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19 JUN 2018  
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**SP TRANSMISSION PLC  
ANNUAL REPORT AND ACCOUNTS  
for the year ended 31 December 2017**

Registered No. SC189126

TUESDAY



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19/06/2018  
COMPANIES HOUSE

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

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## **SP TRANSMISSION PLC STRATEGIC REPORT**

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

### **STRATEGIC OUTLOOK**

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

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

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

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

The company is a natural monopoly and is governed by The Office of Gas and Electricity Markets ("Ofgem") via a regulatory price control. The primary objective of the regulation of the electricity networks is the protection of customers interests while ensuring that demand can be met and companies are able to finance their activities. Price controls are the method by which the amount of allowed revenue is set for network companies over the period of the price control. Price control processes are designed to cover the company's efficient costs and allows 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 over the next decade to secure the significant investment required to maintain reliable and secure networks. To ensure that this investment is delivered at a fair price for customers, Ofgem have introduced the RIIO (Revenue=Incentives+Innovation+Outputs) framework. It is a performance based model, with an eight year price control period, that places a much greater emphasis on network companies playing a full role in developing a sustainable energy sector and delivering services that provide value for money for customers. A key feature is agreement on the set of outputs that companies are expected to deliver as part of the framework and the provision of incentives to reduce network costs for both current and future customers.

## **SP TRANSMISSION PLC**

### **STRATEGIC REPORT *continued***

#### **STRATEGIC OUTLOOK *continued***

During 2017, SPT reached the half-way point in its transmission price control ("RIIO-T1") and the company's strong start has been maintained. The company is on track to deliver an ambitious programme of network renewal. At March 2017, the company was almost 60% through its RIIO-T1 overhead line replacement programme of 870 km, being 312 km ahead of plan. Other major deliverables include the connection of five major onshore wind farms totalling 403 megawatt ("MW") of directly connected generation, completion of two significant overhead line routes utilising innovative composite-core High Temperature Low Sag technology and completion of a cumulative 49% of non-load outputs, substantially ahead of the RIIO-T1 plan of 32% for the first four years. The High Voltage Direct Current ("HVDC") Western Link project was commissioned in December 2017, allowing some 900 MW of power to flow; further work at Hunterston to bring the capacity up to 2,200 MW is expected to be completed during 2018.

During 2017 Energy Networks also 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 Beauldy-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 its network 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.

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 of the decentralised energy system.

In December 2017, the company was awarded £4 million future revenue funding (collected via allowable revenue) through the RIIO-T1 Environmental Discretionary Reward Scheme which focuses on strategic environmental considerations and organisational and cultural changes to facilitate growth in low carbon energy. SPT was the only transmission company to receive funding through this mechanism.

## SP TRANSMISSION 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.

Financial key performance indicators	Revenue*		Operating profit*		Capital investment**	
	2017	2016	2017	2016	2017	2016
	£m	£m	£m	£m	£m	£m
SP Transmission plc	338.1	315.6	213.6	209.1	298.8	345.3

\*Revenue and operating profit are presented on page 18.

\*\*Capital investment is presented within Note 4 on pages 27 and 28.

Revenue has increased by £22.5 million compared to 2016, primarily as a result of increased allowable revenues under RII0-T1.

Operating profit increased by £4.5 million to £213.6 million in 2017. This was principally the result of higher revenues offset by increased property rates and increased depreciation charges reflecting continued levels of investment.

The company's capital investment was £298.8 million in 2017, a decrease from the prior year of £46.5 million, primarily due to decreased spend as a number of major projects near completion.

The company's Electricity Transmission Licence ("the licence") requires the directors to prepare regulatory accounts to 31 March for each regulatory year. Reporting of operational data is aligned to the regulatory year end. Consequently the latest available data has been disclosed in the tables below. The tables below provide key non-financial performance indicators relating to the company's operational assets and operational performance during the year ended 31 March 2017:

Operational assets	Year ended 31 March 2017	Year ended 31 March 2016
	2017	2016
Franchise area (km <sup>2</sup> )	22,950	22,950
System maximum demand (MW)	3,569	3,424
Length of overhead lines (circuit km)	3,620	3,612
Length of underground cables (circuit km)	368	367

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

**2017 OPERATIONAL PERFORMANCE *continued***

		Year ended 31 March 2017	Year ended 31 March 2016
<b>Operational performance</b>	Notes		
Annual system availability	(a)	<b>93.01%</b>	95.29%
Winter peak system availability	(b)	<b>95.82%</b>	97.80%
Annual reliability of supply	(c)	<b>99.99%</b>	99.99%
Annual number of loss of supply incidents	(d)	<b>18</b>	19
1. Incentivised incidents		<b>4</b>	4
2. Non incentivised incidents		<b>14</b>	15

- (a) Annual system availability details the overall availability of the licensee's transmission circuits, with any reduction below 100% being due to planned outages and faults. Annual system availability decreased this year due to an increase in the number of planned (maintenance and construction) and unplanned (faults) outages.
- (b) Winter peak system availability is the average system availability over the three months of December, January and February. Winter peak system availability decreased this year due to an increase in the number of planned (primarily maintenance) and unplanned (fault) outages.
- (c) Annual reliability of supply is provided by the system operator, National Grid Electricity Transmission (UK).
- (d) Any event on the licensee's transmission system that causes electricity not to be supplied. Incentivised incidents are incidents where the loss of supply is longer than three minutes and non-incentivised incidents are those which do not cause a loss of supply to customers and those that cause a loss of supply to customers that last less than three minutes.

