

**SP DISTRIBUTION LIMITED
DIRECTORS' REPORT AND ACCOUNTS**

for the year ended 31 December 2011

Registered No. SC189125



SP DISTRIBUTION LIMITED

DIRECTORS' REPORT AND ACCOUNTS for the year ended 31 December 2011

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SP DISTRIBUTION LIMITED DIRECTORS' REPORT

The directors present their report and audited Accounts for the year ended 31 December 2011.

ACTIVITIES AND REVIEW

The principal activity of SP Distribution Limited ("the company"), registered company number SC189125, is the ownership of the electricity distribution network within the 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 ultimate parent of the company is Iberdrola, S.A. ("Iberdrola") which is listed on the Madrid stock exchange. Scottish Power Limited and its subsidiaries ("ScottishPower"), the United Kingdom ("UK") operations of Iberdrola, operates on divisional lines and the activities of the company fall within the Energy Networks division ("Energy Networks").

On 1 July 2011, as part of an Iberdrola group ("group") restructuring exercise to align the operational structure of ScottishPower with the operational structure of Iberdrola, ownership of the company and its subsidiary were transferred from Scottish Power UK plc ("SPUK") to Scottish Power Energy Networks Holdings Limited ("SPENH"), an immediate subsidiary of SPUK.

During the year, the company was allotted the entire share capital of a newly-incorporated subsidiary, SPD Finance UK plc ("SPDF") for £50,000. Following incorporation, SPDF issued a £350 million Eurobond and loaned the proceeds of this issue to the company. The company used the net proceeds of £346 million to repay its existing intercompany loan of £350 million with SPUK.

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

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

The company currently operates in accordance with The Office of the Gas and Electricity Markets ("Ofgem") Electricity Distribution Price Control 5 ("DPC5"), which applies from 1 April 2010 to 31 March 2015. On 6 February 2012, Ofgem issued an open letter consultation on the next price control "RIIO ED-1" (Revenue = Incentives + Innovation + Outputs Electricity Distribution 1), which will replace the current price control on 1 April 2015. The final price control proposal for RIIO ED-1 is expected to be published in November 2014 and the company will engage closely and constructively with Ofgem throughout the review.

KEY FACTORS AFFECTING THE BUSINESS

The company's objectives to manage the key drivers impacting financial performance are as follows:

- Deliver returns at, or in excess of, DPC5's regulatory return
- Deliver investment programmes and operational improvements
- Improve security of supply and network performance

These objectives must be achieved within the conditions of the Price Control review set by Ofgem.

MANAGEMENT OF RISKS

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

SP DISTRIBUTION LIMITED

DIRECTORS' REPORT *continued*

OPERATIONAL ASSETS OF THE COMPANY

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

The table below provides key non-financial information relating to the company's operational assets during the year ended 31 March 2011:

	Year ended 31 March 2011	Year ended 31 March 2010
Franchise area (km ²)	22,950	22,950
System maximum demand (MW)	4,024	3,952
Distributed energy (GWh)	20,023	20,321
Length of overhead lines (km)	20,971	21,245
Length of underground cables (km)	42,302	42,507

OPERATIONAL PERFORMANCE OF THE COMPANY

The table below provides key non-financial information relating to the company's performance during the year ended 31 March 2011:

		Actual Year ended 31 March 2011	Target Year ended 31 March 2011	Actual Year ended 31 March 2010	Target Year ended 31 March 2010
	Notes				
Quality of service					
Customer minutes lost ("CML")	(a),(c)	49.5	65.5	51.5	50.4
Customer interruptions ("CI")	(b),(c)	50.8	60.1	51.7	60.8
Average time off supply (minutes)		97	109	100	82
Electricity supply availability		99.99%	99.99%	99.99%	99.99%
Quality of response (mean score)	(d)	4.4	4.4	4.3	4.4
Customer performance					
Energy Ombudsman (customer complaints)	(e)	3	-	4	-

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

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

(c) During the winter of 2010/11, the supply of energy to customers was disrupted by two storm events; November and February. These events met the 'exceptional event' exclusions criteria that Ofgem have applied to previous events of this kind. The above CML and CI values have been adjusted accordingly to reflect the underlying performance of the network as measured and incentivised by Ofgem. During 2009/10 there was one exceptional storm event.

(d) Quality of Response assesses the speed and quality of telephone response, measuring customer satisfaction on a scale of 1 to 5. This is then weighted by a factor of customers who are unsuccessful in contacting the company on its emergency line.

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

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

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

SP DISTRIBUTION LIMITED

DIRECTORS' REPORT *continued*

OPERATIONAL FINANCIAL PERFORMANCE

The company's profit from operations was £222.0 million, a decrease of £23.7 million compared to the prior year, and net profit was £166.5 million, a decrease of £5.6 million compared to the prior year.

Revenue decreased on the prior year as allowed revenues, as determined under DPC5, reflect a lower revenue profile.

Procurements have increased mainly due to the inclusion of Low Carbon Network Fund costs in the current year.

Outside services have increased on the prior year primarily as a result of higher recharges from SPPS for the provision of asset management services.

Other operating income has decreased on the prior year as a result of lower insurance reimbursement income.

Taxes other than income tax have increased on the prior year due to an increase in property taxes following a rates revaluation.

