



**SP DISTRIBUTION PLC
ANNUAL REPORT AND ACCOUNTS
for the year ended 31 December 2017**

Registered No. SC189125

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SP DISTRIBUTION PLC
ANNUAL REPORT AND ACCOUNTS
for the year ended 31 December 2017

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SP DISTRIBUTION PLC STRATEGIC REPORT

The directors present an overview of SP Distribution plc's structure, 2017 performance, strategic objectives and plans.

STRATEGIC OUTLOOK

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

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

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

Up to 31 December 2017, SP Power Systems Limited ("Power Systems"), an unregulated business, provided asset management expertise and conducted the day-to-day operation of the networks. Along with the asset-owner companies it acted as an integrated business unit to concentrate expertise on regulatory and investment strategy with Power Systems implementing programmes commissioned by and agreed with the asset-owner companies. Strict commercial disciplines were applied at the asset-owner service provider interface, with Power Systems operating as a contractor to the distribution and transmission businesses. From 1 January 2018, the role of Power Systems has changed and it now provides a narrower range of asset management support services as opposed to being an internal contractor delivering work programmes.

The company is a Distribution Network Operator ("DNO"). The electricity distribution networks are regional grids that transport electricity at a lower voltage from the national grids and embedded generators to industrial, commercial and domestic users.

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

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

On 31 March 2017, the company successfully completed the second year of the eight year price control ("RIIO-ED1") that will run until March 2023. The company is meeting or exceeding its regulatory targets which include a range of customer and stakeholder related outputs.

Energy Networks has recently achieved important milestones towards the goal of being a recognised leader in asset management. These include the signature of a corporate partnership with the Institute of Engineering and Technology ("IET") and Energy Networks' leading role in this year's CIRED (Congrès International des Réseaux Electriques de Distribution) conference in Glasgow, where Energy Networks' vision for evolution to a Distribution System Operator ("DSO") was well received.

SP DISTRIBUTION PLC

STRATEGIC REPORT *continued*

STRATEGIC OUTLOOK *continued*

During 2017 Energy Networks won a number of awards:

- At the Utility Week Industry Awards the Stakeholder Engagement and Communications team received Utility Week Awards 2017 'Team of the Year'. Energy Networks won a record number of Utility Week Star Awards including 'Customer Service Process', 'Rising Star' and 'Hero Team'.
- At the Saltire Civil Engineer Awards, the Beaully-Denny transmission project was awarded 'Great Contribution to Scotland'.
- For the third year in a row Energy Networks has received an award at the Scottish Green Energy Awards, with the award being for 'Sustainable Development' for FITNESS (an innovation project to reduce the carbon footprint of substations).
- At the prestigious National Planning Awards, Energy Networks won 'Highly Commended' in the Sustainability Award category for involvement in nature work.
- At the Scotland Diversity Awards an employee progressing through Energy Networks' graduate scheme received the 'Rising Star' Award.

In line with ScottishPower's strategic objectives and its regulatory obligations, Energy Networks is maintaining its significant investment in the UK energy network. Over the last ten years, it has invested around £5.5 billion in its transmission and distribution networks, and during the next ten years, Energy Networks currently plans to invest a further £6 billion to modernise and improve service to customers. Energy Networks' ten year investment plans are reviewed annually in detail to ensure plans are aligned with, and continue to support, UK Government energy policy.

A new Network Asset Management System was introduced in 2018. This more fully utilises functionality within Energy Networks' existing SAP enterprise resource planning system. Key improvements targeted include standardised and streamlined business processes alongside automated work management and reporting.

Looking ahead, Energy Networks will continue to play a part in the roll out of smart meters. In some properties there is a requirement to upgrade the Energy Networks' assets to enable the fitting of a smart meter or to respond to an emergency situation. Such interventions may continue to be required in greater numbers than previously forecast by the industry. As the deployment of smart metering increases, plans have been updated to ensure resource levels are adequate to meet the challenge.

In 2017, both the Scottish and UK Governments outlined plans to limit the purchase of new diesel or petrol vehicles after 2032 and 2040 respectively. To enable the wide scale roll out of electric vehicles ("EV"), it is key that the UK's electricity networks can facilitate suitable charging infrastructure for customers at a reasonable cost. Energy Networks will be engaging with a range of stakeholders to understand the capabilities of EV products and thereby understand the potential impact on customers' electrical needs.

Launched in January 2017, the Open Networks project lays the foundations of a smart energy grid in the UK. The project brings together the UK energy industry as well as leading academics, trade associations and non-governmental organisations and aims to transform the way networks work. The project will enable the UK's energy networks companies to move from the traditional role of delivering electricity in one direction from centralised power plants to homes and communities, to one where the network acts as a smart platform that enables a whole range of new energy technologies that generate, consume and manage electricity. The project is a key tool to support Energy Networks' vision to transition from a traditional DNO role to that of a DSO.

In November 2017, the company was awarded £8 million funding through the RII0-ED1 innovation roll out mechanism to deploy an industry leading active network management scheme in Dumfries and Galloway. It was the only company to receive funding through this mechanism.

2017 was also a successful year for Network Innovation Competition submissions with both submitted projects being awarded funding by Ofgem. The SPD FUSION project, which seeks to demonstrate and implement open market tools to trial DSO concepts on the network, was awarded £5 million future revenue funding. The project is aligned with both Energy Networks' DSO vision and the Energy Networks Association Open Networks project.

SP DISTRIBUTION PLC

STRATEGIC REPORT *continued*

STRATEGIC OUTLOOK *continued*

Announcements in the past few years by the UK Government on funding programmes have led to some renewables developers scaling back future activity. Some developers have requested acceleration in connection dates, while other projects have been deferred or cancelled. These developments have been analysed carefully, resulting in updated projections of volumes and expenditure for the Energy Networks business. The external environment will continue to be monitored and the impact of any changes in trends will be considered in future forecasts. Investments in interconnectors moving energy across the UK, for which Scottish export capability was previously the main driver, have become important to ensure security of supply in Scotland through import capability, in light of large thermal plant closures on both sides of the Anglo-Scottish border.

Energy Networks is mindful that some of its assets are critical national infrastructure. Energy Networks liaises with UK Government agencies to ensure that any potential threats and risks are assessed and mitigated. Energy Networks takes steps to enhance both the physical security of its assets and the security of its associated IT and communications systems in circumstances where potential risks are identified.

Energy Networks is continuing to develop and train staff for a 'smarter' future and replenish its ageing workforce from the communities served so that the investment made in recruitment and training continues to deliver in the long-term. The challenge of replacing an ageing workforce in Energy Networks and across the UK Power Sector in the coming years will be significant. Energy Networks will continue to work closely with schools and Further and Higher Education institutions to ensure that it can attract high calibre individuals into exciting development and career opportunities. During 2017 Energy Networks recruited 13 Graduates, 8 Power Engineering Apprentices, 24 Apprentices and 12 Adult Craft Trainees, and in addition, internal recruits have been enrolled on the Trainee Engineer and Technical Craftsperson programmes to increase the engineering and technical capabilities of the front line teams.

2017 OPERATIONAL PERFORMANCE

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

	Revenue*		Operating profit*		Capital investment**	
	2017	2016	2017	2016	2017	2016
Financial key performance indicators	£m	£m	£m	£m	£m	£m
SP Distribution plc	389.6	404.0	170.3	186.0	202.2	218.5

*Revenue and operating profit are presented on page 20.

**Capital investment is presented within Note 4 on pages 28 and 29.

Revenue has decreased by £14.4 million compared to 2016, primarily as a result of lower distribution volumes and allowable revenues decreasing under RII-ED1.

Operating profit decreased by £15.7 million to £170.3 million in 2017. This reflects a decrease in allowable revenues, increases in rechargeable operating expenses and depreciation charges offset by a reduction in business rates costs.

The company's capital investment was £202.2 million in 2017, reflecting the company's, and ScottishPower's, continued commitment to investing in the UK energy market.

The company's Electricity Distribution Licence ("the licence") requires the directors to prepare regulatory accounts to 31 March for each regulatory year. Reporting of key performance indicators is aligned to the regulatory year end. Consequently, the latest available data for the last regulatory year has been disclosed in the tables below, with the exception of distributed energy that is reported for the years ending 31 December. The tables below provide key non-financial performance indicators relating to the company's operational assets and operational performance:

Operational assets	Note	2017	2016
Franchise area (km ²)		22,950	22,950
System maximum demand (MW*)	(a)	3,563	3,626
Distributed energy (GWh**)		17,749	18,181
Length of overhead lines (circuit km)		18,685	18,648
Length of underground cables (circuit km)		39,683	39,338

* Megawatts ("MW")

**Gigawatt hours ("GWh")

(a) System maximum demand value for the regulatory year to 31 March 2017 was finalised at 3,563 MW as per the November 2017 SP Distribution Long Term Development Statement (2016 3,626 MW).

