



**SP DISTRIBUTION PLC
ANNUAL REPORT AND ACCOUNTS
for the year ended 31 December 2016**

Registered No. SC189125



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SP DISTRIBUTION PLC STRATEGIC REPORT

The directors present an overview of SP Distribution plc's structure, 2016 performance, strategic objectives and plans.

STRATEGIC OUTLOOK

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

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

The company is part of ScottishPower's Energy Networks business ("Energy Networks"). Energy Networks owns three regulated electricity network businesses in the UK. The company and fellow subsidiary companies, SP Manweb plc and SP Transmission plc, are "asset-owner companies" holding the regulated assets and Electricity Distribution and Transmission licences of ScottishPower and are regulated monopolies. They 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.

In addition, a further unregulated business, SP Power Systems Limited ("Power Systems"), provides asset management expertise and conducts the day-to-day operation of the networks.

The asset-owner companies act as an integrated business unit to concentrate expertise on regulatory and investment strategy and Power Systems implements work programmes commissioned by and agreed with the asset-owner businesses. Strict commercial disciplines are applied at the asset-owner service provider interface, with Power Systems operating as a contractor to the distribution and transmission businesses.

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

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

On 31 March 2016, the company successfully completed the first year of the price control RIIO-ED1 that will run until March 2023. The company has built upon the strong performance delivered at the end of Distribution Price Control Review 5 ("DPCR5") in terms of outputs and across both customer and stakeholder related incentive mechanisms.

In March 2016, Energy Networks established a Distribution System Operator ("DSO") Steering Group including internal staff and industry experts. Following consultation with stakeholders and interested parties, Energy Networks published its DSO Vision on 21 October 2016. Energy Networks has submitted evidence in response to the joint call from Ofgem and the Department of Business, Energy and Industrial Strategy ("BEIS") for evidence on a smart, flexible energy system in which it promotes its DSO vision.

SP DISTRIBUTION PLC

STRATEGIC REPORT *continued*

STRATEGIC OUTLOOK *continued*

During 2016 Energy Networks won three high profile industry awards. At the Utility Week Industry Awards the Customer Service Team were winners in the Customer Care category for their work with vulnerable customers. At the Scottish Green Energy Awards Energy Networks won the Best Innovation Award for the Dynamic Cable Rating System and jointly won the Judges Award for the Beaulieu to Denny transmission line.

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, Energy Networks has invested around £5.3 billion in its transmission and distribution networks, and during the next ten years, Energy Networks currently plans to invest a further £5.7 billion to modernise and improve service to customers. Energy Networks' ten year investment plans are reviewed annually in detail to ensure that Energy Networks is aligned with and continues to support UK Government energy policy.

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. On 1 November 2016, the UK Government published its National Cyber Security Strategy 2016 to 2021. Energy Networks liaises with UK Government agencies to ensure that any potential threats and risks are assessed and mitigated. In circumstances where potential risks are identified, Energy Networks takes steps to enhance both the physical security of its assets and the security of its associated IT and communications systems.

In September 2016, the UK Government published its National Flood Resilience Review, which was set up following the floods experienced in some areas of the UK in December 2015. Energy Networks is working with The Department for Business, Energy and Industrial Strategy and other stakeholders to ensure that improvements in flood defences for electricity infrastructure are effectively implemented.

Energy Networks is continuing to develop and train staff for a 'smarter' future and replenish its ageing workforce from the communities that Energy Networks serve 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 2016 Energy Networks recruited 10 Graduates and 47 Apprentices, 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.

2016 OPERATIONAL PERFORMANCE

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

	Revenue*		Operating profit*		Capital investment**	
	2016	2015	2016	2015	2016	2015
Financial key performance indicators	£m	£m	£m	£m	£m	£m
SP Distribution plc	404.0	397.2	186.0	183.0	218.5	213.3

*Revenue and operating profit is presented on page 16.

**Capital investment is presented within Note 5 on page 25.

Revenue has increased by £6.8 million compared to 2015, primarily as a result of higher base revenues provided under RIIO-ED1.

Operating profit increased by £3.0 million to £186.0 million in 2016. This reflects an increase in allowable revenues offset by increases in net operating expenses and depreciation.

The company's capital investment was £218.5 million in 2016, an increase of £5.2 million over the prior year and reflects the company's and ScottishPower's continued commitment to investing in the UK Energy Market.

SP DISTRIBUTION PLC
STRATEGIC REPORT *continued*

2016 OPERATIONAL PERFORMANCE *continued*

The company's Electricity Distribution 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 2016:

		Year ended 31 March 2016	Year ended 31 March 2015
Operational assets	Note		
Franchise area (km ²)		22,950	22,950
System maximum demand (MW)*	(a)	3,616	3,414
Distributed energy (GWh)**		18,348	18,589
Length of overhead lines (circuit km)		18,648	18,669
Length of underground cables (circuit km)		39,338	38,960

* Megawatts ("MW"), **Gigawatt hours ("GWh")

(a) System maximum demand value for the regulatory year to 31 March 2016 was finalised at 3,616 MW as per the November 2016 SP Distribution Long Term Development Statement (2015 3,414 MW).

		Actual Year ended 31 March 2016	Target Year ended 31 March 2016	Actual Year ended 31 March 2015	Target Year ended 31 March 2015
Operational performance	Notes				
Quality of service					
Customer minutes lost ("CML")	(a)	34.8	46.2	34.0	57.5
Customer interruptions ("CI")	(b)	48.5	52.1	46.6	60.1
Average time off supply (minutes)		72	89	73	96
Electricity supply available		99.99%	99.99%	99.99%	99.99%
Customer performance	(c)				
Broader customer service measure - Interruptions		8.79	8.2	N/A	N/A
Broader customer service measure - Connections		8.36	8.2	N/A	N/A
Broader customer service measure - General enquiries		8.84	8.2	N/A	N/A
Energy ombudsman (customer complaints)	(d)	2	-	1	-

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

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

(c) Customer performance comprises three components: a customer satisfaction survey, a complaints metric and stakeholder engagement. The regulatory year 2015/16 was the first year of the RIIO-ED1 approach to measuring customer performance therefore comparatives to the previous DPCR5 approach have been removed. Further detail is given below and on page 4.

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

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

The underlying CML and CI for the year to 31 March 2016 are 34.8 and 48.5, respectively. These values have been validated and confirmed by Ofgem, and were published in Ofgem's RIIO-ED Annual Report 2015/16. During 2015/16 there were no storm events which met Ofgem's "exceptional event" exclusion criterion (during 2014/15 there were two). The CML and CI figures for the Actual Year ended 31 March 2015 were confirmed by Ofgem in their final directions issued in November 2015.