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

**LIQUIDITY AND CASH MANAGEMENT**

**Cash and net debt**

Net cash flows from operating activities increased by £27.7 million to £296.8 million for the year, as detailed on page 20. As detailed in the table below, net debt increased by £172.6 million to £1,323.6 million. The movement comprises an increase of £186.2 million in loans payable to Iberdrola group companies offset by an increase of £13.6 million in cash.

		2017 £m	2016 £m
<b>Analysis of net debt</b>	Notes		
Cash	(a)	<b>20.5</b>	6.9
Group loans payable	(b)	<b>(1,344.1)</b>	(1,157.9)
<b>Net debt</b>		<b>(1,323.6)</b>	(1,151.0)

- (a) As detailed on the balance sheet, refer to page 17.
- (b) As detailed in Note 13 on page 32.

**Capital and debt structure**

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

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 Scottish Power UK plc's ("SPUK") businesses pursuant to the provisions of the Utilities Act 2000, the company and other subsidiary companies of SPUK were each required to jointly provide guarantees to external lenders to SPUK for debt existing in that company at 1 October 2001.

**HEALTH AND SAFETY**

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

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

**PRINCIPAL RISKS AND UNCERTAINTIES *continued***

The principal risk 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 this risk is described below:

<b>ENERGY NETWORKS</b>	
<b>RISK</b>	<b>RESPONSE</b>
Failure to deliver the Transmission outputs agreed with Ofgem in their respective price controls.	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 TRANSMISSION 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 Companies Act 2006 to be included in the Directors' Report, within the Strategic Report, found on pages 1 to 6:

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

#### **RESULTS AND DIVIDEND**

The profit for the year amounted to £149.1 million (2016 £150.8 million). A dividend of £75.8 million was paid during the year (2016 £72.0 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 TRANSMISSION 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](http://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 operations of Iberdrola, S.A., operates on divisional lines and the activities of the company fall within the Transmission and Distribution business within the Energy Networks Regulated Business ("Regulated Business").

## **SP TRANSMISSION 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 Transmission 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 Transmission Board).

In addition to formal SP Transmission 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](http://www.scottishpower.com/userfiles/file/SPENHL-Terms%20of-Reference-Board-Directors-130603.pdf).

## SP TRANSMISSION 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 Scottish Power 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](http://www.scottishpower.com/pages/audit_and_compliance_committee.aspx).

## **SP TRANSMISSION 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](http://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 TRANSMISSION 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 TRANSMISSION 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](http://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](http://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](http://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)
Pearse Murray	
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 TRANSMISSION 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.

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

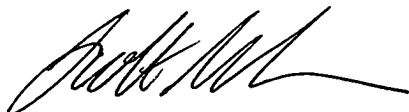
- so far as he or she is aware, there is no relevant audit information of which the company's auditor is unaware; and;
- he or she has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that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

**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 TRANSMISSION PLC**

### **Opinion**

We have audited the financial statements of SP Transmission plc ("the company") for the year ended 31 December 2017 which comprise the Balance Sheet, Income Statement, 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 its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- 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 have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the Financial Reporting Council ("FRC") Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### **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.

### **Strategic Report and Directors' Report**

The directors are responsible for the Strategic Report and the Directors' Report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the Strategic Report and the Directors' Report 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 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.

### **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, 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; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

We have nothing to report in these respects.

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

### **Directors' responsibilities**

As explained more fully in their statement set out on pages 13 and 14, the directors are responsible for: the preparation of the financial statements and for 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 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 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](http://www.frc.org.uk/auditorsresponsibilities).

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

This report is made solely to the company's members, 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 members 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 members, 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 TRANSMISSION PLC**

**BALANCE SHEETS**

**as at 31 December 2017 and 31 December 2016**

	Notes	2017 £m	2016 £m
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Intangible assets	3	-	-
Property, plant and equipment		<b>2,815.4</b>	2,579.1
Property, plant and equipment in use	4	2,541.2	1,820.4
Property, plant and equipment in the course of construction	4	274.2	758.7
Financial assets		<b>0.1</b>	0.6
Investments in joint ventures	5	-	-
Finance lease receivables	6	0.1	0.6
<b>NON-CURRENT ASSETS</b>		<b>2,815.5</b>	2,579.7
<b>CURRENT ASSETS</b>			
Trade and other receivables	7	<b>12.4</b>	9.6
Financial assets		<b>0.7</b>	3.8
Finance lease receivables	6	0.4	0.3
Derivative financial instruments	8, 14	0.3	3.5
Cash	8	<b>20.5</b>	6.9
<b>CURRENT ASSETS</b>		<b>33.6</b>	20.3
<b>TOTAL ASSETS</b>		<b>2,849.1</b>	2,600.0
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Of shareholders of the parent		<b>1,029.2</b>	956.1
Share capital	10, 11	385.0	385.0
Hedge reserve	11	(1.7)	(1.5)
Retained earnings	11	645.9	572.6
<b>TOTAL EQUITY</b>		<b>1,029.2</b>	956.1
<b>NON-CURRENT LIABILITIES</b>			
Deferred income	12	<b>100.5</b>	87.9
Bank borrowings and other financial liabilities		<b>1,251.0</b>	853.0
Loans and other borrowings	13	1,251.0	853.0
Trade and other payables	15	<b>0.1</b>	0.1
Deferred tax liabilities	16	<b>150.6</b>	134.4
<b>NON-CURRENT LIABILITIES</b>		<b>1,502.2</b>	1,075.4
<b>CURRENT LIABILITIES</b>			
Provisions	17	<b>0.7</b>	0.7
Bank borrowings and other financial liabilities		<b>93.2</b>	306.3
Loans and other borrowings	13	93.1	304.9
Derivative financial instruments	8, 14	0.1	1.4
Trade and other payables	15	<b>215.0</b>	254.3
Current tax liabilities		<b>8.8</b>	7.2
<b>CURRENT LIABILITIES</b>		<b>317.7</b>	568.5
<b>TOTAL LIABILITIES</b>		<b>1,819.9</b>	1,643.9
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,849.1</b>	2,600.0

