SP Distribution Limited

Directors' Report and Accounts

for the period ended 31 December 2007

Registered No SC 189125

SP Distribution Limited

Directors' Report and Accounts
for the period ended 31 December 2007

Contents **Page**

SP Distribution Limited

Report of the Directors

The directors present their report and audited Accounts for the period from 1 April 2007 to 31 December 2007

Activities and review

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

The company has net current liabilities of £698 million at 31 December 2007 (31 March 2007 £679 million), which includes a loan due to parent undertakings of £557 million (31 March 2007 £601 million) The directors consider that sufficient funding will be made available to the company by Scottish Power UK plc, the immediate parent company, to continue operations and to meet liabilities as they fall due

Review of business and future development

The company has changed its accounting reference date to 31 December to match that of its ultimate parent undertaking, Iberdrola, S A , and therefore these Accounts are prepared for the period from 1 April 2007 to 31 December 2007

The financial position of the company at the period end was satisfactory The company is a distribution licence holder and operates in a regulated industry The majority of the revenue generated by the company is subject to regulation by the Gas and Electricity Markets Authority ("the Authority")

Revenues and gross margin for the nine month period 1 April 2007 to 31 December 2007, compared to the same period for 2006, have reduced due to lower Use of System ("UOS") revenues

Compared to the same period in 2006 the nine month operating profit to 31 December 2007 reduced due to the lower UOS revenues and higher depreciation of tangible fixed assets which was partially offset by operating cost reductions

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

Significant investment in the electricity network continued in the period with tangible fixed asset additions of £139 million In accordance with the allowed capital expenditure programme over the five year period of the Distribution Price Control, the capital expenditure programme focuses on network reinforcement, expansion and driving improved network performance

European Investment Bank ("EIB") loans of $35 million swapped into £21 million and £30 million are due for repayment in September 2008 and February 2009 respectively These repayments will be financed through loans from parent undertakings

Financial risks

The company's strategy is to conduct business in a manner benefiting customers through balancing costs and risks while delivering shareholder value and protecting the company's performance and reputation by prudently managing the risks inherent in the business

Revenue risk

The majority of the revenue generated by the company is subject to regulation by the Authority Regulatory controls include price controls which restrict the average amount, or total amount, charged for a bundle of services The Office of Gas and Electricity Markets, ("Ofgem") undertakes periodic price reviews on behalf of the Authority

Treasury and interest risk management

The company faces various financial risks The principal financial risks faced by the company are interest rate risk, foreign exchange rate risk and liquidity risk Treasury services are provided by the immediate parent company During the period the treasury focus continued to be to minimise interest costs and effectively manage both foreign exchange and interest rate risk

Exposure to fluctuating interest rates is managed by issuing a proportion of debt at fixed rates Interest rate risk is managed on a ScottishPower group wide basis The group's policies and procedures for managing interest rate risk have been included in the Annual Report & Accounts of Scottish Power UK (Holdings) Limited for the period ended 31 December 2007 Liquidity risk is managed by spreading debt maturities over a wide range of dates thereby ensuring that the company is not subject to excessive refinancing risk in any one year Derivative financial instruments are used to manage the risks identified The company currently has a cross currency swap which mitigates interest rate and foreign exchange risks inherent in the foreign currency debt issued by the company

Credit risk

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

SP Distribution Limited

Report of the Directors - continued

Results and dividend

The profit for the period amounted to £90 million (year ended 31 March 2007 £141 million) The aggregate dividends paid during the period amounted to £10 million (year ended 31 March 2007 £nil)

Directors

The directors who held office during the period were

Alan Bryce
Scott Mathieson

Creditor Payment Policy & Practice

The current policy and practice of Scottish Power Limited and its subsidiary undertakings ("ScottishPower group") concerning the payment of its trade creditors is to follow the Better Payment Practice Code to which it is a signatory Copies of the code may be obtained from the Department of Business, Enterprise and Regulatory Reform or from the website www payontime co uk

The company's policy and practice is to settle terms of payment when agreeing the terms of the transaction, to include the terms in contracts, and to pay in accordance with its contractual and legal obligations At the period end there were no trade creditors outstanding Therefore, the company's creditor days at 31 December 2007 were nil (31 March 2007 nil)