SP DISTRIBUTION PLC
STRATEGIC REPORT *continued*

2017 OPERATIONAL PERFORMANCE *continued*

		Actual Year ended 31 March 2017	Target Year ended 31 March 2017	Actual Year ended 31 March 2016	Target Year ended 31 March 2016
Operational performance	Notes				
Quality of service					
Customer minutes lost ("CML")	(a)	29.3	45.7	34.8	46.2
Customer interruptions ("CI")	(b)	42.9	51.9	48.5	52.1
Average time off supply (minutes)		68	88	72	89
Electricity supply available		99.99%	99.99%	99.99%	99.99%
Customer performance	(c)				
Broader customer service measure - Interruptions		8.74	8.20	8.79	8.20
Broader customer service measure - Connections		8.43	8.20	8.36	8.20
Broader customer service measure - General enquiries		9.05	8.20	8.84	8.20
Energy ombudsman (Customer complaints)	(d)	5	-	2	-

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

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

(c) Broader customer service measures are assessed using the following three methods; a customer satisfaction survey, complaints metric and stakeholder engagement. Further detail is given below.

(d) The Energy Ombudsman Services, an independent body, monitors and adjudicates complaint cases.

Underlying CML and CI, quoted in the table above, are key statistics which measure the reliability and security of supply typically provided to customers. The company is focused on minimising CML and CI to outperform the System Performance (IIS) targets agreed with Ofgem.

The underlying CML and CI for the year to 31 March 2017 are 29.3 and 42.9 respectively. These values have been validated and confirmed by Ofgem, and were published in Ofgem's RIIO-ED1 Annual Report 2016/17 in December 2017. During 2016/17 there were no storm events which met Ofgem's "exceptional event" exclusion criterion (2015/16 also had no exceptional storm events).

Customer Service Performance: All customer contacts relating to interruption of power supplies, requests for and delivery of new connections to the network and any other general enquiries are passed to an independent research agency on a weekly basis (for all DNO's). The independent agency randomly samples customers each week to ask a series of customer satisfaction questions. Sampled customers give a score out of ten and the average annual score for each of the three categories drives each year's performance in this incentive. A reward is received if the average score is above 8.2 out of 10 and anything below 8.2 attracts a financial penalty. The customer satisfaction performance for each of the three elements in 2016/17 is shown in the table above.

Complaints Performance: This is a 'penalty-only' incentive. Companies are measured on their complaints performance over a number of key metrics: volume of complaints resolved in one day; volume of complaints resolved in 31 days; volume of repeat complaints; and the number of complaints referred to the Energy Ombudsman which have been ruled against the company. The Energy Ombudsman, an independent body, monitors and adjudicates complaint cases. The Energy Ombudsman performance is shown in the table above for 2016/17 performance. For the wider complaints metric the company achieved a score of 2.85 and an overall 7th position out of the 14 licence areas.

Stakeholder Engagement and Customer Vulnerability: This is a 'reward-only' incentive and is an annual assessment of the company's Stakeholder Engagement activities. An annual submission is provided to Ofgem in April in respect of the previous regulatory year and is assessed by Ofgem and an independent panel (including social assessors) in July and scored out of ten in order to determine a financial reward. The submissions set out the company's strategy, engagement and outputs for stakeholder engagement and customer vulnerability. The assessment for 2016/17 has now been completed with a score of 6.28 out of 10 awarded.

SP DISTRIBUTION PLC

STRATEGIC REPORT *continued*

2017 OPERATIONAL PERFORMANCE *continued*

Stakeholder Engagement and Customer Vulnerability: *continued*

The company is committed to maintaining high performance during extreme weather events. Consequently, during the year to 31 December 2017, £39 million was invested to refurbish or rebuild sections of the overhead line network. In addition, £3 million was invested in tree cutting activities. Both of these investments contributed significantly to improving the performance of distribution assets and minimising disruptions during storms.

The long-term safety and reliability of Energy Networks' electricity distribution networks and their impact on customers are key business priorities. The networks are designed and operated in a way that ensures the safety of the public and employees, with a minimal number and duration of supply interruptions.

LIQUIDITY AND CASH MANAGEMENT

Cash and net debt

Net cash flows from operating activities decreased by £32.0 million to £264.2 million for the year, as detailed on page 22. As detailed in the table below, net debt increased by £65.4 million to £1,138.7 million. Cash decreased by £2.7 million to £nil and the bank overdraft increased to £0.1 million. The movement in loans payable to Iberdrola group companies comprises the issue of a new £200.0 million long-term loan with Scottish Power UK plc ("SPUK") due to mature in 2027, offset by a decrease of £97.7 million in the on-demand loan with SPUK and a repayment of £40.0 million of the SPUK loan due to mature in 2025.

	Notes	2017 £m	2016 £m
Analysis of net debt			
Cash	(a)	-	2.7
Bank overdraft	(b)	(0.1)	-
Group loans payable	(b)	(791.1)	(728.8)
External loans payable	(b)	(347.5)	(347.2)
Net debt		(1,138.7)	(1,073.3)

(a) As detailed on the balance sheet, refer to page 19.

(b) As detailed in Note 12 on pages 32 and 33.

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

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

HEALTH AND SAFETY

The company has a clear strategy to continue to improve health and safety performance using ScottishPower health and safety standards. A more extensive description of how the ScottishPower addresses health and safety requirements can be found in the most recent Annual Report and Accounts of SPL.

SP DISTRIBUTION PLC
STRATEGIC REPORT *continued*

PRINCIPAL RISKS AND UNCERTAINTIES

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

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

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

SCOTTISHPOWER - GLOBAL	
RISK	RESPONSE
Material deterioration in the relatively stable and predictable UK regulatory and political environment, including any sudden changes of policy, or interventions outside established regulatory frameworks.	Positive and transparent engagement with all appropriate stakeholders to ensure that long-term regulatory stability and political consensus is maintained and public backing is secured for the necessary investment in the UK energy system. Providing stakeholders with evidence of the risks of ad hoc intervention in markets.
Impacts arising from the UK decision to leave the European Union ("EU") or market reactions to events during the negotiation. These impacts could include movements in the value of Sterling and other financial instruments. In the longer term there could be negative or positive changes in the UK economy and in the political and regulatory environment in which ScottishPower operates.	In addition to monitoring ongoing developments related to "Brexit", a treasury risk management policy is in place to hedge financial risks which are the most prevalent in the short-term. Any longer term impact on the UK economy and its impact on ScottishPower and specific business units will be managed in line with developments.
A major health and safety incident in the course of operations could impact staff, contractors, communities or the environment.	ScottishPower's Health and Safety function provides specialist services and support for the businesses in relation to health and safety. A comprehensive framework of health and safety policy and procedures, alongside audit programmes, is established throughout ScottishPower, which aim to ensure not only continuing legal compliance but also drive towards best practice in all levels of its health and safety operations.
Breach in cyber security and unwanted infiltration of the ScottishPower IT infrastructure by internal and external parties.	Implementation of a cyber-risk policy which provides the framework for mitigation. Proactive approach to identifying where ScottishPower is vulnerable and addressing these points through technical solutions. Educating company employees as to how behaviour can reduce this risk. Embedding cyber security in all projects where appropriate.

SP DISTRIBUTION PLC
STRATEGIC REPORT *continued*

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

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

ENERGY NETWORKS	
RISK	RESPONSE
Failure to deliver the Distribution outputs agreed with Ofgem in the current price control.	Mitigating actions include formulating detailed investment, resource, outage and contingency plans supported by an extensive procurement strategy. Good communication and co-ordination of activities across the business is integral to success, complemented by a comprehensive monitoring regime that provides early warning of potential issues.
Security of Supply due to potential asset failures alongside reduced generation capacity.	Risk based asset investment programme in place, business continuity and emergency planning well established including Black Start. "Strategic Spares" policy in place.
Failure to protect customer service performance.	Well-established customer service processes to respond to power loss, including storm readiness. Priority Service Register to protect vulnerable customers in the event of power loss. Implementation of a single emergency number to route customer queries.
Inability to recruit or retain an appropriately skilled workforce.	A Strategic Work Force Planning and Implementation plan that incorporates: a) retirement profiles with demographics; b) one year ahead Strategic Recruitment; and c) ten year Strategic Recruitment plan. Identification of business critical roles and succession planning.
Failure to respond to customers' changing requirements and to deploy new technologies through low carbon transition, for example electric vehicles, distributed generation, storage and heat pumps.	Mitigating actions include owning a clear DSO vision and influencing developments at industry forums, undertaking scenario modelling of the impact of low carbon technologies, considering technical and commercial innovation projects and lobbying key stakeholders.

ON BEHALF OF THE BOARD



Scott Mathieson

Director

29 May 2018

SP DISTRIBUTION PLC DIRECTORS' REPORT

The directors present their report and audited Accounts for the year ended 31 December 2017.

INFORMATION CONTAINED WITHIN THE STRATEGIC REPORT

The directors have chosen to disclose information on the following, required by the Companies Act 2006 to be included in the Directors' Report, within the Strategic Report, found on pages 1 to 7:

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

RESULTS AND DIVIDEND

The net profit for the year amounted to £107.7 million (2016 £126.7 million). A dividend of £94.3 million was paid during the year (2016 £69.0 million).