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



**Scott Mathieson**  
Director

The accompanying Notes 1 to 29 are an integral part of the balance sheets as at 31 December 2017 and 31 December 2016.

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

	Notes	2017 £m	2016 £m
Revenue		338.1	315.6
<b>GROSS MARGIN</b>		<b>338.1</b>	<b>315.6</b>
<b>NET OPERATING EXPENSES</b>		<b>(29.6)</b>	<b>(27.8)</b>
Net personnel expenses		(1.3)	(1.0)
Staff costs	18	(1.3)	(1.0)
Net external expenses		(28.3)	(26.8)
External services		(35.7)	(39.8)
Other operating income		7.4	13.0
<b>Taxes other than income tax</b>	19	<b>(32.4)</b>	<b>(26.1)</b>
<b>GROSS OPERATING PROFIT</b>		<b>276.1</b>	<b>261.7</b>
Depreciation and amortisation charge, allowances and provisions	20	(62.5)	(52.6)
<b>OPERATING PROFIT</b>		<b>213.6</b>	<b>209.1</b>
Finance income	21	-	0.1
Finance costs	22	(30.9)	(32.4)
<b>PROFIT BEFORE TAX</b>		<b>182.7</b>	<b>176.8</b>
Income tax	23	(33.6)	(26.0)
<b>NET PROFIT FOR THE YEAR</b>		<b>149.1</b>	<b>150.8</b>

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

All results relate to continuing operations.

The accompanying Notes 1 to 29 are an integral part of the income statements for the years ended 31 December 2017 and 31 December 2016.

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

	Note	2017 £m	2016 £m
<b>NET PROFIT FOR THE YEAR</b>		<b>149.1</b>	<b>150.8</b>
<b>Items that will not be reclassified to the income statement:</b>			
Cash flow hedges:			
Change in the value of cash flow hedges	11	(0.2)	18.9
Tax relating to cash flow hedges	11	-	(3.8)
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>(0.2)</b>	<b>15.1</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>148.9</b>	<b>165.9</b>

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

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

	Share capital £m	Hedge reserve £m	Retained earnings £m	Total equity £m
At 1 January 2016	200.0	(16.6)	493.8	677.2
Total comprehensive income for the year	-	15.1	150.8	165.9
Share capital issued	185.0	-	-	185.0
Dividends	-	-	(72.0)	(72.0)
At 1 January 2017	385.0	(1.5)	572.6	956.1
Total comprehensive income for the year	-	(0.2)	149.1	148.9
Dividends	-	-	(75.8)	(75.8)
<b>At 31 December 2017</b>	<b>385.0</b>	<b>(1.7)</b>	<b>645.9</b>	<b>1,029.2</b>

The accompanying Notes 1 to 29 are an integral part of the statements of comprehensive income and the statements of changes in equity for the years ended 31 December 2017 and 31 December 2016.

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

	2017	2016
	£m	Restated* £m
<b>Cash flows from operating activities</b>		
Profit before tax	182.7	176.8
Adjustments for:		
Depreciation	61.9	52.1
Transfer of assets from customers	(2.1)	(1.8)
Finance income and costs	30.9	32.3
Write-off of non-current assets	0.6	0.5
Changes in working capital:		
Change in trade and other receivables	(2.0)	2.6
Change in trade and other payables	25.9	5.5
Assets received from customers (cash contributions)	14.7	20.6
Income taxes paid	(15.8)	(19.6)
Interest received	-	0.1
<b>Net cash flows from operating activities (i)</b>	<b>296.8</b>	<b>269.1</b>
<b>Cash flows from investing activities</b>		
Investments in property, plant and equipment	(357.2)	(351.6)
<b>Net cash flows from investing activities (ii)</b>	<b>(357.2)</b>	<b>(351.6)</b>
<b>Cash flows from financing activities</b>		
(Decrease)/increase in amounts due to Iberdrola group companies - current loans payable	(263.8)	8.6
Increase in amounts due to Iberdrola group companies - non-current loans payable	450.0	-
Share capital issued	-	185.0
Dividends paid to company's equity holders	(75.8)	(72.0)
Interest paid	(36.4)	(37.2)
<b>Net cash flows from financing activities (iii)</b>	<b>74.0</b>	<b>84.4</b>
<b>Net increase in cash and cash equivalents (i)+(ii)+(iii)</b>	<b>13.6</b>	<b>1.9</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>6.9</b>	<b>5.0</b>
<b>Cash and cash equivalents at end of year</b>	<b>20.5</b>	<b>6.9</b>

Cash and cash equivalents at end of year comprises:

Cash	20.5	6.9
<b>Cash flow statement cash</b>	<b>20.5</b>	<b>6.9</b>

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

The accompanying Notes 1 to 29 are an integral part of the cash flow statements for the years ended 31 December 2017 and 31 December 2016.