Depreciation and amortisation charge, allowances and provisions has increased on the prior year partly due to increased provisions for environmental costs. In addition, the ongoing capital additions being brought into use during 2011, increased the cost base for depreciation.

Net finance costs were higher compared to the prior year mainly due to the intercompany loan from SPUK being repaid with the proceeds of a similar loan from SPDF which bears a higher interest rate.

The **income tax expense** has decreased compared to the prior year due to a decrease in taxable profits and the impact of reducing corporation tax rates.

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

RESULTS AND DIVIDENDS

The net profit for the year amounted to £166.5 million (2010 £172.1 million). The aggregate dividends paid during the year amounted to £95.0 million (2010 £55.0 million).

FINANCING REVIEW

Capital and debt structure

The company is funded by a combination of debt and equity in accordance with the directors' objectives of establishing an appropriately funded business consistent with the requirements of the Utilities Act 2000 and the objectives of the Iberdrola group. All the equity is held by the company's immediate parent undertaking, SPENH. During the year, the company entered into a 15-year fixed rate loan agreement with SPDF, following the issue of a £350 million Eurobond by SPDF. The proceeds of this loan from SPDF were used by the company to repay its existing £350 million intercompany loan with SPUK. The company has unconditionally and irrevocably guaranteed the £350 million debt issued by SPDF.

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

Treasury and interest policy

Treasury services are provided by Scottish Power Limited ("SPL"), the ultimate UK parent company. The ScottishPower group 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 the ScottishPower group and how it manages them is included in the most recent Directors' Report and Accounts of Scottish Power UK Holdings Limited ("SPUKH").

SP DISTRIBUTION LIMITED

DIRECTORS' REPORT *continued*

FINANCING REVIEW *continued*

Funding

At the end of the year the company had net debt of £479.5 million (2010 £474.9 million).

Liquidity

The directors confirm that the company remains a going concern on the basis of its future cash flow forecasts and has sufficient working capital for present requirements. It is anticipated that the company will continue to have a level of liquidity at least sufficient to maintain an investment grade credit rating. The directors consider that sufficient funding will be made available to the company to continue operations and to meet liabilities as they fall due. Further details of the going concern considerations made by the directors of the company are set out in Note 27.

UK ELECTRICITY REGULATION

The Utilities Act 2000, which defines the regulatory framework within which the company's electricity distribution business must operate, replaced individual gas and electricity regulators with one regulatory authority, the Gas and Electricity Markets Authority ("GEMA"). GEMA is supported by Ofgem, a non-ministerial UK Government department. Ofgem is responsible for monitoring compliance with the conditions of licences and, where necessary, enforcing them through procures laid down in the Electricity Act 1989, as amended by the Utilities Act 2000, on behalf of GEMA.

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

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

The main incentive schemes operated by Ofgem in the DPC5 focus on:

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

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

On 6 February 2012, Ofgem issued an open letter consultation on the next price control "RIIO ED-1" (Revenue = Incentives + Innovation + Outputs Electricity Distribution 1), which will replace the current price control on the 1 April 2015. The final price control proposal for RIIO ED-1 is expected to be published in November 2014 and the company will engage closely and constructively with Ofgem throughout the review.

SP DISTRIBUTION LIMITED

DIRECTORS' REPORT *continued*

EMPLOYEES

Employment regulation

ScottishPower has well-defined policies in place throughout its businesses to ensure compliance with applicable laws and related codes of practice. These policies cover a wide range of employment issues such as disciplinary action, grievance, harassment, discrimination, stress and 'whistle-blowing' and have been brought together in the Code of Ethics of Iberdrola and its group of companies (which also outlines expectations for employees' conduct). Further policies and measures were introduced in 2011 to ensure ScottishPower complies with the Bribery Act 2010.

Employee consultation

Regular consultation takes place on key business initiatives of issues raised by employees using a variety of means, including monthly team meetings, team managers' conferences, business unit road shows, safety committees, presentations and employee magazines. ScottishPower believes that an important element of a positive working experience is stable employee and industrial relations; it recognises the legitimacy of trade union involvement and has formal agreements in place to foster open, two-way communication and consultation. Positive relationships and ongoing liaison with employees and their representatives are seen as contributing significantly to achieving the performance objectives of the ScottishPower businesses.

Equal opportunities

ScottishPower is committed to equal opportunities for all, irrespective of age, disability, gender reassignment, race, religion or belief, sex, sexual orientation, marriage and civil partnership, pregnancy and maternity or other considerations that do not affect a person's ability to perform their job. Further details of ScottishPower's workplace policy and performance can be found in the 'Corporate Responsibility' section at www.scottishpower.com.

Employment of disabled persons

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

Positive about disabled people - double tick accreditation

ScottishPower is a disability positive organisation and in February 2011 was re-accredited and retained the double tick symbol, which recognises the positive action and good practices the organisation has continuously adopted to ensure the required commitments to good employment practice specified by Jobcentre Plus are being met in areas such as recruitment and selection, career development, consultation, retention and redeployment of disabled people.

ENVIRONMENTAL REGULATION

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

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 Directors' Report and Accounts of SPUKH.

SP DISTRIBUTION LIMITED

DIRECTORS' REPORT *continued*

DIRECTORS

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

Scott Mathieson
Frank Mitchell

CREDITOR PAYMENT POLICY AND PRACTICE

ScottishPower's policy and practice is to settle terms of payment when agreeing the terms of the transaction, to include the terms in contracts and to pay in accordance with its contractual and legal obligations. At the year-end there were no of trade creditors outstanding. Therefore the company's creditor days were nil (2010 nil).