Customer Performance: All customer contacts relating to interruption of power supplies, requests and delivery of new connections to the network and any other general enquiries are passed to an independent research agency on a weekly basis (for all DNO's). The independent agency randomly samples customers each week to ask a series of customer satisfaction questions. Sampled customers give a score out of ten and the average annual score for each of the three categories drives each year's performance in this incentive. A reward is received if the average score is above 8.2 out of 10 and anything below 8.2 attracts a financial penalty. The customer satisfaction performance for each of the three elements in 2015/16 is shown in the table above.

SP DISTRIBUTION PLC

STRATEGIC REPORT *continued*

2016 OPERATIONAL PERFORMANCE *continued*

Complaints Performance: This is a 'penalty-only' incentive. Companies are measured on their complaints performance over a number of key metrics; volume of complaints resolved in one day, volume of complaints resolved in 31 days, volume of repeat complaints and the number of complaints referred to the Energy Ombudsman which have been ruled against the company. The Energy Ombudsman Services, an independent body, monitors and adjudicates complaint cases. The Energy Ombudsman performance is shown in the table above for 2015/16 performance. For the wider complaints metric the company achieved a score of 3.6 and an overall 6th position out of the 14 licence areas.

Stakeholder Engagement and Customer Vulnerability: This is a 'reward-only' incentive and is an annual assessment of the company's Stakeholder Engagement activities. An annual submission is provided to Ofgem in April in respect of the previous regulatory year and is assessed by Ofgem and an independent panel (including social assessors) in July and scored out of ten in order to determine a financial reward. The submissions set out the company's strategy, engagement and outputs for stakeholder engagement and customer vulnerability. The assessment for 2015/16 has now been completed with a score of 6.78 out of 10 awarded.

The company is committed to maintaining a safe and reliable network with high performance during extreme weather events. Consequently, during the year to 31 December 2016, £32 million was invested to refurbish or rebuild the overhead line network. In addition £3 million was invested in tree cutting activities. Both of these investments will contribute to improving performance of distribution assets and minimising disruptions during inclement weather.

The long-term safety and reliability of the company's electricity distribution networks and its impact on customers are key business priorities. Whilst working to improve reliability and restoration, the networks are designed and operated in a way that ensures the safety of the public and employees, with minimal number and duration of supply interruptions.

LIQUIDITY AND CASH MANAGEMENT

Cash and net debt

Net cash flows from operating activities decreased by £14.2 million to £296.2 million for the year, as detailed on page 18. As detailed in the table below, net debt increased by £36.0 million to £1,073.3 million. Cash decreased by £1.9 million to £2.7 million. The movement in loans payable to Iberdrola group companies comprises an increase of £118.8 million in the on-demand loan with Scottish Power UK plc ("SPUK") offset by a repayment of £85.0 million in the long-term loan with SPUK, due to mature in 2022.

		2016	2015
Analysis of net debt	Notes	£m	£m
Cash	(a)	2.7	4.6
Loans payable to Iberdrola group companies	(b)	(728.8)	(695.0)
External loans payable	(b)	(347.2)	(346.9)
Net debt		(1,073.3)	(1,037.3)

(a) As detailed on the balance sheet, refer to page 15.

(b) As detailed in Note 13 on page 28.

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

HEALTH AND SAFETY

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

SP DISTRIBUTION PLC

STRATEGIC REPORT *continued*

PRINCIPAL RISKS AND UNCERTAINTIES

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

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

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

SCOTTISHPOWER	
RISK	RESPONSE
Material deterioration in the relatively stable and predictable UK regulatory and political environment, including any sudden changes of policy, or new initiatives in the retail market outside the framework of the CMA investigation outcome.	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 EU or market reactions to events during the negotiation. These impacts could include further depreciation 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 the company operates.	In addition to monitoring ongoing developments related to "Brexit" the 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 the group 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 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 IT related projects where appropriate.

SP DISTRIBUTION PLC
STRATEGIC REPORT *continued*

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

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

NETWORKS	
RISK	RESPONSE
Failure to deliver the Distribution outputs agreed with the Regulator in the current price control.	Mitigating actions include formulating detailed investment, resource, outage and contingency plans supported by an extensive procurement strategy. Good communication and co-ordination of activities across the business is integral to success, complemented by a comprehensive monitoring regime that provides early warning of potential issues.
Security of Supply due to potential asset failures alongside reduced generation capacity.	Risk based asset investment programme in place, business continuity and emergency planning well established including Black Start. "Strategic Spares" policy in place.
Failure to protect customer service performance.	Well-established customer service processes to respond to power loss, including storm readiness. Priority Service Register to protect vulnerable customers in the event of power loss. Implementation of a single emergency number to route customer queries.
Inability to recruit or retain an appropriately skilled workforce.	A Strategic Work Force Planning and Implementation plan that incorporates; a) retirement profiles with demographics; b) one year ahead Strategic Recruitment; and c) ten year Strategic Recruitment plan. Identification of business critical roles and succession planning.

ON BEHALF OF THE BOARD



Scott Mathieson
 Director

30 MARCH 2017

SP DISTRIBUTION PLC DIRECTORS' REPORT

The directors present their report and audited Accounts for the year ended 31 December 2016.

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 DIVIDENDS

The net profit for the year amounted to £126.7 million (2015 £133.4 million). The aggregate dividends paid during the year amounted to £69.0 million (2015 £65.0 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 the ScottishPower group 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 2,700 (2015 2,500) training events and over 139,000 hours (2015 169,000) undertaken in 2016. 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 2016 the group again carried out its annual employee engagement survey, 'The LOOP'. This year there was a significant increase in the response rate from employees with 75% of employees across the group providing feedback. The overall engagement score increased to 76% in 2016 which is a positive reflection of how employees feel about working for ScottishPower.

All ScottishPower businesses recognise the importance of taking action in response to employee feedback. Action plans were developed following the LOOP survey in 2016 and focus on three key areas across ScottishPower – recognising the day to day achievements of our employees, improving face to face communication and creating a positive employee experience for all 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 diversity

ScottishPower recognises the importance of difference and respects individuality as part of its ongoing commitment to promoting equality and diversity. 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.

SP DISTRIBUTION PLC

DIRECTORS' REPORT *continued*

EMPLOYEES *continued*

Equality and diversity continued

ScottishPower have 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 over 2016 included E-learning and training on diversity and unconscious bias to raise the awareness of employees and key stakeholders. ScottishPower also received external recognition for ScottishPower's flexible and agile working practices to support working families and its development and employment programmes for young people.