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

**1 BASIS OF PREPARATION**

**A COMPANY INFORMATION**

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

**B BASIS OF PREPARATION OF THE ACCOUNTS**

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

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

**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 £60.6 million and increase the cash and cash equivalents reported for the purpose of the cash flow statement by £190.9 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 which 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 standards and amendments for the first time:

<b>Standard</b>	<b>Notes</b>
• 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 TRANSMISSION 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 £0.1 million. IFRS 9 enables more economic hedging instruments and hedged items to qualify for hedge accounting than currently under IAS 39 'Financial Instruments Recognition and Measurement' ("IAS 39"); principally the hedging of risk components in non-financial contracts and the consideration as a hedged item of a combination of a derivative and an item which could meet the characteristics of a hedged item. On implementation at 1 January 2018, this did not have a material impact on the company's equity. In the current and previous years' accounts, the company has applied the criteria set out in Note 2F for those cases where there are no material changes to financial liabilities.
- (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 its 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 which requires the cumulative impact of applying this standard to be recognised 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 TRANSMISSION 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 property. 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 the Great Britain system operator for use of the transmission network which are set by price controls which determine the amount of allowed revenue. Revenue is recognised in the month it is billed. 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 TRANSMISSION 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, interest 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 as set out below.

	Years
Transmission facilities	40
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.

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

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

**F FINANCIAL INSTRUMENTS**

**F1. ACCOUNTING POLICIES UNDER IAS 39**

- (a) Financial assets categorised as trade 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) The carrying amount of finance lease receivables is calculated as set out in Note 2E.
- (c) Cash and cash equivalents and term deposits in the balance sheet 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.
- (d) Financial liabilities categorised as trade payables are recognised and carried at original invoice amount.
- (e) All interest bearing loans and borrowings are initially recognised at fair value, net of directly attributable transaction costs. Interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

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

**2 ACCOUNTING POLICIES *continued***

**F FINANCIAL INSTRUMENTS *continued***

**F1. ACCOUNTING POLICIES UNDER IAS 39 *continued***

IAS 39 requires all derivatives to be recognised on the balance sheet at fair value. Embedded derivatives in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value through the income statement.

Unrealised gains or losses on remeasurement of derivatives and embedded derivatives used in the group's treasury activities are recognised within finance income or finance costs in the income statement, except where hedge accounting is applied (see F3 below).

**F2. RISK CONTROL ENVIRONMENT**

ScottishPower's strategy is to conduct business in a manner benefiting customers through balancing cost and risk while delivering shareholder value and protecting ScottishPower's performance and reputation by prudently managing the risks inherent in the business. To maintain this strategic direction ScottishPower develops and implements risk management policies and procedures, and promotes a rigid control environment at all levels of the organisation. Further details of ScottishPower's strategy and management of risks are discussed in detail in the most recent Annual Report and Accounts of SPL.

**F3. HEDGE ACCOUNTING**

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

**F3.1 CASH FLOW HEDGES**

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

**F3.2 HEDGE EFFECTIVENESS**

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

**F3.3 DISCONTINUING HEDGE ACCOUNTING**

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

**F4. VALUATION OF FINANCIAL INSTRUMENTS**

In those circumstances where IAS 39 requires financial instruments to be recognised in the balance sheet at fair value, the company's valuation strategies for derivative and other financial instruments utilise as far as possible quoted prices in an active trading market.

In the absence of quoted prices for identical or similar assets or liabilities, it is sometimes necessary to apply valuation techniques where contracts are marked using approved models. Models are used for developing both the forward curves and the valuation metrics of the instruments themselves where the instruments are complex combinations of standard or non-standard products. All models are subject to rigorous testing prior to being approved for valuation and subsequent continuous testing and approval procedures designed to ensure the validity and accuracy of the model assumptions and inputs.

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

**2 ACCOUNTING POLICIES *continued***

**G TRANSFER OF ASSETS FROM CUSTOMERS**

Transfer 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 in the income statement, except where it relates to items charged or credited to equity (via the statement of comprehensive income), in which case the deferred tax is also dealt with in equity and is shown in the statement of comprehensive income.

**I RETIREMENT BENEFITS**

ScottishPower operates two defined benefit schemes and one defined contribution retirement benefit scheme in the UK. SP Transmission 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 £m
Year ended 31 December 2016	Note	
Cost:		
At 1 January 2016		4.8
Disposals		(4.5)
At 31 December 2016	(a)	0.3
Amortisation:		
At 1 January 2016		4.8
Disposals		(4.5)
At 31 December 2016		0.3
Net book value:		
At 1 January 2016 and 31 December 2016		-

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

**3 INTANGIBLE ASSETS *continued***

	Note	Computer software £m
<b>Year ended 31 December 2017</b>		
<b>Cost:</b>		
At 1 January 2017		0.3
Disposals		(0.3)
<b>At 31 December 2017</b>	(a)	-
<b>Amortisation:</b>		
At 1 January 2017		0.3
Disposals		(0.3)
<b>At 31 December 2017</b>		-
<b>Net book value:</b>		
<b>At 1 January 2017 and 31 December 2017</b>		-

(a) The cost of fully amortised computer software still in use at 31 December 2017 was £nil (2016 £0.3 million).