ENVIRONMENTAL MANAGEMENT AND REGULATION

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

EMPLOYEES

Employment regulation

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

Training

ScottishPower has a continuing commitment to training and personal development for its employees with over 2,900 (2016 2,700) training events and over 178,000 hours of training undertaken in 2017 (2016 139,000 hours). Much of the training is focused on health and safety and technical training ensuring field staff are safe and competent. In addition, ScottishPower recruits over 100 craft and engineering trainees annually who undertake a formal structured training programme, leading towards a recognised apprenticeship or formal engineering qualification. Team leaders and managers also participate in core management skills training and there are management development programmes and modules aimed at increasing our leadership capability.

Employee feedback and consultation

Employee feedback is recognised as key to driving engagement within ScottishPower and in 2017 ScottishPower again carried out its annual employee engagement survey, 'The LOOP'. The response rate in 2017 was in line with 2016 with 75% of employees across ScottishPower providing feedback. The overall engagement score increased to 79% in 2017 which is the highest ever level of engagement for ScottishPower and a positive reflection of how employees feel about working for ScottishPower. The results also show that ScottishPower's levels of engagement are in line with global utility peers.

All ScottishPower businesses recognise the importance of taking action in response to employee feedback and action plans are developed across the group. At a ScottishPower level, health and safety, image and reputation are areas of strength and employee feedback confirms that leadership, customer focus and personal development are the most important areas for employees.

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

Equality and inclusion

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

ScottishPower complies with The Equality Act 2010 and has published its gender pay gap information, based on data as at 5 April 2017, on its website.

SP DISTRIBUTION PLC

DIRECTORS' REPORT *continued*

EMPLOYEES *continued*

Equality and inclusion continued

ScottishPower has a Diversity and Inclusion Governance Group whose objective is to drive the Diversity and Inclusion action plan with key stakeholders across the organisation to ensure that diversity is embedded into ScottishPower's working policies and practices. Activities during 2017 included e-learning and training on diversity and unconscious bias to raise the awareness amongst management and employees.

ScottishPower is committed to driving gender diversity in the energy sector by encouraging women into leadership roles and engineering careers; not only seeking to develop its diverse and inclusive workforce but take active steps to address the deepening skills shortage in the sector. ScottishPower partners with external organisations such as the Women's Engineering Society and Powerful Women, and continues to sponsor and support industry initiatives such as the Top 50 Women in Engineering list and International Women in Engineering Day.

Employment of disabled persons

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

Employee health and wellbeing

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

Employee volunteering

ScottishPower prides itself in being a good corporate neighbour, providing support to the communities it serves in each of its businesses. Volunteering is central to community involvement and ScottishPower has an excellent track record in this area. ScottishPower's company-wide Volunteering Policy has been actively utilised by employees during 2017. This policy gives all registered volunteers, on an annual basis, an opportunity to take an additional one day's paid leave, to be used as a volunteering day.

Modern Slavery Statement

ScottishPower is committed to human and labour rights and to eliminating modern slavery that could in any way be connected to its business. ScottishPower welcomed the introduction of the Modern Slavery Act 2015 and published its own Modern Slavery Statement which was approved by the Board of Directors of Scottish Power Limited. ScottishPower's Modern Slavery Statement is published on the ScottishPower website at: www.scottishpower.com/pages/scottishpowers_modern_slavery_statement.aspx.

CORPORATE GOVERNANCE

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

As a guiding principle, the company adopts the principles and rules contained in the most widely recognised good governance recommendations and, in particular, has taken as reference (for guidance purposes only) the Uniform Good Governance Code for Listed Companies approved by the National Securities Market Commission of Spain. The company is not, however, subject to any corporate governance codes and, in particular, is not subject to the Uniform Good Governance Code for Listed Companies.

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

SP DISTRIBUTION PLC

DIRECTORS' REPORT *continued*

CORPORATE GOVERNANCE *continued*

Administrative, management and supervisory bodies

Board and management meetings

During the year, the company was governed by a Board ("the SP Distribution Board") consisting of five directors for the majority of the year which rose to six in September 2017, all of whom brought a broad range of skills and experience to the company. Three of the six directors were independent non-executive directors. The immediate parent of the company is SPENH. The SPENH Board of Directors ("SPENH Board") is responsible for the effective day to day oversight of the Regulated Business, including that of the company, within ScottishPower. The SPENH Board operates in accordance with the strategy defined by the ScottishPower Board and in accordance with the terms of reference of the SPENH Board.

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

In addition to formal SP Distribution plc and SPENH Board meetings, which are convened as required, the directors and other senior managers within the Regulatory Business hold monthly management meetings which review strategy, operational performance and risk issues on behalf of both the company (and other companies within the Regulated Business), including all other matters not reserved for the SPENH Board.

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

SPENH Board

The SPENH Board comprised the Chairman Armando Martínez Martínez and six other directors as at 31 December 2017.

The directors of SPENH are shown below.

Armando Martínez Martínez	Chairman
Frank Mitchell	Chief Executive Officer
Nicola Connelly	(resigned 1 February 2017)
Antonio Espinosa de los Monteros	
José Izaguirre Nazar	
Scott Mathieson	
Wendy Barnes	Independent non-executive director
Suzanne Fox	Independent non-executive director (appointed 20 September 2017)
Elizabeth Haywood	Independent non-executive director (resigned 31 December 2017)

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

Armando Martínez Martínez	Attended all meetings
Frank Mitchell	Attended all meetings
Nicola Connelly	Attended no meetings
Antonio Espinosa de los Monteros	Attended all meetings
José Izaguirre Nazar	Attended all meetings
Scott Mathieson	Attended all meetings
Wendy Barnes	Attended all meetings
Suzanne Fox	Attended one meeting
Elizabeth Haywood	Attended all meetings

The terms of reference of the SPENH Board are published at:

www.scottishpower.com/userfiles/file/SPENHL-Terms%20of-Reference-Board-Directors-130603.pdf.

SP DISTRIBUTION PLC

DIRECTORS' REPORT *continued*

CORPORATE GOVERNANCE *continued*

Administrative, management and supervisory bodies *continued*

ScottishPower Board

The ScottishPower Board comprised the Chairman José Ignacio Sánchez Galán and seven other directors as at 31 December 2017. José Ignacio Sánchez Galán is also the Chairman and Chief Executive of Iberdrola.

The directors of Scottish Power Limited are shown below.

Directors

José Ignacio Sánchez Galán	Chairman
Lord Kerr of Kinlochard GCMG	Vice Chairman, Independent non-executive director
Juan Carlos Rebollo Liceaga	
José Sainz Armada	
Keith Anderson	
Professor Susan Deacon	Independent non-executive director (resigned 1 July 2017)
Sir Tom Farmer CVO CBE KCSG	Independent non-executive director (resigned 1 July 2017)
Professor Sir James McDonald	Independent non-executive director
Dame Nicola Brewer	Independent non-executive director (appointed 11 July 2017)
Anthony Gardner	Independent non-executive director (appointed 11 July 2017, resigned 19 February 2018)

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

José Ignacio Sánchez Galán	Attended all meetings
Lord Kerr of Kinlochard GCMG	Attended all meetings
Juan Carlos Rebollo Liceaga	Attended all meetings
José Sainz Armada	Attended all meetings
Keith Anderson	Attended all meetings
Professor Susan Deacon	Attended two meetings
Sir Tom Farmer CVO CBE KCSG	Attended two meetings
Professor Sir James McDonald	Attended all meetings
Dame Nicola Brewer	Attended three meetings
Anthony Gardner	Attended two meetings

ScottishPower Audit and Compliance Committee ("SP ACC")

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

- monitoring the financial reporting process for ScottishPower;
- monitoring the effectiveness of the ScottishPower's internal control, internal audit, compliance and risk management systems;
- monitoring the statutory audit of the Annual Report and Accounts of ScottishPower; and
- monitoring the independence of the external auditor and recommending to the ScottishPower Board, the appointment or re-appointment of the auditor and the associated terms of reference.

The SP ACC's terms of reference are published at:

www.scottishpower.com/pages/audit_and_compliance_committee.aspx.

SP DISTRIBUTION PLC

DIRECTORS' REPORT *continued*

CORPORATE GOVERNANCE *continued*

Administrative, management and supervisory bodies *continued*

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

Membership and attendance

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

Professor Sir James McDonald (Chairman)	External independent, attended all meetings
Professor Susan Deacon	External independent, attended two meetings, (resigned 1 July 2017)
Juan Carlos Rebollo Liceaga	Attended four meetings
Anthony Gardner	External independent, attended two meetings, (appointed 11 July 2017, resigned 19 February 2018)

In addition to the attendance set out above, the ScottishPower Control and Administration Director, Head of Internal Audit and the external auditor normally attend by invitation, all meetings of the SP ACC. Other members of senior management are also invited to attend as appropriate.

Matters considered by the SP ACC during 2017

The issues that the SP ACC specifically addressed are detailed in its report which is published at: www.scottishpower.com/pages/activities_report_of_the_audit_and_compliance_committee.aspx.