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. During 2016 ScottishPower joined the Women's Engineering Society and Powerful Women, sponsored the Top 50 Women in Engineering list and supported National 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 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 2016. 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.

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 the Uniform Good Governance Code for Listed Companies approved by the National Securities Market Commission of Spain.

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

Administrative, management and supervisory bodies

Board and management meetings

During the year, the company was governed by a Board ("the SP Distribution Board") consisting of five directors bringing a broad range of skills and experience to the company, two of which are 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 operation and management of the Regulated Business within ScottishPower, in accordance with the strategy set by the ScottishPower Board.

SP DISTRIBUTION PLC

DIRECTORS' REPORT *continued*

CORPORATE GOVERNANCE *continued*

Administrative, management and supervisory bodies *continued*

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 two independent non-executive directors, who also reside on the SP Distribution Board).

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

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 seven other directors as at 31 December 2016.

The directors of SPENH are shown below.

Javier Villalba Sánchez	Chairman (resigned 1 February 2016)
Armando Martínez Martínez	Chairman (appointed 3 February 2016)
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
Elizabeth Haywood	Independent non-executive director

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

Javier Villalba Sánchez	Attended no meetings
Armando Martínez Martínez	Attended all meetings
Frank Mitchell	Attended all meetings
Nicola Connelly	Attended all meetings
Antonio Espinosa de los Monteros	Attended all meetings
José Izaguirre Nazar	Attended all meetings
Scott Mathieson	Attended all meetings
Wendy Barnes	Attended four meetings
Elizabeth Haywood	Attended all meetings

ScottishPower Board

The ScottishPower Board comprised the Chairman José Ignacio Sánchez Galán and seven other directors as at 31 December 2016. José Ignacio Sánchez Galán is also the Chairman and Chief Executive of Iberdrola, S.A..

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
José Miguel Alcolea Cantos	(resigned 15 June 2016)
Juan Carlos Rebollo Liceaga	
José Sainz Armada	
Keith Anderson	
Professor Susan Deacon	Independent non-executive director
Sir Tom Farmer CVO CBE KCSG	Independent non-executive director
Professor Sir James McDonald	Independent non-executive director

SP DISTRIBUTION PLC

DIRECTORS' REPORT *continued*

CORPORATE GOVERNANCE *continued*

Administrative, management and supervisory bodies *continued*

ScottishPower Board continued

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

José Ignacio Sánchez Galán	Attended all meetings
Lord Kerr of Kinlochard GCMG	Attended all meetings
José Miguel Alcolea Cantos	Attended two meetings
Juan Carlos Rebollo Liceaga	Attended all meetings
José Sainz Armada	Attended all meetings
Keith Anderson	Attended all meetings
Professor Susan Deacon	Attended all meetings
Sir Tom Farmer CVO CBE KCSG	Attended four meetings
Professor Sir James McDonald	Attended all meetings

ScottishPower Audit and Compliance Committee ("ACC")

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

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

The ACC comprises three members, including two independents, as indicated in the table below. The ACC met five times during the year under review. The members of the ACC and their attendance record are shown in the table below.

Professor Sir James McDonald (Chairman)	External independent, attended all meetings
Professor Susan Deacon	External independent, attended all meetings
Juan Carlos Rebollo Liceaga	Attended four meetings

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:

Maria Helena Antolin Raybaud (Chairperson)	External independent
Iñigo Victor De Oriol Ibarra	Other External
Angel Jesús Acebas Paniagua	External independent

The members of the IRC are:

Inés Macho Stadler (Chairperson)	External independent
Iñigo Victor De Oriol Ibarra	Other External
Santiago Martínez Lage	External independent

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

SP DISTRIBUTION PLC

DIRECTORS' REPORT *continued*

CORPORATE GOVERNANCE *continued*

Internal control

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

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

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.

Capital investment

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

Monitoring and corrective action

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

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

SP DISTRIBUTION PLC

DIRECTORS' REPORT *continued*

CORPORATE GOVERNANCE *continued*

Auditor independence

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

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

Social, environmental and ethical matters

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

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

DIRECTORS

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

Wendy Barnes
Elizabeth Haywood
Guy Jefferson
Scott Mathieson
Frank Mitchell

DIRECTORS' INDEMNITY

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

DIRECTORS' RESPONSIBILITIES FOR THE ACCOUNTS

The directors are responsible for preparing the Annual Report and Accounts in accordance with applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU").

The directors are responsible for preparing Accounts for each financial period which give a true and fair view, in accordance with IFRSs, of the state of affairs of the company and of the profit or loss for that period. In preparing those Accounts, the directors are required to:

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

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

Each of the directors in office as at the date of this 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 auditors are unaware; and
- he or she has taken all the steps that he or she ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

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

SP DISTRIBUTION PLC
DIRECTORS' REPORT *continued*

AUDITOR

Ernst & Young LLP were re-appointed as auditor of the company for the year ended 31 December 2016.

ON BEHALF OF THE BOARD

A handwritten signature in black ink, appearing to read 'Scott Mathieson', is written over a horizontal line.

Scott Mathieson
Director

30 MARCH 2017

INDEPENDENT AUDITOR'S REPORT

to the member of SP Distribution plc

We have audited the Accounts of SP Distribution plc for the year ended 31 December 2016 which comprise the Balance Sheet, Income Statement and Statement of Comprehensive Income, Statement of Changes in Equity, Cash Flow Statement, and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

This report is made solely to the company's member, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's member those matters we are required to state in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's member as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement set out on page 12, the directors are responsible for the preparation of the Accounts and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Accounts in accordance with the applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE ACCOUNTS

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

OPINION ON ACCOUNTS

In our opinion the Accounts:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, based on the work undertaken in the course of the audit:

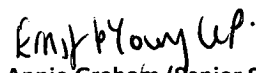
- the information given in the Strategic Report and the Directors' Report for the financial year for which the Accounts are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Accounts 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.