**4 PROPERTY, PLANT AND EQUIPMENT**

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

	Transmission facilities £m	Other facilities (Note (ii)) £m	Other items of property, plant and equipment in use (Note (iii)) £m	Plant in progress (Note (iii)) £m	Total £m
<b>Year ended 31 December 2016</b>					
<b>Cost:</b>					
At 1 January 2016	1,922.3	79.0	24.8	738.0	2,764.1
Additions (Note (iv))	-	-	-	345.3	345.3
Transfers from in progress to plant in use	324.5	0.1	-	(324.6)	-
Disposals	(7.9)	-	-	-	(7.9)
<b>At 31 December 2016</b>	<b>2,238.9</b>	<b>79.1</b>	<b>24.8</b>	<b>758.7</b>	<b>3,101.5</b>
<b>Depreciation:</b>					
At 1 January 2016	430.5	46.0	1.2	-	477.7
Depreciation for the year	49.2	2.9	-	-	52.1
Disposals	(7.4)	-	-	-	(7.4)
<b>At 31 December 2016</b>	<b>472.3</b>	<b>48.9</b>	<b>1.2</b>	<b>-</b>	<b>522.4</b>
<b>Net book value:</b>					
<b>At 31 December 2016</b>	<b>1,766.6</b>	<b>30.2</b>	<b>23.6</b>	<b>758.7</b>	<b>2,579.1</b>
<b>At 1 January 2016</b>	<b>1,491.8</b>	<b>33.0</b>	<b>23.6</b>	<b>738.0</b>	<b>2,286.4</b>

The net book value of property plant and equipment at 31 December 2016 is analysed as follows:

Property, plant and equipment in use	1,766.6	30.2	23.6	-	1,820.4
Property, plant and equipment in the course of construction	-	-	-	758.7	758.7
	<b>1,766.6</b>	<b>30.2</b>	<b>23.6</b>	<b>758.7</b>	<b>2,579.1</b>

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

**4 PROPERTY, PLANT AND EQUIPMENT *continued***

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

	Transmission facilities £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
<b>Year ended 31 December 2017</b>					
<b>Cost:</b>					
At 1 January 2017	2,238.9	79.1	24.8	758.7	3,101.5
Additions (Note (iv))	-	-	-	298.8	298.8
Transfers from in progress to plant in use	783.2	0.1	-	(783.3)	-
Disposals	(9.1)	-	-	-	(9.1)
<b>At 31 December 2017</b>	<b>3,013.0</b>	<b>79.2</b>	<b>24.8</b>	<b>274.2</b>	<b>3,391.2</b>
<b>Depreciation:</b>					
At 1 January 2017	472.3	48.9	1.2	-	522.4
Depreciation for the year	59.1	2.8	-	-	61.9
Disposals	(8.5)	-	-	-	(8.5)
<b>At 31 December 2017</b>	<b>522.9</b>	<b>51.7</b>	<b>1.2</b>	<b>-</b>	<b>575.8</b>
<b>Net book value:</b>					
<b>At 31 December 2017</b>	<b>2,490.1</b>	<b>27.5</b>	<b>23.6</b>	<b>274.2</b>	<b>2,815.4</b>
At 1 January 2017	1,766.6	30.2	23.6	758.7	2,579.1

The net book value of property plant and equipment at 31 December 2017 is analysed as follows:

Property, plant and equipment in use	2,490.1	27.5	23.6	-	2,541.2
Property, plant and equipment in the course of construction	-	-	-	274.2	274.2
	<b>2,490.1</b>	<b>27.5</b>	<b>23.6</b>	<b>274.2</b>	<b>2,815.4</b>

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

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

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

(iv) During the year ended 31 December 2017, additions of £245.7 million (2016 £289.5 million) were purchased from the asset management entity Power Systems and £51.3 million (2016 £52.9 million) from a joint venture, NGET/SPT Upgrades Limited ("NGET") as noted within Note 27.

(v) Interest on the funding attributable to major capital projects was capitalised during the year ended 31 December 2017 at a rate of 3.1% (2016 3.6%).

(vi) The cost of fully depreciated property, plant and equipment still in use at 31 December 2017 was £81.6 million (2016 £56.0 million).

(vii) Included within the cost of property, plant and equipment at 31 December 2017 are assets in use not subject to depreciation, being land of £23.2 million (2016 £23.2 million).

**(b) Operating lease arrangements**

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

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

**(c) Capital commitments**

	2017 £m	2016 £m
Contracted but not provided	397.7	432.5

**(d) Research and development expenditure**

The amount of research and development expenditure recognised as an expense during the year was £0.6 million (2016 £1.1 million).

