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# SP Manweb plc

(*incorporated with limited liability in England and Wales, registered number 02366937*)

**£350,000,000 4.875 per cent. Notes due 2027**

**Issue price: 99.094 per cent.**

The £350,000,000 4.875 per cent. Notes due 2027 (the **Notes**) are issued by SP Manweb plc (the **Issuer**).

The Notes will bear interest at a rate of 4.875 per cent. per annum. The Issuer will pay interest on the Notes on 20 September of each year. The first such payment of interest will be made on 20 September 2013, in respect of the period from and including 20 September 2012 to but excluding 20 September 2013.

The Issuer may, at its option, redeem all, but not some only, of the Notes in accordance with those provisions described under "*Conditions of the Notes - Redemption at the option of the Issuer*". Also, the Issuer may, at its option, redeem all, but not some only, of the Notes at any time at par plus accrued interest, in the event of certain tax changes as described under "*Conditions of the Notes - Redemption for taxation reasons*". In addition, upon the occurrence of certain events described under "*Conditions of the Notes - Redemption at the Option of the Noteholders*", holders of the Notes may require the Issuer to redeem or, at the option of the Issuer, purchase (or procure the purchase of) the Notes at par plus accrued interest. The Notes mature on 20 September 2027.

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the **UK Listing Authority**) for the Notes to be admitted to the Official List of the UK Listing Authority (the **Official List**) and to the London Stock Exchange plc (the **London Stock Exchange**) for the Notes to be admitted to trading on the London Stock Exchange's regulated market (the **Market**). The London Stock Exchange's regulated market is a regulated market for the purposes of Directive 2004/39/EC (the **Markets in Financial Instruments Directive)**. References in this Offering Circular to Notes being listed (and all related references) shall mean that such Notes have been admitted to trading on the Market and have been admitted to the Official List.

The Notes will be rated Baa1 by Moody's Investors Service Limited (**Moody's**) and BBB+ by Standard & Poor's Credit Market Services Europe Limited (**S&P**) as further described on page 13 of this Offering Circular. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. As at the date of this Offering Circular, Moody's and S&P are established in the European Union and registered under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). As such each of S&P and Moody's is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation.

The Notes will initially be represented by a temporary global note (the **Temporary Global Note**), without interest coupons, which will be deposited on or about 20 September 2012 (the **Closing Date**) with a common depository for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**). Interests in the Temporary Global Note will be exchangeable for interests in a permanent global note (the **Permanent Global Note** and, together with the Temporary Global Note, the **Global Notes**), without interest coupons, on or after 30 October 2012 (the **Exchange Date**), upon certification as to non-U.S. beneficial ownership. Interests in the Permanent Global Note will be exchangeable for definitive Notes only in certain limited circumstances - see "*Summary of the Notes while in Global Form*".

**An investment in Notes involves certain risks. Prospective investors should have regard to the factors described under the heading "Risk Factors" on page 6.**

**Lead Managers**

**HSBC** | **Lloyds Bank**

**Santander Global Banking & Markets** | **The Royal Bank of Scotland**

The date of this Offering Circular is 18 September 2012

This Offering Circular comprises a prospectus for the purposes of Article 5.4 of Directive 2003/71/EC, as amended (the **Prospectus Directive**).

The Issuer accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Issuer, having made all reasonable enquiries, confirms that this Offering Circular contains all material information with respect to the Issuer and the Notes (including all information which, according to the particular nature of the Issuer and of the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and of the rights attaching to the Notes), that the information contained or incorporated in this Offering Circular is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Offering Circular are honestly held and that there are no other facts the omission of which would make this Offering Circular or any of such information or the expression of any such opinions or intentions misleading. The Issuer accepts responsibility accordingly.

The Managers (as described under "*Subscription and Sale*", below) have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Managers as to the accuracy or completeness of the information contained or incorporated in this Offering Circular or any other information provided by the Issuer in connection with the offering of the Notes. No Manager accepts any liability in relation to the information contained or incorporated by reference in this Offering Circular or any other information provided by the Issuer in connection with the offering of the Notes or their distribution.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other information supplied in connection with the offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Managers.

Neither this Offering Circular nor any other information supplied in connection with the offering of the Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or any of the Managers that any recipient of this Offering Circular or any other information supplied in connection with the offering of the Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Offering Circular nor any other information supplied in connection with the offering of the Notes constitutes an offer or invitation by or on behalf of the Issuer or any of the Managers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of the Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Offering of the Notes is correct as of any time subsequent to the date indicated in the document containing the same. The Managers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Notes or to advise any investor in the Notes of any information coming to their attention. The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended, (the **Securities Act**) and are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to U.S. persons.

For a further description of certain restrictions on the offering and sale of the Notes and on distribution of this document, see "*Subscription and Sale*" below.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer and the Managers do not represent that this Offering Circular may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Managers which is intended to permit a public offering of the Notes or the distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States and the European Economic Area (including the United Kingdom) see "*Subscription and Sale*".

This Offering Circular has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of the offering contemplated in this Offering Circular may only do so in circumstances in which no obligation arises for the Issuer or any of the Managers to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor the Managers have authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or the Managers to publish or supplement a prospectus for such offer.

**IN CONNECTION WITH THE ISSUE OF THE NOTES, HSBC BANK PLC AS STABILISING MANAGER (THE STABILISING MANAGER) (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.**

All references in this document to ***Sterling*** and **£** refer to the currency of the United Kingdom.

**The Notes may not be a suitable investment for all investors**

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Notes unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

**Legal investment considerations may restrict certain investments**

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the notes are legal investments for it, (2) the notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of the notes under any applicable risk-based capital or similar rules.

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## RISK FACTORS

*The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.*

*In addition, factors which are material for the purpose of assessing the market risks associated with the Notes are described below.*

*The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes at the date of this Offering Circular, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which the Issuer may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision.*

### Factors that may affect the Issuer's ability to fulfil its obligations

The Issuer considers the following risks to be the principal ones that might affect the Issuer's financial performance and financial results but cautions that the risks listed in this section do not address all the factors that could materially affect its financial results. There may be additional risks that the Issuer does not currently know of, or that are deemed immaterial based on information currently available or the Issuer's current assessment of the risk.

#### *Changes in Law or Regulation and Decisions by Governmental Bodies or Regulators*

The electricity industry is subject to extensive regulatory obligations with which the Issuer must comply. The Issuer is subject to regulation by the Gas and Electricity Markets Authority (the **Authority**), the Electricity Act 1989 and other UK and EU legislation. The Issuer is also subject to regulation and decisions by the Office of Gas and Electricity Markets (**Ofgem**), the administrative body that supports the Authority. Ofgem sets and enforces licence conditions, regulates quality of service and sets network price controls. Consequently, changes in law, regulation, regulatory policy, decisions or rulings by Ofgem or other bodies could have a material adverse impact on the Issuer's results of operations, cash flows, the financial condition of its business and the ability to develop that business in the future.

In particular, the Issuer's 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 Issuer operates is DPC5, which will remain applicable during the period from 1 April 2010 to 31 March 2015. Ofgem has a statutory obligation to ensure that price controls allow the relevant licensee to fund its operations efficiently, including by setting a base price control that would not prevent the licensee from achieving an investment grade credit rating. However, there can be no assurance that Ofgem's allowances will enable the Issuer to meet its payment obligations under the Notes.

The next price control, "RIIO ED-1", which will replace the current price control on 1 April 2015, is currently in progress. The final price control proposal for RIIO ED-1 is expected to be published in November 2014 and the Issuer intends to engage closely and constructively with Ofgem throughout the review. However, there can be no assurance that future price controls will permit the generation of sufficient revenues to enable the Issuer to meet its payment obligations under the Notes.

Furthermore, the Issuer is financially rewarded or penalised depending upon its performance against pre-specified targets under DPC5 relating to the quality and output of supply and customer satisfaction relative to its competitors. If the Issuer fails to meet such targets, its results of operation, cash flows, financial condition and business could be materially adversely affected. In addition, failure by the Issuer to comply with the terms of its distribution licence may lead to Ofgem making an enforcement order or levying a fine on the Issuer. Ofgem has the power to levy fines of up to 10 per cent. of the Issuer's turnover for any breach of its distribution licence. While the distribution licence may be terminated on 30 days' notice in exceptional circumstances (such as in the event of insolvency proceedings or non-compliance with an enforcement order after three months), it otherwise continues indefinitely until revoked subject to no less than 25 years' written notice. Moreover, Ofgem has the power to make modifications to the Issuer's licence as a result of which there can be no assurance that a restrictive modification will not be introduced in the future which could have an adverse effect on the operations and/or financial position of the Issuer.

***Environmental and Health and Safety Laws or Regulations***

Aspects of the Issuer's activities are potentially dangerous, such as the operation of its distribution network and the distribution of electricity. The Issuer is subject to laws and regulations relating to pollution, the protection of the environment and the use and disposal of hazardous substances and waste materials. These expose the Issuer to costs and liabilities relating to its operations, the sites used for the disposal of its waste and its properties, whether current (including those inherited from predecessor bodies) or formerly owned. The Issuer is also subject to laws and regulations in Great Britain governing health and safety matters protecting its employees and the public. The Issuer commits significant resources towards ensuring compliance with the above mentioned laws and regulations. Nevertheless, a major safety or environmental incident could expose employees, contractors and third parties to the risk of injury, therefore exposing the Issuer to potential liability and/or loss of reputation. In addition, breaches of applicable environmental or health and safety laws or regulations could expose the Issuer to penalties, claims for financial compensation and/or adverse regulatory consequences. Furthermore, there can be no assurance that the costs of complying with applicable environmental standards and regulations will not increase. Any such increased costs could adversely affect the Issuer's financial performance.

***Network or IT Systems failure or interruption, or damage to infrastructure***

The Issuer's business is heavily reliant on information technology (**IT**) systems and network infrastructure. The Issuer may suffer a major network failure or interruption, or may not be able to carry out critical non-network operations. Operational performance could be materially adversely affected by a failure to maintain the health of the system or network, inadequate forecasting of demand, inadequate record keeping or failure of information systems and supporting technology. This could cause the Issuer to fail to meet the standards of service with which the Issuer is bound to comply, requiring the payment of specific penalties for default. Moreover, it could cause the Issuer to be in breach of a licence, approval, regulatory requirement or contractual obligation, which could result in adverse regulatory and financial consequences, including in extreme circumstances the suspension or revocation of its operating licenses and permits.

In addition, the Issuer may be affected by other potential events that are largely outside the Issuer's control such as the impact of weather, unlawful or unintentional acts of third parties or an event of force majeure. Terrorist attacks, sabotage or other intentional acts may also damage the Issuer's assets or otherwise significantly affect its corporate activities. The Issuer has in place robust business continuity and IT disaster recovery plans, as well as measures to manage the risk that it sustains an adverse financial impact due to an inability to carry on its operations. However, the risk remains that any failure or interruption could cause the Issuer to fail to meet agreed standards of service or to be in breach of a licence, approval, regulatory requirement or contractual obligation and could result in adverse regulatory and financial consequences. Notwithstanding the above, this risk factor should not be taken as implying that the Issuer or the Manweb Group will be unable to comply with its obligations as a company or group with securities admitted to the Official List.

***Capital Expenditure***

The Issuer has significant capital expenditure requirements and recovery of the capital investment in the Issuer's distribution network occurs over a substantial period of time. Such capital investments could potentially weaken the Issuer's financial profile in the short term, as capital expenditure on major projects is generally expected to exceed revenues generated by new operational assets in the business in the first few years following expenditure. In addition, any delays or increases in costs in connection with the Issuer's capital investment projects could have a material adverse effect on the Issuer's business, financial condition, results of operation and/or prospects.

In addition, DPC5 contemplates financial incentives and penalties depending on whether the relevant licensee achieves pre-agreed capital investment targets. Failure by the Issuer to meet such targets could have a material adverse effect on the Issuer's business, financial condition, results of operation and/or prospects.

For more information about the Issuer's capital investment projects, please see "Description of the Issuer – Projects".

***Ofgem Requirements***

The Issuer's business is regulated by Ofgem. Failure to operate the network properly could lead to compensation payments having to be made to customers or the imposition of penalties. Failure to invest capital expenditure in line with agreed programmes could also lead to deterioration of the network and clawback of the Issuer's capital for investment if specified targets are not met. While the Issuer's investment programme is aimed at maintaining the condition of the network infrastructure and meeting the prescribed targets, no assurance can be given that these regulatory requirements will be met. Failure to meet such requirements could have a material adverse effect on the Issuer's business, financial condition, results of operation and/or prospects.

***Financing***

The Issuer's financial position could be affected by significant changes in interest rates and financial market conditions. The Issuer's business is currently financed through cash generated from its ongoing operations and intercompany loans. Restrictions imposed by regulators may also limit the manner in which the Issuer services the financial requirements of its business. As evidenced during recent periods, financial markets can be subject to periods of volatility and shortages of liquidity and if the Issuer or any of the companies within the Manweb Group were unable to access the capital markets or other sources of finance at competitive rates for a prolonged period, the Issuer's cost of financing could increase and the discretionary and uncommitted elements of its proposed capital investment programme may need to be reconsidered. The occurrence of any such events could have a material adverse impact on the Issuer's business, results of operations and prospects.

The Issuer currently has debt outstanding under two intercompany loans with Scottish Power UK plc as the lender amounting to £399.5 million and one intercompany loan with Scottish Power Limited as lender amounting to £75.0 million both as of 31 July 2012. Of such borrowings, £219.5 million is repayable to Scottish Power UK plc on demand. The Issuer is entirely capitalised by equity and loans provided by Scottish Power Limited group companies and thus it is unlikely that Scottish Power UK plc will demand repayment of the aforementioned outstanding debt. There can however be no assurance that Scottish Power UK plc will not demand repayment of such amount at any time and, if it does, there can be no assurance that the Issuer will be able to obtain the funds necessary to repay such amounts or to finance its continuing operations. This may adversely affect the Issuer's ability to meet its payment obligations under the Notes.

***Inflation, deflation and price control***

The Issuer's business is subject to price controls set by Ofgem. The Issuer's income under its price controls in Great Britain is linked to the retail price index (**RPI**). There is a risk that the Issuer's results of operations and cash flows may be adversely affected if its costs increase by more than the RPI or if its costs do not decline if the RPI decreases.

***Exposure to changes in the price of supplies***

In order to support its core business activities, it is necessary for the Issuer to purchase significant quantities of materials and enter into contracts for the supply of other products and services. A material increase in the cost of materials or disruption to supply contracts for products and services could have a detrimental impact on the Issuer's financial position and as a result impact its ability to meet its repayments obligations under the Notes.