DIRECTORS' RESPONSIBILITIES FOR THE ACCOUNTS

The directors are responsible for preparing the Directors' Report and Accounts in accordance with applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("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 Directors' Report and Accounts confirms that:

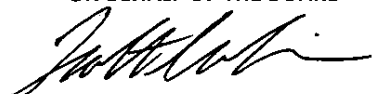
- so far as he is aware, there is no relevant audit information of which the company's auditors are unaware; and
- he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware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

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

AUDITORS

Ernst & Young LLP were re-appointed auditors of the company for the year ended 31 December 2011.

ON BEHALF OF THE BOARD



Scott Mathieson
Director
25 May 2012

INDEPENDENT AUDITORS' REPORT

to the member of SP Distribution Limited

We have audited the Accounts of SP Distribution Limited for the year ended 31 December 2011 which comprise the Balance Sheet, Income Statement, Statement of Changes in Equity, Cash Flow Statement, and the related notes 1 to 27. 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's member as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the Accounts and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Accounts in accordance with the applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE ACCOUNTS

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

OPINION ON ACCOUNTS

In our opinion the Accounts:

- give a true and fair view of the state of the company's affairs as at 31 December 2011 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 the information given in the Directors' Report for the financial year for which the Accounts are prepared is consistent with the Accounts.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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


Christabel Cowling (Senior Statutory Auditor)

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

Glasgow

25 May 2012

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SP DISTRIBUTION LIMITED

BALANCE SHEETS

as at 31 December 2011 and 31 December 2010

	Notes	2011 £m	2010 £m
ASSETS			
NON-CURRENT ASSETS			
Intangible assets		3.0	4.4
Other intangible assets	3	3.0	4.4
Property, plant and equipment	4	2,183.8	2,060.8
Property, plant and equipment in use		1,921.0	1,802.7
Property, plant and equipment in course of construction		262.8	258.1
Investments	5	0.1	-
NON-CURRENT ASSETS		2,186.9	2,065.2
CURRENT ASSETS			
Trade and other receivables	8	86.4	112.1
CURRENT ASSETS		86.4	112.1
TOTAL ASSETS		2,273.3	2,177.3
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the Parent		1,027.9	956.4
Share capital	9,10	300.0	300.0
Retained earnings	10	727.9	656.4
TOTAL EQUITY		1,027.9	956.4
NON-CURRENT LIABILITIES			
Deferred income	11	384.7	354.7
Bank borrowings and other financial liabilities		495.8	500.0
Loans and other borrowings	12	495.8	500.0
Trade and other payables	13	9.3	13.9
Deferred tax liabilities	14	210.2	214.8
NON-CURRENT LIABILITIES		1,100.0	1,083.4
CURRENT LIABILITIES			
Provisions	15	4.8	3.0
Bank borrowings and other financial liabilities		0.2	-
Loans and other borrowings	12	0.2	-
Trade and other payables	13	123.3	105.1
Current tax liabilities		17.1	29.4
CURRENT LIABILITIES		145.4	137.5
TOTAL LIABILITIES		1,245.4	1,220.9
TOTAL EQUITY AND LIABILITIES		2,273.3	2,177.3

Approved by the Board on 25 May 2012 and signed on its behalf by:



Scott Mathieson
Director

The accompanying notes 1 to 27 are an integral part of the balance sheets for the years ended 31 December 2011 and 31 December 2010.

SP DISTRIBUTION LIMITED**INCOME STATEMENTS**

for the years ended 31 December 2011 and 31 December 2010

	Notes	2011 £m	2010 £m
Revenue		377.1	386.0
Procurements		(15.6)	(11.8)
		361.5	374.2
Staff costs	16	(0.7)	(0.6)
Outside services		(49.6)	(48.1)
Other operating income		23.9	24.7
		(26.4)	(24.0)
Taxes other than income tax		(38.7)	(35.1)
		296.4	315.1
Depreciation and amortisation charge, allowances and provisions	17	(74.4)	(69.4)
PROFIT FROM OPERATIONS		222.0	245.7
Gains on disposal of non-current assets		-	0.3
Finance income	18	1.6	1.4
Finance costs	19	(21.1)	(19.4)
PROFIT BEFORE TAX		202.5	228.0
Income tax	20	(36.0)	(55.9)
NET PROFIT FOR THE YEAR	10	166.5	172.1

Net profit for the current and prior year is wholly attributable to the equity holders of SP Distribution Limited.

All results relate to continuing operations.

The accompanying notes 1 to 27 are an integral part of the income statements for the years ended 31 December 2011 and 31 December 2010.

SP DISTRIBUTION LIMITED**STATEMENTS OF CHANGES IN EQUITY**

for the years ended 31 December 2011 and 31 December 2010

	Ordinary share capital £m	Retained earnings £m	Total equity £m
At 1 January 2010	300.0	539.3	839.3
Total comprehensive income for the year	-	172.1	172.1
Dividends	-	(55.0)	(55.0)
At 1 January 2011	300.0	656.4	956.4
Total comprehensive income for the year	-	166.5	166.5
Dividends	-	(95.0)	(95.0)
At 31 December 2011	300.0	727.9	1,027.9

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

The accompanying notes 1 to 27 are an integral part of the statements of changes in equity for the years ended 31 December 2011 and 31 December 2010.