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

**5 INVESTMENT IN JOINT VENTURE**

			Shares in joint venture £	
At 1 January 2016, 1 January 2017 and 31 December 2017			50	
Name	Principal activity	Registered office and country of incorporation (Note (a))	Equity interest in ordinary shares	
			2017	2016
<b>Joint venture</b>				
NGET/SPT Upgrades Limited	Development of offshore HVDC West Coast transmission link	England & Wales	50%	50%

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

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

**6 FINANCE LEASE RECEIVABLES**

	2017 £m	2016 £m
Amounts receivable under finance leases:		
Current receivables	0.4	0.3
Non-current receivables	0.1	0.6
	0.5	0.9
Gross receivables from finance leases:		
Within one year	0.4	0.4
Between one and five years	0.1	0.6
	0.5	1.0
Unearned future finance income on finance leases	-	(0.1)
Net investment in finance leases	0.5	0.9
The net investment in finance leases is analysed as follows:		
Within one year	0.4	0.3
Between one and five years	0.1	0.6
	0.5	0.9

**7 TRADE AND OTHER RECEIVABLES**

	2017 £m	2016 £m
<b>Current receivables:</b>		
Receivables due from jointly controlled entities - trade	0.4	0.8
Trade receivables and accrued income	0.8	0.4
Prepayments with jointly controlled entities	2.6	1.8
Other tax receivables	8.6	6.6
	12.4	9.6

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

**8 FINANCIAL INSTRUMENTS**

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

		2017		2016	
		Carrying amount	Fair value	Carrying amount	Fair value
	Notes	£m	£m	£m	£m
<b>Financial assets</b>					
Finance lease receivables		0.5	0.5	0.9	0.9
Derivative financial instruments	(a)	0.3	0.3	3.5	3.5
Receivables	(b)	1.2	1.2	1.2	1.2
Cash	(c)	20.5	20.5	6.9	6.9
<b>Financial liabilities</b>					
Derivative financial instruments	(a)	(0.1)	(0.1)	(1.4)	(1.4)
Loans and other borrowings	(d)	(1,344.1)	(1,505.2)	(1,157.9)	(1,364.5)
Payables	(b)	(160.5)	(160.5)	(222.2)	(222.2)

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 (d) below, and is categorised as Level 2 in the fair value hierarchy.

- (a) Further details on derivative financial instruments are disclosed within Note 14.  
(b) Balances outwith the scope of IFRS 7 'Financial Instruments: Disclosure' ("IFRS 7") have been excluded, namely prepayments, other tax receivables, payments received on account and other taxes payable.  
(c) 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 includes deposits with banks of £20.5 million (2016 £6.9 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.  
(d) The carrying value of loans and other borrowings are accounted for at amortised cost. The carrying value of short-term debt is a reasonable approximation of fair value. The fair value of long-term debt is calculated using a discounted cash flow.

The company holds certain financial instruments which are measured in the balance sheet at fair value. The company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

All derivatives held by the company are Level 2. Level 2 foreign exchange rate derivatives comprise forward foreign exchange contracts which are fair valued using foreign exchange rates that are quoted in an active market.

**9 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						Total £m
	2018 £m	2019 £m	2020 £m	2021 £m	2022 £m	2023 and thereafter £m	
<b>Cash outflows</b>							
Derivative financial instruments	4.4	-	-	-	-	-	4.4
Loans and other borrowings	130.4	314.5	80.8	231.8	74.9	765.8	1,598.2
Payables*	142.0	0.1	-	-	-	-	142.1
	<b>276.8</b>	<b>314.6</b>	<b>80.8</b>	<b>231.8</b>	<b>74.9</b>	<b>765.8</b>	<b>1,744.7</b>

	2016						Total £m
	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	2022 and thereafter £m	
<b>Cash outflows</b>							
Derivative financial instruments	45.2	-	-	-	-	-	45.2
Loans and other borrowings	338.8	83.6	218.3	76.9	137.4	567.4	1,422.4
Payables*	202.9	0.1	-	-	-	-	203.0
	<b>586.9</b>	<b>83.7</b>	<b>218.3</b>	<b>76.9</b>	<b>137.4</b>	<b>567.4</b>	<b>1,670.6</b>

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



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

**10 SHARE CAPITAL**

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

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

**11 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDER OF SP TRANSMISSION PLC**

	Share capital (Note (a)) £m	Hedge reserve (Note (b)) £m	Retained earnings (Note (c)) £m	Total £m
At 1 January 2016	200.0	(16.6)	493.8	677.2
Profit for the year attributable to equity holder of SP Transmission plc	-	-	150.8	150.8
Changes in the value of cash flow hedges	-	18.9	-	18.9
Tax relating to cash flow hedges	-	(3.8)	-	(3.8)
Share capital issued	185.0	-	-	185.0
Dividends	-	-	(72.0)	(72.0)
At 1 January 2017	385.0	(1.5)	572.6	956.1
Profit for the year attributable to equity holder of SP Transmission plc	-	-	149.1	149.1
Changes in the value of cash flow hedges	-	(0.2)	-	(0.2)
Dividends	-	-	(75.8)	(75.8)
<b>At 31 December 2017</b>	<b>385.0</b>	<b>(1.7)</b>	<b>645.9</b>	<b>1,029.2</b>

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

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

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

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

	Foreign exchange rate hedges £m	Tax effect £m	Total £m
<b>Cash flow hedges</b>			
At 1 January 2016	(20.8)	4.2	(16.6)
Effective cash flow hedges recognised	15.0	(3.0)	12.0
Removed from equity and recognised in carrying amount of hedged items	3.9	(0.8)	3.1
At 1 January 2017	(1.9)	0.4	(1.5)
Effective cash flow hedges recognised	(11.1)	2.1	(9.0)
Removed from equity and recognised in carrying amount of hedged items	10.9	(2.1)	8.8
<b>At 31 December 2017</b>	<b>(2.1)</b>	<b>0.4</b>	<b>(1.7)</b>