Annie Graham (Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Glasgow

30 March 2017

SP DISTRIBUTION PLC
BALANCE SHEETS
as at 31 December 2016 and 31 December 2015

	Notes	2016 £m	2015 £m
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	4	-	-
Property, plant and equipment		2,791.8	2,671.7
Property, plant and equipment in use	5	2,544.9	2,498.4
Property, plant and equipment in the course of construction	5	246.9	173.3
Financial assets		-	0.1
Investments in subsidiaries	6	-	0.1
NON-CURRENT ASSETS		2,791.8	2,671.8
CURRENT ASSETS			
Trade and other receivables	9	78.6	77.4
Cash	7	2.7	4.6
CURRENT ASSETS		81.3	82.0
TOTAL ASSETS		2,873.1	2,753.8
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the parent		857.6	799.9
Share capital	10, 11	300.0	300.0
Retained earnings	11	557.6	499.9
TOTAL EQUITY		857.6	799.9
NON-CURRENT LIABILITIES			
Deferred income	12	602.6	551.0
Bank borrowings and other financial liabilities		912.5	952.2
Loans and other borrowings	13	912.5	952.2
Deferred tax liabilities	14	161.0	164.6
NON-CURRENT LIABILITIES		1,676.1	1,667.8
CURRENT LIABILITIES			
Provisions	15	0.4	0.5
Bank borrowings and other financial liabilities		163.5	89.7
Loans and other borrowings	13	163.5	89.7
Trade and other payables	16	163.4	182.0
Current tax liabilities		12.1	13.9
CURRENT LIABILITIES		339.4	286.1
TOTAL LIABILITIES		2,015.5	1,953.9
TOTAL EQUITY AND LIABILITIES		2,873.1	2,753.8

Approved by the Board on **30 MARCH** 2017 and signed on its behalf by:



Scott Mathieson
Director

The accompanying Notes 1 to 28 are an integral part of the balance sheets as at 31 December 2016 and 31 December 2015.

SP DISTRIBUTION PLC
INCOME STATEMENTS AND STATEMENTS OF COMPREHENSIVE INCOME
for the years ended 31 December 2016 and 31 December 2015

	Notes	2016 £m	2015 £m
Revenue		404.0	397.2
Procurements		(24.7)	(25.5)
GROSS MARGIN		379.3	371.7
NET OPERATING EXPENSES		(51.3)	(49.6)
Net personnel expenses		(1.0)	(1.2)
Staff costs	17	(1.0)	(1.2)
Net external expenses		(50.3)	(48.4)
External services		(81.4)	(80.6)
Other operating income		31.1	32.2
Taxes other than income tax	18	(43.4)	(42.2)
EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION		284.6	279.9
Depreciation and amortisation charge, allowances and provisions	19	(98.6)	(96.9)
OPERATING PROFIT		186.0	183.0
Finance income	20	0.6	0.5
Finance costs	21	(39.8)	(39.3)
PROFIT BEFORE TAX		146.8	144.2
Income tax	22	(20.1)	(10.8)
NET PROFIT FOR THE YEAR		126.7	133.4

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

All results relate to continuing operations.

The accompanying Notes 1 to 28 are an integral part of the income statements and statements of comprehensive income for the years ended 31 December 2016 and 31 December 2015.

SP DISTRIBUTION PLC
STATEMENTS OF CHANGES IN EQUITY
for the years ended 31 December 2016 and 31 December 2015

	Ordinary share capital £m	Retained earnings £m	Total equity £m
At 1 January 2015	300.0	431.5	731.5
Total comprehensive income for the year	-	133.4	133.4
Dividends	-	(65.0)	(65.0)
At 1 January 2016	300.0	499.9	799.9
Total comprehensive income for the year	-	126.7	126.7
Dividends	-	(69.0)	(69.0)
At 31 December 2016	300.0	557.6	857.6

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

The accompanying Notes 1 to 28 are an integral part of the statements of changes in equity for the years ended 31 December 2016 and 31 December 2015.

SP DISTRIBUTION PLC
CASH FLOW STATEMENTS
for the years ended 31 December 2016 and 31 December 2015

	2016	2015
	£m	£m
Cash flows from operating activities		
Profit before tax	146.8	144.2
Adjustments for:		
Depreciation and amortisation	98.0	96.5
Transfer of assets from customers	(17.6)	(16.6)
Finance income and costs	39.2	38.8
Write-off of non-current assets	0.4	0.4
Change in trade and other receivables	1.6	(10.5)
Change in trade and other payables	(12.9)	21.4
Provisions paid	(0.1)	(0.1)
Assets received from customers	65.7	52.4
Income taxes paid	(25.5)	(16.4)
Interest received	0.6	0.3
Net cash flows from operating activities (i)	296.2	310.4
Cash flows from investing activities		
Investments in property, plant and equipment	(223.3)	(209.0)
Net cash flows from investing activities (ii)	(223.3)	(209.0)
Cash flows from financing activities		
(Decrease)/increase in amounts due to Iberdrola group companies	(85.0)	200.0
Dividends paid to company's equity holders	(69.0)	(65.0)
Interest paid	(39.6)	(34.9)
Net cash flows from financing activities (iii)	(193.6)	100.1
Net (decrease)/increase in cash and cash equivalents (i)+(ii)+(iii)	(120.7)	201.5
Cash and cash equivalents at beginning of year	(0.4)	(201.9)
Cash and cash equivalents at end of year	(121.1)	(0.4)
Cash and cash equivalents at end of year comprises:		
Cash	2.7	4.6
Payables due to Iberdrola group companies - loans	(123.8)	(5.0)
Cash flow statement cash and cash equivalents	(121.1)	(0.4)

The accompanying Notes 1 to 28 are an integral part of the cash flow statements for the years ended 31 December 2016 and 31 December 2015.

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS
31 December 2016

1 BASIS OF PREPARATION

A COMPANY INFORMATION

SP Distribution plc ("the company"), registered company number SC189125, is a private company limited by shares, incorporated in Scotland and its registered address is 1 Atlantic Quay, Robertson Street, Glasgow, G2 8SP.

B BASIS OF PREPARATION OF THE ACCOUNTS

The company is required by law to prepare accounts for the company and to deliver them to the Registrar of Companies. The Accounts have been prepared in accordance with International Accounting Standards ("IAS"), International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") Interpretations (collectively referred to as IFRS), as adopted by the EU as at the date of approval of these Accounts and which are mandatory for the financial year ended 31 December 2016. The Accounts are prepared in accordance with the Accounting Policies set out in Note 2.

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

The company has one operating segment for management reporting purposes.

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 which are mandatory for the financial year ended 31 December 2016.

For the year ended 31 December 2016, the company has applied the following standards and amendments for the first time:

Standard	Note
• Amendments to IAS 1 'Presentation of Financial Statements: Disclosure Initiative'	(a)
• Amendments to IAS 16 'Property, Plant and Equipment' and IAS 38 'Intangible Assets' – 'Clarification of Acceptable Methods of Depreciation and Amortisation'	(a)
• Amendments to IAS 16 'Property, Plant and Equipment' and IAS 41 'Agriculture' – 'Bearer Plants'	(a)
• Amendments to IAS 27 'Separate Financial Statements: Equity Method in Separate Financial Statements'	(a)
• Amendments to IFRS 11 'Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations'	(a)
• Annual Improvements to IFRS Standards 2012-2014 Cycle	(a)
• Amendments to IFRS 10 'Consolidated Financial Statements', IFRS 12 'Disclosure of Interests in Other Entities' and IAS 28 'Investments in Associates and Joint Ventures' - 'Investment Entities: Applying the Consolidated Exception'	(a)

(a) The application of these pronouncements has not had a material impact on the company's accounting policies, financial position or performance.