SP DISTRIBUTION LIMITED**CASH FLOW STATEMENTS**

for the years ended 31 December 2011 and 31 December 2010

	2011 £m	2010 £m
Cash flows from operating activities		
Profit before tax	202.5	228.0
Adjustments for:		
Depreciation and amortisation	68.8	67.1
Change in provisions	2.1	1.4
Transfer of assets from customers	(11.1)	(11.0)
Finance income and costs	19.5	18.0
Net losses/(gains) on write-off/disposal of non-current assets	1.0	(0.3)
Changes in working capital:		
Change in trade and other receivables	17.2	(21.7)
Change in trade and other payables	18.3	21.2
Provisions paid	(0.3)	-
Assets received from customers	41.1	23.5
Income taxes paid	(52.9)	(40.0)
Interest received	1.5	1.0
Net cash flows from operating activities (i)	307.7	287.2
Cash flows from investing activities		
Investments in subsidiaries	(0.1)	-
Investments in property, plant and equipment	(190.5)	(170.8)
Proceeds from disposal of property, plant & equipment	-	0.7
Net cash flows from investing activities (ii)	(190.6)	(170.1)
Cash flows from financing activities		
Decrease in amounts due from Iberdrola group companies	(4.2)	-
Repayments of borrowing	-	(48.0)
Dividends paid to company's equity holders	(95.0)	(55.0)
Interest paid	(26.7)	(24.6)
Net cash flows from financing activities (iii)	(125.9)	(127.6)
Net decrease in cash and cash equivalents (i)+(ii)+(iii)	(8.8)	(10.5)
Cash and cash equivalents at beginning of year	25.1	35.6
Cash and cash equivalents at end of year	16.3	25.1
Cash and cash equivalents at end of year comprises:		
Bank overdraft	(0.2)	-
Receivables due from Iberdrola group companies - loans	16.5	25.1
Cash flow statement cash and cash equivalents	16.3	25.1

The accompanying notes 1 to 27 are an integral part of the cash flow statements for the years ended 31 December 2011 and 31 December 2010.

SP DISTRIBUTION LIMITED

NOTES TO THE ACCOUNTS

31 December 2011

1 BASIS OF PREPARATION OF THE ACCOUNTS

The company is required by law to prepare accounts and to deliver them to the Registrar of Companies. The Accounts have been prepared in accordance with International Accounting Standards ("IAS"), International Financial Reporting Standards ("IFRSs") and International Finance Reporting Interpretations Committee ("IFRIC") Interpretations (collectively referred to as IFRS), as adopted by the EU as at the date of approval of these Accounts and which are mandatory for the financial year ended 31 December 2011. The Accounts are prepared in accordance with the Accounting Policies set out in Note 2.

The Accounts contain information about SP Distribution Limited 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.

In previous accounting periods, certain deposits received from Iberdrola group companies were presented within 'trade and other payables' as a current liability. Following a review of the treatment of these deposits, such amounts received are included within 'trade and other payables' as a non-current liability for the year ended 31 December 2011, and prior year amounts (2010 £13.9 million) have been restated accordingly. This change in balance sheet presentation has no impact on the company's net profit or net assets in both the current and prior years.

2 ACCOUNTING POLICIES

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

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

A. REVENUE

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

B. INTANGIBLE ASSETS (COMPUTER SOFTWARE COSTS)

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

C. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost and is generally depreciated on the straight-line method over the estimated operational lives of the assets. Property, plant and equipment includes capitalised employee and other directly attributable costs. Borrowing costs directly attributable to the 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 as set out below.

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

SP DISTRIBUTION LIMITED

NOTES TO THE ACCOUNTS *continued*

31 December 2011

2 ACCOUNTING POLICIES *continued*

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.

E. FINANCIAL ASSETS AND LIABILITIES

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

(b) 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.

F. TRANSFERS OF ASSETS FROM CUSTOMERS

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

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

G. TAXATION

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

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

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

SP DISTRIBUTION LIMITED

NOTES TO THE ACCOUNTS *continued*

31 December 2011

3 INTANGIBLE ASSETS

	Other intangible assets - Computer software £m
Year ended 31 December 2010	
Cost:	
At 1 January 2010 and 31 December 2010	15.9
Amortisation:	
At 1 January 2010	9.7
Amortisation for the year	1.8
At 31 December 2010	11.5
Net book value:	
At 31 December 2010	4.4
At 1 January 2010	6.2
	Other intangible assets - Computer software £m
Year ended 31 December 2011	
Cost:	
At 1 January 2011 and 31 December 2011	15.9
Amortisation:	
At 1 January 2011	11.5
Amortisation for the year	1.4
At 31 December 2011	12.9
Net book value:	
At 31 December 2011	3.0
At 1 January 2011	4.4

4 PROPERTY, PLANT AND EQUIPMENT

(a) Movements in property, plant and equipment

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

The net book value of property, plant and equipment at 31 December 2010 is analysed as follows:

Property, plant and equipment in use	1,691.7	101.6	9.4	-	-	1,802.7
Property, plant and equipment in the course of construction	-	-	-	258.1	-	258.1
At 31 December 2010	1,691.7	101.6	9.4	258.1	-	2,060.8