Statement of directors' responsibilities

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

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

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Disclosure of information to auditors

Each of the persons who is a director at the date of approval of this report confirms that

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

This confirmation is given and should be interpreted in accordance with the provisions of Section 234ZA of the Companies Act 1985

Auditors

Under Section 379A of the Companies Act 1985, the company has elected to dispense with the following obligations

- to lay accounts and reports before general meetings,
- to hold annual general meetings, and
- to appoint auditors annually

Ernst & Young LLP were appointed auditors of the company for the period ended 31 December 2007 in place of the retiring auditors, Deloitte & Touche LLP

By Order of the Board

Marie Ross
Secretary
27 March 2008

SP Distribution Limited

Accounting Policies and Definitions

Definitions

Revenue cost definitions

Cost of sales

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

Transmission and distribution costs

The cost of distributing units of electricity through the distribution network to electricity supply companies and other customers, and the costs associated with the operation and ownership of the network, including operational rates and insurance costs This heading is considered more appropriate to the electricity industry than the standard Companies Act 1985 heading of distribution costs

Administrative expenses

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

Other definitions

Company

SP Distribution Limited

ScottishPower

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

ScottishPower group

Scottish Power Limited and its subsidiary undertakings

Accounting Policies

Basis of accounting

The Accounts have been prepared under the historical cost convention, in accordance with applicable accounting standards in the UK and comply with the requirements of the Companies Act 1985

Cash flow statement

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

Turnover

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

Interest

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

Financial instruments

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

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

Taxation

Current tax

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

Deferred tax

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

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

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

SP Distribution Limited

Accounting Policies and Definitions - continued

Tangible fixed assets

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

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

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

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

Leased assets

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the term of the lease

Investments

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

Deferred income

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

SP Distribution Limited

Profit and Loss Account
for the period ended 31 December 2007

	Notes	**Nine months ended 31 December 2007 £m**	Year ended 31 March 2007 £m
Turnover		**265 3**	370 7
Cost of sales		**(20 4)**	(24 1)
Gross profit		**244.9**	346 6
Transmission and distribution costs		**(78 1)**	(108 3)
Administrative expenses		**(1 4)**	(2 5)
Other operating income		**5 6**	4 7
Operating profit	1	**171.0**	240 5
Exceptional item provision on loan with joint venture company	3		2 3
Interest payable and similar charges	4	**(33 7)**	(40 9)
Profit on ordinary activities before taxation		**137.3**	201 9
Taxation	5	**(47 7)**	(61 2)
Profit for the financial period/year		**89 6**	140 7

The above results relate to continuing operations

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

The Accounting Policies and Definitions on pages 3 and 4, together with the Notes on pages 8 to 14, form part of these Accounts

SP Distribution Limited

Reconciliation of Movements in Shareholder's Funds
for the period ended 31 December 2007

	Note	**Nine months ended 31 December 2007 £m**	Year ended 31 March 2007 £m
Profit for the financial period/year		**89.6**	140 7
Dividends	6	**(10 0)**	
Net movement in shareholder's funds		**79 6**	140 7
Opening shareholder's funds		**390.3**	249 6
Closing shareholder's funds		**469 9**	390 3

The Accounting Policies and Definitions on pages 3 and 4, together with the Notes on pages 8 to 14, form part of these Accounts

SP Distribution Limited

Balance Sheet
as at 31 December 2007

	Notes	31 December 2007 £m	31 March 2007 £m
Fixed assets			
Tangible assets	7	**1,715.4**	1,617 0
Investments	8		
		1,715 4	1,617 0
Current assets			
Debtors	9	**70.1**	64 1
Short term bank and other deposits		**0 8**	0 4
		70.9	64 5
Creditors· amounts falling due within one year			
Loans and other borrowings	10	**(578.1)**	(601 0)
Other creditors	11	**(191.0)**	(142 4)
		(769.1)	(743 4)
Net current liabilities		**(698.2)**	(678 9)
Total assets less current liabilities		**1,017.2**	938 1
Creditors. amounts falling due after more than one year			
Loans and other borrowings	10	**(78.0)**	(99 2)
Provisions for liabilities			
Deferred tax	12	**(172.9)**	(168 3)
Deferred income	13	**(296.4)**	(280 3)
Net assets		**469.9**	390 3
Called up share capital	14, 15	**109 6**	109 6
Profit and loss account	15	**360 3**	280 7
Shareholder's funds	15	**469.9**	390 3

