mean score)	(c)	**4.26**	4.20
Customer performance			
Energywatch (customer complaints) to 30 September 2008	(d)	**1**	6
Energy Ombudsman (customer complaints) from 1 October 2008	(d)	**3**	-

(a) CML are measured by the average number of minutes that a customer is without power during a year due to power cuts which last for three minutes or more.

(b) CI are measured by the number of customers, per 100 customers, that are affected by power cuts which last three minutes or more during the year.

(c) Quality of Response assesses the speed and quality of telephone response, measuring customer satisfaction on a scale of 1 to 5. DNOs are subject to a sliding-scale penalty if their annual mean performance deteriorates below 4.1.

(d) Up to 30 September 2008 Ofgem monitored the number of customer complaints received by Energywatch, the independent consumer organisation. From 1 October 2008 the Energy Ombudsman, an independent body, was set up to monitor complaint cases. Energywatch actual and target figures are provided in the above table for the period 1 April 2008 to 30 September 2008 and for Energy Ombudsman for the period 1 October 2008 to 31 March 2009.

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

During the winter of 2008/09, the supply of energy to customers was not disrupted by any exceptional storm events. Events that meet the 'exceptional event' exclusions criteria that Ofgem have applied to previous events of this kind may usually be excluded. Therefore, the above CML and CI values, where necessary, are adjusted accordingly to reflect the performance of the network as measured and incentivised by Ofgem.

Customer satisfaction is a measure of customer service, namely Quality of Response, which measures telephone answering. Performance monitoring for the Quality of Response measure is undertaken using league tables of performance and it is performance relative to other companies that is incentivised. Performance against this measure forms part of the regular reporting to Ofgem.

SP Distribution Limited

Directors' Report - continued

Risk management

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.

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. Each month, a detailed review of the key risks, controls and action plans within the company takes place and 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.

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 and investment.

During 2009 the ScottishPower governance structure was supported by a risk policy approved by the Iberdrola Board ("the Board"). The Executive Team ("ET"), Business Risk Assessment Teams and the independent Group Risk Management function supported the Board in the execution of due diligence and risk management. The company operates an Investment Review Group, chaired by the Executive Director for Energy Networks, which reviews investment plans. In addition, the ET meets quarterly as the Risk Management Committee ("RMC") specifically to ensure that the businesses' risks are adequately assessed, monitored, mitigated and managed. During the year the Scottish Power Audit & Compliance Committee was established in line with best practice across the Iberdrola group. Details of ScottishPower's governance structure and other relevant risk matters are provided in Note 5 of the Directors' Report & Accounts of Scottish Power UK Holdings Limited for the year ended 31 December 2009.

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

Revenue risk

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

SP Distribution Limited

Directors' Report - continued

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 UK plc, the immediate 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.

The company finances its operations through a mixture of cash generated from operations and borrowings from banks and group companies.

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 Iberdrola group have been included in the Directors' Report & Accounts of Scottish Power UK Holdings Limited for the year ended 31 December 2009. 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. Derivative financial instruments are used to manage the risks identified. The European Investment Bank ("EIB") loan of £30 million was repaid on 3 February 2009. This repayment was financed through the loan from the immediate parent company. The EIB loan of £48 million was repaid on 24 March 2010. This repayment was financed through funding from the immediate parent company. The proceeds of the 26 January 2009 share issue of £190 million were used to partially repay group loan borrowings.

In addition long-term group debt finance was arranged of £350 million and £150 million with terms of 20 and 10 years respectively. Further information on the capital restructuring is provided in Note 9.

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 cash deposits where appropriate. Credit exposures are then monitored on a daily basis.

Insurance

For the year ended 31 December 2009, 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.

Financial Review

Operational financial performance

The table below provides key financial information relating to the company's performance:

Turnover	**368**	364
Operating profit	**230**	238
Profit for the financial year	**147**	147
Net assets	**848**	546
Net capital investment	**131**	171

The company delivered a profit of £147 million for year ended 31 December 2009 and for year ended 31 December 2008.

Operating profit for the year is £8 million lower than the prior year primarily due to an increase in transmission and distribution costs, administrative expenses and lower other operating income.