SP DISTRIBUTION LIMITED

NOTES TO THE ACCOUNTS *continued*

31 December 2011

4 PROPERTY, PLANT AND EQUIPMENT *continued*

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

	Operating plant - distribution facilities £m	Operating plant - other (note (i)) £m	Other items of property, plant and equipment in use £m	Operating plant in progress (note (ii)) £m	Total £m
Year ended 31 December 2011					
Cost:					
At 1 January 2011	2,417.1	243.1	33.3	258.1	2,951.6
Additions	-	6.3	-	185.1	191.4
Transfers from in progress to plant in use	179.5	0.2	0.7	(180.4)	-
Disposals	(7.0)	(1.6)	-	-	(8.6)
At 31 December 2011	2,589.6	248.0	34.0	262.8	3,134.4
Depreciation:					
At 1 January 2011	725.4	141.5	23.9	-	890.8
Charge for the year	49.4	17.0	1.0	-	67.4
Disposals	(6.4)	(1.2)	-	-	(7.6)
At 31 December 2011	768.4	157.3	24.9	-	950.6
Net book value:					
At 31 December 2011	1,821.2	90.7	9.1	262.8	2,183.8
At 1 January 2011	1,691.7	101.6	9.4	258.1	2,060.8

The net book value of property, plant and equipment at 31 December 2011 is analysed as follows:

Property, plant and equipment in use	1,821.2	90.7	9.1	-	1,921.0
Property, plant and equipment in the course of construction	-	-	-	262.8	262.8
At 31 December 2011	1,821.2	90.7	9.1	262.8	2,183.8

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

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

(iii) The cost of fully depreciated property, plant and equipment still in use at 31 December 2011 was £118.6 million (2010 £115.5 million).

(iv) Included within the cost of property, plant and equipment are assets in use not subject to depreciation, being land of £7.1 million (2010 £7.2 million).

(b) Operating lease arrangements

	2011 £m	2010 £m
Operating lease payments		
Minimum lease payments under operating leases recognised as an expense in the year	0.1	-
Contingent based operating lease rents recognised as an expense in the year	-	0.1
Sublease payments recognised as an expense in the year	0.1	0.1
	0.2	0.2

Operating lease payments

The future minimum lease payments under non-cancellable operating leases are as follows:

	2011 £m	2010 £m
Within one year	0.2	0.2
Between one and five years	0.4	0.7
More than five years	0.3	0.6
	0.9	1.5

Operating lease receivables

The future minimum lease payments under non-cancellable operating leases are as follows:

	2011 £m	2010 £m
Within one year	0.6	0.6
Between one and five years	0.9	1.0
More than five years	-	0.1
	1.5	1.7

(c) Capital commitments

	2011 £m	2010 £m
Contracted but not provided	194.7	192.1

SP DISTRIBUTION LIMITED

NOTES TO THE ACCOUNTS *continued*

31 December 2011

5 INVESTMENTS

	Investment in subsidiaries £'000	Other unlisted investments £'000	Total £'000
At 1 January 2010 and 1 January 2011	-	6	6
Additions	50	-	50
At 31 December 2011	50	6	56

Subsidiaries	Place of incorporation or registration	Class of share capital	Proportion of shares held	Activity
SPD Finance UK plc	England	Ordinary shares £1	100%	Finance company

(a) During the year, the company was allotted the entire share capital of a newly-incorporated subsidiary, SPD Finance UK plc for £50,000.

6 MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

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

		2011		2010	
	Notes	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Financial assets					
Loans with Iberdrola group companies		16.5	16.5	25.1	25.1
Other receivables	(a)	60.2	60.2	87.0	87.0
Financial liabilities					
External borrowings	(b)	(0.2)	(0.2)	-	-
Loans with Iberdrola group companies	(b)	(495.8)	(550.2)	(500.0)	(676.7)
Payables	(a)	(82.1)	(82.1)	(75.6)	(75.6)

The carrying amount of these financial instruments is calculated as set out in Note 2E. With the exception of loans and borrowings, the carrying value of financial assets and liabilities is a reasonable approximation of fair value. The fair value of loans and borrowings is calculated as set out in Note (b).

(a) Balances outwith the scope of IFRS 7 have been excluded, namely, other tax receivables, payments on account and other tax payables.

(b) 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 the most recently traded price to the year end date where available, or alternatively a discounted cash flow.

7 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.

	2011						
	2012	2013	2014	2015	2016	2017 and thereafter	Total
	£m	£m	£m	£m	£m	£m	£m
Cash outflows							
External borrowings	0.2	-	-	-	-	-	0.2
Loans with Iberdrola group companies	23.2	23.1	22.8	23.2	24.0	714.4	830.7
Payables*	63.3	-	-	-	-	9.3	72.6
	86.7	23.1	22.8	23.2	24.0	723.7	903.5
	2010						
	2011	2012	2013	2014	2015	2016 and thereafter	Total
	£m	£m	£m	£m	£m	£m	£m
Cash outflows							
Loans with Iberdrola group companies	19.0	21.1	24.5	28.9	31.4	921.0	1,045.9
Payables*	46.6	-	-	-	-	13.9	60.5
	65.6	21.1	24.5	28.9	31.4	934.9	1,106.4

* Contractual cash flows exclude accrued interest as these cash flows are included in external borrowings and loans with Iberdrola group companies.