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
• Amendments to IAS 12 'Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses'	(b), (c), (d)	1 January 2017	1 January 2018
• Amendments to IAS 7 'Statement of Cash Flows: Disclosure Initiative'	(b), (c), (d)	1 January 2017	1 January 2018
• Annual Improvements to IFRS Standards 2014 – 2016 Cycle	(b), (c), (e)	1 January 2017 & 1 January 2018	1 January 2018
• IFRS 9 'Financial Instruments'	(f)	1 January 2018	1 January 2018

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 December 2016

1 BASIS OF PREPARATION *continued*
C ACCOUNTING STANDARDS *continued*

Standard <i>continued</i>	Notes	IASB effective	
		date (for periods commencing on or after)	Planned date of application by the company
• IFRS 15 'Revenue from Contracts with Customers' (including Amendments to IFRS 15 'Effective date of IFRS 15')	(g)	1 January 2018	1 January 2018
• Clarifications to IFRS 15 'Revenue from Contracts with Customers'	(c), (g)	1 January 2018	1 January 2018
• Amendments to IAS 40 'Investment Property: Transfers of Investment Property'	(b), (c)	1 January 2018	1 January 2018
• Amendments to IFRS 2 'Share-based Payments: Clarification and Measurement of Share-based Payment Transactions'	(b), (c)	1 January 2018	1 January 2018
• Amendments to IFRS 4 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts'	(b), (c)	1 January 2018	1 January 2018
• IFRIC 22 'Foreign Currency Transactions and Advance Consideration'	(b), (c)	1 January 2018	1 January 2018
• IFRS 16 'Leases'	(c), (h)	1 January 2019	1 January 2019
• IFRS 14 'Regulatory Deferral Accounts'	(b), (c), (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'	(b), (c), (j)	Deferred indefinitely	To be decided

- (b) The future application of this pronouncement is not expected to have a material impact on the company's accounting policies, financial position or performance.
- (c) This pronouncement has not yet been endorsed by the EU.
- (d) Despite the IASB effective date of 1 January 2017, this pronouncement has yet to be endorsed by the EU (expected 2017). The endorsement notice will be reviewed for specific guidance but in the absence of further information it is anticipated that the company will apply this pronouncement from the accounting period following endorsement i.e. 1 January 2018.
- (e) 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. Despite this, the pronouncement has yet to be endorsed by the EU (expected 2017). The endorsement notice will be reviewed for specific guidance but in the absence of further information it is anticipated that the company will apply this pronouncement from the accounting period following endorsement i.e. 1 January 2018.
- (f) The company is currently analysing the impact of implementing IFRS 9 'Financial Instruments' ('IFRS 9') which is effective for the company from 1 January 2018. Following a preliminary analysis, the company provisionally expects that financial assets will be measured at amortised cost, except for equity instruments and derivative financial instruments that will be measured at fair value. The company intends to apply the general approach to the recognition of expected credit losses to all financial assets; except for trade receivables and leases to which the simplified approach will be taken regardless of whether they contain a significant financing component. The probability of default is not expected to be significant given the high credit quality of the financial assets. It is anticipated that more hedging instruments and hedged items will qualify for hedge accounting under IFRS 9. This analysis will continue in 2017.
- (g) The company is currently analysing the impact of implementing IFRS 15 'Revenue from Contracts with Customers' and the associated amendments and clarifications, all of which are effective for the company as from 1 January 2018. Following a preliminary analysis of income earning arrangements no significant impact is expected. This analysis will continue in 2017.
- (h) The company is currently analysing the impact of implementing IFRS 16 'Leases' ('IFRS 16') which is effective for the company from 1 January 2019. The company's principal leases relate to land and property. Most of these leases are currently classified as operating leases under IAS 17 'Leases'. The company expects to recognise 'right-of-use' assets and corresponding lease liabilities. The value of these is expected to be greater than the future minimum lease payments disclosed in Note 5(b). The company expects to take the exemptions in relation to short-term leases and leases of low-value assets. The company does not intend to bring leases of intangible assets within scope of IFRS 16. On transition, the modified retrospective method is expected to be applied and the new lease definition applied to all existing contracts at this point. The company is currently modifying its IT systems in order to adapt to the new requirements. This analysis will continue in 2017.
- (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 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.

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 December 2016

2 ACCOUNTING POLICIES

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

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

A REVENUE

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

B INTANGIBLE ASSETS (COMPUTER SOFTWARE COSTS)

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

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

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

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

D IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

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

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 December 2016

2 ACCOUNTING POLICIES *continued*

E LEASED ASSETS

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

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

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

F FINANCIAL INSTRUMENTS

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

G TRANSFER OF ASSETS FROM CUSTOMERS

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

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

H TAXATION

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

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

Deferred tax is calculated on a non-discounted basis at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised based on tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred tax is charged 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.

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 December 2016

2 ACCOUNTING POLICIES *continued*

1 RETIREMENT BENEFITS

ScottishPower operates a number of defined benefit and defined contribution retirement benefit schemes in the UK. SP Distribution plc is a participating company in these 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 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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. The critical accounting judgement and key source of estimation uncertainty is discussed below and should be read in conjunction with the full statement of Accounting Policies at Note 2.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

In certain circumstances, property, plant and equipment are required to be reviewed for impairment. When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of the expected future cash flows of the relevant Cash Generating Unit ("CGU"), or disposal value if higher. The discount rate applied is based on ScottishPower's weighted average cost of capital with appropriate adjustments for the risks associated with the CGU. Estimates of cash flows involve a significant degree of judgement and are consistent with management's plans and forecasts.

At 31 December 2016, the carrying value of property, plant and equipment amounted to £2,791.8 million (2015 £2,671.7 million).

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 December 2016

4 INTANGIBLE ASSETS

		Computer software £m
Year ended 31 December 2015	Note	
Cost:		
At 1 January 2015		15.9
Disposals		(10.1)
At 31 December 2015	(a)	5.8
Amortisation:		
At 1 January 2015		15.9
Disposals		(10.1)
At 31 December 2015		5.8
Net book value:		
At 1 January 2015 and 31 December 2015		-
		Computer software £m
Year ended 31 December 2016	Note	
Cost:		
At 1 January 2016		5.8
Disposals		(5.3)
At 31 December 2016	(a)	0.5
Amortisation:		
At 1 January 2016		5.8
Disposals		(5.3)
At 31 December 2016		0.5
Net book value:		
At 1 January 2016 and 31 December 2016		-

(a) The cost of fully amortised computer software still in use at 31 December 2016 was £0.5 million (2015 £5.8 million).