The increase in transmission and distribution costs is mainly due to a £8 million increase in depreciation offset by a £1 million increase in the release of deferred income and lower other costs due to tight cost control. Administration costs increased by £2 million mainly due to a £1 million increase in non-energy bad debts. Other operating income is lower due to reduced cost recoveries compared to the prior year.

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

The interest expense for the year is £10 million lower than the prior year primarily due to lower bank base rates.

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 £131 million consisting of tangible fixed asset additions of £162 million less capital contributions received of £31 million. This compares to tangible fixed asset additions of £205 million for the year ended 31 December 2008 less capital contributions received of £34 million.

The company earns allowed returns on this extensive capital programme. The net investment of £131 million (2008: £171 million) comprised £12 million in relation to growth of the network (2008: £36 million), £118 million (2008: £132 million) in relation to refurbishment of the network and £1 million (2008: £3 million) in relation to investment in non-operational assets.

Approximately 90% (2008: 77%) 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 both response times and the average duration of customer interruptions.

The scale of investment is consistent with the five year Price Review period allowed capital expenditure programme.

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 (2008: nil).

Funding

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.

On 26 January 2009 the company issued ordinary shares to its immediate parent company, Scottish Power UK plc, and the proceeds of £190 million were used to partially repay group loan borrowings. Further information on the capital restructuring is provided in Note 14.

The directors consider that sufficient funding will be made available to the company by the immediate parent company to continue operations and to meet liabilities as they fall due.

During the year £350 million of the existing short-term debt outstanding from the immediate parent company was converted into long-term variable rate debt with a 20 year maturity. In addition the company entered into a 10 year £150 million variable rate loan agreement with its ultimate UK parent undertaking, Scottish Power Limited. The proceeds of this loan were used to partially repay the short-term loan from Scottish Power UK plc. These arrangements contributed to a reduction in net current liabilities to £73 million at 31 December 2009 from £765 million at 31 December 2008, which includes a group loan receivable of £36 million (2008: group loan borrowings of £683 million) and £48 million borrowings from the EIB (2008: £nil). The £48 million loan from the EIB was within amounts due greater than one year at 31 December 2008. Further information on the capital restructuring is provided in Note 9.

The short-term loan to the immediate parent company represents drawings under a working capital facility. At 31 December 2009 the company also had a loan of £48 million granted by the EIB. This loan was repaid in full on 24 March 2010. An EIB loan of £30 million was repaid on 3 February 2009. These repayments were financed through funding from the immediate parent company.

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

Liquidity and maintenance of investment grade credit rating

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 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 (see Note 21).

Results and dividend

The profit for the year amounted to £147 million (2008: £147 million). The aggregate dividends paid during the year amounted to £35 million (2008: £70 million).

Strategic plan

The ScottishPower group is part of one of the world's largest utilities, the Iberdrola group, and has an important role to play in helping Iberdrola deliver its ambitious international plans for the coming years.

Iberdrola's 2010-2012 Strategic Plan includes a focus on improving the quality of service in ScottishPower group's regulated businesses. In light of the current economic climate there has been some modulation of Iberdrola's 2010 investment programme.

Iberdrola's UK plans include continuation of the targeted investment programme in Energy Networks division designed to improve network resilience and system performance and investment to support renewable infrastructure. As a result of this level of investment and a focus on profitability, efficiency improvements and customer satisfaction, Energy Networks division, as part of the ScottishPower group, 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 2009.

SP Distribution Limited

Directors' Report - continued

Strategic plan - continued

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

Key strategies for SP Distribution Limited until the end of DPC5 and beyond are:

- fully engage with Ofgem and other stakeholders to influence an optimal DPC5 outcome for customers and shareholders;
- 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.

Environmental management and regulation, Employment regulation, Health and safety, Community relationships

Environmental management and regulation

Throughout its operations, the Iberdrola group strives to meet, or exceed, relevant legislative and regulatory environmental requirements and codes of practice.

ScottishPower's businesses have environmental systems in accordance with ISO 14001:2004, including fully accredited systems within Energy Networks. Since 2009, the environmental activities of the Iberdrola group are governed within the Iberdrola Global Environmental Management Model.