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

**12 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	69.1	20.6	(1.8)	87.9
	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	87.9	14.7	(2.1)	100.5

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

**13 LOANS AND OTHER BORROWINGS**

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

Instrument	Notes	Interest rate*	Maturity	2017 £m	2016 £m
Loans with group companies - SPUK	(i)	Base + 1%	On demand	41.1	190.9
Loans with group companies - SPL		3.858%	29 January 2019	75.0	75.0
Loans with group companies - SPUK	(ii), (iii)	3.416%	21 December 2022	156.0	156.0
Loans with group companies - SPUK	(ii), (iv)	3.570%	20 December 2023	132.0	176.0
Loans with group companies - SPUK	(ii), (v)	2.821%	31 March 2025	280.0	350.0
Loans with group companies - SPUK	(i), (ii)	LIBOR + 0.78%	20 December 2027	450.0	-
Loans with group companies - SPUK	(i), (ii)	LIBOR + 3.365%	28 January 2029	210.0	210.0
				<b>1,344.1</b>	<b>1,157.9</b>

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

	2017 £m	2016 £m
<b>Analysis of total loans and other borrowings</b>		
<b>Non-current</b>	<b>1,251.0</b>	<b>853.0</b>
<b>Current</b>	<b>93.1</b>	<b>304.9</b>
	<b>1,344.1</b>	<b>1,157.9</b>

- (i) A 1% increase in the Base rate and LIBOR rate would result in a £7.0 million increase in the full year interest charge.
- (ii) Under the conditions of the long-term loan agreements between the company and SPUK, the company has an option, without fee or penalty, to make a repayment in whole or in part, of the then outstanding loan principal, plus accrued interest thereon, by providing SPUK with written notice at least five business days before the intended repayment date.
- (iii) The intercompany loan with SPUK that is due to mature in December 2022 is repayable in equal instalments on a bi-annual basis. The repayment of £52.0 million that is due 2018 was classified as current in the 2017 analysis above.
- (iv) The intercompany loan with SPUK that is due to mature in December 2023 is repayable in equal instalments on a bi-annual basis. The repayment of £44.0 million that was due in 2017 has been classified as current in the 2016 analysis above.
- (v) The intercompany loan with SPUK that is due to mature in March 2025 is repayable in equal instalments on a bi-annual basis. The repayment of £70.0 million that was due in 2017 has been classified as current in the 2016 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) £m	
<b>At 1 January 2017</b>	<b>304.9</b>	<b>853.0</b>	<b>19.2</b>	<b>1,177.1</b>
(Decrease)/increase in amounts due to Iberdrola group companies	(263.8)	450.0	-	186.2
Interest paid	-	-	(36.4)	(36.4)
<b>Total movements from financing cashflows</b>	<b>(263.8)</b>	<b>450.0</b>	<b>(36.4)</b>	<b>149.8</b>
Other movements	52.0	(52.0)	35.6	35.6
<b>Total liability-related movements</b>	<b>52.0</b>	<b>(52.0)</b>	<b>35.6</b>	<b>35.6</b>
<b>At 31 December 2017</b>	<b>93.1</b>	<b>1,251.0</b>	<b>18.4</b>	<b>1,362.5</b>

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

**14 DERIVATIVE FINANCIAL INSTRUMENTS**

Analysis of carrying value of derivative financial instruments – carrying value

	2017				2016			
	Assets		Liabilities		Assets		Liabilities	
	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
	£m	£m	£m	£m	£m	£m	£m	£m
<b>Hedging derivatives</b>								
<b>Cash flow hedge</b>								
- Foreign exchange rate	0.3	-	(0.1)	-	3.5	-	(1.4)	-

**15 TRADE AND OTHER PAYABLES**

	Note	2017 £m	2016 £m
<b>Current trade and other payables:</b>			
Payables due to Iberdrola group companies - trade		21.9	36.5
Payables due to Iberdrola group companies - interest		18.4	19.2
Other tax payables		9.3	8.3
Payments received on account		45.3	23.9
Other payables	(a)	120.1	166.4
		<b>215.0</b>	<b>254.3</b>
<b>Non-current other payables:</b>			
Other payables		0.1	0.1

(a) Other payables mainly comprise payables in respect of capital expenditure.

**16 DEFERRED TAX**

Deferred tax provided in the Accounts is as follows:

	Property, plant and equipment £m	Derivative financial instruments £m	Total £m
At 1 January 2016	126.7	(4.2)	122.5
Charge to the income statement	8.1	-	8.1
Recorded in the statement of comprehensive income	-	3.8	3.8
At 1 January 2017	134.8	(0.4)	134.4
Charge to the income statement	16.2	-	16.2
<b>At 31 December 2017</b>	<b>151.0</b>	<b>(0.4)</b>	<b>150.6</b>

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.

**17 PROVISIONS**

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

(a) The provision for onerous contracts relates to unavoidable project costs which may be reduced dependant on the project outcome. This is expected to be concluded in 2018.