In addition to the issues detailed in the report above, the SP ACC, in early 2018, also considered various matters which are relevant to the monitoring of the statutory audit of the Annual Report and Accounts of ScottishPower for 2017. In particular on 14 February 2018:

- the SP ACC reviewed the independence of the external auditor and submitted its conclusions on the same to the ScottishPower Board;
- as part of the SP ACC's supervision of the auditing of the Annual Report and Accounts, the external auditor appeared before the SP ACC to present its conclusions on the 2017 statutory audit; and
- the SP ACC reviewed the financial results to 31 December 2017 and submitted its conclusions on the same to the ScottishPower Board.

For the year ended 31 December 2017 there were no significant financial statement reporting issues.

On 31 January 2018, the SPENH Board approved the establishment of the SPENH Audit & Compliance Committee ("SPENH ACC") to undertake the role and function of the SP ACC as they relate to the Regulated Business within ScottishPower (including the company).

Internal control

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

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

SP DISTRIBUTION PLC

DIRECTORS' REPORT *continued*

CORPORATE GOVERNANCE *continued*

Internal control *continued*

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

Identification and evaluation of risks and control objectives

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

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

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

External auditor

Annually, the SP ACC reviews the external auditor's audit plan and reviews and assesses the information provided by them confirming their independence and objectivity within the context of regulatory requirements and professional standards. The external auditor contributes a further independent perspective on certain aspects of the company's internal controls over financial reporting arising from their work and reports to the SP ACC if appropriate.

Following an Iberdrola group wide tendering process in 2016 in line with relevant EU legislation, KPMG LLP was appointed as the Iberdrola Group auditor for 2017. During 2017, the SP ACC also approved the proposal to the ScottishPower Board on the appointment and conditions of the engagement of the new external auditor.

Auditor independence

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

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

Iberdrola Appointments and Remuneration Committees

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

The members of the IAC are:

María Helena Antolín Raybaud (Chairperson)	External independent
Iñigo Víctor De Oriol Ibarra	Other External
Ángel Jesús Acebas Paniagua	External independent

SP DISTRIBUTION PLC

DIRECTORS' REPORT *continued*

CORPORATE GOVERNANCE *continued*

Iberdrola Appointments and Remuneration Committees *continued*

The members of the IRC are:

Inés Macho Stadler (Chairperson)	External independent
Iñigo Victor De Oriol Ibarra	Other External
Juan Manuel González	External independent (appointed 31 March 2017)

The IAC has the power to supervise the process of selection of directors and senior managers of the Iberdrola group companies. The diversity policy applied by the IAC is included within the Committee's terms of reference at: www.iberdrola.com/wcorp/gc/prod/en_US/corporativos/docs/comision_nombramientos.pdf.

The diversity policy itself is published at:

www.iberdrola.com/wcorp/gc/prod/en_US/corporativos/docs/director_candidate_selection_policy.pdf.

The IRC has the power to assist the Iberdrola Board of Directors in the determination and supervision of the compensation policy for the above-mentioned persons.

Social, environmental and ethical matters

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

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

DIRECTORS

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

Wendy Barnes	
Suzanne Fox	(appointed 27 September 2017)
Elizabeth Haywood	(resigned 31 December 2017)
Guy Jefferson	
Scott Mathieson	
Frank Mitchell	

DIRECTORS' INDEMNITY

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND ACCOUNTS

The directors are responsible for preparing the Annual Report and Accounts in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

SP DISTRIBUTION PLC
DIRECTORS' REPORT *continued*

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND ACCOUNTS *continued*

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, and Corporate Governance Statement that complies with that law and those regulations.

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

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

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

Responsibility statement of the directors in respect of the Annual Report and Accounts

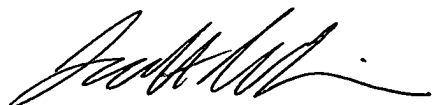
Each of the directors in office as at the date of this Annual Report and Accounts confirms that to the best of his or her knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the issuer together with a description of the principal risks and uncertainties that it faces.

AUDITOR

KPMG LLP were appointed as the auditor of the company for the year ended 31 December 2017 in place of the retiring auditor, Ernst & Young LLP.

ON BEHALF OF THE BOARD



Scott Mathieson
Director

29 May 2018

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SP DISTRIBUTION PLC

1 Our opinion is unmodified

We have audited the financial statements of SP Distribution plc ("the company") for the year ended 31 December 2017 which comprise the balance sheet, income statement and statement of comprehensive income, statement of changes in equity, cash flow statement, and related notes, including the accounting policies in note 2.

In our opinion:

- the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2017 and of the company's profit for the year then ended;
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the directors on 11 January 2018. The period of total uninterrupted engagement is for the single financial year ended 31 December 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the company in accordance with UK ethical requirements including the Financial Reporting Council ("FRC") Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matter in arriving at our audit opinion above, together with our key audit procedures to address that matter and, as required for public interest entities, our results from those procedures. This matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on.

Capital expenditure

(£202.2 million; 2016: £218.5 million)

Refer to page 26 (accounting policy) and pages 28 to 30 (financial disclosures).

- **The risk – Accounting Treatment**

The company continues to undertake major capital projects, including significant enhancements to the distribution networks. There are risks of inappropriate capitalisation of costs, which include internal payroll. Property, plant and equipment (including those assets in the course of construction) is quantitatively the most significant amount on the Company's balance sheet and is the most significant area of audit effort.

- **Our response - Our procedures included:**

Control design and observation: Evaluating the design and operating effectiveness of a selection of the company's controls over the capital spend process including the approval of the capital spend and the procedures for transferring assets from assets under construction to completed assets. Tests of effectiveness were performed by re-performing a sample selected on the basis of the frequency of control operation and were designed to verify that appropriate procedures were followed in each instance.

Test of details: A sample of projects was selected. A detailed understanding of the status of the project was obtained. A sample of internal and external costs for projects were agreed to purchase invoices and reviewed to ensure that these had been capitalised in line with the company's capitalisation policy. Overhead costs allocated to projects were agreed to the overhead allocation model on a sample basis.

- **Our results -** We found the accounting treatment for capital expenditure to be acceptable.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SP DISTRIBUTION PLC *continued*

3 Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £19.0 million, determined with reference to a benchmark of total assets, of which it represents 0.66%.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £950,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

4 We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

5 We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic Report and Directors' Report

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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
- 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.

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on pages 14 and 15, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SP DISTRIBUTION PLC *continued*

7 Respective responsibilities *continued*

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience and through discussion with the directors and other management (as required by auditing standards), and from inspection of the company's regulatory and legal correspondence.

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

In addition we considered the impact of laws and regulations in the specific areas of regulatory compliance recognising the regulated nature of the company's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and other management and inspection of regulatory and legal correspondence.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations (irregularities), as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8 The purpose of our audit work and to whom we owe our responsibilities

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 to them 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, as a body, for our audit work, for this report, or for the opinions we have formed.



**Philip Charles (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants

319 St. Vincent Street

Glasgow

G2 5AS

31 May 2018

SP DISTRIBUTION PLC

BALANCE SHEETS

as at 31 December 2017 and 31 December 2016

	Notes	2017 £m	2016 £m
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	3	-	-
Property, plant and equipment		2,893.6	2,791.8
Property, plant and equipment in use	4	2,756.1	2,544.9
Property, plant and equipment in the course of construction	4	137.5	246.9
Financial assets		-	-
Investments in subsidiaries	5	-	-
NON-CURRENT ASSETS		2,893.6	2,791.8
CURRENT ASSETS			
Trade and other receivables	6	72.6	78.6
Cash	7	-	2.7
CURRENT ASSETS		72.6	81.3
TOTAL ASSETS		2,966.2	2,873.1
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the parent		871.0	857.6
Share capital	9, 10	300.0	300.0
Retained earnings	10	571.0	557.6
TOTAL EQUITY		871.0	857.6
NON-CURRENT LIABILITIES			
Deferred income	11	629.3	602.6
Bank borrowings and other financial liabilities		877.8	912.5
Loans and other borrowings	12	877.8	912.5
Deferred tax liabilities	13	166.4	161.0
NON-CURRENT LIABILITIES		1,673.5	1,676.1
CURRENT LIABILITIES			
Provisions	14	0.2	0.4
Bank borrowings and other financial liabilities		260.9	163.5
Loans and other borrowings	12	260.9	163.5
Trade and other payables	15	151.6	163.4
Current tax liabilities		9.0	12.1
CURRENT LIABILITIES		421.7	339.4
TOTAL LIABILITIES		2,095.2	2,015.5
TOTAL EQUITY AND LIABILITIES		2,966.2	2,873.1

Approved by the Board on *29 May* 2018 and signed on its behalf by:



Scott Mathieson
Director

The accompanying Notes 1 to 27 are an integral part of the balance sheets as at 31 December 2017 and 31 December 2016.