The company acknowledges its responsibility for managing the impact of its activities in an environmentally responsible manner. Energy infrastructure development requires the enhancement and maintenance of the networks and has associated environmental impacts. These impacts are mostly focused on special planning, biodiversity management and management of waste.

The potential effect of infrastructure on land and biodiversity has prompted an approach to habitat management that often goes beyond regulatory requirements. This has been developed in consultation with regulatory bodies, non-government organisations, wildlife and special interest groups.

ScottishPower published its 2008 Corporate Responsibility Review in May 2009. The full report content is available via the ScottishPower website - www.scottishpower.com. Information on ScottishPower's Corporate Social Responsibility during 2009 will be available online from June 2010.

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 ScottishPower policy document, 'Compliance - Behaviour and the Law' (which also outlines expectations for employees' conduct). This document has been the subject of ongoing review and is scheduled to be updated and re-issued during 2010.

In fulfilling the licence obligations of the company, 7 employees within the company were primarily involved in regulatory, financial and risk management activities.

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 top priority for ScottishPower. The organisation has continued to strive for improved performance and internal assessments have again shown incremental improvements in compliance with group health and safety standards. During 2009 there were no fatal injuries recorded in either of the direct or contractor employee groups. There were however, two indirect fatal incidents, which resulted in the deaths of three members of the public. Both incidents have been fully investigated and in each case ScottishPower was found to have fully complied with its legal duties.

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") decreased from 9 to 3. In response to a Health and Safety objective set by Iberdrola, all ScottishPower businesses achieved certification to the Health and Safety Management Standard OHSAS 18001:2007.

Energy Networks' 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 Energy Network's goals for operational excellence is to achieve zero injuries.

SP Distribution Limited works closely with both PowerSystems, 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 Energy Networks division, through the service level agreements with PowerSystems, and progress is monitored regularly at all levels throughout the business.

SP Distribution Limited

Directors' Report - continued

Health and safety - continued

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

Behavioural Safety Audits	(a)	**6,802**	5,616
Number of near miss reports	(b)	**347**	n/a
Accident free days	(c)	**10**	n/a
Lost time accidents		**5**	8
Non-lost time accidents		**68**	87

(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 staff development through community based programmes.

ScottishPower's Community Investment Strategy focuses on running distinct community programmes linked to their strategies. Each programme is focused on helping young people and covers projects aimed at improving employability through educational projects, by increasing awareness about energy efficiency, the environment, science and community and the arts.

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

Community consultation

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

A variety of methods of consultation are used to keep in touch with the needs and concerns of the communities potentially affected. ScottishPower's community consultation processes include representation at community meetings, presentations and forums.

Many of Energy Networks' assets, such as pylons, are on land owned by other people, so it is important that effective policies are in place to ensure the safety and integrity of operational assets are 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 support activity. The model allows companies to report community contributions and achievements by measuring the total impact on communities rather than financial contributions alone. The LBG is the standard for community reporting adopted by almost 120 companies in the UK.

During the year ended 31 December 2009, ScottishPower's businesses contributed £3.6 million in community support activity of which £1.9 million was contributed to registered charitable organisations. The total incorporated £0.1 million categorised as charitable gifts, £3.4 million categorised as community investment and £0.1 million categorised as commercial initiatives, given in cash, through staff time and in-kind donations.

Further details of ScottishPower's Community Investment Strategy and performance can be found in the "Corporate Responsibility" section of www.scottishpower.com. Information on ScottishPower's Corporate Social Responsibility activity during 2009 will be available online from June 2010.

SP Distribution Limited

Directors' Report - continued

Board of directors and Directors' responsibilities

Directors

The directors who held office during the year were:

Alan Bryce (resigned 1 October 2009)
Scott Mathieson
Frank Mitchell (appointed 1 October 2009)

Directors' responsibilities for the Accounts

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements 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. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors

Each of the persons who is a director at the date of approval of the date 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 are deemed to be reappointed in accordance with an elective resolution made under Section 386 of the Companies Act 1985 which continues in force under the Companies Act 2006.