The Accounting Policies and Definitions on pages 3 and 4, together with the Notes on pages 8 to 14, form part of these Accounts

Approved by the Board on 27 March 2008 and signed on its behalf by

Scott Mathieson

Scott Mathieson
Director

SP Distribution Limited

Notes to the Accounts
for the period ended 31 December 2007

1 Operatıng profit

Operatıng profit ıs stated after charging/(credıtıng).	Nine months ended 31 December 2007 £m	Year ended 31 March 2007 £m
Depreciatıon of tangıble fixed assets	**38 2**	49 4
Loss on dısposal of tangıble fixed assets	**2.3**	3 7
Release of deferred ıncome	**(6.7)**	(8 6)
Audıtors' remuneratıon for audıt of the company	**0 1**	0 1

Audıtors' remuneratıon for the audıt of the company was £77,000 (year ended 31 March 2007 £79,000) Audıtors' remuneratıon for other servıces comprıses fees for regulatory reportıng and amounted to £13,670 (year ended 31 March 2007 £16,000)

2 Employee informatıon

(a) Employee costs	Nine months ended 31 December 2007 £'000	Year ended 31 March 2007 £'000
Wages and salarıes	**183**	205
Socıal securıty costs	**18**	14
Other pensıon costs	**34**	47
Charged to the profit and loss account	**235**	266

The employee costs do not ınclude the dırectors of the company as they do not have a contract of servıce wıth the company The emoluments of all the dırectors are ıncluded wıthın the employee costs of other ScottıshPower group companıes

(b) Employee numbers

The perıod/year end and average numbers of employees (full tıme and part tıme) employed by the company were

	At perıod/year end		Average	
			Nine months ended	Year ended
	31 December 2007	31 March 2007	**31 December 2007**	31 March 2007
Admınıstratıve	7	4	5	5

The perıod/year end and average numbers of full tıme equıvalent staff employed by the company were

	At perıod/year end		Average	
			Nıne months ended	Year ended
	31 December 2007	31 March 2007	**31 December 2007**	31 March 2007
Admınıstratıve	7	4	5	5

(c) Dırectors' emoluments

Detaıls of the dırectors' emoluments are set out ın Note 18

3 Exceptional item

	Nine months ended 31 December 2007 £m	Year ended 31 March 2007 £m
Recognısed after operating profit:		
Provısıon on loan wıth joınt venture company		2 3
Total recognised after operatıng profit		2 3

Provısıon on loan wıth joınt venture company

On 31 March 2006, SESL, a company joıntly owned by SP Dıstrıbutıon Lımıted and Scottısh and Southern Lımıted, ceased to trade An applıcatıon has been made to remove SESL from the regıster of companıes

SP Dıstrıbutıon Lımıted provıded financıal support to SESL Durıng the year ended 31 March 2007, the company receıved ıts share of the tax losses from SESL for the sum of £2 3 mıllıon

The exceptıonal ıtem was not taxable

SP Distribution Limited

Notes to the Accounts
for the period ended 31 December 2007 - continued

4 Interest payable and similar charges

Analysis of interest payable and similar charges	Nine months ended 31 December 2007 £m	Year ended 31 March 2007 £m
Interest payable on external borrowings	4 2	5 6
Interest payable on group loans	29.5	35 3
Interest payable and similar charges	33 7	40 9

5 Taxation

	Note	Nine months ended 31 December 2007 £m	Year ended 31 March 2007 £m
Current tax			
UK Corporation tax		38 0	56 3
Adjustments in respect of prior years		5 1	
Total current tax for period/year		43 1	56 3
Deferred tax			
Origination and reversal of timing differences @ 30%		3 4	4 9
Impact of rate change on deferred tax		(0 2)	
		3 2	4 9
Adjustments in respect of prior years		13 5	
Impact of rate change on opening deferred tax		(12.1)	
Total deferred tax for period/year	12	4 6	4 9
Total tax on profit on ordinary activities		47 7	61 2