***Project Delivery***

Project execution in general may be subject to economic risks and commercial, construction, technical, contractor and planning permits or similar approvals. Failure to ensure the successful technical and commercial operation of planned new projects could have a material adverse effect on the Issuer's business, its results of operations, operating costs, prospects and/or its financial condition.

***Compliance with competition and procurement laws***

The Issuer as owner and operator of some of the key energy infrastructure and services in Great Britain may have associated obligations under competition law. In addition, the Issuer is subject to public procurement law and the provisions of Directive 2004/17/EC. Whilst the Issuer has policies and procedures in place which seek to ensure compliance with the relevant competition and procurement legislation, any failure by the Issuer to comply with the applicable law could result in penalties being imposed on the Issuer. The imposition of any such penalties may have an adverse effect on the Issuer's business, its results of operations, prospects and/or its financial condition.

***Business Performance***

Earnings maintenance and growth from the Issuer's regulated electricity business will be affected by the Issuer's ability to meet or exceed efficiency targets and service quality standards set by, or agreed with, Ofgem. If the Issuer does not meet these targets and standards, it may not achieve the expected benefits, its business may be materially adversely affected and its performance, results of operations and reputation may be materially harmed.

***Litigation***

The Issuer is, from time to time, involved in legal proceedings. Any adverse result in relation to any such proceedings could have an adverse effect on the Issuer's financial position, reputation and profitability.

***Insurance***

The Issuer seeks to maintain insurance cover on all its key property and liability exposures in the international insurance market. No assurance can be given that the insurance cover acquired by the Issuer provides adequate or sufficient cover for all events or incidents. The international insurance market is volatile and therefore there can be no guarantee that existing cover will remain available or will be available at commercially acceptable premia.

***Pension Scheme***

The Issuer participates in both the Electricity Supply Pension Scheme (to which the Manweb Group is a participant) (the **Manweb Group Scheme**) and the Scottish Power Pension Scheme (**SPPS**). These arrangements cover substantially all of its employees. The Manweb Group Scheme was closed to new joiners in 1998 and was replaced with a lower cost arrangement for new members, the Final Salary Life Plan which now forms part of the SPPS. This was in turn closed in 2006 and replaced with a money purchase stakeholder defined contribution scheme for new members effective from April 2006. This has an employer contribution rate of 6 per cent.. Current employer contributions to the defined benefit schemes are 23.9 per cent. in relation to the Manweb Group Scheme and 21.8 per cent. in relation to the SPPS. Following the scheme valuations as at 31 March 2009, Scottish Power UK plc and the Issuer agreed to pay in July 2010 and annually in April thereafter until 2017 (inclusive) deficit repair contributions of £11,700,000 and £23,000,000 for SPPS and the Manweb Group Scheme respectively. In relation to the SPPS, each payment is to be increased by the most recent annual increase in the RPI. In relation to the Manweb Group Scheme, each payment is to be increased by the increase in the RPI from September 2009 until the September prior to the date of payment.

The funding of both pension schemes is formally reviewed at actuarial valuations required at least every three years. The latest evaluation as of 31 March 2012 is currently ongoing. Estimates of the amount and timing of future funding are based on various actuarial assumptions and other factors including, among others, the actual and projected market performance of the scheme assets, future long-term swap or bond yields, average life expectancies and applicable legal requirements. The impact of these assumptions and other factors may require the Issuer to make additional contributions to the pension scheme which, to the extent they are not recoverable under its price control, could materially adversely affect the Issuer's results of operations and its financial condition.

**Factors which are material for the purpose of assessing the market risks associated with the Notes**

***The Notes contain an optional redemption feature, which is likely to limit their market value.***

During any period when the Issuer may elect to redeem the Notes, the market value of the Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem the Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

***Risks related to the Notes***

Set out below is a description of certain risks relating to the Notes:

*Modification*

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally and to obtain Written Resolutions on matters relating to the Notes from Noteholders without calling a meeting. A Written Resolution signed by or on behalf of the holders of not less than 75 per cent. in principal amount of the Notes who for the time being are entitled to receive notice of a meeting in accordance with the provisions of the Fiscal Agency Agreement and whose Notes are outstanding shall, for all purposes, take effect as an Extraordinary Resolution.

In certain circumstances, where the Notes are held in global form in the clearing systems, the Issuer will be entitled to rely upon:

(i) where the terms of the proposed resolution have been notified through the relevant clearing system(s), approval of a resolution proposed by the Issuer given by way of electronic consents communicated through the electronic communications systems of the relevant clearing systems in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Notes for the time being outstanding; and

(ii) where electronic consent is not being sought, consent or instructions given in writing directly to the Issuer by accountholders in the clearing systems with entitlements to such global note or certificate or, where the accountholders hold such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held (directly or via one or more intermediaries), provided that the Issuer has obtained commercially reasonable evidence to ascertain the validity of such holding and taken reasonable steps to ensure such holding does not alter following the given of such consent/instruction and prior to the passing of such resolution.

A Written Resolution or an electronic consent as described above may be effected in connection with any matter affecting the interests of Noteholders, including the modification of the conditions of the Notes, that would otherwise be required to be passed at a meeting of Noteholders satisfying the special quorum in accordance with the provisions of the Fiscal Agency Agreement, and shall for all purposes take effect as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

*EU Savings Directive*

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to or for the benefit of an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to any law implementing the Directive or any law implementing or complying with, or introduced in order to conform to, such Directive.

*Change of law*

The conditions of the Notes are based on English law in effect as at the date of this Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Offering Circular.

*Denominations involve integral multiples: definitive Notes*

The Notes have denominations consisting of a minimum of £100,000 or its equivalent plus one or more higher integral multiples of £1,000 or its equivalent. It is possible that the Notes may be traded in amounts that are not integral multiples of £100,000 or its equivalent. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than £100,000 or its equivalent in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to £100,000 or its equivalent.

If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of £100,000 or its equivalent may be illiquid and difficult to trade.

***Risks related to the market***

Set out below is a description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

*Secondary market risks*

The Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

*Exchange rate risks and exchange controls*

The Issuer will pay principal and interest on the Notes in Sterling. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than Sterling. These include the risk that exchange rates may significantly change (including changes due to devaluation of Sterling or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to Sterling would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

*Interest rate risks*

Investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect their value.

*Credit ratings may not reflect all risks*

Moody's and S&P have assigned credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

## TERMS AND CONDITIONS OF THE NOTES

The issue of the Notes was authorised by a resolution of the Board of Directors of SP Manweb plc (the **Issuer**) passed on 5 September 2012. A fiscal agency agreement dated 20 September 2012 (the **Fiscal Agency Agreement**) has been entered into in relation to the Notes between the Issuer, The Bank of New York Mellon, London Branch as fiscal agent and the paying agents named in it. The fiscal agent and the paying agents for the time being are referred to below respectively as the **Fiscal Agent** and the **Paying Agents** (which expression shall include the Fiscal Agent). The Fiscal Agency Agreement includes the form of the Notes and the coupons relating to them (the **Coupons**). Copies of the Fiscal Agency Agreement are available for inspection during normal business hours at the specified offices of the Paying Agents. The holders of the Notes (the **Noteholders**) and the holders of the Coupons (whether or not attached to the relevant Notes) (the **Couponholders**) are deemed to have notice of all the provisions of the Fiscal Agency Agreement applicable to them.

### 1. FORM, DENOMINATION AND TITLE

(a) **Form and denomination:** The Notes are serially numbered and in bearer form in the denominations of £100,000 and integral multiples of £1,000 in excess thereof up to and including £199,000, each with Coupons attached on issue.

(b) **Title:** Title to the Notes and Coupons passes by delivery. The holder of any Note or Coupon will be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on it, or its theft or loss) and no person will be liable for so treating the holder.

### 2. STATUS

The Notes and Coupons constitute (subject to Condition 3) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes and the Coupons shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 3, at all times rank at least equally with all its respective other present and future unsecured and unsubordinated obligations.

### 3. NEGATIVE PLEDGE

(a) So long as any of the Notes or Coupons remain outstanding:

(i) the Issuer will not create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest (**Security**) (other than Permitted Security) upon the whole or any part of its undertaking, assets or revenues present or future to secure any Relevant Indebtedness, or any guarantee of, or indemnity in respect of, any Relevant Indebtedness; and

(ii) the Issuer will procure that no other person creates or permits to subsist any Security (other than Permitted Security) upon the whole or any part of the undertaking, assets or revenues present or future of that other person to secure (A) any of the Issuer's Relevant Indebtedness, or any guarantee of or indemnity in respect of any of the Issuer's Relevant Indebtedness or (B) where the person in question is a Subsidiary of the Issuer, any of the Relevant Indebtedness of any person other than (1) that Subsidiary of the Issuer or (2) if that Subsidiary is not a Relevant Subsidiary, any other Subsidiary of the Issuer (which is not a

Relevant Subsidiary), or in each case any guarantee of, or indemnity in respect of, any such Relevant Indebtedness,

unless, at the same time or prior thereto, the Issuer's obligations under the Notes and Coupons (aa) are secured equally and rateably therewith or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be, or (bb) have the benefit of such other security, guarantee, indemnity or other arrangement as shall be approved by an Extraordinary Resolution (as defined in the Fiscal Agency Agreement) of the Noteholders.

(b) For the purposes of these Conditions

**Permitted Security** means any Security created in respect of any Relevant Indebtedness of a company which has merged with the Issuer or one of its Subsidiaries or which has been acquired by the Issuer or one of its Subsidiaries, provided that such security was already in existence at the time of the merger or the acquisition, was not created for the purpose of financing the merger or the acquisition and is not increased in amount and not extended following the merger or the acquisition;

**person** means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having a separate legal personality;

**Relevant Indebtedness** means any present or future indebtedness for borrowed money of the Issuer or any other person or entity in the form of, or represented by, notes, debentures, loan stock or other securities which are or are capable of being quoted, listed or ordinarily dealt in on any stock exchange, over the counter market or other securities market (for which purpose any such notes, debentures, loan stock or other securities shall be deemed not to be capable of being so quoted, listed or ordinarily dealt in if the terms of the issue thereof expressly so provide);

**Relevant Subsidiary** means a Subsidiary of the Issuer which holds a Relevant Licence (as defined in Condition 5(c) (v)); and

**Subsidiary** means, at any particular time, a subsidiary within the meaning of section 1159 of the Companies Act 2006.

## 4. INTEREST

The Notes bear interest from and including 20 September 2012 at the rate of 4.875 per cent. per annum, payable annually in arrear in equal instalments of £48.75 per Calculation Amount (as defined below) on 20 September in each year (each an **Interest Payment Date**). Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant holder, and (b) the day seven days after the Fiscal Agent has notified Noteholders of receipt of all sums due in respect of all the Notes up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these terms and conditions (the **Conditions**)).

Save as provided above in relation to equal instalments, if the Accrual Period is equal to or shorter than the Determination Period during which it falls, the day-count fraction will be the number of days in the Accrual Period divided by the number of days in such Determination Period, where:

**Accrual Period** means the relevant period for which interest is to be calculated (from and including the first such day to but excluding the last); and

**Determination Period** means the period from and including 20 September in any year to but excluding the next 20 September.

In these Conditions, the period beginning on and including 20 September 2012 and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an **Interest Period**.

Interest in respect of any Note shall be calculated per £1,000 in principal amount of the Notes (the **Calculation Amount**). The amount of interest payable per Calculation Amount for any period shall, save as provided above in relation to equal instalments, be equal to the product of 4.875 per cent., the Calculation Amount and the day-count fraction for the relevant period, rounding the resulting figure to the nearest pence (half a pence being rounded upwards).

## 5. REDEMPTION, PURCHASE AND OPTIONS

### (a) Final Redemption

Unless previously redeemed or purchased and cancelled as provided below, each Note will be redeemed at its principal amount on 20 September 2027.

### (b) Redemption for taxation reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their principal amount, (together with interest accrued to the date fixed for redemption), if (i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7 as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or, any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 20 September 2012, and (ii) such obligations cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due. Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Fiscal Agent a certificate signed by a director of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred.

### (c) Redemption at the Option of the Noteholders

(i) If, at any time while any of the Notes remains outstanding a Restructuring Event occurs and within the Restructuring Period, either (subject as provided below including in the definition of Put Event):

(A) if at the time such Restructuring Event occurs the Notes are rated by a Rating Agency, a Rating Downgrade in respect of such Restructuring Event also occurs; or

(B) if at the time such Restructuring Event occurs the Notes do not have a rating from a Rating Agency, a Negative Rating Event in respect of such Restructuring Event also occurs,

then, unless prior to the occurrence of a Restructuring Event the Issuer shall have given a notice under Condition 5(b) in respect of the Notes, the holder of each Note shall, upon the giving of a Put Event Notice (as defined below), have the option (the **Put Option**) to require the Issuer to redeem or, at the option of the Issuer, purchase (or procure the purchase of) that Note on the Put Date (as defined below), at its principal amount together with (or, where purchased, together with an amount equal to) interest (if any) accrued to (but excluding) the Put Date.

(ii) Promptly upon, and in any event within 14 days after, the Issuer becoming aware that a Put Event has occurred, the Issuer shall, give notice (a **Put Event Notice**) to the Noteholders in accordance with Condition 13 specifying the nature of the Put Event and the procedure for exercising the Put Option.

(iii) To exercise the Put Option, the holder of a Note must deliver such Note to the specified office of any Paying Agent, on a day which is a business day in the place of such specified office falling within the period (the **Put Period**) of 30 days after that on which a Put Event Notice is given, accompanied by a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a **Put Notice**) and in which the holder shall specify a bank account complying with the requirements of Condition 6 (*Payments*) to which payment is to be made under this Condition 5. The Paying Agent to which such Note and Put Notice are delivered shall issue to the Noteholder concerned a non-transferable receipt in respect of the Note so delivered. Payment in respect of any Note so delivered shall be made, if the holder duly specifies a sterling account with a bank in London in the Put Notice to which payment is to be made, on the Put Date by transfer to that bank account and, in every other case, on or after the Put Date in each case against presentation and surrender or (as the case may be) endorsement of such receipt at any specified office of any Paying Agent, subject in any such case as provided in Condition 6. A Put Notice, once given, shall be irrevocable. For the purposes of these Conditions and the Fiscal Agency Agreement, receipts issued pursuant to this Condition 5 shall be treated as if they were Notes. The Issuer shall redeem or, at the option of the Issuer, purchase (or procure the purchase of) the relevant Note on the applicable Put Date unless previously redeemed or purchased.