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 December 2016

5 PROPERTY, PLANT AND EQUIPMENT

(a) Movements in property, plant and equipment

	Distribution facilities £m	Meters and measuring devices £m	Other facilities (Note (i)) £m	Other items of property, plant and equipment in use (Note (ii)) £m	Plant in progress (Note (iii)) £m	Total £m
Year ended 31 December 2015						
Cost:						
At 1 January 2015	3,308.2	240.1	15.7	34.0	139.1	3,737.1
Additions (Note (iv))	5.7	3.8	-	-	203.8	213.3
Transfers from in progress to plant in use	168.5	-	0.9	0.2	(169.6)	-
Disposals	(7.7)	(1.5)	-	(24.8)	-	(34.0)
At 31 December 2015	3,474.7	242.4	16.6	9.4	173.3	3,916.4
Depreciation:						
At 1 January 2015	958.0	191.4	7.5	24.9	-	1,181.8
Depreciation for the year	85.8	10.0	0.7	-	-	96.5
Disposals	(7.5)	(1.3)	-	(24.8)	-	(33.6)
At 31 December 2015	1,036.3	200.1	8.2	0.1	-	1,244.7
Net book value:						
At 31 December 2015	2,438.4	42.3	8.4	9.3	173.3	2,671.7
At 1 January 2015	2,350.2	48.7	8.2	9.1	139.1	2,555.3
The net book value of property plant and equipment at 31 December 2015 is analysed as follows:						
Property, plant and equipment in use	2,438.4	42.3	8.4	9.3	-	2,498.4
Property, plant and equipment in the course of construction	-	-	-	-	173.3	173.3
	2,438.4	42.3	8.4	9.3	173.3	2,671.7
Year ended 31 December 2016						
Cost:						
At 1 January 2016	3,474.7	242.4	16.6	9.4	173.3	3,916.4
Additions (Note (iv))	3.5	2.6	-	-	212.4	218.5
Transfers from in progress to plant in use	137.0	-	1.8	-	(138.8)	-
Disposals	(8.5)	(54.8)	-	-	-	(63.3)
At 31 December 2016	3,606.7	190.2	18.4	9.4	246.9	4,071.6
Depreciation:						
At 1 January 2016	1,036.3	200.1	8.2	0.1	-	1,244.7
Depreciation for the year	89.3	7.9	0.8	-	-	98.0
Disposals	(8.2)	(54.7)	-	-	-	(62.9)
At 31 December 2016	1,117.4	153.3	9.0	0.1	-	1,279.8
Net book value:						
At 31 December 2016	2,489.3	36.9	9.4	9.3	246.9	2,791.8
At 1 January 2016	2,438.4	42.3	8.4	9.3	173.3	2,671.7
The net book value of property plant and equipment at 31 December 2016 is analysed as follows:						
Property, plant and equipment in use	2,489.3	36.9	9.4	9.3	-	2,544.9
Property, plant and equipment in the course of construction	-	-	-	-	246.9	246.9
	2,489.3	36.9	9.4	9.3	246.9	2,791.8

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

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

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

(iv) Additions of £215.0 million (2015 £207.6 million) were purchased from asset management entity Power Systems, as shown in Note 26.

(v) The cost of fully depreciated property, plant and equipment still in use at 31 December 2016 was £245.4 million (2015 £283.6 million).

(vi) Included within the cost of property, plant and equipment are assets in use not subject to depreciation, being land of £9.2 million (2015 £9.2 million).

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 December 2016

5 PROPERTY, PLANT AND EQUIPMENT *continued*

(b) Operating lease arrangements

	2016	2015
	£m	£m
(i) Operating lease payments		
Minimum lease payments under operating leases recognised as an expense in the year	0.1	0.1
Contingent based operating lease rents recognised as an expense in the year	0.1	0.1
Sublease payments recognised as an expense in the year	0.1	0.1
	0.3	0.3
(ii) Operating lease commitments	2016	2015
	£m	£m
Within one year	0.2	0.2
Between one and five years	0.3	0.4
More than five years	0.1	0.2
	0.6	0.8

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

	2016	2015
	£m	£m
(iii) Operating lease receivables		
The future minimum lease payments receivable under non-cancellable operating leases are as follows:		
Within one year	0.5	0.7
Between one and five years	-	0.5
	0.5	1.2

The company leases land as a lessor under operating leases. The leases have varying terms, escalation clauses and renewal rights. Sublease payments of £0.2 million (2015 £0.2 million) were received in the year.

(c) Capital commitments

	2016	2015
	£m	£m
Contracted but not provided	230.9	230.2

6 INVESTMENTS

	Note	Subsidiary undertakings shares £000	Other investments £000	Total £000
At 1 January 2015 and 1 January 2016	(a)	50	6	56
Disposals	(a)	(50)	-	(50)
At 31 December 2016		-	6	6

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

7 FINANCIAL INSTRUMENTS

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

		2016		2015	
	Notes	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Financial assets					
Receivables	(a)	65.0	65.0	66.9	66.9
Cash	(b)	2.7	2.7	4.6	4.6
Financial liabilities					
Loans and other borrowings	(c)	(1,076.0)	(1,252.8)	(1,041.9)	(1,183.0)
Payables	(a)	(99.8)	(99.8)	(98.2)	(98.2)

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 assets and liabilities is a reasonable approximation of fair value. The fair value of loans and other borrowings is calculated as set out in footnote (c).

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 December 2016

7 FINANCIAL INSTRUMENTS *continued*

- (a) Balances outwith the scope of IFRS 7 'Financial Instruments: Disclosure' have been excluded, namely prepayments, other tax receivables, payments received on account and other taxes and social security.
- (b) As a general rule, cash deposited with banks earns interest at rates similar to market rates on daily deposits. Cash as at 31 December 2016 includes deposits with banks of £2.7 million (2015 £4.6 million) in respect of ring-fenced funds received from third parties for use on specific innovation projects and are not available to finance the company's day-to-day operations.
- (c) The carrying value of loans and other borrowings are accounted for at amortised cost. The carrying value of short-term debt is a reasonable approximation of fair value. The fair value of long-term debt is calculated using a discounted cashflow with the exception of the £350 million euro-sterling bond, which is valued using the most recently traded price to the year end date.