SP DISTRIBUTION LIMITED

NOTES TO THE ACCOUNTS *continued*

31 December 2011

8 TRADE AND OTHER RECEIVABLES

	Notes	2011 £m	2010 £m
Current receivables:			
Receivables due from Iberdrola group companies - trade		21.6	30.3
Receivables due from Iberdrola group companies - loans	(a)	16.5	25.1
Receivables due from Iberdrola group companies - interest		0.5	0.4
Trade receivables and accrued income	(b)	32.2	39.7
Other tax receivables		9.7	-
Other receivables		5.9	16.6
		86.4	112.1

(a) Interest on current loans due from Iberdrola group companies is payable at 1% above the Bank of England base rate and the loans are repayable on demand.

(b) Trade receivables are stated net of allowance for impairment of doubtful debts of £1.1 million (2010 £1.6 million). 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 charge on change in bad debt for the year to 31 December 2011 is £2.4 million (2010 £0.3 million).

(c) At 31 December 2011 trade receivables of £3.1 million (2010 £31.4 million) were past due but not impaired.

	2011 £m	2010* £m
Past due but not impaired:		
Less than 3 months	1.2	6.3
Between 3 and 6 months	0.8	0.3
Between 6 and 12 months	0.3	0.5
After more than 12 months	0.8	4.9
	3.1	12.0

* Following a revision to the basis of determining trade receivables past due but not impaired, the amounts disclosed at 31 December 2010 have been restated to reflect the basis used at 31 December 2011.

9 SHARE CAPITAL

	2011 £m	2010 £m
Authorised:		
300,000,000 ordinary shares of £1 each (2010 300,000,000)	300.0	300.0
	300.0	300.0
Allotted, called up and fully paid shares:		
300,000,000 ordinary shares of £1 each (2010 300,000,000)	300.0	300.0
	300.0	300.0

10 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF SP DISTRIBUTION LIMITED

	Ordinary share capital £m	Retained earnings (note (a)) £m	Total £m
At 1 January 2010	300.0	539.3	839.3
Profit for the year attributable to equity holders of SP Distribution Limited	-	172.1	172.1
Dividends	-	(55.0)	(55.0)
At 1 January 2011	300.0	656.4	956.4
Profit for the year attributable to equity holders of SP Distribution Limited	-	166.5	166.5
Dividends	-	(95.0)	(95.0)
At 31 December 2011	300.0	727.9	1,027.9

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

SP DISTRIBUTION LIMITED

NOTES TO THE ACCOUNTS *continued*

31 December 2011

11 DEFERRED INCOME

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

	At 1 January 2011	Receivable during year	Released to income statement	At 31 December 2011
	£m	£m	£m	£m
Year ended 31 December 2011				
Transfer of assets from customers	354.7	41.1	(11.1)	384.7
Total deferred income	354.7	41.1	(11.1)	384.7

12 LOANS AND OTHER BORROWINGS

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

Analysis by instrument and maturity	Note	Interest rate	Maturity	2011 £m	2010 £m
Intercompany loan with SPL		LIBOR + 0.34%	29 January 2019	150.0	150.0
Intercompany loan with SPDF	(i)	5.875%	17 July 2026	345.8	-
Intercompany loan with SPUK	(i)	LIBOR + 3.365%	28 January 2029	-	350.0
Bank overdraft		Base + 1%	On demand	0.2	-
Total debt				496.0	500.0

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

Analysis of total loans and other borrowings	2011 £m	2010 £m
Non-current	495.8	500.0
Current	0.2	-
	496.0	500.0

(i) During the year the company exercised its option, under the conditions of the long term loan agreement with SPUK, to make a repayment of the then outstanding loan principal, plus accrued interest thereon. This loan was repaid with the proceeds from the issue of a loan from the company's newly-incorporated subsidiary, SPDF.

(b) Borrowing facilities

The company has no undrawn committed borrowing facilities at 31 December 2011 (2010 £nil).

13 TRADE AND OTHER PAYABLES

	Note	2011 £m	2010 £m
Current trade and other payables:			
Payables due to Iberdrola group companies - trade	(a)	40.9	40.2
Payables due to Iberdrola group companies - interest		9.5	15.1
Other taxes and social security		8.5	5.4
Payments received on account		42.0	38.0
Other payables		22.4	6.4
		123.3	105.1
Non-current trade and other payables:			
Payables due to Iberdrola group companies - trade	(a)	9.3	13.9
		9.3	13.9

(a) Payables due to Iberdrola group companies - trade amounting to £13.9 million in respect of the year ended 31 December 2010 has been reclassified from current trade and other payables to non-current trade and other payables as set out at Note 1.

SP DISTRIBUTION LIMITED

NOTES TO THE ACCOUNTS *continued*

31 December 2011

14 DEFERRED TAX

Deferred tax provided in the Accounts is as follows:

	Property, plant and equipment £m
Deferred tax provided at 1 January 2010	207.4
Charge to income statement	7.4
Deferred tax provided at 1 January 2011	214.8
Credit to income statement	(4.6)
Deferred tax provided at 31 December 2011	210.2

The government has announced that it intends to reduce the rate of UK corporation tax to 22% by 1 April 2014. The rate of corporation tax reduced from 28% to 26% on 1 April 2011 and a further reduction to 25%, effective from 1 April 2012, was enacted at the balance sheet date. The changes have reduced the tax rate expected to apply when temporary differences reverse.