If this Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg to exercise the right to require redemption of this Note the holder of this Note must, within the Put Period, give notice to the Paying Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on its instruction by Euroclear or Clearstream, Luxembourg or any common depositary for them to the Paying Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time and, if this Note is represented by a Global Note, at the same time present or procure the presentation of the relevant Global Note to the Paying Agent for notation accordingly.

(iv) A Rating Downgrade or a Negative Rating Event shall be deemed not to have occurred as a result or in respect of a Restructuring Event if the Rating Agency making the relevant reduction in rating or, where applicable, declining to assign a rating of at least Investment Grade as provided in this Condition 5 does not announce or publicly confirm or inform the Issuer or any Noteholder in writing at its request that the reduction or, where applicable, declining to assign a rating of at least Investment Grade was the result, in whole or in part, of any event or circumstance comprised in or arising as a result of the applicable Restructuring Event.

(v) For the purposes of these Conditions:

**Distribution Licence** means the distribution licence held or deemed to be held by the Issuer under the Electricity Legislation, as amended or modified in accordance with the Electricity Legislation or the licence, including any such licence issued in substitution therefor;

**Electricity Legislation** means the Electricity Act 1989 (as amended by section 30 of the Utilities Act 2000), as amended, modified, supplemented or substituted from time to time, including any regulations prescribed and promulgated pursuant thereto;

**Investment Grade** in relation to a rating means that the relevant Rating Agency has designated the rating as BBB-, Baa3 or their respective equivalents or better;

a **Negative Rating Event** shall be deemed to have occurred if following a Restructuring Event (a) the Issuer does not, during the Restructuring Period, seek, and thereupon use all reasonable endeavours to obtain, a rating of the Notes from a Rating Agency or (b) it does so seek and use such endeavours but, it has not, as a result of such Restructuring Event, obtained in respect of the Notes a rating of at least Investment Grade from at least one Rating Agency by no later than the end of the Restructuring Period;

**Put Date** means the fifteenth day after the expiry of the Put Period;

a **Put Event** occurs in the case of the occurrence of a Restructuring Event, where there shall be in respect of such Restructuring Event a Rating Downgrade or a Negative Rating Event that occurs during the Restructuring Period and continues to exist on the last day of the Restructuring Period;

**Rating Agency** means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Incorporated, Moody's Investors Service Inc. and

Fitch, Inc. or any of their respective subsidiaries or affiliates and **Rating Agencies** shall be construed accordingly;

a **Rating Downgrade** shall be deemed to have occurred in respect of a Restructuring Event if the then current rating assigned to the Notes by any Rating Agency (whether provided by a Rating Agency at the invitation of the Issuer or by its own volition) is withdrawn or reduced from an Investment Grade rating to a non-Investment Grade rating or, if the Rating Agency shall then have already rated the Notes below Investment Grade (as described above), the rating is lowered one full rating category;

**Relevant Licences** means the Distribution Licence and in any such case, and from time to time any other licence(s), exemption(s), permission(s) or other authorisation(s) relating to the distribution of electricity granted under the Electricity Legislation to the Issuer or any of its wholly-owned Subsidiaries as contemplated in the exception to paragraph (A) of the definition of Restructuring Event and **Relevant Licence** shall be construed accordingly;

**Responsible Authority** means the Government of the United Kingdom or any subdivision thereof, the Gas and Electricity Markets Authority and the Office of Gas and Electricity Markets or other regulatory department, body, instrumentality, agency or authority of the United Kingdom or of any subdivision thereof having jurisdiction over the Issuer's electricity distribution operations or a material amount of the Issuer's assets or revenues, but excluding the Issuer acting in such capacity;

**Restructuring Event** means the occurrence of any one or more of the following events:

(A) the Responsible Authority gives the Issuer or any Subsidiary of the Issuer written notice of revocation, termination or withdrawal of any Relevant Licence; or

i. the Issuer or any Subsidiary of the Issuer agrees in writing with the Responsible Authority to any revocation, termination, withdrawal or surrender of any Relevant Licence; or

ii. any original or delegated legislation is enacted revoking, terminating or withdrawing any Relevant Licence,

except in any such case in circumstances where licence(s), exemption(s), permission(s) or other authorisation(s) (as the case may be) is or are granted on terms not materially less favourable under the Electricity Legislation to the Issuer or one or more Subsidiaries of the Issuer; or

(B) any modification (other than a modification which is of a formal, minor or technical nature) is made to the terms and conditions of any Relevant Licence on or after 20 September 2012 unless a certificate is issued signed by two directors of the Issuer in good faith to the effect that the modified terms and conditions are not materially less favourable to the business of the Group and to the business of the member of the Group holding the Relevant Licence;

**Restructuring Period** means, if at any time a Restructuring Event occurs, the period of 90 days starting from and including the day on which that Restructuring Event occurs; and.

(d) **Redemption at the option of the Issuer**

Unless a Put Event Notice has been given pursuant to Condition 5(c), the Issuer may at any time, having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 13 (which notice shall be irrevocable and shall specify the date fixed for redemption (the **Optional Redemption Date**)) redeem all, but not some only, of the Notes at a redemption price per Note equal to the greater of the following, in each case together with interest accrued to but excluding the Optional Redemption Date:

(i) 100 per cent. of the nominal amount of the Note; and

(ii) the price (as reported in writing to the Issuer and the Fiscal Agent by a financial adviser appointed by the Issuer) expressed as a percentage at which the Gross Redemption Yield on the Notes on the Calculation Date is equal to the Gross Redemption Yield at 11.00 a.m. (London time) on the Calculation Date of the 6.00 per cent. U.K. Government Treasury Stock December 2028 (or, where such financial adviser notifies the Issuer and the Fiscal Agent that, for reasons of illiquidity or otherwise, such stock is not appropriate for such purpose, such other government stock as such financial adviser may recommend, the maturity of which most closely matches the maturity of the Note). For such purposes, **Calculation Date** means the date which is the third London Business Day prior to the Optional Redemption Date and **Gross Redemption Yield** means a yield calculated in accordance with generally accepted market practice at such time, as notified to the Issuer and the Fiscal Agent by such financial adviser.

(e) **Notice of redemption**

All Notes in respect of which any notice of redemption is given under this Condition shall be redeemed on the date specified in such notice in accordance with this Condition.

(f) **Purchases**

The Issuer and any Subsidiary of the Issuer may at any time purchase Notes (provided that all unmatured Coupons are attached or surrendered therewith) in the open market or otherwise at any price. The Notes so purchased, which held by or on behalf of the Issuer or any Subsidiary of the Issuer, shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 11(a).

(g) **Cancellation**

All Notes purchased by or on behalf of the Issuer or any of its Subsidiaries may be surrendered for cancellation by surrendering each such Note together with all unmatured Coupons to the Fiscal Agent and, if so surrendered, will, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Coupons).

Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

## 6. PAYMENTS

(a) **Method of Payment:** Payments of principal and interest will be made against presentation and surrender (or, in the case of a partial payment, endorsement) of Notes or the appropriate Coupons (as the case may be) at the specified office of any Paying Agent by sterling cheque drawn on, or by transfer to a sterling account maintained by the payee with, a bank in London. Payments of interest due in respect of any Note other than on presentation and surrender of matured Coupons shall be made only against presentation and either surrender or endorsement (as appropriate) of the relevant Note.

(b) **Payments subject to fiscal laws:** All payments are subject in all cases to any applicable laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7. No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(c) **Surrender of unmatured Coupons:** Each Note should be presented for redemption together with all unmatured Coupons relating to it, failing which the amount of any such missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon which the sum of principal so paid bears to the total principal amount due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relevant missing Coupon not later than 10 years after the Relevant Date (as defined in Condition 7) for the relevant payment of principal.

(d) **Payments on business days:** A Note or Coupon may only be presented for payment on a day which is a business day in the place of presentation and, in the case of payment by transfer to a sterling account, in London. No further interest or other payment will be made as a consequence of the day on which the relevant Note or Coupon may be presented for payment under this Condition 6 falling after the due date. In this Condition **business day** means a day on which commercial banks and foreign exchange markets are open in the relevant city.

(e) **Paying Agents:** The initial Paying Agents and their initial specified offices are listed below. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent and appoint additional or other Paying Agents, provided that it will maintain (i) a Fiscal Agent, (ii) Paying Agents having specified offices in at least two major European cities and (iii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

## 7. TAXATION

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes and the Coupons shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the United Kingdom or, any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event the Issuer shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note or Coupon presented for payment:

(a) **Other connection:** by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of his having some connection with the United Kingdom, other than the mere holding of the Note or Coupon; or

(b) **Presentation more than 30 days after the Relevant Date:** more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting such Note or Coupon for payment on the last day of such period of 30 days; or

(c) **Payment to individuals:** where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(d) **Payment by another Paying Agent:** by or on behalf of a Noteholder or a Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union.

**Relevant Date** means whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received in London by the Fiscal Agent on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Noteholders. Any reference in these Conditions to principal and/or interest shall be deemed to include any additional amounts which may be payable under this Condition.

## 8. EVENTS OF DEFAULT

If any of the following events occurs and is continuing (each an "**Event of Default**"):

(a) **Non-Payment**: default is made for more than 14 days (in the case of interest) or seven days (in the case of principal) in the payment on the due date of interest or principal in respect of any of the Notes; or

(b) **Breach of Other Obligations**: the Issuer does not perform or comply with any one or more of its other obligations under or in respect of the Notes or the Fiscal Agency Agreement which default is incapable of remedy or is not remedied within 30 days after notice of such default shall have been given to the Fiscal Agent at its specified office by any Noteholder; or

(c) **Cross-Default**: (i) subject as provided below, any Relevant Indebtedness incurred by the Issuer or any Relevant Subsidiary becomes (or becomes capable of being declared) due and payable prior to its stated maturity otherwise than at the option of the Issuer, as the case may be, or, provided that no event of default on such Relevant Indebtedness, however described, has occurred, at the option of any person entitled to such Relevant Indebtedness, or (ii) any Relevant Indebtedness of the Issuer or of any Relevant

Subsidiary is not paid when due or, as the case may be, within any applicable grace period, or (iii) the Issuer or any Relevant Subsidiary fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any Relevant Indebtedness, provided that the aggregate amount of the Relevant Indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition 8(c) have occurred equals or exceeds £40,000,000 or its equivalent in other currencies.

Paragraph (i) above shall not apply to Relevant Indebtedness which is Relevant Indebtedness of a Relevant Subsidiary and becomes (or becomes capable of being declared) due and payable prior to its stated maturity solely as a result of an event of default triggered by the acquisition of that Relevant Subsidiary by the Issuer (or any of its Subsidiaries), provided that this exception shall not apply if such Relevant Indebtedness (I) has become (or is declared to become) due and payable, and (II) is not paid in full when so due and payable; or

(d) **Enforcement Proceedings**: any distress, attachment, execution or other legal process which is material in the context of the issue and offering of the Notes is levied, enforced or sued on or against any part of the property, assets or revenues of the Issuer or any of its Subsidiaries and is not discharged or stayed within 90 days; or

(e) **Security Enforced**: any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any of its Subsidiaries which is material in the context of the issue and offering of the Notes becomes enforceable and any step is taken to enforce it (including the taking of possession by or the appointment of a receiver, administrative receiver, manager or other similar person); or

(f) **Insolvency, etc**: (i) the Issuer or any Relevant Subsidiary becomes, or is adjudicated to be, insolvent or is adjudicated to be unable to pay its debts as they fall due, (ii) an administrator or liquidator of the Issuer or any Relevant Subsidiary or the whole or any part of the undertaking, assets and revenues of the Issuer or any Relevant Subsidiary is appointed (or application for any such appointment is made), or (iii) the Issuer or any Relevant Subsidiary takes any action for a general readjustment or deferment of its obligations or makes a general assignment or arrangement or composition with or for the benefit of its creditors generally or declares a moratorium in respect of its indebtedness or guarantees given by it; or

(g) **Winding-up**: an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer or any Relevant Subsidiary, or the Issuer or any Relevant Subsidiary shall cease or through an official action of its board of directors threaten to cease to carry on all or a substantial part of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution of the Noteholders or (ii) in the case of a Relevant Subsidiary, whereby the undertaking or assets of the Relevant Subsidiary are transferred to or otherwise vested in (A) the Issuer or another Relevant Subsidiary or (B) any other person provided, in this case, that the undertaking or assets are transferred to that person for full consideration on an arm's length basis and the proceeds of the consideration are applied as soon as practicable by the Relevant Subsidiary in its business or operations or the business or operations of the Issuer or another Relevant Subsidiary;

(h) **Authorisation and Consents**: any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise its respective rights and perform and comply with its respective obligations under the Notes, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Notes admissible in evidence in the courts of England is not taken, fulfilled or done; or

(i) **Illegality**: it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under the Notes; or

(j) **Analogous Events**: any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs; or

(k) **Nationalisation**: any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the Issuer or any of its Relevant Subsidiaries,

then any Note may, by notice in writing given to the Fiscal Agent at its specified office by the holder, be declared immediately due and payable whereupon it shall become immediately due and payable at its principal amount together with accrued interest without further formality unless such Event of Default shall have been remedied prior to the receipt of such notice by the Fiscal Agent.

In this Condition, **Relevant Indebtedness**, **Relevant Subsidiary** and **Subsidiary** shall have the respective meanings given to them in Condition 3.

## 9. PRESCRIPTION

Claims in respect of principal and interest will become void unless presentation for payment is made as required by Condition 6 within a period of 10 years in the case of principal and five years in the case of interest from the appropriate Relevant Date.

## 10. REPLACEMENT OF NOTES AND COUPONS

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Fiscal Agent subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

## 11. MEETINGS OF NOTEHOLDERS AND MODIFICATION

(a) **Meetings of Noteholders:** The Fiscal Agency Agreement contains provisions for convening meetings of Noteholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions. Such a meeting may be convened by Noteholders holding not less than 10 per cent in principal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Notes or the dates on which interest is payable in respect of the Notes, (ii) to reduce or cancel the principal amount of, or interest on, the Notes, (iii) to change the currency of payment of the Notes or the Coupons, or (iv) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum will be two or more persons holding or representing not less than 75 per cent, or at any adjourned meeting not less than 25 per cent, in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

The Fiscal Agency Agreement provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in principal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) **Modification of Fiscal Agency Agreement:** The Issuer shall only permit any modification of, or any waiver or authorisation of any breach or proposed breach of or any failure to comply with, the Fiscal Agency Agreement, if to do so could not reasonably be expected to be prejudicial to the interests of the Noteholders.