8 LIQUIDITY ANALYSIS

Maturity profile of financial liabilities

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

2016							
	2017	2018	2019	2020	2021	2022 and thereafter	Total
Cash outflows	£m	£m	£m	£m	£m	£m	£m
Loans and other borrowings	199.9	271.0	72.0	117.0	69.1	643.3	1,372.3
Payables*	85.9	-	-	-	-	-	85.9
	285.8	271.0	72.0	117.0	69.1	643.3	1,458.2

2015							
	2016	2017	2018	2019	2020	2021 and thereafter	Total
Cash outflows	£m	£m	£m	£m	£m	£m	£m
Loans and other borrowings	129.6	77.4	273.0	72.0	117.0	712.4	1,381.4
Payables*	84.1	-	-	-	-	-	84.1
	213.7	77.4	273.0	72.0	117.0	712.4	1,465.5

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

9 TRADE AND OTHER RECEIVABLES

	Note	2016	2015
		£m	£m
Current receivables:			
Receivables due from Iberdrola group companies - trade		17.6	15.8
Receivables due from Iberdrola group companies - interest		0.2	0.2
Trade receivables and accrued income	(a)	47.2	50.9
Capital prepayments		2.8	-
Other tax receivables		10.8	10.5
		78.6	77.4

- (a) Trade receivables are stated net of allowance for impairment of doubtful debts of £0.2 million (2015 £nil million). Trade receivables are assumed to approximate their fair values due to the short term nature of trade receivables. Provisions for doubtful debts have been estimated by management, taking into account future cash flows, based on prior experience, ageing analysis and an assessment of the current economic environment within which the company operates. The income statement impact of the change in bad debt for the year to 31 December 2016 is £0.2 million (2015 £nil).

- (b) At 31 December 2016 trade receivables of £0.5 million (2015 £1.6 million) were past due but not impaired.

	2016	2015
	£m	£m
Past due but not impaired		
Less than 3 months	0.1	1.5
Between 3 and 6 months	0.3	0.1
Between 6 and 12 months	0.1	-
	0.5	1.6

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 December 2016

10 SHARE CAPITAL

	2016 £m	2015 £m
Authorised:		
300,000,000 ordinary shares of £1 each (2015 300,000,000)	300.0	300.0
Allotted, called up and fully paid shares:		
300,000,000 ordinary shares of £1 each (2015 300,000,000)	300.0	300.0

11 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF SP DISTRIBUTION PLC

	Ordinary share capital £m	Retained earnings (Note(a)) £m	Total £m
At 1 January 2015	300.0	431.5	731.5
Profit for the year attributable to equity holders of SP Distribution plc	-	133.4	133.4
Dividends	-	(65.0)	(65.0)
At 1 January 2016	300.0	499.9	799.9
Profit for the year attributable to equity holders of SP Distribution plc	-	126.7	126.7
Dividends	-	(69.0)	(69.0)
At 31 December 2016	300.0	557.6	857.6

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

12 DEFERRED INCOME

	At 1 January 2015 £m	Receivable during year £m	Released to income statement £m	At 31 December 2015 £m
Year ended 31 December 2015				
Transfer of assets from customers	509.5	58.1	(16.6)	551.0

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

13 LOANS AND OTHER BORROWINGS

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

Instrument	Notes	Interest rate*	Maturity	2016 £m	2015 £m
Loans with group companies - SPUK	(i)	Base + 1%	On demand	123.8	5.0
Loans with group companies - SPL	(i)	LIBOR + 0.34%	17 December 2018	150.0	150.0
Loans with group companies - SPUK	(ii), (iii)	3.416%	21 December 2022	255.0	340.0
Loans with group companies - SPUK	(ii), (iv)	2.821%	31 March 2025	200.0	200.0
£350m euro-sterling bond	(v), (vi)	5.875%	17 July 2026	347.2	346.9
				1,076.0	1,041.9

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

	2016 £m	2015 £m
Analysis of total loans and other borrowings		
Non-current	912.5	952.2
Current	163.5	89.7
	1,076.0	1,041.9

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 December 2016

13 LOANS AND OTHER BORROWINGS *continued*

Analysis of loans and other borrowings by instrument and maturity *continued*

- (i) A 1% increase in the Base rate and LIBOR rate would result in a £2.7 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 £85.0 million that was due in 2016 is classified as current in the 2015 analysis above.
- (iv) The intercompany loan with SPUK that is repayable in March 2025, is repayable in equal instalments on a bi-annual basis. The repayment of £40.0 million that is due in 2017 is classified as current in the 2016 analysis above.
- (v) This bond contains a 'Loss of licences' covenant that will require repayment of the outstanding amount should the company lose its relevant licences.
- (vi) The £350 million euro-sterling bond will be redeemed at its principal amount on 17 July 2026 unless previously redeemed or purchased and cancelled. The bond can be redeemed at any time by the company at a higher redemption price (as determined by a financial advisor appointed by the company and Guarantor) giving 30 to 60 days' notice. The bond is shown net of finance costs of (£0.3) million (2015 £(0.3) million), which are classified as current in the analysis above.

(b) Borrowing facilities

The company has no undrawn committed borrowing facilities at 31 December 2016 (2015 £nil).

14 DEFERRED TAX

Deferred tax provided in the Accounts is as follows:

	Property, plant and equipment £m
At 1 January 2015	177.7
Credit to the income statement	(13.1)
At 1 January 2016	164.6
Credit to the income statement	(3.6)
At 31 December 2016	161.0

Legislation has been enacted to reduce the rate of UK Corporation Tax to 19% on 1 April 2017 and to 17% on 1 April 2020. These changes reduce the tax rates expected to apply when temporary differences reverse and impact the deferred tax charge.

15 PROVISIONS

		At 1 January 2015 £m	Utilised during year £m	At 31 December 2015 £m
Year ended 31 December 2015	Note			
Environmental costs	(a)	0.6	(0.1)	0.5

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

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

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 December 2016

16 TRADE AND OTHER PAYABLES

	Note	2016 £m	2015 £m
Current trade and other payables:			
Payables due to Iberdrola group companies- trade		35.9	32.3
Payables due to Iberdrola group companies- interest		4.5	4.7
Payables due to Iberdrola group companies- other	(a)	8.4	12.4
Other taxes and social security		11.6	13.7
Payments received on account		52.0	70.1
Other payables	(a)	51.0	48.8
		163.4	182.0

(a) The company utilises forms of collateral to manage its credit exposure in respect of the provision of network services. All collateral held is settled in cash. At 31 December 2016, the company held cash collateral of £11.3 million (2015 £14.3 million) of which £8.4 million (2015 £12.4 million) is payable to Iberdrola group companies.