On Behalf of the Board

Scott Mathieson
Director

4 May 2010

SP Distribution Limited

Accounting Policies and Definitions

Definitions

Revenue cost definitions

Cost of sales
The costs associated with the use of electricity networks for the transportation of electricity to bulk supply points and costs incurred in carrying out activities which are recharged to customers.

Transmission and distribution costs
The cost of distributing units of electricity through the distribution network to electricity supply companies and other customers, and the costs associated with the operation and ownership of the network, including operational rates and insurance costs. This heading is considered more appropriate to the electricity industry than the standard Companies Act 2006 heading of distribution costs.

Administrative expenses
The indirect costs of the company and the cost of centralised services provided by Scottish Power UK plc.

Other definitions

Company
SP Distribution Limited

ScottishPower
Scottish Power Limited, the company's ultimate UK parent undertaking.

ScottishPower group
Scottish Power Limited and its subsidiary undertakings

Accounting Policies

The principal UK GAAP accounting policies in preparing the company's Accounts are set out below:

Basis of accounting
The Accounts have been prepared under the historical cost convention, in accordance with applicable accounting standards in the UK and comply with the requirements of the Companies Act 2006.

Cash flow statement
The company is exempt from including a statement of cash flows in its Accounts as it is a wholly owned subsidiary of Iberdrola, S.A., which has included a consolidated statement of cash flows in its consolidated Accounts.

Turnover
Turnover comprises charges made to customers for the use of the distribution network and for other services provided. Turnover excludes Value Added Tax and includes both accruals in respect of unbilled income relating to units transmitted over the network established from industry data flows, and for other rechargeable work completed but not yet billed. Turnover consists entirely of sales made in the United Kingdom.

Interest
Interest payable and receivable is recognised in the profit and loss account as it is incurred.

Financial instruments
All borrowings are stated at the fair value of consideration received after deduction of issue costs.

Cross currency interest rate swaps are used to hedge foreign exchange and interest rate exposures arising on foreign currency debt. The debt is recorded at the hedge contracted rate and amounts payable or receivable in respect of the agreements are recognised as adjustments to interest expense over the period of the contracts.

The company enters into forward currency contracts for the purchase of foreign currencies in order to manage its exposures to fluctuations in currency rates. The cash flows from forward purchase contracts are classified in a manner consistent with the underlying nature of the hedged transaction. Hence, unrealised gains and losses on contracts hedging forecast transactions are not accounted for until the maturity of the contract. Foreign currency creditors that are hedged with forward contracts are translated at the contracted rate at the balance sheet date.

Taxation
Current tax
Current tax, comprising UK Corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

SP Distribution Limited

Accounting Policies and Definitions - continued

Taxation - continued

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the years in which timing differences are expected to reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Tangible fixed assets

Tangible fixed assets are stated at cost and are depreciated on the straight-line method over their estimated operational lives. Fixed assets are not subject to depreciation while under construction. Land is not depreciated.

The main depreciation years used by the company are as set out below:

	Years
Buildings	40
Distribution plant	30-40
Towers, lines and underground cables	40-60
Vehicles, computer software costs, miscellaneous equipment and fittings	3-15

Financial Reporting Standard ("FRS") 15 'Tangible fixed assets' requires that for those assets with estimated remaining useful economic lives of more than 50 years, impairment reviews are undertaken annually. As a company whose main source of income is regulated by the Authority, the company's regulatory asset base is a single income generating unit and as such an impairment review of the total asset base, which includes assets that have estimated remaining useful lives of more than 50 years, is carried out annually. Impairment losses are recognised in the year in which they are identified.

Investments

Fixed asset investments are carried at cost less provision for any impairment in value.

Deferred income

Customer contributions in respect of additions to fixed assets are treated as deferred income and released to the profit and loss account over the estimated operational lives of the related assets.