## 12. FURTHER ISSUES

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes.

## 13. NOTICES

Notices to Noteholders will be valid if published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*) or if such publication shall not be practicable, in an English language newspaper of general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with this Condition.

## 14. CURRENCY INDEMNITY

Sterling is the sole currency of account and payment for all sums payable by the Issuer under or in connection with the Notes and the Coupons, including damages. Any amount received or recovered in a currency other than sterling (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the insolvency, winding-up or dissolution of the Issuer or otherwise) by any Noteholder or Couponholder in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer to the extent of the sterling amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that sterling amount is less than the sterling amount expressed to be due to the recipient under any Note or Coupon, the Issuer shall indemnify it against any loss sustained by it as a result. In any event, the Issuer shall indemnify the recipient against the cost of making any such purchase. For the purposes of this Condition, it will be sufficient for the Noteholder or Couponholder, as the case may be, to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Issuer's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Noteholder or Couponholder and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note or Coupon or any other judgment or order.

## 15. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

## 16. GOVERNING LAW

(a) **Governing Law:** The Fiscal Agency Agreement, the Notes and the Coupons and any non-contractual obligations arising out of or in connection with them are governed by and shall be construed in accordance with English law.

(b) **Jurisdiction:** The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Notes or the Coupons and accordingly any legal action or proceedings arising out of or in connection with the Notes, the Coupons (**Proceedings**) may be brought in such courts. The Issuer irrevocably submits to the jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This Condition is for the benefit of each of the Noteholders and Couponholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

## SUMMARY OF THE NOTES WHILE IN GLOBAL FORM

The Temporary Global Note and the Global Note contain provisions which apply to the Notes while they are in global form, some of which modify the effect of the terms and conditions of the Notes set out in this document. The following is a summary of certain of those provisions:

### 1. EXCHANGE

The Temporary Global Note is exchangeable in whole or in part for interests in the Global Note on or after a date which is expected to be 20 September 2012, upon certification as to non-U.S. beneficial ownership in the form set out in the Temporary Global Note. The Global Note is exchangeable in whole but not, except as provided in the next paragraph, in part (free of charge to the holder) for the Definitive Notes described below (i) if the Global Note is held on behalf of a clearing system and such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so or (ii) if principal in respect of any Notes is not paid when due and payable. Thereupon, the holder may give notice to the Fiscal Agent of its intention to exchange the Global Note for Definitive Notes on or after the Exchange Date specified in the notice.

If principal in respect of any Notes is not paid when due and payable the holder of the Global Note may, by notice to the Fiscal Agent (which may but need not be the default notice referred to in "– Default" below), require the exchange of a specified principal amount of the Global Note (which may be equal to or (provided that, if the Global Note is held by or on behalf of a clearing system, that clearing system agrees) less than the outstanding principal amount of Notes represented thereby) for Definitive Notes on or after the Exchange Date (as defined below) specified in such notice.

On or after any Exchange Date the holder of the Global Note may surrender the Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Fiscal Agent. In exchange for the Global Note, or on endorsement in respect of the part thereof to be exchanged, the Issuer shall deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated Definitive Notes (having attached to them all Coupons in respect of interest which has not already been paid on the Global Note), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in Schedule 1 to the Fiscal Agency Agreement. On exchange in full of the Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with any relevant Definitive Notes.

**Exchange Date** means a day falling not less than 60 days or, in the case of exchange pursuant to (ii) above, 30 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Fiscal Agent is located and, except in the case of exchange pursuant to (i) above, in the cities in which the relevant clearing system is located.

### 2. PAYMENTS

No payment will be made on the Temporary Global Note unless exchange for an interest in the Global Note is improperly withheld or refused. Payments of principal and interest in respect of Notes represented by the Global Note will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of the Global Note to or to the order of the Fiscal Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes. Condition 6(e)(iii), Condition 7(c) and Condition 7(d) will apply to the Definitive Notes only. For the purpose of any payments made in respect of a Global Note, Condition 6(d) (*Payments on business days*) shall not apply, and all such payments shall be made on a day on which commercial banks and foreign exchange markets are open in the financial centre of the currency of the Notes.

## 3. NOTICES

So long as the Notes are represented by the Global Note and the Global Note is held on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions.

## 4. PRESCRIPTION

Claims against the Issuer in respect of principal and interest on the Notes while the Notes are represented by the Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 7).

## 5. MEETINGS

The holder of the Global Note shall (unless the Global Note represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, as having one vote in respect of each £1,000 in principal amount of Notes.

## 6. PURCHASE AND CANCELLATION

Cancellation of any Note required by the Conditions to be cancelled following its purchase will be effected by reduction in the principal amount of the Global Note.

## 7. DEFAULT

The Global Note provides that the holder may cause the Global Note or a portion of it to become due and payable in the circumstances described in Condition 8 by stating in the notice to the Fiscal Agent the principal amount of Notes which is being declared due and payable. If principal in respect of any Note is not paid when due and payable, the holder of the Global Note may elect that the Global Note becomes void as to a specified portion and that the persons entitled to such portion, as accountholders with a clearing system, acquire direct enforcement rights against the Issuer under further provisions of the Global Note executed by the Issuer as a deed poll.

## 8. PUT OPTION

The Noteholders' put option in Condition 5(c) may be exercised by the holder of the Global Note, giving notice to the Fiscal Agent of the principal amount of Notes in respect of which the option is exercised and presenting the Global Note for endorsement of exercise within the time limits specified in Condition 5(c).

## 9. ELECTRONIC CONSENT AND WRITTEN RESOLUTION

While any Global Note is held on behalf of a clearing system, then:

(a) approval of a resolution proposed by the Issuer given by way of electronic consents communicated through the electronic communications systems of the relevant Clearing System(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Notes outstanding (an "**Electronic Consent**" as defined in the Fiscal Agency Agreement) shall, for all purposes (including matters that would otherwise require an Extraordinary Resolution to be passed at a meeting for which the Special Quorum was satisfied), take effect as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held, and shall be binding on all Noteholders and holders of Coupons whether or not they participated in such Electronic Consent; and

(b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Fiscal Agency Agreement) has been validly passed, the Issuer shall be entitled to rely on consent or instructions given in writing directly to the Issuer by accountholders in the clearing system with entitlements to such Global Note or, where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held, whether such beneficiary holds directly with the accountholder or via one or more intermediaries and provided that, in each case, the Issuer obtained commercially reasonable evidence to ascertain the validity of such holding and have taken reasonable steps to ensure that such holding does not alter following the giving of such consent or instruction and prior to the passing of such resolution. Any resolution passed in such manner shall be binding on all Noteholders and Couponholders, even if the relevant consent or instruction proves to be defective. As used in this paragraph, "commercially reasonable evidence" includes any certificate or other document issued by Euroclear, Clearstream, Luxembourg or any other relevant clearing system, or issued by an accountholder of them or an intermediary in a holding chain, in relation to the holding of interests in the Notes. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. The Issuer shall not be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

## USE OF PROCEEDS

The net proceeds of the issue of the Notes, amounting to approximately £345,376,500, will be used for general corporate purposes, including the refinancing of debt taken out for the purpose of financing the Issuer’s electricity distribution business. The expenses in connection with the admission to trading are expected to amount to £4,200.

# DESCRIPTION OF THE ISSUER

## General information

SP Manweb plc (SP Manweb or the Issuer) was incorporated as a public limited company on 1 April 1989 under the laws of England. The registered office of the Issuer is 3 Prenton Way, Prenton, CH43 3ET, with telephone number +44 151 609 2137. The Issuer is registered at Companies House under number 02366937. The Issuer is incorporated for an indefinite period.

## Share capital and major shareholders

The Issuer's issued and paid-up share capital is £300,000,000 divided into 600,000,000 ordinary shares of £0.50 each. The whole issued and paid-up share capital of the Issuer is indirectly owned by Scottish Power Limited (**ScottishPower**), which is a wholly-owned subsidiary of Iberdrola, S.A. (**Iberdrola**).

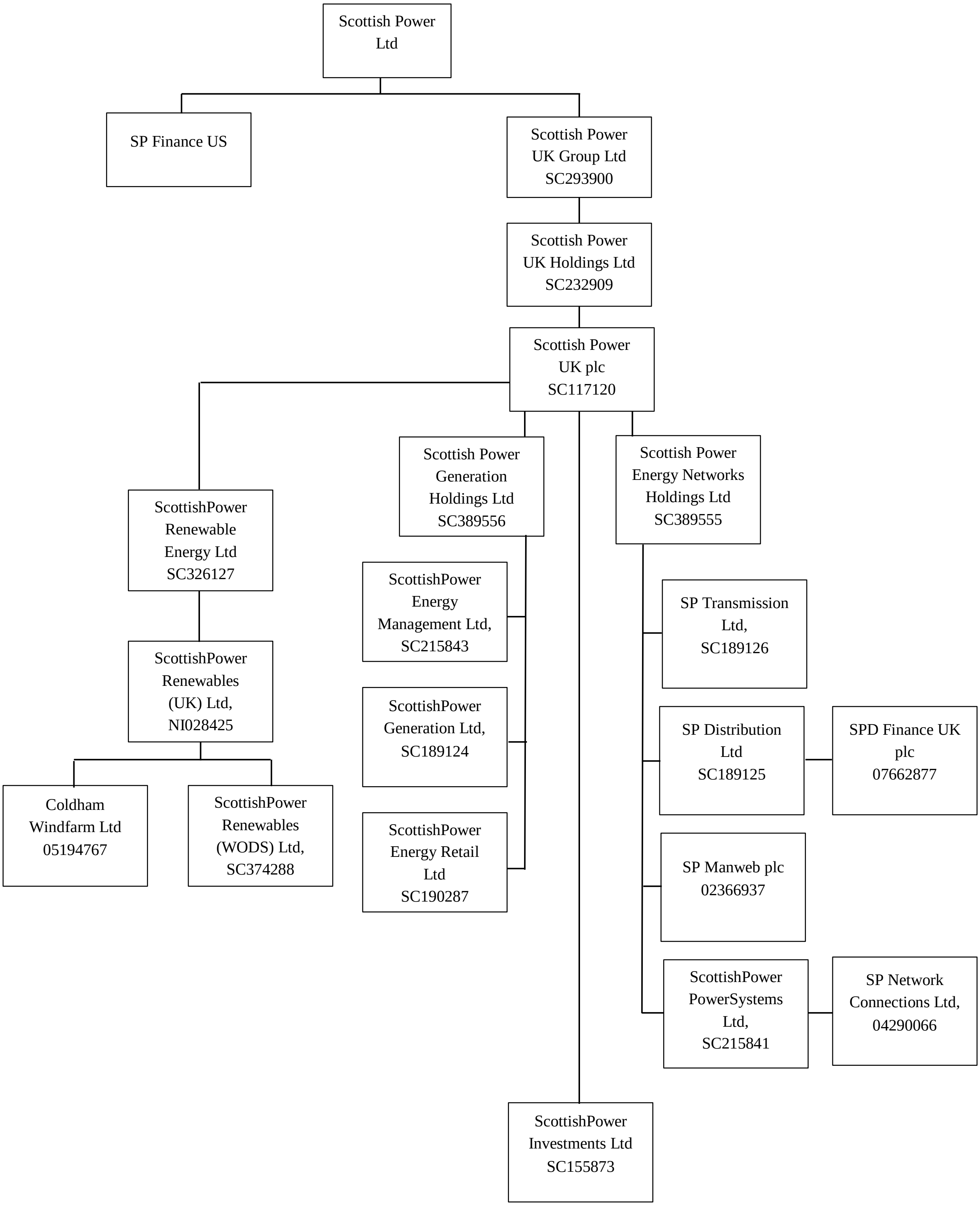
There are currently no arrangements in place, the operation of which may at a future date result in a change of control of the Issuer or ScottishPower.

## Group structure

The ultimate parent of SP Manweb is Iberdrola which is listed on the Madrid stock exchange. ScottishPower, the United Kingdom (**UK**) operator of Iberdrola, operates on divisional lines. The activities of SP Manweb fall within the Energy Networks division of ScottishPower (**Energy Networks**).

SP Manweb, SP Distribution Limited and SP Transmission Limited (all subsidiary companies of Scottish Power Energy Networks Holdings Limited (**SPENH**)), are the "asset-owner companies" within Energy Networks holding ScottishPower's regulated assets and distribution and transmission licences. SP Power Systems Ltd (**Power Systems**) provides asset-management expertise and conducts the day-to-day operation of the networks.

The structure of the Scottish Power group is set out below:



## Business

### *Activities and Review*

The principal activity of SP Manweb is the ownership and operation of the electricity distribution network within the Mersey and North Wales regions. The network is used to distribute electricity, which has been transmitted to grid supply points, for electricity supply companies for the purpose of onward sale to their customers.

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

SP Manweb 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 SP Manweb intends to engage closely and constructively with Ofgem throughout the review.

Significant investment in the electricity network within SP Manweb took place during 2011. The agreed capital expenditure programme within SP Manweb's DPC5 agreement over the five-year period from 2010 to 2015 is focused on network reinforcement, expansion and driving improved network performance.

### *UK electricity regulation*

The principal pieces of legislation forming the regulatory framework for SP Manweb's operations are the Electricity Act 1989, as amended by the Utilities Act 2000, the Energy Act 2004 and the relevant EU Directives and Regulations e.g. the Second and Third EU Energy packages and the EU Procurement Directive.

The Utilities Act 2000 introduced a legal framework for energy company licences based on standard conditions in operation across Great Britain (**GB**) and, taken together with requirements of the Department of Business, Enterprise and Regulatory Reform and licence changes introduced by the electricity and gas industry regulators, defines the regulatory framework within which SP Manweb's electricity distribution business must operate.

The Utilities Act 2000 transferred the functions of the previous electricity and gas industry regulators to the Gas and Electricity Markets Authority (the **Authority**). The administrative body supporting the Authority is Ofgem.

The Authority is responsible for granting new licences or licence extensions and modifications for each participant in the GB electricity market.

Ofgem is responsible for monitoring compliance with the conditions of licences and, where necessary, enforcing them through procedures laid down in the Electricity Act 1989, as amended by the Utilities Act 2000, on behalf of the Authority.