SP DISTRIBUTION PLC
INCOME STATEMENTS AND STATEMENTS OF COMPREHENSIVE INCOME
for the years ended 31 December 2017 and 31 December 2016

	Notes	2017 £m	2016 £m
Revenue		389.6	404.0
Procurements		(24.6)	(24.7)
GROSS MARGIN		365.0	379.3
NET OPERATING EXPENSES		(57.0)	(51.3)
Net personnel expenses		(1.0)	(1.0)
Staff costs	16	(1.0)	(1.0)
Net external expenses		(56.0)	(50.3)
External services		(87.4)	(81.4)
Other operating income		31.4	31.1
Taxes other than income tax	17	(37.0)	(43.4)
GROSS OPERATING PROFIT		271.0	284.6
Depreciation and amortisation charge, allowances and provisions	18	(100.7)	(98.6)
OPERATING PROFIT		170.3	186.0
Dividends received		0.1	-
Finance income	19	-	0.6
Finance costs	20	(37.3)	(39.8)
PROFIT BEFORE TAX		133.1	146.8
Income tax	21	(25.4)	(20.1)
NET PROFIT FOR THE YEAR		107.7	126.7

Net profit for both years is wholly attributable to the equity holder of SP Distribution plc.

Net profit for both years comprises the total comprehensive income for the respective years.

All results relate to continuing operations.

The accompanying Notes 1 to 27 are an integral part of the income statements and statements of comprehensive income for the years ended 31 December 2017 and 31 December 2016.

SP DISTRIBUTION PLC
STATEMENTS OF CHANGES IN EQUITY
for the years ended 31 December 2017 and 31 December 2016

	Share capital £m	Retained earnings £m	Total equity £m
At 1 January 2016	300.0	499.9	799.9
Total comprehensive income for the year	-	126.7	126.7
Dividends	-	(69.0)	(69.0)
At 1 January 2017	300.0	557.6	857.6
Total comprehensive income for the year	-	107.7	107.7
Dividends	-	(94.3)	(94.3)
At 31 December 2017	300.0	571.0	871.0

The accompanying Notes 1 to 27 are an integral part of the statements of changes in equity for the years ended 31 December 2017 and 31 December 2016.

SP DISTRIBUTION PLC
CASH FLOW STATEMENTS
for the years ended 31 December 2017 and 31 December 2016

	2017	2016
	£m	Restated* £m
Cash flows from operating activities		
Profit before tax	133.1	146.8
Adjustments for:		
Depreciation	100.0	98.0
Transfer of assets from customers	(19.3)	(17.6)
Finance income and costs	37.3	39.2
Shareholding income	(0.1)	-
Write-off of non-current assets	0.4	0.4
Changes in working capital:		
Change in trade and other receivables	3.8	1.6
Change in trade and other payables	(10.7)	(12.9)
Repayment of deferred income	(0.2)	-
Provisions paid	(0.2)	(0.1)
Assets received from customers (cash contributions)	42.9	65.7
Income taxes paid	(23.1)	(25.5)
Interest received	0.2	0.6
Dividends received	0.1	-
Net cash flows from operating activities (i)	264.2	296.2
Cash flows from investing activities		
Investments in property, plant and equipment	(197.8)	(223.3)
Net cash flows from investing activities (ii)	(197.8)	(223.3)
Cash flows from financing activities		
(Decrease)/increase in amounts due to Iberdrola group companies - current loans payable	(137.6)	33.8
Increase in amounts due to Iberdrola group companies - non-current loans payable	200.0	-
Dividends paid to company's equity holder	(94.3)	(69.0)
Interest paid	(37.3)	(39.6)
Net cash flows from financing activities (iii)	(69.2)	(74.8)
Net decrease in cash and cash equivalents (i)+(ii)+(iii)	(2.8)	(1.9)
Cash and cash equivalents at beginning of year	2.7	4.6
Cash and cash equivalents at end of year	(0.1)	2.7
Cash and cash equivalents at end of year comprises:		
Cash	-	2.7
Bank overdraft	(0.1)	-
Cash flow statement cash and cash equivalents	(0.1)	2.7

*Comparative figures have been restated (refer to Note 1B.1).

The accompanying Notes 1 to 27 are an integral part of the cash flow statements for the years ended 31 December 2017 and 31 December 2016.

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS
31 December 2017

1 BASIS OF PREPARATION

A COMPANY INFORMATION

SP Distribution plc ("the company"), registered company number SC189125, is a private company limited by shares, incorporated in Scotland and its registered address is Ochil House, 10 Technology Avenue, Hamilton International Technology Park, Blantyre, G72 0HT.

B BASIS OF PREPARATION OF THE ACCOUNTS

The company is required by law to prepare accounts for the company 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 Financial Reporting Interpretations Committee ("IFRIC") Interpretations (collectively referred to as IFRS), as adopted by the EU as at the date of approval of these Accounts and that are mandatory for the financial year ended 31 December 2017. The Accounts are prepared in accordance with the Accounting Policies set out in Note 2.

The Accounts contain information about SP Distribution plc as an individual company and do not contain consolidated financial information as the former parent of a subsidiary company. The company was exempt under Section 405 of the Companies Act 2006 from the requirements to prepare consolidated accounts as the inclusion of its former subsidiary undertaking in consolidated accounts was not material for the purposes of giving a true and fair view.

The company has one operating segment for management reporting purposes which operates in a single geographical area and reports revenues from a single activity.

B1. CHANGES IN PRESENTATION

B1.1 CASH FLOW PRESENTATION

The company's primary source of short-term funding for cash management purposes is from intercompany loans drawn down from the ultimate parent company or other group undertakings. Under the terms of the arrangement, these short-term loans are repayable on demand. On the balance sheet, these funds are recorded within current loans and borrowings. In prior years, the company reported these funds within cash and cash equivalents for the purposes of the cash flow statement. During the year, the directors have reviewed the treatment of these funds and concluded they should be recorded within financing cash flows for the purposes of the cash flow statement. The 2016 cash flow statement has, therefore, been adjusted. The effect is to increase the net cash flows from financing activities by £118.8 million and increase the cash and cash equivalents reported for the purpose of the cash flow statement by £123.8 million.

These restatements had no impact on net assets, equity, the Statements of Comprehensive Income or the Balance Sheets.

C ACCOUNTING STANDARDS

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

For the year ended 31 December 2017, the company has applied the following amendments for the first time:

Standard	Notes
• Amendments to IAS 12 'Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses'	(a)
• Amendments to IAS 7 'Statement of Cash Flows: Disclosure Initiative'	(a)
• Annual improvements to IFRS Standards 2014-2016 Cycle	(a), (b)

- (a) The application of these pronouncements has not had a material impact on the company's accounting policies, financial position or performance.
(b) This pronouncement includes amendments to three standards. The amendments to IFRS 12 'Disclosure of Interests in Other Entities' have been applied by the company effective 1 January 2017. Refer to footnote (d) below for details of other amendments in the pronouncement.

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 December 2017

1 BASIS OF PREPARATION *continued*

C ACCOUNTING STANDARDS *continued*

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

Standard	Notes	IASB effective date (for periods commencing on or after)	Planned date of application by the company
• Annual Improvements to IFRS Standards 2014 –2016 Cycle	(c), (d)	1 January 2018	1 January 2018
• IFRS 9 'Financial Instruments'	(e)	1 January 2018	1 January 2018
• IFRS 15 'Revenue from Contracts with Customers' (including 'Amendments to IFRS 15: Effective date of IFRS 15' and 'Clarifications to IFRS 15 Revenue from Contracts with Customers')	(f)	1 January 2018	1 January 2018
• Amendments to IAS 40 'Investment Property: Transfers of Investment Property'	(c)	1 January 2018	1 January 2018
• Amendments to IFRS 2 'Share-based Payments: Clarification and Measurement of Share-based Payment Transactions'	(c)	1 January 2018	1 January 2018
• Amendments to IFRS 4 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts'	(c)	1 January 2018	1 January 2018
• IFRIC 22 'Foreign Currency Transactions and Advance Consideration'	(c)	1 January 2018	1 January 2018
• IFRS 16 'Leases'	(h)	1 January 2019	1 January 2019
• IFRIC 23 'Uncertainty over Income Tax Treatments'	(c), (g)	1 January 2019	1 January 2019
• Amendments to IFRS 9 'Financial Instruments: Prepayment Features with Negative Compensation'	(c)	1 January 2019	1 January 2019
• Amendments to IAS 28 'Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures'	(c), (g)	1 January 2019	1 January 2019
• Annual Improvements to IFRS Standards 2015-2017 Cycle	(c), (g)	1 January 2019	1 January 2019
• Amendments to IAS 19 'Employee Benefits: Plan Amendment, Curtailment or Settlement'	(c), (g)	1 January 2019	1 January 2019
• Amendments to References to the Conceptual Framework in IFRS Standards	(c), (g)	1 January 2020	1 January 2020
• IFRS 17 'Insurance Contracts'	(c), (g)	1 January 2021	1 January 2021
• IFRS 14 'Regulatory Deferral Accounts'	(c), (g), (i)	1 January 2016	To be decided
• Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures': 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'	(c), (g), (j)	Deferred indefinitely	To be decided

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

(d) This pronouncement includes amendments to three standards. The amendments to IFRS 1 'First-time Adoption of International Financial Reporting Standards' and IAS 28 'Investments in Associates and Joint Ventures' have an effective date of 1 January 2018. The amendments to IFRS 12 'Disclosure of Interests in Other Entities' have an effective date of 1 January 2017 (refer to footnote (b) above).