SP Distribution Limited

Profit and Loss Account
for the year ended 31 December 2009

	Notes	2009 £m	2008 £m
Turnover		**367.9**	364.0
Cost of sales		**(27.0)**	(24.7)
Gross profit		**340.9**	339.3
Transmission and distribution costs		**(107.2)**	(103.9)
Administrative expenses		**(4.3)**	(2.3)
Other operating income		**1.0**	4.9
Operating profit	1	**230.4**	238.0
Net interest payable and similar charges	3	**(26.1)**	(35.7)
Profit on ordinary activities before taxation		**204.3**	202.3
Taxation	4	**(57.7)**	(55.8)
Profit for the financial year		**146.6**	146.5

The above results relate to continuing operations.

A statement of total recognised gains and losses and a note of historical cost profits and losses are not shown as all gains and losses for both years are recognised in the profit and loss account under the historical cost convention.

The Accounting Policies and Definitions on pages F44 and F45, together with the Notes on pages F49 to F55, form part of these Accounts.

SP Distribution Limited

Reconciliation of Movements in Shareholder's Funds
for the year ended 31 December 2009

	Notes	2009 £m	2008 £m
Profit for the financial year		**146.6**	146.5
Dividends	5	**(35.0)**	(70.0)
Share capital issued	14, 15	**190.4**	-
Net movement in shareholder's funds		**302.0**	76.5
Opening shareholder's funds		**546.4**	469.9
Closing shareholder's funds		**848.4**	546.4

The Accounting Policies and Definitions on pages F44 and F45, together with the Notes on pages F49 to F55, form part of these Accounts.

SP Distribution Limited

Balance Sheet
as at 31 December 2009

	Notes	2009 £m	2008 £m
Fixed assets			
Tangible assets	6	**1,963.5**	1,865.5
Investments	7	**-**	-
		1,963.5	1,865.5
Current assets			
Debtors	8	**100.5**	64.6
Short-term bank and other deposits		**-**	0.1
		100.5	64.7
Creditors: amounts falling due within one year			
Loans and other borrowings	9	**(48.0)**	(713.0)
Other creditors	10	**(125.5)**	(116.8)
		(173.5)	(829.8)
Net current liabilities		**(73.0)**	(765.1)
Total assets less current liabilities		**1,890.5**	1,100.4
Creditors: amounts falling due after more than one year			
Loans and other borrowings	9	**(500.0)**	(48.0)
Provisions for liabilities and charges			
- Deferred tax	11	**(198.3)**	(184.2)
- Other provisions	12	**(1.6)**	(0.5)
		(199.9)	(184.7)
Deferred income	13	**(342.2)**	(321.3)
Net assets		**848.4**	546.4
Called up share capital	14, 15	**300.0**	109.6
Profit and loss account	15	**548.4**	436.8
Shareholder's funds	15	**848.4**	546.4

The Accounting Policies and Definitions on pages F44 and F45, together with the Notes on pages F49 to F55, form part of these Accounts.

pproved by the Board on 4 May 2010 and signed on its behalf by

Scott Mathieson
Director

SP Distribution Limited

Notes to the Accounts
for the year ended 31 December 2009

1 Operating profit

Operating profit is stated after charging/(crediting):	2009 £m	2008 £m
Depreciation of tangible fixed assets	**60.5**	52.4
Loss on disposal of tangible fixed assets	**1.3**	3.0
Release of deferred income	**(10.4)**	(9.5)
Auditors' remuneration for audit of the company	**0.1**	0.1

Auditors' remuneration for the audit of the company was £59,000 (2008: £76,000). Auditors' remuneration for other services comprises fees for regulatory reporting and amounted to £39,000 (2008: £50,000).

2 Employee information

(a) Employee costs	2009 £'000	2008 £'000
Wages and salaries	**403**	351
Social security costs	**33**	32
Other pension costs	**67**	74
Charged to the profit and loss account	**503**	457

The employee costs do not include the directors of the company as they do not have a contract of service with the company. The emoluments of all the directors are included within the employee costs of other ScottishPower group companies.

(b) Employee numbers

The year end, full-time equivalent ("FTE") and average numbers of employees (full-time and part-time) employed by the company were:

	At year end and		Annual average	
	2009	2008	**2009**	2008
Administrative	**7**	7	**8**	7

(c) Directors' emoluments

Details of the directors' emoluments are set out in Note 18.