Distribution licence holders are required, amongst their other duties, to develop and maintain an efficient, coordinated and economical system of electricity distribution and to offer terms for connection to, and use of, their distribution system on a non-discriminatory basis, in order to ensure competition in the supply and generation of electricity. SP Manweb 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 the 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, 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 SP Manweb operates is DPC5. DPC5 covers the period from 1 April 2010 to 31 March 2015.

Price cap regulation, as operated in the UK, is performance-based. Any benefits delivered by exceeding targets for output incentives or efficiency achieved through efficient management may be retained by SP Manweb for a period of up to five years.

The main incentive schemes operated by Ofgem through DPC 5 focus on:

- Quality of supply, including:
  - the number of interruptions to customers' supplies;
  - the length of those interruptions; and
  - the 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 schemes, SP Manweb is rewarded or penalised by increases or decreases to its allowed revenue depending upon its performance against pre-specified targets. For the measure of customer satisfaction, the incentive is dependent upon the relative performance against other Distribution Network Operators.

***Key factors affecting the business***

SP Manweb’s objectives to manage the key drivers impacting the operational and financial performance of SP Manweb are as follows:

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

These objectives have to be achieved within the conditions of DPC5.

### *Operational Assets*

SP Manweb's electricity distribution licence requires the directors to prepare regulatory accounts to 31 March for each regulatory year. Reporting of operational data is aligned to the regulatory year-end. Consequently, the latest available data has been disclosed in the table below.

The table below provides key non-financial information relating to SP Manweb's operational assets during the year ended 31 March 2012 and 2011:

| | **Year Ended 31 March 2012** | **Year ended 31 March 2011** |
|---|---|---|
| Franchise area (km2) | 12,200 | 12,200 |
| System maximum demand (MW) | 3,320 | 3,294 |
| Distributed energy (GWh) | 16,195 | 16,341 |
| Length of overhead lines (km) | 21,184 | 21,516 |
| Length of underground cables (km) | 27,846 | 27,933 |

### *Projects*

During 2011, a number of projects were undertaken to facilitate new connections and to improve the overall condition, performance and resilience of the distribution network.

In particular, the following key customer-related projects were completed in this reporting period: a 60MVA connection at Lostock and a connection of Hole House Farm. Works to connect the Wirral International Business Park are expected to be completed in 2012.

The company continues to work with National Grid plc (**National Grid**) and key stakeholders on establishing major 400/132kV infrastructure within the Mid-Wales area to facilitate connection of over 1GW of renewable generation capacity. Major consultation work with stakeholders has been completed on the proposed solution for wind farms in Strategic Search Areas B and C (Mid Wales) (as set out in the Technical Advice Note 8: Planning for Renewable Energy, published by the Welsh Assembly Government). This has been undertaken in close collaboration and co-ordination with National Grid. The preferred location for National Grid's 400/132kV hub substation was announced by them at the end of July 2012 as Cefn Coch, in Powys. Environmental planning activities have progressed on the 132kV connections for developers in Strategic Search Area A (North Wales). Public consultation commenced in summer 2012.

Major reinforcement projects to increase network capacity and improve security of supply to customers continued in 2011. Work on establishing a new 132kV overhead line (**OHL**) between Lostock and Carrington to increase network capacity is well underway and is expected to be completed before the end of 2012. Works to remove fault level issues and improve reliability and availability of electricity supply to customers are underway in the St Helens, Formby and Guilden Sutton areas, with completion expected to take place during 2012 and 2013.

Undergrounding of OHL within Areas of Outstanding Natural Beauty has continued with 5km of 33kV and 11kV OHL being removed between Maentwrog and Llanfrothen, Llithfaen and Nant Gwytheyrn and Pont Croesor. This work progresses with 11kV OHL on the Llyn Peninsular which is due to be undergrounded before the end of 2012.

In addition to the investment to extend or reinforce the network, a number of projects are also underway to improve asset conditions and performance. These include 33kV switchgear and transformer replacement projects at the Knutsford, Caernarfon, Welshpool and Whitchurch substations. The rebuilding of 10km of 132kV line between Formby and Southport is expected to be completed before the end of 2012 and major refurbishment works on a total of 170km of 132kV OHL are in progress. The refurbishment of over 700km of 33/11/LV OHL network has been completed. In terms of wider modernisation of the distribution substations, 340 poor condition and obsolete ring-main units and 113 11kV circuit breakers were replaced with modern switchgear.

SP Manweb's inspection and maintenance policy is designed to achieve compliance with legal and licence obligations, including the Electricity Supply, Quality and Continuity Regulations (**ESQCR**). To improve network resilience and comply with ESQCR guidelines, the vegetation management programme frequency is a three-year cycle.

On the overhead line network, the first phase of the major low ground clearance programme has been completed, with the removal of over 7000 clearance defects. This programme will continue throughout 2012.

The business continues its strategic deployment of wide ranging Innovation Funding Incentive projects including new and existing projects with academic, industrial and community partners to enhance the existing and future electrical networks. These include projects aimed at accurately measuring and managing fault level. If successful, they could enable the employment of innovative solutions to developing networks.

***Operational Performance***

Ofgem requires all licensees operating electricity distribution systems to report annually on their performance. Statistics remain provisional until they are audited and subsequently published by Ofgem. Consequently, the provisional statistics contained in the table below may differ from the statistics published by Ofgem.

The table below provides key non-financial information relating to SP Manweb's performance during the years ending 31 March 2012 and 2011:

| | **Notes** | **Actual Year ended 31 March 2012** | **Target Year ended 31 March 2012** | **Actual Year ended 31 March 2011** | **Target Year ended 31 March 2011** |
|---|---|---|---|---|---|
| Quality of Service | | | | | |
| - Customer minutes lost ("CML") | (a) | 43.6 | 49.4 | 47.4 | 61.1 |
| - Customer interruptions ("CI") | (b) | 36.0 | 40.6 | 39.3 | 45.6 |

| | | | | | |
|---|---|---|---|---|---|
| Average time off supply (minutes) | | 121 | 121 | 121 | 134 |
| Electricity supply availability | | 99.99% | 99.99% | 99.98% | 99.99% |
| Quality of Response (mean score) | (c) | 4.51 | 4.45 | 4.49 | 4.45 |
| **Customer performance** | | | | | |
| Energy Ombudsman (customer complaints) | (d) | 2 | - | 2 | - |

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

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

***Employees***

In 2011 and 2010, SP Manweb's workforce totalled 7 and 8 employees respectively.

**Financial Review**

***Operational financial performance***

The table below provides key financial information relating to SP Manweb's performance for the years ending 31 December 2011 and 2010:

| | **Year ended 31 December 2011 £m** | **Year ended 31 December 2010 £m** |
|---|---|---|
| Revenue | 299.6 | 256.2 |
| Profit from Operations | 169.8 | 138.3 |
| Profit before tax | 155.8 | 121.6 |
| Net Profit | 129.3 | 94.2 |
| Non Current Assets | 1,995.6 | 1,862.3 |
| Total Equity | 841.9 | 834.2 |

| | | |
|---|---|---|
| Cash inflow from operating activities | 207.6 | 189.0 |
| Net cash flows from investing activities | (188.2) | (176.8) |
| Net Debt | (487.6) | (416.1) |
| Funds from Operations (**FFO**) * | 190.9 | 149.0 |
| Net debt/Regulated Asset Value | 37.7%** | 35.0%*** |
| FFO/Net debt | 39.2% | 35.8% |

*Calculated as follows: Net Profit + depreciation and amortisation charges, allowances and provisions + losses on disposal of non-current assets.
** Calculated using the Net debt value as at 31 December 2011 and the Regulated Asset Value as at 31 March 2012.
***Calculated using the Net debt value as at 31 December 2010 and the Regulated Asset Value as at 31 March 2011.

Revenue in 2011 increased primarily as a result of higher base revenues and, to a lesser extent, revenue from incentives as a result of an improved quality of service.

Procurements slightly increased in 2011 due to the inclusion of Low Carbon Network Fund costs.

External services decreased in 2011 primarily as a result of lower recharges from Power Systems for the provision of its asset management services.

Other operating income decreased in 2011, as a result of lower rechargeable revenue with Power Systems.

Depreciation and amortisation charges, allowances and provisions increased compared to 2010 levels primarily due to increased provisions for bad debts and environmental costs. In addition, the ongoing capital additions brought into use during 2011 has increased the cost base for depreciation.

Net finance costs decreased slightly in 2011, primarily as a result of an increase in the expected return on retirement benefit net assets and a decrease in interest payable on bank loans and overdrafts.

The income tax expense has decreased slightly in 2011 compared to 2010, with the effect of reducing the corporation tax rates being offset by the increase in taxable profits.

***Net Capital Investment***

ScottishPower's investment strategy is to drive the growth and development of its regulated businesses through a balanced programme of capital investment.

SP Manweb's net capital investment in 2011 was £162.3 million consisting of fixed asset additions of £190.9 million less capital contributions received of £28.6 million. This compares to fixed asset additions of £166.1 million for the year ended 31 December 2010 less capital contributions received of £19.0 million.

SP Manweb earns allowed returns on this extensive capital programme. In 2011, the cashflow from investing activities of £188.2 million (compared to £176.8 million in 2010) comprised approximately:

- £49 million in relation to growth of the network (compared to £51 million in 2010); and

- £139 million in relation to refurbishment of the network (compared to £126 million in 2010).

In 2011, approximately 74 per cent. (compared to 71 per cent. in 2010) of SP Manweb's net investment related to refurbishment of the network, the majority of which relates to expenditure identified as being necessary for the ongoing integrity and safety of the network as its age increases. The growth investment is focused on network expansion and driving improved network performance. This investment will play a significant role in reducing response times and the average duration of customer interruptions. The scale of the investment is consistent with the DPC5 allowed capital expenditure programme.

***Cash and Net Debt***

In 2011, SP Manweb generated £207.6 million of cash from operating activities (compared to £189.0 million in 2010). This was used to fund net investing activities of £188.2 million (compared to £176.8 million in 2010), settle net interest charges amounting to £15.9 million (compared to £16.9 million in 2010) and repay a loan of £50.0 million made available to SP Manweb by the European Investment Bank (**EIB**). A dividend of £75.0 million was paid in 2011 to SPENH as sole shareholder (compared to £35.0 million paid to Scottish Power UK plc (**SPUK**), the former sole shareholder of SP Manweb in 2010). The amount owed to SPUK through the working capital facility increased by £121.1 million to £232.6 million (compared to an increase of £39.7 million in 2010).

***Funding***

On 31 December 2011, SP Manweb had net debt of £487.6 million (compared to £416.1 million in 2010).

SP Manweb 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.

The overall movement in net debt in 2011 was an increase of £71.5 million to £487.6 million. The movement in net debt comprised an increase in short-term debt of £71.5 million representing an increase in the working capital facility of £121.1 million and the creation of a bank overdraft of £0.4 million partially offset by the repayment of a £50.0 million EIB loan.

SP Manweb had current assets of £49.9 million on 31 December 2011 (compared to £43.5 million in 2010) and current liabilities of £349.4 million on 31 December 2011 (compared to £262.4 million in 2010).

***Results and Dividends***

SP Manweb's net profit for 2011 amounted to £129.3 million (compared to £94.2 million in 2010). The aggregate dividends paid to SPENH (as sole shareholder) during 2011 amounted to £75.0 million (compared to £35.0 million paid to SPUK, the former sole shareholder of SP Manweb, in 2010).

**Directors and management structure**

The members of the Issuer's Board of Directives are detailed in the table below:

| Name | Function |
|---|---|
| Scott Mathieson | Director |
| Frank Mitchell | Director |

The address of each director is New Alderston House, Dove Wynd, Strathclyde Business Park, Bellshill, ML4 3FF, United Kingdom.

There are no potential conflicts of interest between the duties owed by the Board of Directors to the Issuer and their private interests or other duties. None of the members of the Board of Directors performs any significant activities outside Energy Networks.

**Material Contracts**

The only material contract entered into by the Issuer (other than in its ordinary course of business) which is relevant to its ability to meet its obligations in respect of the issue of the Notes is the Subscription Agreement and the Fiscal Agency Agreement.

**Recent Events**

There are no recent events particular to the Issuer that are, to a material extent, relevant to the evaluation of its solvency.

# TAXATION

## United Kingdom

**The following applies only to persons who are the beneficial owners of Notes and is a summary of the Issuer's understanding of current law and published HM Revenue and Customs (HMRC) practice (which may not be binding on HM Revenue & Customs) in the United Kingdom relating to certain aspects of United Kingdom taxation. Some aspects do not apply to certain classes of person (such as dealers and persons connected with the Issuer) to whom special rules may apply. The United Kingdom tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future (possibly with retrospective effect). Prospective Noteholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.**

### Interest on the Notes

*Payment of interest on the Notes*

Payments of interest on the Notes by the Issuer may be made without deduction of or withholding on account of United Kingdom income tax provided that the Notes continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007 (the **Act**). The London Stock Exchange is a recognised stock exchange for these purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000) and admitted to trading on the London Stock Exchange. Provided, therefore, that the Notes become and remain so listed, interest on the Notes will be payable by the Issuer without withholding or deduction on account of United Kingdom tax.

Interest on the Notes may also be paid by the Issuer without withholding or deduction on account of United Kingdom tax where at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Notes is paid reasonably believes) that the beneficial owner is within the charge to United Kingdom corporation tax or is a partnership, each member of which is within the charge to United Kingdom corporation tax as regards the payment of interest, provided that HMRC has not given a direction (in circumstances where it has reasonable grounds to believe that it is likely that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

In other cases, an amount must generally be withheld from payments of interest by the Issuer on the Notes on account of United Kingdom income tax at the basic rate (currently 20 per cent.). However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Noteholder, HMRC can issue a direction to the Issuer to pay interest to the Noteholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty). If interest were paid under deduction of United Kingdom income tax (for example, if the Notes cease to be listed), Noteholders who are not resident in the United Kingdom for United Kingdom tax purposes may be able to recover all or part of the tax deducted subject to an appropriate provision in the applicable double tax treaty and the laws of the jurisdiction in which the Noteholder is resident for tax purposes.

Noteholders may wish to note that, in certain circumstances, HMRC has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United

Kingdom who either pays or credits interest to or receives interest for the benefit of a Noteholder who is an individual. Information so obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities in other countries.

### *EU Savings Directive*

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to or for the benefit of an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

### *Further United Kingdom Income Tax Issues*

Interest on the Notes constitutes United Kingdom source income for tax purposes and, as such, may be subject to income tax by direct assessment even where paid without withholding irrespective of the residence of the Noteholder.