In March 2012, the tax rate effective from 1 April 2012 was substantively enacted at 24% and two further reductions, each of 1%, are expected and will reduce the deferred tax provision over two years. The estimated impact of these changes will be reductions of £16.8 million in the year ending 31 December 2012 and £8.4 million in the year ending 31 December 2013.

15 PROVISIONS

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

		At 1 January 2011 £m	New provisions £m	Released during the year £m	Utilised during the year £m	At 31 December 2011 £m
Year ended 31 December 2011	Notes					
Contract termination costs	(b)	2.7	0.6	-	-	3.3
Environmental costs	(c)	0.3	1.6	(0.1)	(0.3)	1.5
	(a)	3.0	2.2	(0.1)	(0.3)	4.8

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

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

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

16 EMPLOYEE INFORMATION

(a) Staff costs

	Note	2011 £'000	2010 £'000
Wages and salaries		521	443
Social security costs	(i)	49	39
Pension and other costs		108	89
Total employee costs		678	571

(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 24.

(b) Employee numbers

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

	Year end 2011	Average 2011	Year end 2010	Average 2010
Administrative	10	10	9	8
Total	10	10	9	8

SP DISTRIBUTION LIMITED

NOTES TO THE ACCOUNTS *continued*

31 December 2011

16 EMPLOYEE INFORMATION *continued*

(c) Pensions

The company's contributions payable in the year were £108,000 (2010 £89,000). The company contributes to the ScottishPower group's defined benefit and defined contribution schemes in the UK. Full details of these schemes are provided in the most recent Directors' Report & Accounts of SPUKH. As at 31 December 2011, the deficit in the Scottish Power group's defined benefit schemes in the UK amounted to £212.1 million (2010 £160.8 million). The employer contribution rate for these schemes in the year ended 31 December 2011 was 21.8%-23.3%. The employer contribution rate for the year ending 31 December 2012 is expected to be consistent with the year ended 31 December 2011.

17 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS

	2011	2010
	£m	£m
Property, plant and equipment depreciation charge	67.4	65.3
Intangible asset amortisation	1.4	1.8
Charges and provisions and allowances	5.6	2.3
	74.4	69.4

18 FINANCE INCOME

	2011	2010
	£m	£m
Interest receivable from Iberdrola group companies	1.6	1.4

19 FINANCE COSTS

	2011	2010
	£m	£m
Interest payable to Iberdrola group companies	21.1	18.7
Interest on bank loans and overdrafts	-	0.7
	21.1	19.4

20 INCOME TAX

	2011	2010
	£m	£m
Current tax:		
UK Corporation tax	40.3	49.8
Adjustments in respect of prior years	0.3	(1.3)
Current tax for the year	40.6	48.5
Deferred tax:		
Origination and reversal of temporary differences	13.7	13.6
Adjustments in respect of prior years	(1.7)	1.2
Impact of rate change on deferred tax	(16.6)	(7.4)
Deferred tax (credit)/charge for the year	(4.6)	7.4
Income tax expense for the year	36.0	55.9

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

	2011	2010
	£m	£m
Corporation tax at 26.5% (2010 28%)	53.7	63.8
Adjustments in respect of prior years	(1.4)	(0.1)
Impact of tax rate change	(16.6)	(7.9)
Other permanent difference	0.3	0.1
Income tax expense for the year	36.0	55.9

21 DIVIDENDS

	2011	2010		
	pence per	pence per	2011	2010
	ordinary share	ordinary share	£m	£m
Interim dividend paid	31.7	18.3	95.0	55.0

SP DISTRIBUTION LIMITED

NOTES TO THE ACCOUNTS *continued*

31 December 2011

22 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 Scottish Power UK plc were each required to jointly provide guarantees to external lenders to 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 2011 was £1,195.2 million (2010 £1,420.6 million).

The company has unconditionally and irrevocably guaranteed the debt of SPDF. The value of debt guaranteed at 31 December 2011 was £350.0 million (2010 £nil).

23 FINANCIAL COMMITMENTS

Other contractual commitments

	2011	2010
	£m	£m
Provision of asset management services from SPPS	21.8	7.8

The contract in place for the provision for asset management services provided by SP Power Systems Limited expires on 31 March 2013.

24 RELATED PARTY TRANSACTIONS

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

	2011					2010		
	Ultimate UK parent (SPL) £m	Immediate parent (SPENH) (note(i)) £m	Immediate parent (SPUK) (note(i)) £m	Subsidiary (SPDF) £m	Other Iberdrola group companies £m	Ultimate UK parent (SPL) £m	Immediate parent (SPUK) £m	Other Iberdrola group companies £m
Types of transaction								
Sales and rendering of services	-	-	-	-	147.2	-	-	153.8
Purchases and receipt of services	-	-	(0.5)	-	(42.4)	-	(3.6)	(43.2)
Finance income	-	-	0.6	-	1.0	-	1.4	-
Finance costs	(2.2)	-	(8.4)	(9.4)	(1.1)	(1.9)	(16.5)	(0.3)
Purchases of property, plant and equipment	-	-	-	-	(191.4)	-	-	(169.2)
Dividends paid	-	(95.0)	-	-	-	-	(55.0)	-
Balances outstanding								
Loans receivable	-	-	-	-	16.5	-	25.1	-
Trade receivables	-	-	-	-	21.6	-	-	30.3
Interest receivable	-	-	-	-	0.5	-	0.4	-
Loans payable	(150.0)	-	-	(345.8)	-	(150.0)	(350.0)	-
Trade payables	-	-	-	-	(50.2)	-	(2.8)	(51.3)
Interest payable	(0.1)	-	-	(9.3)	(0.1)	(0.1)	(15.0)	-

(i) On 1 July 2011, as part of a group restructuring exercise, SPUK transferred its investment in the company to SPENH.