SP Distribution Limited

Notes to the Accounts
for the year ended 31 December 2009 - continued

3 Net interest payable and similar charges

Analysis of net interest payable and similar charges	**2009 £m**	2008 £m
Interest payable on external borrowings	**3.2**	5.5
Interest payable on group loan borrowings	**23.6**	30.2
Total interest payable	**26.8**	35.7
Interest receivable on group loans	**(0.7)**	-
Net interest payable and similar charges	**26.1**	35.7

4 Taxation

	Note	**2009 £m**	2008 £m
Current tax:			
UK Corporation tax		**43.5**	44.7
Adjustments in respect of prior years		**0.1**	(0.2)
Total current tax for year		**43.6**	44.5
Deferred tax:			
Origination and reversal of timing differences		**14.0**	13.1
Impact of change of rate on deferred tax		**-**	(0.2)
		14.0	12.9
Adjustments in respect of prior years		**0.1**	(1.6)
Total deferred tax for year	11	**14.1**	11.3
Total tax on profit on ordinary activities		**57.7**	55.8

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

	2009 £m	2008 £m
UK Corporation tax at 28% (2008: 28.5%)	**57.2**	57.6
Adjustments in respect of prior years	**0.2**	(1.8)
Impact of change of rate on deferred tax	**-**	(0.2)
Permanent differences	**0.3**	0.2
Tax charge (current and deferred)	**57.7**	55.8
Effect of deferred tax	**(14.1)**	(11.3)
Current tax charge for the year	**43.6**	44.5

5 Dividends

	2009 £m	2008 £m
Final dividend paid	**35.0**	70.0
Total dividends paid	**35.0**	70.0

SP Distribution Limited

Notes to the Accounts
for the year ended 31 December 2009 - continued

6 Tangible fixed assets

	Note	Land and buildings £m	Plant and machinery £m	Vehicles and equipment £m	Total £m
Cost:					
At 1 January 2009		129.2	2,481.9	47.1	2,658.2
Transfers	(a)	-	-	(2.1)	(2.1)
Additions		5.4	155.0	1.7	162.1
Disposals		-	(11.7)	-	(11.7)
At 31 December 2009		**134.6**	**2,625.2**	**46.7**	**2,806.5**
Depreciation:					
At 1 January 2009		49.7	706.4	36.6	792.7
Charge for the year		2.5	57.5	0.5	60.5
Disposals		-	(10.2)	-	(10.2)
At 31 December 2009		**52.2**	**753.7**	**37.1**	**843.0**
Net book value:					
At 31 December 2009		**82.4**	**1,871.5**	**9.6**	**1,963.5**
At 1 January 2009		79.5	1,775.5	10.5	1,865.5

Included in the cost of tangible fixed assets above are:	Note	**2009 £m**	2008 £m
Assets in the course of construction		**128.4**	206.3
Other assets not subject to depreciation	(b)	**9.9**	9.5

(a) The transfer of assets relates to the gross value of computer systems assets transferred to a fellow subsidiary company. No depreciation had been charged on these assets prior to being transferred.

(b) Other assets not subject to depreciation are land.

(c) Land and buildings held by the company are freehold.

(d) The historical cost of fully depreciated tangible fixed assets still in use was £134.7 million (2008: £127.9 million).

7 Fixed asset investments

	Other unlisted investments £
Cost:	
At 1 January 2009 and 31 December 2009	**6,474**

SP Distribution Limited

Notes to the Accounts

for the year ended 31 December 2009 - continued

8 Debtors

	Note	2009 £m	2008 £m
Amounts falling due within one year:			
Trade debtors		**15.6**	14.4
Prepayments and accrued income		**20.3**	18.6
Amounts owed by parent undertaking	(a)	**35.6**	-
Amounts owed by fellow subsidiary undertakings		**26.3**	30.6
Other debtors		**2.7**	1.0
		100.5	64.6

(a) Amounts owed by parent undertaking at 31 December 2009 represents a loan receivable of £35.6 million (2008: £nil). This is a working capital facility provided to Scottish Power UK plc. The principal outstanding, accrued interest and associated costs are repayable on written demand. Interest is calculated at a rate of 1% above base rate and is payable quarterly in arrears.