However, interest with a United Kingdom source received without deduction or withholding on account of United Kingdom tax will not be chargeable to United Kingdom tax in the hands of a Noteholder (other than certain trustees) (i) who is not resident for tax purposes in the United Kingdom unless that Noteholder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the Notes are attributable; or (ii) where that Noteholder is a company, unless that Noteholder carries on a trade in the United Kingdom through a permanent establishment in connection with which the interest is received or to which the Notes are attributable, in which case, subject to exemptions for interest received by certain categories of agent (such as some brokers and investment managers) tax may be levied on the United Kingdom branch or agency, or permanent establishment. Noteholders should note that the provisions relating to additional amounts referred to in "Terms and Conditions of the Notes – Taxation" above would not apply if HM Revenue & Customs sought to assess directly the person entitled to the relevant interest to United Kingdom tax. However exemption from, or reduction of, such United Kingdom tax liability might be available under an applicable double taxation treaty.

## United Kingdom Corporation Tax Payers

In general, Noteholders which are within the charge to United Kingdom corporation tax will be charged to tax as income on all returns, profits or gains on, the Notes (whether attributable to currency fluctuations or otherwise) broadly in accordance with their statutory accounting treatment.

## Other United Kingdom Tax Payers

### *Interest*

Noteholders who are either individuals or trustees and are resident or ordinarily resident for tax purposes in the United Kingdom or who carry on a trade, profession or vocation in the United Kingdom through a branch or agency to which the Notes are attributable will generally be liable to United Kingdom tax on the amount of any interest received in respect of the Notes.

***Taxation of Chargeable Gains***

The Notes will constitute "qualifying corporate bonds" within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, a disposal by a Noteholder of a Note will not give rise to a chargeable gain or an allowable loss for the purposes of the UK taxation of chargeable gains.

***Accrued Income Scheme***

On a disposal of Notes by a Noteholder, any interest which has accrued since the last interest payment date may be chargeable to tax as income under the rules of the accrued income scheme as set out in Part 12 of the Act, if that Noteholder is resident or ordinarily resident in the United Kingdom or carries on a trade in the United Kingdom through a branch or agency to which the Notes are attributable.

**Stamp Duty and Stamp Duty Reserve Tax (SDRT)**

No United Kingdom stamp duty or SDRT is payable on the issue of the Notes or on a transfer by delivery of the Notes.

## SUBSCRIPTION AND SALE

Banco Santander, S.A., HSBC Bank plc, Lloyds TSB Bank plc and The Royal Bank of Scotland plc (the **Managers**) have, pursuant to a Subscription Agreement (the **Subscription Agreement**) dated 18 September 2012, jointly and severally agreed, subject to the satisfaction of certain conditions, to subscribe for the Notes at the issue price of 99.094 per cent. of the principal amount of Notes, less a combined management, underwriting, selling and structuring commission of 0.415 per cent. of the principal amount of the Notes. The Issuer will also reimburse the Managers in respect of certain of their expenses, and has agreed to indemnify the Managers against certain liabilities, incurred in connection with the issue of the Notes. The Subscription Agreement may be terminated in certain circumstances prior to payment of the Issuer.

### United States

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the **Securities Act**) and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meaning given to them by Regulation S under the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder, including the D Rules.

Each Manager has represented and agreed that, except as permitted by the Subscription Agreement, it has not offered, sold or delivered and will not offer, sell or deliver the Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Closing Date within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

### United Kingdom

Each Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (as amended, the **FSMA**)) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

## General

No action has been taken by the Issuer, or any of the Managers that would, or is intended to, permit a public offer of the Notes in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Manager has undertaken that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

## GENERAL INFORMATION

### Authorisation

1. The issue of the Notes was duly authorised by a resolution of the Board of Directors of the Issuer dated 5 September 2012.

### Listing

2. It is expected that official listing will be granted on or about 20 September 2012 subject only to the issue of the Temporary Global Note. Application has been made to the UK Listing Authority for the Notes to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's regulated market.

### Clearing Systems

3. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN for this issue is XS0828007277 and the Common Code is 082800727.

   The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

### No significant change

4. There has been no significant change in the financial or trading position of the Issuer since 31 December 2011 and there has been no material adverse change in the financial position or prospects of the Issuer since 31 December 2011.

### Litigation

5. The Issuer is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Issuer.

### Auditors

6. The auditors of the Issuer are Ernst & Young LLP, which is registered to carry out audit work by the Institute of Chartered Accountants in England and Wales. The auditors have audited the Issuer's accounts, without qualification, in accordance with IFRS for the financial years ended 31 December 2010 and 2011. The auditors of the Issuer have no material interest in the Issuer.

### U.S. tax

7. The Notes and Coupons will contain the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

**Documents Available**

8. For the period of 12 months following the date of this Offering Circular, copies of the following documents will be available for inspection from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in London:

   (a) the Memorandum and Articles of Association of the Issuer;

   (b) the auditors report and audited consolidated annual financial statements of the Issuer for the financial years ended 31 December 2011 and 2010;

   (c) the Fiscal Agency Agreement; and

   (d) a copy of this Offering Circular together with any supplement to this Offering Circular.

**Managers transacting with the Issuer**

9. Certain of the Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer and its affiliates in the ordinary course of business.

**Interests of natural legal persons involved in the issue of the Notes.**

10. Save for the commissions described under "*Subscription and Sale*" above, so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer.

**Post-Issuance Information**

11. The Issuer does not intend to provide any post-issuance information, except if required by any applicable laws and regulations.

**Yield**

12. On the basis of the issue price of the Notes of 99.094 per cent. of their principal amount, the yield on the Notes is 4.962 per cent. on an annual basis.

## INDEX TO FINANCIAL STATEMENTS

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*Auditors report and audited consolidated annual financial statements of the Issuer for the financial year ended 31 December 2011.*

*Auditors report and audited consolidated annual financial statements of the Issuer for the year ended 31 December 2010*

# SP MANWEB PLC
# DIRECTORS’ REPORT AND ACCOUNTS

## for the year ended 31 December 2011

Registered No. 2366937

# SP MANWEB PLC

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

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# SP MANWEB PLC
# 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 Manweb plc ("the company"), registered company number 2366937, is the ownership and operation of the electricity distribution network within the Mersey and North Wales areas. 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 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 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 subsidiaries was transferred from ScottishPower Investments Limited to Scottish Power Energy Networks Holdings Limited ("SPENH"), an immediate subsidiary of Scottish Power UK plc ("SPUK").

The company and fellow subsidiary companies, SP Distribution Limited 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 the operational and financial performance of the company 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 have to be achieved within the conditions of the Price 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 MANWEB PLC
# 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 ($km^2$) | **12,200** | 12,200 |
| System maximum demand (GW) | **3,320** | 3,294 |
| Distributed energy (GWh) | **16,195** | 16,341 |
| Length of overhead lines (km) | **21,184** | 21,516 |
| Length of underground cables (km) | **27,846** | 27,933 |

**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:

| | **Notes** | **Actual Year ended 31 March 2011** | **Target Year ended 31 March 2011** | Actual Year ended 31 March 2010 | Target Year ended 31 March 2010 |
|---|---|---|---|---|---|
| Customer minutes lost ("CML") | (a),(c) | **47.4** | **61.1** | 44.4 | 44.2 |
| Customer interruptions ("CI") | (b),(c) | **39.3** | **45.6** | 38.9 | 46.7 |
| Average time off supply (minutes) | | **121** | **134** | 114 | 94 |
| Electricity supply availability | | **99.98%** | **99.99%** | 99.99% | 99.99% |
| Quality of response (mean score) | (d) | **4.49** | **4.45** | 4.47 | 4.45 |
| **Customer performance** | | | | | |
| Energy Ombudsman (customer complaints) | (e) | **2** | **-** | 7 | - |

(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' exclusion criterion that Ofgem have applied to 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.

**OPERATIONAL FINANCIAL PERFORMANCE**
The company's profit from operations was £169.8 million, an increase of £31.5 million compared to the prior year, and net profit was £129.3 million, an increase of £35.1 million compared to the prior year.

**Revenue** increased on the prior year primarily as a result of higher base revenues and, to a lesser extent, improved Quality of Service incentive revenue.

**Procurements** have slightly increased due to the inclusion of Low Carbon Network Fund costs.

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

**Other operating income** has decreased on the prior year, as a result of lower rechargeable revenue with SPPS.

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

**Net finance costs** decreased slightly, primarily as a result of an increase in the expected return on retirement benefit net assets and a decrease in interest payable on bank loans and overdrafts.

The **income tax expense** has decreased slightly compared to the prior year, with the impact of reducing corporation tax rates being offset by the increase in taxable profits.

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 £129.3 million (2010 £94.2 million). The aggregate dividends paid during the year amounted to £75.0 million (2010 £35.0 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.

*Treasury and interest policy*
Treasury services are provided by Scottish Power Limited ("SPL"), the ultimate UK parent company. ScottishPower has a risk policy within treasury and financing which is designed to ensure that the company's exposure to variability of cash flows and asset values due to fluctuations in market interest rates and exchange rates are minimised and managed at acceptable risk levels. Further details of the treasury and interest policy for ScottishPower and how it manages them is included in the most recent Directors' Report and Accounts of Scottish Power UK Holdings Limited ("SPUKH").

*Funding*
At the end of the year the company had net debt of £487.6 million (2010 £416.1 million). During the year the company repaid external borrowings of £50.0 million (2010 £nil) on the maturity of the EIB loan.

**FINANCING REVIEW *continued***

*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 28.

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

**HEALTH AND SAFETY**

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

# SP MANWEB PLC
# 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 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 members of SP Manweb plc

We have audited the Accounts of SP Manweb plc for the year ended 31 December 2011 which comprise the Balance Sheet, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Cash Flow Statement, and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

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 F9, 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
- the Accounts are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

**Christabel Cowling (Senior Statutory Auditor)**
**for and on behalf of Ernst & Young LLP, Statutory Auditor**
**Glasgow**
**25 May 2012**

## SP MANWEB PLC

## BALANCE SHEETS

**as at 31 December 2011 and 31 December 2010**

| | Notes | **2011** **£m** | 2010 £m |
|---|---|---|---|
| **ASSETS** | | | |
| **NON-CURRENT ASSETS** | | | |
| **Intangible assets** | | **2.2** | 3.0 |
| Other intangible assets | 3 | 2.2 | 3.0 |
| **Property, plant and equipment** | | **1,993.3** | 1,859.2 |
| Property, plant and equipment in use | 4 | 1,711.2 | 1,645.8 |
| Property, plant and equipment in course of construction | 4 | 282.1 | 213.4 |
| **Investments** | 5 | **0.1** | 0.1 |
| **NON-CURRENT ASSETS** | | **1,995.6** | 1,862.3 |
| **CURRENT ASSETS** | | | |
| **Trade and other receivables** | 8 | **49.9** | 43.5 |
| **CURRENT ASSETS** | | **49.9** | 43.5 |
| **TOTAL ASSETS** | | **2,045.5** | 1,905.8 |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| **EQUITY** | | | |
| **Of shareholders of the Parent** | | **841.9** | 834.2 |
| Share capital | 9, 10 | 300.0 | 300.0 |
| Share premium | 10 | 3.3 | 3.3 |
| Capital redemption reserve | 10 | 6.0 | 6.0 |
| Retained earnings | 10 | 532.6 | 524.9 |
| **TOTAL EQUITY** | | **841.9** | 834.2 |
| | | | |
| **NON-CURRENT LIABILITIES** | | | |
| **Deferred income** | 11 | **292.6** | 273.1 |
| **Provisions** | | **162.5** | 135.5 |
| Provision for retirement benefit obligations | 12 | 162.5 | 135.5 |
| **Bank borrowings and other financial liabilities** | | **255.0** | 255.0 |
| Loans and other borrowings | 13 | 255.0 | 255.0 |
| **Trade and other payables** | 14 | **3.9** | 3.9 |
| **Deferred tax liabilities** | 15 | **140.2** | 141.7 |
| **NON-CURRENT LIABILITIES** | | **854.2** | 809.2 |
| **CURRENT LIABILITIES** | | | |
| **Provisions** | 16 | **1.4** | 0.9 |
| **Bank borrowings and other financial liabilities** | | **232.6** | 161.1 |
| Loans and other borrowings | 13 | 232.6 | 161.1 |
| **Trade and other payables** | 14 | **111.9** | 90.5 |
| **Current tax liabilities** | | **3.5** | 9.9 |
| **CURRENT LIABILITIES** | | **349.4** | 262.4 |
| **TOTAL LIABILITIES** | | **1,203.6** | 1,071.6 |
| **TOTAL EQUITY AND LIABILITIES** | | **2,045.5** | 1,905.8 |

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

**Scott Mathieson**
Director

The accompanying notes 1 to 28 are an integral part of the balance sheets for the years ended 31 December 2011 and 31 December 2010.

## SP MANWEB PLC

## INCOME STATEMENTS

**for the years ended 31 December 2011 and 31 December 2010**

| | Notes | **2011 £m** | 2010 £m |
|---|---|---|---|
| Revenue | | 299.6 | 256.2 |
| Procurements | | (14.9) | (12.0) |
| | | **284.7** | 244.2 |
| Staff costs | 17 | (0.6) | (0.6) |
| Outside services | | (52.7) | (57.9) |
| Other operating income | | 15.0 | 23.4 |
| | | **(38.3)** | (35.1) |
| Taxes other than income tax | | (15.4) | (16.0) |
| | | **231.0** | 193.1 |
| Depreciation and amortisation charge, allowances and provisions | 18 | (61.2) | (54.8) |
| **PROFIT FROM OPERATIONS** | | **169.8** | 138.3 |
| Finance income | 19 | 49.5 | 47.6 |
| Finance costs | 20 | (63.5) | (64.3) |
| **PROFIT BEFORE TAX** | | **155.8** | 121.6 |
| Income tax | 21 | (26.5) | (27.4) |
| **NET PROFIT FOR THE YEAR** | 10 | **129.3** | 94.2 |

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

All results relate to continuing operations.

The accompanying notes 1 to 28 are an integral part of the income statements for the years ended 31 December 2011 and 31 December 2010.