(e) IFRS 9 'Financial Instruments' is effective for the company as from 1 January 2018. The company considers that the new classification and measurement criteria have not had a material impact on the company's equity as at 1 January 2018. Most financial assets continue to be valued at amortised cost, except for equity instruments and derivative financial instruments which continue to be recorded at fair value.

The company now applies the general model for the recognition of expected credit losses to all financial assets, except for trade receivables and leases, to which the simplified model is applied. Given the high credit quality of the financial assets, the expected credit loss adjustment is only £0.4 million.

(f) IFRS 15 'Revenue from Contracts with Customers' and the associated amendments and clarifications are effective for the company as from 1 January 2018. The company considers that the application of IFRS 15 has not had a material impact on the company's financial position or performance but will continue to refine its accounting policies and monitor emerging industry practice in relation to this standard. The company has transitioned to IFRS 15 using the modified retrospective approach; recognising any cumulative impact of applying this standard on 1 January 2018. No modifications are required to the company's IT systems or processes as a result of this standard.

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

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 December 2017

1 BASIS OF PREPARATION *continued*

C ACCOUNTING STANDARDS *continued*

- (h) The company is currently analysing the impact of implementing IFRS 16 'Leases' which is effective for the company as from 1 January 2019. The company's principal leases relate to land for sub-stations and equipment. Most of these leases are classified as operating leases under IAS 17 'Leases'. The company expects to recognise 'right-of-use' assets and corresponding lease liabilities where the company is a lessee; the value of which is expected to be greater than the future minimum lease payments disclosed in Note 4(b). The company has tentatively decided to take the exemptions offered by IFRS 16 to exclude short-term leases and leases of low value assets from the recognition requirements in the standard. Leases of intangible assets will be considered for inclusion within the scope of IFRS 16 based on the nature of the underlying asset. The company will quantify the expected impact of the implementation of IFRS 16 based on the different transition options available at the date of its first application. The company is currently modifying its IT systems in order to adapt to the new requirements. This analysis will continue during 2018.
- (i) The endorsement process of this interim standard has not been launched as the EU has decided to wait for the final standard to be issued.
- (j) The IASB set the effective date of this pronouncement as for periods commencing on or after 1 January 2016. However, in December 2015, the IASB postponed the effective date indefinitely pending the outcome of its research project on the equity method of accounting. The EU endorsement process for this pronouncement has been postponed, awaiting a revised exposure draft from the IASB. The effective date will be amended in due course.

2 ACCOUNTING POLICIES

In preparing the Accounts in conformity with IFRS the company is required to make estimates and assumptions that impact on the reported amounts of revenues, expenses, assets and liabilities of the company. Actual results may differ from these estimates. However, no critical accounting judgements or key sources of estimation uncertainty have been identified in relation to these Accounts.

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

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

A REVENUE

Revenue comprises charges made to customers for use of the distribution network which are set by a price control which determines the amount of allowed revenue. Revenue includes accruals in respect of unbilled income relating to units transferred over the network. There are no other material revenue streams. Revenue excludes Value Added Tax and consists entirely of sales made in the UK.

B INTANGIBLE ASSETS (COMPUTER SOFTWARE COSTS)

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

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 December 2017

2 ACCOUNTING POLICIES *continued*

C PROPERTY, PLANT AND EQUIPMENT

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

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

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

D IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

At each balance sheet date, the company reviews the recoverability of the carrying amount of its property, plant and equipment (including projects in development or an early operational phase) and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the Cash Generating Unit ("CGU") to which the asset belongs.

E LEASED ASSETS

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

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

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

F FINANCIAL INSTRUMENTS

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

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 December 2017

2 ACCOUNTING POLICIES *continued*

G TRANSFER OF ASSETS FROM CUSTOMERS

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

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

H TAXATION

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

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

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

I RETIREMENT BENEFITS

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

3 INTANGIBLE ASSETS

		Computer software
Year ended 31 December 2016	Note	£m
Cost:		
At 1 January 2016		5.8
Disposals		(5.3)
At 31 December 2016	(a)	0.5
Amortisation:		
At 1 January 2016		5.8
Disposals		(5.3)
At 31 December 2016		0.5
Net book value:		
At 1 January 2016 and 31 December 2016		-

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 December 2017

3 INTANGIBLE ASSETS *continued*

	Note	Computer software £m
Year ended 31 December 2017		
Cost:		
At 1 January 2017		0.5
Disposals		(0.5)
At 31 December 2017	(a)	-
Amortisation:		
At 1 January 2017		0.5
Disposals		(0.5)
At 31 December 2017		-
Net book value:		
At 1 January 2017 and 31 December 2017		-

(a) The cost of fully amortised computer software still in use at 31 December 2017 was £nil (2016 £0.5 million).

4 PROPERTY, PLANT AND EQUIPMENT

(a) Movements in property, plant and equipment

	Distribution facilities £m	Meters and measuring devices £m	Other facilities (Note (i)) £m	Other items of property, plant and equipment in use (Note (ii)) £m	Plant in progress (Note (iii)) £m	Total £m
Year ended 31 December 2016						
Cost:						
At 1 January 2016	3,474.7	242.4	16.6	9.4	173.3	3,916.4
Additions (Note (iv))	3.5	2.6	-	-	212.4	218.5
Transfers from in progress to plant in use	137.0	-	1.8	-	(138.8)	-
Disposals	(8.5)	(54.8)	-	-	-	(63.3)
At 31 December 2016	3,606.7	190.2	18.4	9.4	246.9	4,071.6
Depreciation:						
At 1 January 2016	1,036.3	200.1	8.2	0.1	-	1,244.7
Depreciation for the year	89.3	7.9	0.8	-	-	98.0
Disposals	(8.2)	(54.7)	-	-	-	(62.9)
At 31 December 2016	1,117.4	153.3	9.0	0.1	-	1,279.8
Net book value:						
At 31 December 2016	2,489.3	36.9	9.4	9.3	246.9	2,791.8
At 1 January 2016	2,438.4	42.3	8.4	9.3	173.3	2,671.7
The net book value of property plant and equipment at 31 December 2016 is analysed as follows:						
Property, plant and equipment in use	2,489.3	36.9	9.4	9.3	-	2,544.9
Property, plant and equipment in the course of construction	-	-	-	-	246.9	246.9
	2,489.3	36.9	9.4	9.3	246.9	2,791.8

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 December 2017

4 PROPERTY, PLANT AND EQUIPMENT *continued*

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

	Distribution facilities	Meters and measuring devices	Other facilities (Note (i))	Other items of property, plant and equipment in use (Note (iii))	Plant in progress (Note (iii))	Total
Year ended 31 December 2017	£m	£m	£m	£m	£m	£m
Cost:						
At 1 January 2017	3,606.7	190.2	18.4	9.4	246.9	4,071.6
Additions (Note (iv))	3.2	1.9	-	-	197.1	202.2
Transfers from in progress to plant in use	305.7	-	0.8	-	(306.5)	-
Disposals	(9.9)	(14.1)	-	-	-	(24.0)
At 31 December 2017	3,905.7	178.0	19.2	9.4	137.5	4,249.8
Depreciation:						
At 1 January 2017	1,117.4	153.3	9.0	0.1	-	1,279.8
Depreciation for the year	93.5	5.7	0.8	-	-	100.0
Disposals	(9.5)	(14.1)	-	-	-	(23.6)
At 31 December 2017	1,201.4	144.9	9.8	0.1	-	1,356.2
Net book value:						
At 31 December 2017	2,704.3	33.1	9.4	9.3	137.5	2,893.6
At 1 January 2017	2,489.3	36.9	9.4	9.3	246.9	2,791.8
The net book value of property plant and equipment at 31 December 2017 is analysed as follows:						
Property, plant and equipment in use	2,704.3	33.1	9.4	9.3	-	2,756.1
Property, plant and equipment in the course of construction	-	-	-	-	137.5	137.5
	2,704.3	33.1	9.4	9.3	137.5	2,893.6

(i) The category Other facilities principally comprises other technical installations and communications equipment.

(ii) The category Other items of property, plant and equipment in use principally comprises land.

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

(iv) Additions of £199.0 million (2016 £215.0 million) were purchased from asset management entity Power Systems, as shown in Note 25.

(v) The cost of fully depreciated property, plant and equipment still in use at 31 December 2017 was £234.7 million (2016 £245.4 million).

(vi) Included within the cost of property, plant and equipment are assets in use not subject to depreciation, being land of £9.2 million (2016 £9.2 million).

(b) Operating lease arrangements

	2017	2016
	£m	£m
(i) Operating lease payments		
Minimum lease payments under operating leases recognised as an expense in the year	0.5	0.1
Contingent based operating lease rents recognised as an expense in the year	-	0.1
Sublease payments recognised as an expense in the year	0.1	0.1
	0.6	0.3

The company leases land and equipment as a lessee under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights.