17 EMPLOYEE INFORMATION

(a) Staff costs

	2016 £m	2015 £m
Wages and salaries	0.7	0.7
Social security costs	0.1	0.1
Pension and other costs	0.2	0.4
Total staff costs	1.0	1.2

(i) The employee costs do not include the directors of the company as they do not have a contract of service with the company. The emoluments of all directors are included within the employee costs of other ScottishPower group companies. Details of directors' emoluments are set out in Note 26.

(b) Employee numbers

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

	Year end 2016	Average 2016	Year end 2015	Average 2015
Administrative staff	11	12	12	12

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 £212,300 (2015 £210,900). The company contributes to the ScottishPower group's defined benefit and defined contribution schemes in the UK. Full details of these schemes are provided in the most recent Annual Report and Accounts of SPL. As at 31 December 2016, the deficit in ScottishPower's defined benefit schemes in the UK amounted to £442.5 million (2015 £264.4 million). The employer contribution rate for these schemes in the year ended 31 December 2016 was 30.1% - 31.0%.

18 TAXES OTHER THAN INCOME TAX

	2016 £m	2015 £m
Property taxes	43.4	42.2

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 December 2016

19 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS

	2016	2015
	£m	£m
Property, plant and equipment depreciation charge	98.0	96.5
Charges and provisions, allowances and impairment of assets	0.6	0.4
	98.6	96.9

20 FINANCE INCOME

	2016	2015
	£m	£m
Interest receivable from Iberdrola group companies	0.6	0.5

21 FINANCE COSTS

	2016	2015
	£m	£m
Interest on amounts due to Iberdrola group companies	18.9	18.4
Interest on other borrowings	20.9	20.9
	39.8	39.3

22 INCOME TAX

	2016	2015
	£m	£m
Current tax:		
UK Corporation tax	24.1	24.4
Adjustments in respect of prior years	(0.4)	(0.5)
Current tax for the year	23.7	23.9
Deferred tax:		
Origination and reversal of temporary differences	5.7	5.3
Adjustments in respect of prior years	0.7	0.4
Impact of tax rate change	(10.0)	(18.8)
Deferred tax for the year	(3.6)	(13.1)
Income tax charge for the year	20.1	10.8

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

	2016	2015
	£m	£m
Corporation tax at 20% (2015 20.25%)	29.4	29.2
Adjustments in respect of prior periods	0.3	(0.1)
Impact of tax rate change	(10.0)	(18.8)
Non deductible expenses and other permanent differences	0.4	0.5
Income tax charge for the year	20.1	10.8

The rate of UK Corporation Tax reduced from 21% to 20% on 1 April 2015. Legislation has been enacted to reduce the rate of UK Corporation Tax to 19% on 1 April 2017 and to 17% on 1 April 2020. These changes reduce the tax rates expected to apply when temporary differences reverse and impact the deferred tax charge.

23 DIVIDENDS

	2016	2015	2016	2015
	pence per ordinary share	pence per ordinary share	£m	£m
Interim dividend paid	23.0	21.7	69.0	65.0

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 December 2016

24 CONTINGENT LIABILITIES

As part of the exercise to achieve legal separation of SPUK's businesses pursuant to the provision of the Utilities Act 2000, the company and other subsidiary companies of SPUK were each required to jointly provide guarantees to external lenders 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 2016 was £1,225.0 million (2015 £1,221.0 million).

25 FINANCIAL COMMITMENTS

Other contractual commitments

	2016 £m	2015 £m
Provision of asset management services from Power Systems	72.6	70.7

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

26 RELATED PARTY TRANSACTIONS

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

	2016			2015		
	UK parent (SPL) £m	Immediate parent (SPENH) £m	Other Iberdrola group companies £m	UK parent (SPL) £m	Immediate parent (SPENH) £m	Other Iberdrola group companies £m
Types of transaction						
Sales and rendering of services	-	-	102.2	-	-	107.3
Purchases and receipt of services	-	-	(75.5)	-	-	(74.8)
Purchases of property, plant and equipment	-	-	(215.0)	-	-	(207.6)
Interest income	-	-	0.6	-	-	0.5
Interest costs	(1.6)	-	(17.3)	(1.6)	-	(16.8)
Dividends paid	-	(69.0)	-	-	(65.0)	-
Balances outstanding						
Trade and other receivables	-	-	17.6	-	-	15.8
Interest receivable	-	-	0.2	-	-	0.2
Loans payable	(150.0)	-	(578.8)	(150.0)	-	(545.0)
Trade and other payables	-	-	(44.3)	-	-	(44.7)
Interest payable	-	-	(4.5)	(0.1)	-	(4.6)

(i) During the year ended 31 December 2016, SPUK made pension contributions of £212,300 on behalf of the company (2015 £210,900).

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

(b) Remuneration of key management personnel

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

	2016 £000	2015 £000
Short-term employee benefits	1,867	1,707
Post-employment benefits	282	398
Share-based payments	622	602
	2,771	2,707

SP DISTRIBUTION PLC
NOTES TO ACCOUNTS *continued*
31 December 2016

26 RELATED PARTY TRANSACTIONS *continued*

(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 the ScottishPower group, it has not been possible to apportion the remuneration specifically in respect of services to this company. All of the directors were remunerated by another ScottishPower group company in both years.

	2016	2015
	£000	£000
Executive directors		
Aggregate remuneration in respect of qualifying services	1,105	946
Number of directors who exercised share options	2	2
Number of directors who received shares under a long-term incentive scheme	3	2
Number of directors accruing retirement benefits under a defined benefit scheme	2	2
	2016	2015
	£000	£000
Highest paid director		
Aggregate remuneration	613	535
Accrued pension benefit	90	89

(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.

(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 SPENH.

Copies of the Consolidated Accounts of Iberdrola, S.A. may be obtained from Iberdrola, S.A. at its registered office; Torre Iberdrola, Plaza Euskadi 5, 48009, Bilbao, Spain. Copies of the Consolidated Accounts of SPENH may be obtained from Scottish Power Energy Networks Holdings Limited at its registered office; Ochil House, 10 Technology Avenue, Blantyre G72 0HT, Scotland.

27 AUDITORS' REMUNERATION

	2016	2015
	£m	£m
Audit of the company's annual accounts and regulatory accounts	0.1	0.1

28 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 £258.1 million and net assets of £857.6 million at its most recent balance sheet date.

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

On the basis of these considerations, the directors have a reasonable expectation that the company will be able to continue in operational existence for the foreseeable future. Therefore, they continue to adopt the going concern basis of accounting in preparing the Accounts.