9 Loans and other borrowings

(a) Analysis by instrument	Notes	2009 £m	2008 £m
European Investment Bank loans	(i)	**48.0**	78.0
Variable rate group loan	(ii)	**-**	683.0
Fixed-term group loan 2018	(iii)	**150.0**	-
Fixed-term group loan 2029	(iv)	**350.0**	-
		548.0	761.0

	2009 £m	2008 £m
Loans and other borrowings are repayable as follows:		
Within one year, or on demand	**48.0**	713.0
After more than one year	**500.0**	48.0
	548.0	761.0

All borrowings are unsecured.

(i) At 31 December 2009 there is one EIB loan (2008: two) with a maturity date of 24 March 2010. The original terms of the EIB loan stated that interest was payable annually at a fixed rate of 6.3%. With effect from 30 November 2009 the wording of the EIB loan contract was amended to fall into line with the Iberdrola group standard EIB wording. The loan from 30 November 2009 until its maturity on 24 March 2010 carried a revised rate of 6.43% (2008: 6.3%).

(ii) The variable rate group loan at 31 December 2008 represented drawings under a working capital facility provided by Scottish Power UK plc. The principal outstanding and accrued interest were repaid during the year ended 31 December 2009. Interest was calculated at a rate of 1% above base rate and was payable quarterly in arrears.

(iii) The fixed-term group loan is due to be repaid on 17 December 2018. Interest is variable and calculated twice annually at a rate of 0.34% above the London interbank offering rate ("LIBOR"). Interest is payable on 17 June and 17 December.

(iv) The fixed-term group loan is due to be repaid on 28 January 2029. Interest is at a fixed rate of 3.365% above LIBOR and is payable annually.

(b) Maturity analysis	2009 £m	2008 £m
Repayments fall due as follows:		
Within one year, or on demand	**48.0**	713.0
Between one and two years	**-**	48.0
More than five years	**500.0**	-
	548.0	761.0

10 Other creditors

	2009 £m	2008 £m
Amounts falling due within one year:		
Amounts owed to group undertakings	**0.7**	0.7
Amounts owed to parent undertakings	**18.7**	5.8
Amounts owed to fellow subsidiary undertakings	**36.2**	41.5
Corporate tax	**20.9**	18.4
Other taxes and social security	**5.9**	6.0
Payments received on account	**27.6**	34.0
Other creditors and accruals	**15.5**	10.4
	125.5	116.8

The majority of trade creditors are dealt with by SP Power Systems Limited, a fellow subsidiary company responsible for the provision of asset management services to the company. At 31 December 2009, the company had no amounts due to trade creditors (2008: £nil).

11 Provisions for liabilities and charges - Deferred tax

Deferred tax provided in the Accounts is as follows:	2009 £m	2008 £m
Accelerated capital allowances	**198.3**	184.2

	Note	£m
Deferred tax provided at 1 January 2009		184.2
Charge to profit and loss account	4	14.1
Deferred tax provided at 31 December 2009		**198.3**

12 Provisions for liabilities and charges - Other provisions

	Notes	At 1 January 2009 £m	Charged to profit and loss account £m	At 31 December 2009 £m
Contract termination costs	(i)	0.5	-	**0.5**
Environmental costs	(ii)	-	1.1	**1.1**
		0.5	1.1	**1.6**

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

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

13 Deferred income

	At 1 January 2009 £m	Receivable during year £m	Released to profit and loss account £m	At 31 December 2009 £m
Customer contributions	321.3	31.3	(10.4)	**342.2**

14 Share capital

	2009 £m	2008 £m
Authorised:		
300,000,000 (2008: 200,000,000) ordinary shares of £1 each	**300.0**	200.0
Allotted, called up and fully paid:		
300,000,000 (2008: 109,600,000) ordinary shares of £1 each	**300.0**	109.6

On 26 January 2009, the authorised share capital of the company was increased from £200 million to £300 million by the creation of 100 million ordinary shares of £1 each, ranking pari passu in all respects with the existing ordinary shares of the company. On the same date 190.4 million ordinary shares were issued at par to the immediate parent company, Scottish Power UK plc. The share proceeds were used to partially repay group loan borrowings.