	2017	2016
	£m	£m
(ii) Operating lease commitments		
The future minimum discounted lease payments under non-cancellable operating leases are as follows:		
Within one year	0.6	0.2
Between one and five years	1.9	0.3
More than five years	0.5	0.1
	3.0	0.6

The company leases land and equipment as a lessee under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights.

	2017	2016
	£m	£m
(iii) Operating lease receivables		
The future minimum discounted lease payments receivable under non-cancellable operating leases are as follows:		
Within one year	0.7	0.5
Between one and five years	0.6	-
	1.3	0.5

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

Total sublease rentals recognised as income in the year ended 31 December 2017 amounted to £0.2 million (2016 £0.2 million).

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 December 2017

4 PROPERTY, PLANT AND EQUIPMENT *continued*

(c) Capital commitments

	2017	2016
	£m	£m
Contracted but not provided	36.6	230.9

5 INVESTMENTS

	Note	Subsidiary undertakings shares £000	Other investments £000	Total £000
At 1 January 2016	(a)	50	6	56
Disposals	(a)	(50)	-	(50)
At 31 December 2016 and 31 December 2017		-	6	6

- (a) As at 1 January 2016 the company had a wholly-owned subsidiary, SPD Finance UK plc which was in liquidation. It was incorporated in England and Wales and its registered office was 8 Salisbury Square, London, EC4Y 8BB. During the year ended 31 December 2016 this subsidiary was dissolved.

6 TRADE AND OTHER RECEIVABLES

	Notes	2017 £m	2016 £m
Current receivables:			
Receivables due from Iberdrola group companies - trade		15.4	17.6
Receivables due from Iberdrola group companies - interest		-	0.2
Trade receivables and accrued income	(a), (b)	47.8	47.2
Prepayments		0.8	2.8
Other tax receivables		8.6	10.8
		72.6	78.6

- (a) Trade receivables are stated net of provision for impairment of doubtful debts of £0.4 million (2016 £0.2 million). Trade receivables are assumed to approximate to their fair values due to the short-term nature of trade receivables. Provisions for doubtful debts have been estimated by management, taking into account future cash flows, based on prior experience, ageing analysis and an assessment of the current economic environment within which the company operates. The income statement impact of the change in bad debt for the year to 31 December 2017 is £0.2 million (2016 £0.2 million).

- (b) At 31 December 2017 trade receivables of £1.4 million (2016 £0.5 million) were past due but not impaired.

	2017 £m	2016 £m
Past due but not impaired		
Less than 3 months	1.3	0.1
Between 3 and 6 months	-	0.3
Between 6 and 12 months	0.1	0.1
	1.4	0.5

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 December 2017

7 FINANCIAL INSTRUMENTS

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

		2017		2016	
	Notes	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Financial assets					
Receivables	(a)	63.2	63.2	65.0	65.0
Cash	(b)	-	-	2.7	2.7
Financial liabilities					
Loans and other borrowings	(c)	(1,138.7)	(1,285.5)	(1,076.0)	(1,252.8)
Payables	(a)	(111.7)	(111.7)	(99.8)	(99.8)

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

- (a) Balances outwith the scope of IFRS 7 'Financial Instruments: Disclosure' have been excluded, namely prepayments, other tax receivables, payments received on account and other tax payables.
- (b) As a general rule, cash deposited with banks earns interest at rates similar to market rates on daily deposits. Cash as at 31 December 2017 included deposits with banks of £nil (2016 £2.7 million) in respect of ring-fenced funds received from third parties for use on specific innovation projects and are not available to finance the company's day-to-day operations.
- (c) The carrying value of loans and other borrowings are accounted for at amortised cost. The carrying value of short-term debt is a reasonable approximation of fair value. The fair value of listed debt is calculated using the most recently traded price to the year end date and the fair value of all other loans and borrowings is calculated using a discounted cash flow.

8 LIQUIDITY ANALYSIS

Maturity profile of financial liabilities

The table below summarises the maturity profile of the company's financial liabilities as at 31 December 2017 and 31 December 2016 based on contractual undiscounted payments.

2017							
	2018 £m	2019 £m	2020 £m	2021 £m	2022 £m	2023 and thereafter £m	Total £m
Cash outflows							
Loans and other borrowings	299.8	114.3	117.8	110.0	113.3	645.1	1,400.3
Payables*	98.1	-	-	-	-	-	98.1
	397.9	114.3	117.8	110.0	113.3	645.1	1,498.4
2016							
	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	2022 and thereafter £m	Total £m
Cash outflows							
Loans and other borrowings	199.9	271.0	72.0	117.0	69.1	643.3	1,372.3
Payables*	85.9	-	-	-	-	-	85.9
	285.8	271.0	72.0	117.0	69.1	643.3	1,458.2

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

9 SHARE CAPITAL

	2017 £m	2016 £m
Authorised, allotted, called up and fully paid shares:		
300,000,000 ordinary shares of £1 each (2016 300,000,000)	300.0	300.0

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 December 2017

10 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDER OF SP DISTRIBUTION PLC

	Share capital £m	Retained earnings (Note (a)) £m	Total £m
At 1 January 2016	300.0	499.9	799.9
Profit for the year attributable to equity holder of SP Distribution plc	-	126.7	126.7
Dividends	-	(69.0)	(69.0)
At 1 January 2017	300.0	557.6	857.6
Profit for the year attributable to equity holder of SP Distribution plc	-	107.7	107.7
Dividends	-	(94.3)	(94.3)
At 31 December 2017	300.0	571.0	871.0

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

11 DEFERRED INCOME

	At 1 January 2016 £m	Receivable during year £m	Released to income statement £m	At 31 December 2016 £m
Year ended 31 December 2016				
Transfer of assets from customers	551.0	69.2	(17.6)	602.6
	At 1 January 2017 £m	Receivable during year £m	Released to income statement £m	At 31 December 2017 £m
Year ended 31 December 2017				
Transfer of assets from customers	602.6	46.2	(19.3)	629.3

12 LOANS AND OTHER BORROWINGS

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

Instrument	Notes	Interest rate*	Maturity	2017 £m	2016 £m
Bank overdraft	(i)	Base + 1%	On demand	0.1	-
Loans with group companies - SPUK	(i), (ii)	Base + 1%	On demand	26.1	123.8
Loans with group companies - SPL	(i)	LIBOR + 0.34%	17 December 2018	150.0	150.0
Loans with group companies - SPUK	(iii), (iii)	3.416%	21 December 2022	255.0	255.0
Loans with group companies - SPUK	(iii), (iv)	2.821%	31 March 2025	160.0	200.0
£350m euro-sterling bond	(v), (vi)	5.875%	17 July 2026	347.5	347.2
Loans with group companies - SPUK	(i), (ii)	LIBOR + 0.78%	20 December 2027	200.0	-
				1,138.7	1,076.0

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

	2017 £m	2016 £m
Analysis of total loans and other borrowings		
Non-current	877.8	912.5
Current	260.9	163.5
	1,138.7	1,076.0

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 December 2017

12 LOANS AND OTHER BORROWINGS *continued*

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

- (i) A 1% increase in the Base rate and LIBOR rate would result in a £3.8 million increase in the full year interest charge.
- (ii) Under the conditions of the long-term loan agreements between the company and SPUK, the company has an option, without fee or penalty, to make a repayment in whole or in part, of the then outstanding loan principal, plus accrued interest thereon, by providing SPUK with written notice at least five business days before the intended repayment date.
- (iii) The intercompany loan with SPUK that is repayable in December 2022, is repayable in equal instalments on a bi-annual basis. The repayment of £85.0 million that is due in 2018 is classified as current in the 2017 analysis above.
- (iv) The intercompany loan with SPUK that is repayable in March 2025, is repayable in equal instalments on a bi-annual basis. The repayment of £40.0 million that was due in 2017 was classified as current in the 2016 analysis above.
- (v) This bond contains a 'Loss of licences' covenant that will require repayment of the outstanding amount should the company lose its relevant licences.
- (vi) The £350 million euro-sterling bond will be redeemed at its principal amount on 17 July 2026 unless previously redeemed or purchased and cancelled. The bond can be redeemed at any time by the company at a higher redemption price (as determined by a financial advisor appointed by the company and Fiscal Agent) giving 30 to 60 days' notice. The bond is shown net of finance costs of (£0.3) million (2016 £(0.3) million), which are classified as current in the analysis above.

(b) Borrowing facilities

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

(c) Reconciliation of movements of liabilities to cash flows arising from financing activities

	Liabilities			Total £m
	Loans and other borrowings (Current) £m	Loans and other borrowings (Non-current) £m	Interest payable (Current) (Note (i)) £m	
At 1 January 2017	163.5	912.5	13.9	1,089.9
(Decrease)/increase in amounts due to Iberdrola group companies	(137.6)	200.0	-	62.4
Interest paid	-	-	(37.3)	(37.3)
Total movements from financing cashflows	(137.6)	200.0	(37.3)	25.1
Other movements	235.0	(234.7)	37.0	37.3
Total liability-related movements	235.0	(234.7)	37.0	37.3
At 31 December 2017	260.9	877.8	13.6	1,152.3

- (i) External interest payable of £9.4 million (2016 £9.4 million) and internal interest payable of £4.2 million (2016 £4.5 million) are included within Trade and other payables (refer to Note 15).