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

**18 EMPLOYEE INFORMATION**

**(a) Staff costs**

	2017 £m	2016 £m
Wages and salaries	0.9	0.7
Social security costs	0.1	0.1
Pension and other costs	0.3	0.2
<b>Total staff costs</b>	<b>1.3</b>	<b>1.0</b>

- (i) Employee costs for the years ended 31 December 2017 and 31 December 2016 include those in respect of one director, Scott Mathieson. The emoluments of the other directors of the company for the years ended 31 December 2017 and 31 December 2016 are included within the employee costs of another ScottishPower group company, as they do not have a contract of service with the company. Details of directors' emoluments are set out in Note 27.

**(b) Employee numbers**

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

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

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

**(c) Pensions**

The company's contributions payable in the year were £203,900 (2016 £164,100). 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%.

**19 TAXES OTHER THAN INCOME TAX**

	2017 £m	2016 £m
Property taxes	32.4	26.1

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

	2017 £m	2016 £m
Property, plant and equipment depreciation charge	61.9	52.1
Charges, provisions and allowances	0.6	0.5
	<b>62.5</b>	<b>52.6</b>

**21 FINANCE INCOME**

	2017 £m	2016 £m
Interest receivable on finance leases	-	0.1

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

**22 FINANCE COSTS**

	2017 £m	2016 £m
Interest on amounts due to Iberdrola group companies	35.6	37.4
Capitalised interest	(4.7)	(5.0)
	<b>30.9</b>	<b>32.4</b>

**23 INCOME TAX**

	2017 £m	2016 £m
Current tax:		
UK Corporation Tax	17.8	18.2
Adjustments in respect of prior years	(0.4)	(0.3)
<b>Current tax charge for the year</b>	<b>17.4</b>	<b>17.9</b>
Deferred tax:		
Origination and reversal of temporary differences	17.9	17.5
Adjustments in respect of prior years	0.4	0.3
Impact of tax rate change	(2.1)	(9.7)
<b>Deferred tax for the year</b>	<b>16.2</b>	<b>8.1</b>
<b>Income tax charge for the year</b>	<b>33.6</b>	<b>26.0</b>

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%)	35.2	35.4
Impact of tax rate change	(2.1)	(9.7)
Non deductible expenses and other permanent differences	0.5	0.3
<b>Income tax charge for the year</b>	<b>33.6</b>	<b>26.0</b>

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.

**24 DIVIDENDS**

	2017 pence per ordinary share	2016 pence per ordinary share	2017 £m	2016 £m
Interim dividend paid	19.7	18.7	75.8	72.0

**25 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).

**26 FINANCIAL COMMITMENTS**

**Other contractual commitments**

	2017 £m	2016 £m
Provision of asset management services from Power Systems	-	36.4

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

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

**27 RELATED PARTY TRANSACTIONS**

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

Types of transaction	2017				2016			
	UK parent	Immediate	Other	Jointly	UK parent	Immediate	Other	Jointly
	(SPL)	parent	Iberdrola	controlled	(SPL)	parent	Iberdrola	controlled
	£m	(SPENH)	group	entities	£m	(SPENH)	group	entities
			companies				companies	
			£m	£m			£m	£m
<b>Types of transaction</b>								
Sales and rendering of services	-	-	-	2.5	-	-	-	2.5
Purchases and receipt of services	-	-	(32.6)	-	-	-	(34.7)	-
Purchases of property, plant and equipment	-	-	(245.7)	(51.3)	-	-	(289.5)	(52.9)
Interest costs	(2.9)	-	(32.7)	-	(2.9)	-	(34.5)	-
Changes in the value of cash flow hedge reserve	(0.2)	-	-	-	18.9	-	-	-
Dividends paid	-	(75.8)	-	-	-	(72.0)	-	-
<b>Balances outstanding</b>								
Trade and other receivables	-	-	-	3.0	-	-	-	2.6
Derivative financial assets	0.3	-	-	-	3.5	-	-	-
Loans payable	(75.0)	-	(1,269.1)	-	(75.0)	-	(1,082.9)	-
Trade and other payables	-	-	(21.9)	-	-	-	(36.5)	-
Interest payable	(2.7)	-	(15.7)	-	(2.7)	-	(16.5)	-
Derivative financial liabilities	(0.1)	-	-	-	(1.4)	-	-	-

- (i) During the year ended 31 December 2017, SPUK made pension contributions of £203,900 on behalf of the company (2016 £164,100).  
(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. Of the 14 (2016 twelve) key management personnel only one (2016 one) was remunerated directly by the company. The remaining key management personnel were remunerated by other ScottishPower group companies in both years.

	2017	2016
	£000	£000
Short-term employee benefits	1,684	1,847
Post-employment benefits	363	262
Share-based payments	1,010	616
	<b>3,057</b>	<b>2,725</b>

**(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. Of the six directors (2016 five), only one (2016 one) was directly remunerated by the company. The remaining directors were remunerated by other ScottishPower group companies.

	2017	2016
	£000	£000
<b>Executive directors</b>		
Aggregate remuneration in respect of qualifying services	1,116	1,084
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

	2017	2016
	£000	£000
<b>Highest paid director</b>		
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 TRANSMISSION PLC**  
**NOTES TO ACCOUNTS *continued***  
**31 December 2017**

**27 RELATED PARTY TRANSACTIONS *continued***

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

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

Copies of the consolidated Accounts of Iberdrola, S.A. may be obtained from 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.

**28 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.

**29 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 6.

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 £284.1 million and net assets of £1,029.2 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.