## SP MANWEB PLC

## STATEMENTS OF COMPREHENSIVE INCOME

**for the years ended 31 December 2011 and 31 December 2010**

| | **2011** | 2010 |
|---|---|---|
| | **£m** | £m |
| **NET PROFIT FOR THE YEAR** | **129.3** | 94.2 |
| OTHER COMPREHENSIVE INCOME | | |
| Actuarial losses on retirement benefits: | | |
| Actuarial losses on retirement benefits | (57.6) | (44.2) |
| Tax relating to actuarial losses on retirement benefits | 11.0 | 10.6 |
| | **(46.6)** | (33.6) |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | **82.7** | 60.6 |

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

## STATEMENTS OF CHANGES IN EQUITY

**for the years ended 31 December 2011 and 31 December 2010**

| | Ordinary share capital £m | Share premium £m | Capital redemption reserve £m | Retained earnings £m | Total equity £m |
|---|---|---|---|---|---|
| At 1 January 2010 | 300.0 | 3.3 | 6.0 | 499.3 | 808.6 |
| Total comprehensive income for the year | - | - | - | 60.6 | 60.6 |
| Dividends | - | - | - | (35.0) | (35.0) |
| At 1 January 2011 | 300.0 | 3.3 | 6.0 | 524.9 | 834.2 |
| Total comprehensive income for the year | - | - | - | 82.7 | 82.7 |
| Dividends | - | - | - | (75.0) | (75.0) |
| **At 31 December 2011** | **300.0** | **3.3** | **6.0** | **532.6** | **841.9** |

The accompanying notes 1 to 28 are an integral part of the statements of comprehensive income and the statements of changes in equity for the years ended 31 December 2011 and 31 December 2010.

## SP MANWEB PLC
## 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 | 155.8 | 121.6 |
| Adjustments for: | | |
| Depreciation and amortisation | 57.5 | 56.2 |
| Change in provisions | 0.9 | (0.8) |
| Transfer of assets from customers | (9.1) | (9.1) |
| Finance income and costs | 14.0 | 16.7 |
| Net losses on disposal/write-off of non-current assets | 0.4 | - |
| Movement in retirement benefits | (30.7) | (25.7) |
| Changes in working capital: | | |
| Change in trade and other receivables | (6.4) | 8.1 |
| Change in trade payables | 20.4 | 16.7 |
| Provisions paid | (0.4) | - |
| Assets received from customers | 28.6 | 19.0 |
| Income taxes paid | (23.4) | (13.7) |
| **Net cash flows from operating activities (i)** | **207.6** | 189.0 |
| Cash flows from investing activities | | |
| Investments in intangible assets | (0.3) | - |
| Investments in property, plant & equipment | (187.9) | (177.1) |
| Proceeds from disposal of property, plant & equipment | - | 0.3 |
| **Net cash flows from investing activities (ii)** | **(188.2)** | (176.8) |
| Cash flows from financing activities | | |
| Dividends paid to company's equity holders | (75.0) | (35.0) |
| Interest paid | (15.9) | (16.9) |
| Repayments of borrowing | (50.0) | - |
| **Net cash flows from financing activities (iii)** | **(140.9)** | (51.9) |
| **Net decrease in cash and cash equivalents (i)+(ii)+(iii)** | **(121.5)** | (39.7) |
| **Cash and cash equivalents at beginning of year** | **(111.1)** | (71.4) |
| **Cash and cash equivalents at end of year** | **(232.6)** | (111.1) |
| | | |
| Cash and cash equivalents at end of year comprises: | | |
| Bank overdraft | (0.4) | - |
| Payables due to Iberdrola group companies - loans | (232.2) | (111.1) |
| **Cash flow statement cash and cash equivalents** | **(232.6)** | (111.1) |

The accompanying notes 1 to 28 are an integral part of the cash flow statements for the years ended 31 December 2011 and 31 December 2010.

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

In previous accounting periods, certain deposits received from group companies were presented within 'trade and other payables' as a current liability. Following a review of the treatment of such 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 £3.9 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. RETIREMENT BENEFITS
H. 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 aquisition, 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 |

## 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 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. RETIREMENT BENEFITS

The company provides pensions through a defined benefit scheme. The retirement benefits asset and liability recognised in the balance sheet represent the net surpluses and deficits respectively in the company's defined benefit pension scheme for which the entity is the sponsoring employer.

The cost of providing benefits under the defined benefit scheme is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full, directly in retained earnings, in the period in which they occur and are shown in the statement of comprehensive income. The current service cost element of the pension charge which relates to the company's employees is recognised within 'Staff costs' in the income statement.

The expected return on pension scheme assets and interest on pension scheme liabilities are included within 'Finance income' and 'Finance costs', respectively, in the income statement.

### H. 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.

## 3 INTANGIBLE ASSETS

| Year ended 31 December 2010 | Other intangible assets - Computer software £m |
|---|---|
| Cost: | |
| At 1 January 2010 and 31 December 2010 | 4.2 |
| Amortisation: | |
| At 1 January 2010 | 0.1 |
| Amortisation for the year | 1.1 |
| At 31 December 2010 | 1.2 |
| Net book value: | |
| At 31 December 2010 | 3.0 |
| At 1 January 2010 | 4.1 |

| **Year ended 31 December 2011** | Other intangible assets - Computer software £m |
|---|---|
| **Cost:** | |
| At 1 January 2011 | 4.2 |
| Additions | 0.3 |
| **At 31 December 2011** | **4.5** |
| **Amortisation:** | |
| At 1 January 2011 | 1.2 |
| Amortisation for the year | 1.1 |
| **At 31 December 2011** | **2.3** |
| **Net book value:** | |
| **At 31 December 2011** | **2.2** |
| At 1 January 2011 | 3.0 |

## 4 PROPERTY, PLANT AND EQUIPMENT

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

| | 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 | Other items of property, plant and equipment in progress £m | Total £m |
|---|---|---|---|---|---|---|
| Cost: | | | | | | |
| At 1 January 2010 | 2,098.0 | 117.8 | 2.2 | 150.4 | 3.9 | 2,372.3 |
| Additions | - | 6.3 | 2.6 | 157.2 | - | 166.1 |
| Transfers from in progress to plant in use | 93.4 | 0.8 | 3.9 | (94.2) | (3.9) | - |
| Disposals | (5.7) | (0.5) | - | - | - | (6.2) |
| At 31 December 2010 | 2,185.7 | 124.4 | 8.7 | 213.4 | - | 2,532.2 |
| Depreciation: | | | | | | |
| At 1 January 2010 | 575.6 | 48.1 | 0.1 | - | - | 623.8 |
| Charge for the year | 44.4 | 10.7 | - | - | - | 55.1 |
| Disposals | (5.6) | (0.3) | - | - | - | (5.9) |
| At 31 December 2010 | 614.4 | 58.5 | 0.1 | - | - | 673.0 |
| Net book value: | | | | | | |
| At 31 December 2010 | 1,571.3 | 65.9 | 8.6 | 213.4 | - | 1,859.2 |
| At 1 January 2010 | 1,522.4 | 69.7 | 2.1 | 150.4 | 3.9 | 1,748.5 |

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

| | | | | | | |
|---|---|---|---|---|---|---|
| Property, plant and equipment in use | 1,571.3 | 65.9 | 8.6 | - | - | 1,645.8 |
| Property, plant and equipment in the course of construction | - | - | - | 213.4 | - | 213.4 |
| At 31 December 2010 | 1,571.3 | 65.9 | 8.6 | 213.4 | - | 1,859.2 |

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

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

| **Year ended 31 December 2011** | 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 |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| At 1 January 2011 | 2,185.7 | 124.4 | 8.7 | 213.4 | 2,532.2 |
| Additions | - | 3.5 | - | 187.4 | 190.9 |
| Transfers from in progress to plant in use | 119.8 | 1.4 | (2.5) | (118.7) | - |
| Disposals | (8.5) | (0.9) | - | - | (9.4) |
| **At 31 December 2011** | **2,297.0** | **128.4** | **6.2** | **282.1** | **2,713.7** |
| **Depreciation:** | | | | | |
| At 1 January 2011 | 614.4 | 58.5 | 0.1 | - | 673.0 |
| Charge for the year | 45.7 | 10.7 | - | - | 56.4 |
| Disposals | (8.3) | (0.7) | - | - | (9.0) |
| **At 31 December 2011** | **651.8** | **68.5** | **0.1** | **-** | **720.4** |
| **Net book value:** | | | | | |
| **At 31 December 2011** | **1,645.2** | **59.9** | **6.1** | **282.1** | **1,993.3** |
| At 1 January 2011 | 1,571.3 | 65.9 | 8.6 | 213.4 | 1,859.2 |

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

| | | | | | |
|---|---|---|---|---|---|
| Property, plant and equipment in use | 1,645.2 | 59.9 | 6.1 | - | 1,711.2 |
| Property, plant and equipment in the course of construction | - | - | - | 282.1 | 282.1 |
| **At 31 December 2011** | **1,645.2** | **59.9** | **6.1** | **282.1** | **1,993.3** |

(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 £75.6 million (2010 £72.5 million).
(iv) Included within the cost of property, plant and equipment are assets in use not subject to depreciation, being land of £5.7 million (2010 £5.9 million).

**(b) Operating lease arrangements**

| **Operating lease payments** | **2011 £m** | 2010 £m |
|---|---|---|
| Minimum lease payments recognised as an expense in the year | **0.1** | - |
| | **0.1** | - |
| The future minimum lease payments under non-cancellable operating leases are as follows: | | |
| Within one year | **-** | 0.1 |
| Between one and five years | **0.1** | 0.1 |
| After more than five years | **0.1** | - |
| | **0.2** | 0.2 |

| **Operating lease receivables** | **2011 £m** | 2010 £m |
|---|---|---|
| The future minimum lease receivables under non-cancellable operating leases are as follows: | | |
| Within one year | **0.1** | 0.1 |
| Between one and five years | **-** | 0.1 |
| | **0.1** | 0.2 |

**(c) Capital commitments**

| | **2011 £m** | 2010 £m |
|---|---|---|
| Contracted but not provided | **223.6** | 205.6 |

## 5 INVESTMENTS

| | Shares in subsidiary undertakings £'000 | Other unlisted investments £'000 | Total £'000 |
|---|---|---|---|
| At 31 December 2010 and 31 December 2011 | 75 | 26 | **101** |

| **Subsidiaries** | **Place of incorporation or registration** | **Class of share capital** | **Proportion of shares held** | **Activity** |
|---|---|---|---|---|
| Manweb Services Limited | England | Ordinary shares £1 | 100% | Ancillary services |
| Manweb Nominees Limited | England | Ordinary shares £1 | 99% | Dormant company |
| Manweb Share Scheme Trustees Limited | England | Ordinary shares £1 | 50% | Dormant trustee company |

## 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** | | | | | |
| Receivables | (a) | **46.0** | **46.0** | 43.5 | 43.5 |
| **Financial liabilities** | | | | | |
| External borrowings | (b) | **(0.4)** | **(0.4)** | (50.0) | (52.8) |
| Loans with Iberdrola group companies | (b) | **(487.2)** | **(598.3)** | (366.1) | (462.8) |
| Payables | (a) | **(69.7)** | **(69.7)** | (55.3) | (55.3) |

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 IFRS7 'Financial Instruments: Disclosure' ("IFRS 7") have been excluded, namely, other tax receivables, payments on account and 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 all other debt is calculated using 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** | | | | | | |
|---|---|---|---|---|---|---|---|
| **Cash outflows** | 2012 £m | 2013 £m | 2014 £m | 2015 £m | 2016 £m | 2017 and thereafter £m | **Total £m** |
| External borrowings | 0.4 | - | - | - | - | - | **0.4** |
| Loans with Iberdrola group companies | 244.4 | 12.5 | 12.0 | 12.2 | 12.5 | 424.6 | **718.2** |
| Payables* | 54.5 | - | - | - | - | 3.9 | **58.4** |
| | **299.3** | **12.5** | **12.0** | **12.2** | **12.5** | **428.5** | **777.0** |

| | 2010 | | | | | | |
|---|---|---|---|---|---|---|---|
| Cash outflows | 2011 £m | 2012 £m | 2013 £m | 2014 £m | 2015 £m | 2016 and thereafter £m | Total £m |
| External borrowings | 52.9 | - | - | - | - | - | 52.9 |
| Loans with Iberdrola group companies | 122.5 | 12.0 | 13.0 | 14.8 | 15.7 | 471.8 | 649.8 |
| Payables* | 38.1 | - | - | - | - | 3.9 | 42.0 |
| | 213.5 | 12.0 | 13.0 | 14.8 | 15.7 | 475.7 | 744.7 |

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

## 8 TRADE AND OTHER RECEIVABLES

| | 2011 £m | 2010 £m |
|---|---|---|
| **Current receivables:** | | |
| Receivables due from Iberdrola group companies - trade | **12.4** | 9.8 |
| Trade receivables and accrued income | **32.1** | 28.1 |
| Other tax receivables | **3.9** | - |
| Other receivables | **1.5** | 5.6 |
| | **49.9** | 43.5 |

(a) Trade receivables are stated net of allowance for impairment of doubtful debts of £0.9 million (2010 £0.2 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 impact on change in bad debt for the year to 31 December 2011 is £2.3 million (2010 £(0.5) million).

(b) At 31 December 2011 trade receivables of £2.9 million (2010 £13.9 million) were past due but not impaired.

| | 2011 £m | *2010 £m |
|---|---|---|
| **Past due but not impaired:** | | |
| Less than 3 months | **0.7** | 0.2 |
| Between 3 and 6 months | **0.5** | 0.2 |
| Between 6 and 12 months | **1.7** | 1.0 |
| After more than 12 months | **-** | 1.2 |
| | **2.9** | 2.6 |

* 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:** | | |
| 600,000,000 ordinary shares of 50p each (2010 600,000,000) | **300.0** | 300.0 |
| | **300.0** | 300.0 |
| **Allotted, called up and fully paid shares:** | | |
| 600,000,000 ordinary shares of 50p each (2010 600,000,000) | **300.0** | 300.0 |
| | **300.0** | 300.0 |

## 10 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF SP MANWEB PLC

| | Ordinary share capital £m | Share premium (note (a)) £m | Capital redemption reserve (note (b)) £m | Retained earnings (note (c)) £m | Total £m |
|---|---|---|---|---|---|
| At 1 January 2010 | 300.0 | 3.3 | 6.0 | 499.3 | 808.6 |
| Profit for the year attributable to equity holders of SP Manweb plc | - | - | - | 94.2 | 94.2 |
| Actuarial losses on retirement benefits | - | - | - | (44.2) | (44.2) |
| Tax on items relating to actuarial losses on retirement benefits | - | - | - | 10.6 | 10.6 |
| Dividends | - | - | - | (35.0) | (35.0) |
| At 1 January 2011 | 300.0 | 3.3 | 6.0 | 524.9 | 834.2 |
| Profit for the year attributable to equity holders of SP Manweb plc | - | - | - | 129.3 | 129.3 |
| Actuarial losses on retirement benefits | - | - | - | (57.6) | (57.6) |
| Tax on items relating to actuarial losses on retirement benefits | - | - | - | 11.0 | 11.0 |
| Dividends | - | - | - | (75.0) | (75.0) |
| **At 31 December 2011** | **300.0** | **3.3** | **6.0** | **532.6** | **841.9** |

(a) The share premium account represents consideration received for shares issued in excess of their nominal amount.
(b) The capital redemption reserve comprises the nominal value of the company's ordinary share capital purchased by the company in previous years.
(c) Retained earnings comprise the cumulative balance of profits and losses recognised in the financial statements as adjusted for transactions with shareholders, principally dividends.