15 Analysis of movements in shareholder's funds

	Note	Share capital £m	Profit and loss account £m	Total £m
At 1 January 2009		109.6	436.8	546.4
Profit for the year		-	146.6	146.6
Dividends		-	(35.0)	(35.0)
Share capital issued	14	190.4	-	190.4
At 31 December 2009		**300.0**	**548.4**	**848.4**

16 Contingent liabilities

As part of the exercise to achieve legal separation of Scottish Power UK plc's businesses pursuant to the provisions of the Utilities Act 2000, SP Distribution Limited and other subsidiary companies of Scottish Power UK plc were each required to jointly provide guarantees to external lenders to Scottish Power UK plc for debt existing in that company at 1 October 2001. The value of debt guaranteed by these companies, which was still outstanding at 31 December 2009, was £1,564.2 million (2008: £1,636.2 million).

17 Financial commitments

(a) Capital commitments	2009 £m	2008 £m
Contracted but not provided	**162.1**	131.5

(b) Other contractual commitments	2009 £m	2008 £m
Provision of asset management services from SP Power Systems Limited	**17.4**	15.7

The contract in place for the provision of asset management services provided by SP Power Systems Limited expires on 31 March 2011.

18 Directors' emoluments

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

Executive directors	2009 £'000	2008 £'000
Basic salary	**283**	288
Bonuses	**257**	423
Benefits in kind	**6**	10
Total	**546**	721

Included within the above amounts for the year ended 31 December 2009 are emoluments in respect of Alan Bryce, Scott Mathieson and Frank Mitchell which were paid by other companies within the ScottishPower group. Included within the above amounts for the year ended 31 December 2008 are emoluments in respect of Alan Bryce and Scott Mathieson which were paid by other companies within the ScottishPower group. Consequently, for both years these amounts are not included within "Employee costs" in Note 2(a).

At 31 December 2009 two directors (2008: two) have retirement benefits accruing under ScottishPower's defined benefit pension scheme.

Notes to the Accounts
for the year ended 31 December 2009 - continued

18 Directors' emoluments (continued)

Emoluments of the highest paid director, excluding pension contributions, are given below:

Highest paid director	2009 £'000	2008 £'000
Basic salary	151	200
Bonus	134	382
Benefits in kind	-	5
Total	**285**	587

The amount of pension benefit accrued at the end of the year under ScottishPower's defined benefit pension scheme for the highest paid director is £94,050 (2008: £90,180).

19 Related party transactions

As at 31 December 2009 Iberdrola, S.A. had ultimate control over the company. The company has taken an exemption, as allowed by FRS 8 'Related party disclosures', not to disclose related party transactions with other wholly-owned subsidiary companies as the ultimate parent company publishes full statutory consolidated Accounts.

20 Ultimate 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., Calle Gardoqui 8, Bilbao, Spain. Copies of the consolidated Accounts of Scottish Power UK plc may be obtained from The Secretary, Scottish Power Limited. 1 Atlantic Quay, Glasgow, G2 8SP.

21 Going concern

The company's business activities together with the factors likely to affect its future development and position are set out in the Directors' Report on page F35.

The company has recorded a profit after tax in the current and previous financial years and the company's balance sheet shows that it has net current liabilities of £73.0 million and net assets of £848.4 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 of the company have considered the company's funding relationship with Iberdrola to date and have considered available relevant information relating to Iberdrola's ability to continue as a going concern. In addition, the directors have no reason to believe that the Iberdrola group will not continue to fund the company 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.

SP Distribution Limited

Independent Auditors' Report to the member of SP Distribution Limited

We have audited the financial statements of SP Distribution Limited for the year ended 31 December 2009 which comprise the Accounting Policies and Definitions, the Profit and Loss Account, the Balance Sheet, the Reconciliation of Movements in Shareholder's Funds, and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Practice).

This report is made solely to the company's member, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's member those matters we are required to state to the member in an auditor's report 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 company's member, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page F43, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements 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 financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Christabel Cowling (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Glasgow

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