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

	Nine months ended 31 December 2007 £m	Year ended 31 March 2007 £m
UK Corporation tax at 30%	41.2	60 6
Adjustments in respect of prior years	18 6	
Impact of change of rate on deferred tax	(12.3)	
Permanent differences	0 2	0 6
Tax charge (current and deferred)	47 7	61 2
Effect of deferred tax	(4 6)	(4 9)
Current tax charge for the period/year	43 1	56 3

6 Dividends

	Nine months ended 31 December 2007 £m	Year ended 31 March 2007 £m
Final dividend paid	10.0	
Total dividends paid	10 0	

SP Distribution Limited

Notes to the Accounts

for the period ended 31 December 2007 continued

7 Tangible fixed assets

	Land and buildings £m	Plant and machinery £m	Vehicles and equipment £m	Total £m
Cost				
At 1 April 2007	116 8	2,185 8	42 0	2,344 6
Additions	3 5	131 6	4 0	139 1
Disposals		(10 6)	(0 1)	(10 7)
At 31 December 2007	**120.3**	**2,306 8**	**45 9**	**2,473 0**
Depreciation.				
At 1 April 2007	45 6	646 2	35 8	727 6
Charge for the period	1 7	36 0	0 5	38 2
Disposals		(8 1)	(0 1)	(8 2)
At 31 December 2007	**47.3**	**674.1**	**36 2**	**757 6**
Net book value				
At 31 December 2007	**73.0**	**1,632 7**	**9 7**	**1,715 4**
At 1 April 2007	71 2	1,539 6	6 2	1,617 0

Included in the cost of tangible fixed assets above are	Note	**31 December 2007 £m**	31 March 2007 £m
Assets in the course of construction		**155 0**	118 1
Other assets not subject to depreciation	(a)	**9.4**	9 1

(a) Other assets not subject to depreciation are land

(b) Land and buildings held by the company are freehold

(c) The historical cost of fully depreciated tangible fixed assets still in use was £127 4 million (31 March 2007 £130 9 million)

8 Fixed asset investments

	Note	Joint venture Shares £	Other unlisted investments £	Total **£**
(a) Cost				
At 1 April 2007		1	6,473	6,474
Additions	(i)		1	1
At 31 December 2007		**1**	**6,474**	**6,475**

(i) On 5 April 2007 SP Distribution Limited acquired one ordinary share in DCUSA Limited

(b) Shares in joint venture

Joint venture	Place of incorporation or registration	Class of share capital	Proportion of shares held	Activity
Scottish Electricity Settlements Limited*	Scotland	Ordinary shares £1	50%	Scottish electricity settlements

* The aggregate amount of capital and reserves of SESL at 31 March 2006, this being the latest date at which audited accounts are available, was a deficit of £10 3 million and its loss for the year then ended was £3 4 million

SESL ceased to trade on 31 March 2006 and an application has been made to remove the company from the register of companies At the time the application was made the value of share capital and deficit on reserves of the company netted to £nil and therefore the net assets of the company are £nil

9 Debtors

	31 December 2007 £m	31 March 2007 £m
Amounts falling due within one year		
Trade debtors	**14.3**	13 3
Prepayments and accrued income	**23 4**	15 2
Amounts owed by fellow subsidiary undertakings	**30 2**	31 9
Other debtors	**2 2**	3 7
	70 1	64 1

10 Loans and other borrowings

(a) Analysis by instrument	Notes	31 December 2007 £m	31 March 2007 £m
European Investment Bank loans	(i)	**99 2**	99 2
Loan from parent undertaking	(ii)	**556 9**	601 0
		656 1	700 2

	31 December 2007 £m	31 March 2007 £m
Loans and other borrowings are repayable as follows		
Within one year, or on demand	**578 1**	601 0
After more than one year	**78 0**	99 2
	656 1	700 2