13 DEFERRED TAX

Deferred tax provided in the Accounts is as follows:

	Property, plant and equipment £m
At 1 January 2016	164.6
Credit to income statement	(3.6)
At 1 January 2017	161.0
Charge to income statement	5.4
At 31 December 2017	166.4

Legislation has been enacted to reduce the rate of UK Corporation Tax to 17% on 1 April 2020. This reduces the tax rates expected to apply when temporary differences reverse and impacts the deferred tax charge.

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 December 2017

14 PROVISIONS

		At 1 January 2016 £m	Utilised during year £m	At 31 December 2016 £m
Year ended 31 December 2016	Note			
Environmental costs	(a)	0.5	(0.1)	0.4
		At 1 January 2017 £m	Utilised during year £m	At 31 December 2017 £m
Year ended 31 December 2017	Note			
Environmental costs	(a)	0.4	(0.2)	0.2

(a) 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.

15 TRADE AND OTHER PAYABLES

	Note	2017 £m	2016 £m
Current trade and other payables:			
Payables due to Iberdrola group companies - trade		42.7	35.9
Payables due to Iberdrola group companies - interest		4.2	4.5
Payables due to Iberdrola group companies - other	(a)	10.4	8.4
Other tax payables		9.9	11.6
Payments received on account		30.0	52.0
Other payables	(a)	54.4	51.0
		151.6	163.4

(a) The company utilises forms of collateral to manage its credit exposure in respect of the provision of network services. All collateral held is settled in cash. At 31 December 2017, the company held cash collateral of £13.2 million (2016 £11.3 million) of which £10.4 million (2016 £8.4 million) is payable to Iberdrola group companies.

16 EMPLOYEE INFORMATION

(a) Staff costs

	2017 £m	2016 £m
Wages and salaries	0.6	0.7
Social security costs	0.1	0.1
Pension and other costs	0.3	0.2
Total staff costs	1.0	1.0

(i) The employee costs do not include the directors of the company as they do not have a contract of service with the company. The emoluments of all directors are included within the employee costs of other ScottishPower group companies. Details of directors' emoluments are set out in Note 25.

(b) Employee numbers

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

	Year end 2017	Average 2017	Year end 2016	Average 2016
Administrative staff	11	10	11	12

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

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 December 2017

16 EMPLOYEE INFORMATION *continued*

(c) Pensions

The company's contributions payable in the year were £261,700 (2016 £212,300). The company contributes to the ScottishPower group's defined benefit and defined contribution schemes in the UK and the contributions payable in the year reflect the contributions payable in respect of active participants in the group schemes who are employed by the company. Full details of these schemes are provided in the most recent Annual Report and Accounts of SPL. As at 31 December 2017, the deficit in ScottishPower's defined benefit schemes in the UK amounted to £564.8 million (2016 £442.5 million). The employer contribution rate for these schemes in the year ended 31 December 2017 was 45.0% - 48.0%.

17 TAXES OTHER THAN INCOME TAX

	2017	2016
	£m	£m
Property taxes	37.0	43.4

18 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS

	2017	2016
	£m	£m
Property, plant and equipment depreciation charge	100.0	98.0
Charges and provisions, allowances and impairment of assets	0.7	0.6
	100.7	98.6

19 FINANCE INCOME

	2017	2016
	£m	£m
Interest receivable from Iberdrola group companies	-	0.6

20 FINANCE COSTS

	2017	2016
	£m	£m
Interest on amounts due to Iberdrola group companies	16.4	18.9
Interest on other borrowings	20.9	20.9
	37.3	39.8

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 December 2017

21 INCOME TAX

	2017 £m	2016 £m
Current tax: -		
UK Corporation Tax	20.0	24.1
Adjustments in respect of prior years	-	(0.4)
Current tax for the year	20.0	23.7
Deferred tax:		
Origination and reversal of temporary differences	6.1	5.7
Adjustments in respect of prior years	-	0.7
Impact of tax rate change	(0.7)	(10.0)
Deferred tax for the year	5.4	(3.6)
Income tax charge for the year	25.4	20.1

The tax charge on profit for the year varied from the standard rate of UK Corporation Tax applicable to the company as follows:

	2017 £m	2016 £m
Corporation Tax at 19.25% (2016 20%)	25.6	29.4
Adjustments in respect of prior years	-	0.3
Impact of tax rate change	(0.7)	(10.0)
Non deductible expenses and other permanent differences	0.5	0.4
Income tax charge for the year	25.4	20.1

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

22 DIVIDENDS

	2017 pence per ordinary share	2016 pence per ordinary share	2017 £m	2016 £m
Interim dividend paid	31.4	23.0	94.3	69.0

23 CONTINGENT LIABILITIES

As part of the exercise to achieve legal separation of SPUK's businesses pursuant to the provision of the Utilities Act 2000, the company and other subsidiary companies of SPUK were each required to jointly provide guarantees to external lenders of SPUK for debt existing in that company at 1 October 2001. The value of debt guaranteed by these companies, which was still outstanding at 31 December 2017 was £1,034.7 million (2016 £1,225.0 million).

24 FINANCIAL COMMITMENTS

Other contractual commitments

	2017 £m	2016 £m
Provision of asset management services from Power Systems	-	72.6

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

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 December 2017

25 RELATED PARTY TRANSACTIONS

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

	2017			2016		
	UK parent (SPL) £m	Immediate parent (SPENH) £m	Other Iberdrola group companies £m	UK parent (SPL) £m	Immediate parent (SPENH) £m	Other Iberdrola group companies £m
Types of transaction						
Sales and rendering of services	-	-	90.2	-	-	102.2
Purchases and receipt of services	-	-	(80.6)	-	-	(75.5)
Purchases of property, plant and equipment	-	-	(199.0)	-	-	(215.0)
Interest income	-	-	-	-	-	0.6
Interest costs	(1.2)	-	(15.2)	(1.6)	-	(17.3)
Dividends paid	-	(94.3)	-	-	(69.0)	-
Balances outstanding						
Trade and other receivables	-	-	15.4	-	-	17.6
Interest receivable	-	-	-	-	-	0.2
Loans payable	(150.0)	-	(641.1)	(150.0)	-	(578.8)
Trade and other payables	-	-	(53.1)	-	-	(44.3)
Interest payable	(0.1)	-	(4.1)	-	-	(4.5)

(i) During the year ended 31 December 2017, SPUK made pension contributions of £261,700 on behalf of the company (2016 £212,300).

(ii) The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received in relation to the above related party transactions.

(b) Remuneration of key management personnel

The remuneration of the key management personnel of the company is set out below. As all of the key management personnel are remunerated for their work for Energy Networks, it has not been possible to apportion the remuneration specifically in respect of services to this company. All 14 (2016 twelve) of the key management personnel were remunerated by other ScottishPower group companies in both years.

	2017 £000	2016 £000
Short-term employee benefits	1,702	1,867
Post-employment benefits	386	282
Share-based payments	1,021	622
	3,109	2,771

(c) Directors' remuneration

The total remuneration of the directors that provided qualifying services to the company are shown below. As these directors are remunerated for their work for Energy Networks, it has not been possible to apportion the remuneration specifically in respect of services to this company. All six of the directors (2016 five) were remunerated by other ScottishPower group companies in both years.

	2017 £000	2016 £000
Executive directors		
Aggregate remuneration in respect of qualifying services	1,135	1,105
Number of directors who exercised share options	2	2
Number of directors who received shares under a long-term incentive scheme	3	3
Number of directors accruing retirement benefits under a defined benefit scheme	2	2
Highest paid director		
Aggregate remuneration	632	613
Accrued pension benefit	92	90

(i) The highest paid director received shares under a long-term incentive scheme during both years.

(ii) The highest paid director exercised share options during both years.

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 December 2017

25 RELATED PARTY TRANSACTIONS *continued*

(d) 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 the registered office of the company at Iberdrola, S.A., Torre Iberdrola, Plaza Euskadi 5, 48009, Bilbao, Spain. Copies of the consolidated Accounts of Scottish Power UK plc may be obtained from its registered office, 320 St. Vincent Street, Glasgow, G2 5AD.

In addition to the parent undertakings disclosed above, the company's other related undertaking is disclosed in Note 5.

26 AUDITOR REMUNERATION

	2017	2016
	£m	£m
Audit of the company's annual accounts and regulatory accounts	0.1	0.1

KPMG LLP were appointed auditor of the company during 2017, replacing Ernst & Young LLP. Auditor remuneration for 2017 is primarily payable to KPMG LLP and primarily payable to Ernst & Young LLP for 2016.

27 GOING CONCERN

The company's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report on pages 1 to 7.

The company has recorded a profit after tax in both the current year and previous financial year and the company's balance sheet shows that it has net current liabilities of £349.1 million and net assets of £871.0 million at its most recent balance sheet date.

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