Transactions with SPUK for 2011 in respect of the period from 1 January 2011 to 30 June 2011 are included within "Immediate parent (SPUK)". Transactions with SPUK in respect of the period from 1 July 2011 to 31 December 2011 and balances outstanding with SPUK at 31 December 2011 are included within "Other Iberdrola group companies".

Transactions with SPENH are in respect of the period from 1 July 2011 to 31 December 2011.

(ii) During the year ended 31 December 2011, SPUK made pension contributions of £108,000 on behalf of the company (2010 £89,000).

(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 group, it has not been possible to apportion the remuneration specifically in respect of services to this company. All of the key management personnel are paid by other companies within the group.

	2011	2010
Type of related party	£000	£000
Short-term employee benefits	552	412
Post-employment benefits	156	242
Share-based payments	194	-
Total	902	654

SP DISTRIBUTION LIMITED

NOTES TO THE ACCOUNTS *continued*

31 December 2011

24 RELATED PARTY TRANSACTIONS *continued*

(c) Directors' remuneration

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

	2011	2010
	£000	£000
Executive directors		
Basic salary	321	290
Bonuses	224	115
Benefits in kind	7	7
Total	552	412

(i) Two directors (2010 two) had retirement benefits accruing under defined benefit pension schemes.

(ii) During the year, two directors (2010 none) received benefits under a long-term share incentive scheme.

(iii) All the directors were paid by other companies within the group.

	2011	2010
	£000	£000
Highest paid director		
Basic salary	221	192
Bonuses	174	77
Benefits in kind	1	1
Total	396	270

(iv) The accrued pension entitlement of the highest paid director was £82,848 (2010 £71,482).

(v) The highest paid director received a benefit under a long-term share incentive scheme during the year (2010 none).

(d) Ultimate parent company and immediate parent company

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

Copies of the Consolidated Accounts of Iberdrola S.A. may be obtained from Iberdrola S.A., Torre Iberdrola, Plaza Euskadi 5, 48009, Bilbao, Spain. Copies of the Consolidated Accounts of Scottish Power UK plc may be obtained from The Secretary, Scottish Power UK plc, 1 Atlantic Quay, Glasgow, G2 8SP.

On 1 July 2011, as part of a group restructuring exercise to align the operational structure of ScottishPower with the operational structure of Iberdrola S.A., ownership of the company was transferred from Scottish Power UK plc to Scottish Power Energy Networks Holdings Limited (an immediate subsidiary of Scottish Power UK plc).

25 AUDITORS' REMUNERATION

	2011	2010
	£m	£m
Audit of the company's annual accounts and regulatory accounts	0.1	0.1

SP DISTRIBUTION LIMITED

NOTES TO THE ACCOUNTS *continued*

31 December 2011

26 ACCOUNTING DEVELOPMENTS

In preparing these Accounts, the company has applied all relevant IAS, IFRS, and IFRIC Interpretations which have been adopted by the EU as of the date of approval of these Accounts and which are mandatory for the financial year ended 31 December 2011. In addition, the EU has adopted the following IFRS standard which is not mandatory for the year ended 31 December 2011:

- Amendments to IFRS 7 'Financial Instruments: Disclosures - Transfer of Financial Assets'

The company has considered the impact of this but the standard has not been adopted early for year ended 31 December 2011.

In addition, the International Accounting Standards Board has also issued a number of pronouncements which have not yet been adopted by the EU including:

- IFRS 9 'Financial instruments' and subsequent amendments
- IFRS 10 'Consolidated Financial Statements'
- IFRS 11 'Joint Arrangements'
- IFRS 12 'Disclosure of Interests in Other Entities'
- IFRS 13 'Fair Value Measurement'
- IAS 27 (Revised) 'Separate Financial Statements'
- IAS 19 (Revised) 'Employee Benefits'
- Amendments to IAS 1 'Presentation of Items of Other Comprehensive Income'
- Amendments to IFRS 7 'Disclosures - Offsetting Financial Assets and Financial Liabilities'
- Amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities'

The company is currently considering the impact of these pronouncements.

27 GOING CONCERN

The company's business activities are set out in the Directors' Report on pages 1 to 6.

The company has recorded a profit after tax in both the current year and previous financial years and the company's balance sheet shows that it has net current liabilities of £59.0 million and net assets of £1,027.9 million at its most recent balance sheet date.

The company is ultimately owned by Iberdrola S.A. and it participates in the Iberdrola group's centralised treasury arrangements and so shares banking facilities with its parent companies and fellow subsidiaries. As a consequence, the company depends, in part, on the ability of the Iberdrola group to continue as a going concern.

The directors have considered the company's funding relationship with Iberdrola to date and have considered available relevant information relating to Iberdrola's ability to continue as a going concern. In addition, the directors have no reason to believe that Iberdrola group will not continue to fund the company, should it become necessary, to enable it to continue in operational existence.

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