All borrowings are unsecured

(i) There are three EIB loans The loan amounts, interest rates and maturity dates are as follows $35 million (swapped into £21 2 million at 4 9%) maturing 16 September 2008, £30 million at 5 0% maturing 3 February 2009 and £48 million at 6 3% maturing 24 March 2010

(ii) The loan from the parent undertaking represents drawings under a working capital facility provided by Scottish Power UK plc The principal outstanding, accrued interest and associated costs are repayable on written demand Interest is calculated at a rate of 1% above base rate and is payable quarterly in arrears There are no other committed facilities within the company at 31 December 2007

(b) Maturity analysis	31 December 2007 £m	31 March 2007 £m
Repayments fall due as follows:		
Within one year, or on demand	**578.1**	601 0
Between one and two years	**30 0**	51 2
Between two and three years	**48 0**	48 0
	656 1	700 2

The company has entered into a cross currency interest rate swap to manage the interest rate and currency profile of the $35 million EIB loan As at 31 December 2007 the fair value of this derivative financial instrument was £3 9 million loss (31 March 2007 £3 2 million loss)

SP Distribution Limited

Notes to the Accounts
for the period ended 31 December 2007 - continued

11 Other creditors

	31 December 2007 £m	31 March 2007 £m
Amounts falling due within one year		
Amounts owed to group undertakings	0.9	
Amounts owed to parent undertaking	9.3	8 7
Amounts owed to fellow subsidiary undertakings	48 1	51 7
Corporate tax	94 0	50 9
Other taxes and social security	6 5	6 7
Payments received on account	28 6	22 3
Other creditors and accruals	3 6	2 1
	191 0	142 4

The majority of trade creditors are dealt with by SP Power Systems Limited, a fellow subsidiary company responsible for the provision of asset management services to the company At 31 December 2007, the company had no amounts due to trade creditors (31 March 2007 £nil)

12 Provisions for liabilities Deferred tax

Deferred tax provided in the Accounts is as follows	31 December 2007 £m	31 March 2007 £m
Accelerated capital allowances	172.9	168 3
	172 9	168 3

	Note	£m
Deferred tax provided at 1 April 2007		168 3
Charge to profit and loss account	5	4 6
Deferred tax provided at 31 December 2007		**172 9**

The UK 2007 Finance Bill proposed a change in the rate of corporate taxation effective from 1 April 2008 The change was included in the UK 2007 Finance Act reducing the rate of corporation tax from 30% to 28% and is therefore substantively enacted as at the balance sheet date Accordingly the deferred tax balance has been calculated at the rate of 28% being the rate at which it is expected the timing differences will reverse

13 Deferred income

	1 April 2007 £m	Receivable during period £m	Released to profit and loss account £m	31 December 2007 £m
Customer contributions	280 3	22 8	(6 7)	**296 4**

14 Share capital

	31 December 2007 £m	31 March 2007 £m
Authorised		
200,000,000 (31 March 2007 200,000,000) ordinary shares of £1 each	**200 0**	200 0
Allotted, called up and fully paid.		
109,600,000 (31 March 2007 109,600,000) ordinary shares of £1 each	**109.6**	109 6

SP Distribution Limited

Notes to the Accounts

for the period ended 31 December 2007 - continued

15 Analysis of movements in shareholder's funds

	Share capital £m	Profit and loss account £m	Total £m
At 1 April 2007	109 6	280 7	390 3
Profit for the period		89 6	89 6
Dividends		(10 0)	(10 0)
At 31 December 2007	**109.6**	**360.3**	**469.9**

16 Contingent liabilities

As part of the exercise to achieve legal separation of Scottish Power UK plc's businesses pursuant to the provisions of the Utilities Act 2000, SP Distribution Limited and other subsidiary companies of Scottish Power UK plc were each required to jointly provide guarantees to external lenders to Scottish Power UK plc for debt existing in that company at 1 October 2001 The value of debt guaranteed by these companies, which was still outstanding at 31 December 2007, was £1,973 0 million (31 March 2007 £1,966 2 million)

17 Financial commitments

(a) Capital commitments	31 December 2007 £m	31 March 2007 £m
Contracted but not provided	**132 6**	181 7

(b) Other contractual commitments	31 December 2007 £m	31 March 2007 £m
Provision of asset management services from SP Power Systems Limited	**13 6**	32 6

The contract in place for the provision of asset management services provided by SP Power Systems Limited at 31 December 2007 and at 31 March 2007 expires on 31 March 2011

18 Directors' emoluments

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

Executive directors	Nine months ended 31 December 2007 £'000	Year ended 31 March 2007 £'000
Basic salary	**206**	279
Bonuses	**123**	263
Benefits in kind	**7**	13
Compensation/payment in lieu of notice		157
Total	**336**	712

Included within the above amounts for the nine months ended 31 December 2007 are emoluments in respect of Alan Bryce and Scott Mathieson which were paid by other companies within the ScottishPower group Included within the above amounts for the year ended 31 March 2007 are emoluments in respect of Alan Bryce, Scott Mathieson and David Rutherford which were paid by other companies within the ScottishPower group Consequently, for both the nine months ended 31 December 2007 and the year ended 31 March 2007 these amounts are not included within "Employee costs" in Note 2(a)

Two directors (year ended 31 March 2007 three) have retirement benefits accruing under ScottishPower's defined benefit pension scheme

Two directors (year ended 31 March 2007 two) exercised share options over Scottish Power plc shares in the period

Two directors (year ended 31 March 2007 two) received shares during the period under the Long Term Incentive Plan

Notes to the Accounts

for the period ended 31 December 2007 - continued

18 Directors' emoluments (continued)

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

Highest paid director	Nine months ended 31 December 2007 £'000	Year ended 31 March 2007 £'000
Basic salary	143	175
Bonus	94	200
Benefits in kind	4	8
Compensation/payment in lieu of notice		157
Total	**241**	540

The highest paid director exercised share options over Scottish Power plc shares during the period ended 31 December 2007 and the year ended 31 March 2007

The highest paid director received shares under the Long Term Incentive Plan during the period ended 31 December 2007 and the year ended 31 March 2007

The amount of pension benefit accrued at the end of the period for the highest paid director is £81,961 (31 March 2007 £71,852)

19 Related party transactions

Funding transactions and balances arising in the normal course of business

Type of related party	Name of related party	Interest receivable by the company during the period/year ended 31 December 2007 £m	31 March 2007 £m	Amounts due to the company as at 31 December 2007 £m	31 March 2007 £m
50% owned joint venture	Scottish Electricity Settlements Limited				5 1

At 31 December 2007 SP Distribution Limited owned 50% of the share capital of SESL, as detailed in Note 8 SESL ceased to trade on 31 March 2006 and an application has been made to remove the company from the register of companies

Amounts due to the company as at 31 March 2007 represented the outstanding balance on a long term loan with SESL The balance was not expected to be recovered and as a result has been fully provided for

In the period from 1 April 2007 to 23 April 2007, ScottishPower had ultimate control over the company On 23 April 2007, ScottishPower was acquired by Iberdrola, S A From that date Iberdrola, S A had ultimate control over the company The company has taken an exemption, as allowed by FRS 8 'Related party disclosures', not to disclose related party transactions with other group companies in the Iberdrola, S A group as that company publishes full statutory consolidated accounts

20 Ultimate parent company

The directors regard Iberdrola, S A as the ultimate parent company, which is also the parent company of the largest group in which the results of the company are consolidated The parent company of the smallest group in which the results of the company are consolidated is Scottish Power UK plc Copies of the Consolidated Accounts of Iberdrola, S A may be obtained from Iberdrola, S A , Calle Gardoqui 8, Bilbao, Spain Copies of the consolidated Accounts of Scottish Power UK plc may be obtained from The Secretary, Scottish Power Limited, 1 Atlantic Quay, Glasgow, G2 8SP

SP Distribution Limited

Independent Auditors' Report to the shareholder of SP Distribution Limited

We have audited the company's financial statements (the "financial statements") for the period ended 31 December 2007 which comprise the Profit and Loss Account, the Reconciliation of Movements in Shareholder's Funds, the Balance Sheet and the related notes 1 to 20 These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the company's member, in accordance with Section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the company's member those matters we are required to state to the member in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's member, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of the company's profit for the period then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Glasgow

27th March 2008.