## 11 DEFERRED INCOME

| Year ended 31 December 2010 | At 1 January 2010 £m | Receivable during year £m | Released to income statement £m | At 31 December 2010 £m |
|---|---|---|---|---|
| Transfer of assets from customers | 263.2 | 19.0 | (9.1) | 273.1 |
| Total deferred income | 263.2 | 19.0 | (9.1) | 273.1 |

| **Year ended 31 December 2011** | At 1 January 2011 £m | Receivable during year £m | Released to income statement £m | **At 31 December 2011 £m** |
|---|---|---|---|---|
| Transfer of assets from customers | 273.1 | 28.6 | (9.1) | **292.6** |
| **Total deferred income** | 273.1 | 28.6 | (9.1) | **292.6** |

## 12 RETIREMENT BENEFIT OBLIGATIONS

### (a) Analysis of balance

The amounts recognised in the balance sheet in respect of retirement benefit obligations are detailed below:

| | **2011 £m** | 2010 £m |
|---|---|---|
| Non-current liabilities | **162.5** | 135.5 |
| | **162.5** | 135.5 |

### (b) Pension arrangements

Details of the Manweb Group of Electricity Supply Pension Scheme are as follows;

| **SP Manweb Group of Electricity Supply Pension Scheme ('Manweb')** | |
|---|---|
| Type of Benefit | Final salary |
| New Entrants | No |
| Funded separately from group assets | Yes |
| Administration method | Trustee board |
| Member contributions | 5.5% of salary |
| Group contribution - how determined | Agreement of trustees and group following actuarial valuation (last valuation: 31 March 2009) |
| Current actual group contributions | 23.3% of salary |
| Special contributions during the year ended 31 December 2011 | £24.1 million |
| Special contributions planned for the year ending 31 December 2012 | £25.4 million |
| Pension charge | Based on advice of independent qualified actuary |

The age profile of the scheme is expected to rise over time, due to there being no new entrants. This will in turn result in increasing service costs for the scheme due to the actuarial valuation method used (the projected unit method). The company believes that the projected unit method continues to be appropriate at present, and provides a reasonable basis for assessing the company's final salary pension costs.

**Investment strategy**

The scheme is invested in an appropriately diversified range of assets. The broad proportions of each asset class in which the scheme aims to be invested are in the table that follows, however it is important to note that this may vary from time to time as markets change and as cash may be held for strategic reasons.

| | **2011** | 2010 |
|---|---|---|
| Equities | **40%** | 45% |
| Infrastructure | **4%** | 4% |
| Liability driven investment | **55%** | 51% |
| Cash | **1%** | - |
| **Total** | **100%** | 100% |

At 31 December 2011 the scheme held no ScottishPower or Iberdrola shares (2010 None).

## 12 RETIREMENT BENEFIT OBLIGATIONS *continued*

### (c) Pension analysis

(i) Analysis of net liability relating to pensions

| | 2011 £m | 2010 £m |
|---|---|---|
| Present value of funded obligations | **(988.0)** | (962.3) |
| Fair value of scheme assets | **825.5** | 826.8 |
| **Net liability** | **(162.5)** | (135.5) |
| Amounts in the balance sheet: | | |
| Non-current liabilities | **(162.5)** | (135.5) |
| **Net liability** | **(162.5)** | (135.5) |

(ii) The amounts recognised are as follows:

| | 2011 £m | 2010 £m |
|---|---|---|
| Current service cost* | 10.4 | 10.4 |
| Interest on obligation | 49.6 | 49.4 |
| Expected return on scheme assets | (49.5) | (47.6) |
| Past service cost* | 2.1 | 2.1 |
| **Total income statement charge** | **12.6** | 14.3 |
| **Actual return on scheme assets** | **(4.5)** | 79.5 |
| **Net actuarial losses recognised in the Statement of Comprehensive Income** | **(57.6)** | (44.2) |

* The pension costs relating to the employees of fellow subsidiary entities are recharged to the appropriate legal entity

(iii) Changes in the present value of the defined benefit obligations are as follows:

| | 2011 £m | 2010 £m |
|---|---|---|
| Defined benefit obligation at beginning of year | 962.3 | 866.2 |
| Current service cost | 10.4 | 10.4 |
| Interest on obligation | 49.6 | 49.4 |
| Scheme members' contributions | 2.7 | 2.5 |
| Past service costs | 2.1 | 2.1 |
| Actuarial losses | 3.6 | 76.1 |
| Benefits paid | (42.7) | (44.4) |
| **Defined benefit obligation at end of year** | **988.0** | 962.3 |

(iv) Changes in the fair value of scheme assets are as follows:

| | 2011 £m | 2010 £m |
|---|---|---|
| Fair value of scheme assets at beginning of year | 826.8 | 751.0 |
| Expected return on scheme assets | 49.5 | 47.6 |
| Actuarial (losses)/gains | (54.0) | 31.9 |
| Employer contributions | 43.2 | 38.2 |
| Scheme members' contributions | 2.7 | 2.5 |
| Benefits paid | (42.7) | (44.4) |
| **Fair value of scheme assets at end of year** | **825.5** | 826.8 |

### (d) Actuarial assumptions

(i) The major assumptions used by the actuary for the pension arrangements were as follows and are expressed as weighted averages:

| | 2011 | 2010 |
|---|---|---|
| Rate of increase in salaries | **4.5% p.a.** | 5.0% p.a. |
| Rate of increase in deferred pensions | **3.0% p.a.** | 3.5% p.a. |
| Rate of increase in pensions payment | **2.9% p.a.** | 3.4% p.a. |
| Discount rate | **4.7% p.a.** | 5.3% p.a. |
| Inflation assumption | **3.0% p.a.** | 3.5% p.a. |

The discount rate is a critical assumption in determining the company's defined benefit obligation. As at 31 December 2011, if the discount rate was to be increased by 0.25% the company's defined benefit obligation would be reduced by £40.5 million (2010 £38.0 million).

**12 RETIREMENT BENEFIT OBLIGATIONS *continued***

(ii) The weighted average life expectancy for mortality used to determine the benefit obligation was as follows:

| Member age 63 (current life expectancy) | 2011 | 2010 |
|---|---|---|
| Male | **22.2** | 22.1 |
| Female | **25.9** | 25.8 |
| **Member age 45 (life expectancy at age 63)** | | |
| Male | **23.9** | 23.8 |
| Female | **26.9** | 26.9 |

The mortality assumptions are critical assumptions in determining the company's defined benefit obligation. As at 31 December 2011, if it were to be assumed that the members live one year longer than the assumptions above, the company's defined benefit obligation would increase by £30.7 million (2010 £26.1 million).

(iii) Allowance for cash commutation

Within the pension scheme, members are assumed to commute 25% of their benefits for a tax-free cash sum where this option is available.

(iv) The weighted average asset allocations were as follows:

| | Asset Allocations | |
|---|---|---|
| | **2011** | 2010 |
| Equities | **40.2%** | 44.7% |
| Infrastructure | **4.4%** | 3.8% |
| Liability driven investment | **54.8%** | 51.1% |
| Cash | **0.6%** | 0.4% |

The expected returns on each asset class were as follows:

| | Long-term rates of return expected | |
|---|---|---|
| | **2011** | 2010 |
| Equities | **8.3% p.a.** | 7.5% p.a. |
| Infrastructure | **7.1% p.a.** | 6.2% p.a. |
| Liability driven investment | **3.8% p.a.** | 4.7% p.a. |
| Cash | **2.2% p.a.** | 3.8% p.a. |
| Expected return on scheme assets | **6.0% p.a.** | 6.0% p.a. |

The long-term rates of return for 31 December 2011 have been derived as follows:
- Equities: the long-term UK Government fixed interest stock yield, plus 5.8% p.a.
- Infrastructure: the long-term UK Government fixed interest stock yield, plus 4.6% p.a.
- Liability driven investment: the long-term UK Government fixed interest stock yield plus 1.3% p.a.

In all cases, for International Accounting Standard 19 'Employee benefits' ("IAS 19") reporting purposes the long-term rates of return have been reduced by 0.3% p.a. (2010 0.3% p.a.) to reflect scheme expenses to arrive at the figures shown above. These return assumptions are based on both historical performance and independent advisors' forward-looking views of the financial markets.

**(e) History of experience gains and losses**

The amounts for the current year and previous periods in relation to the plan are given below:

| | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|
| | **£m** | £m | £m | £m |
| Difference between expected and actual return on scheme | | | | |
| - amount | **(54.0)** | 31.9 | 75.5 | n/a |
| - percentage of scheme assets | **7%** | 4% | 10% | n/a |
| Experience gains and losses on scheme liabilities: | | | | |
| - amount | **(13.3)** | 6.2 | (15.0) | n/a |
| - percentage of scheme liabilities | **1%** | (1)% | 2% | n/a |
| Present value of defined benefit obligations | **(988.0)** | (962.3) | (866.2) | (715.5) |
| Fair value of plan assets | **825.5** | 826.8 | 751.0 | 658.9 |
| Deficit in defined benefit plans | **(115.2)** | (135.5) | (115.2) | (56.6) |

**(f) Future contributions**

The company intends to contribute £36.5 million to the pension scheme in the year ending 31 December 2012.

### 13 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 |
|---|---|---|---|---|---|
| EIB Loan | | 5.88% | 1 February 2011 | - | 50.0 |
| Intercompany loan with SPUK | | Base + 1% | On demand | **232.2** | 111.1 |
| Bank overdraft | | Base + 1% | On demand | **0.4** | - |
| Intercompany loan with SPL | | 3.858% | 29 January 2019 | **75.0** | 75.0 |
| Intercompany loan with SPUK | (i) | LIBOR + 3.365% | 28 January 2029 | **180.0** | 180.0 |
| **Total debt** | | | | **487.6** | 416.1 |

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 | **255.0** | 255.0 |
| Current | **232.6** | 161.1 |
| | **487.6** | 416.1 |

(i) Under the conditions of the long term loan agreement between the company and SPUK, the company has an option, without fee or penalty, to make a repayment in whole or in part, of the then outstanding loan principal, plus accrued interest thereon, by providing SPUK with written notice at least 5 business days before the intended repayment date.

**(b) Borrowing facilities**

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

### 14 TRADE AND OTHER PAYABLES

| | Note | 2011 £m | 2010 £m |
|---|---|---|---|
| **Current trade and other payables:** | | | |
| Payables due to Iberdrola group companies - trade | (a) | **47.0** | 31.8 |
| Payables due to Iberdrola group companies - interest | | **11.3** | 10.6 |
| Other taxes and social security | | **8.0** | 2.5 |
| Payments received on account | | **38.1** | 36.6 |
| Other payables | | **7.5** | 9.0 |
| | | **111.9** | 90.5 |
| **Non-current trade and other payables:** | | | |
| Payables due to Iberdrola group companies - trade | (a) | **3.9** | 3.9 |
| | | **3.9** | 3.9 |

(a) Payables due to Iberdrola group companies - trade amounting to £3.9 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.

### 15 DEFERRED TAX

Deferred tax provided in the Accounts is as follows:

| | Property, plant and equipment £m | Retirement benefits £m | Total £m |
|---|---|---|---|
| Deferred tax provided at 1 January 2010 | 174.3 | (32.3) | 142.0 |
| Charge to income statement | 9.3 | 1.0 | 10.3 |
| Recorded in the Statement of Comprehensive Income | - | (10.6) | (10.6) |
| Deferred tax provided at 1 January 2011 | 183.6 | (41.9) | 141.7 |
| Charge to income statement | 0.4 | 9.1 | 9.5 |
| Recorded in the Statement of Comprehensive Income | - | (11.0) | (11.0) |
| **Deferred tax provided at 31 December 2011** | **184.0** | **(43.8)** | **140.2** |

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.

**15 DEFERRED TAX *continued***

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 property, plant and equipment element of the deferred tax provision over two years. The estimated impact of these changes will be reductions of £14.7 million in the year ended 31 December 2012, and £7.4 million in the year ended 31 December 2013. It is not possible to quantify the impact of the rate reductions on other elements of the deferred tax balance.

**16 OTHER PROVISIONS**

| Year ended 31 December 2010 | Note | At 1 January 2010 £m | Released during the year £m | At 31 December 2010 £m |
|---|---|---|---|---|
| Contract termination costs | | 0.6 | - | 0.6 |
| Environmental costs | | 1.1 | (0.8) | 0.3 |
| | (a) | 1.7 | (0.8) | 0.9 |

| **Year ended 31 December 2011** | Notes | At 1 January 2011 £m | New provisions £m | Released during the year £m | Utilised during the year £m | **At 31 December 2011 £m** |
|---|---|---|---|---|---|---|
| Contract termination costs | (b) | 0.6 | - | - | (0.2) | **0.4** |
| Environmental costs | (c) | 0.3 | 1.0 | (0.1) | (0.2) | **1.0** |
| | (a) | 0.9 | 1.0 | (0.1) | (0.4) | **1.4** |

(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.

**17 EMPLOYEE INFORMATION**

**(a) Staff costs**

| | Note | **2011 £'000** | 2010 £'000 |
|---|---|---|---|
| Wages and salaries | | **465** | 437 |
| Social security costs | (i) | **44** | 40 |
| Pension and other costs | | **102** | 90 |
| Total employee costs | | **611** | 567 |

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

**(b) Employee numbers**

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

| | **Year end 2011** | **Average 2011** | Year end 2010 | Average 2010 |
|---|---|---|---|---|
| Administrative | **7** | **8** | 8 | 8 |
| **Total** | **7** | **8** | 8 | 8 |

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

| | **2011 £m** | 2010 £m |
|---|---|---|
| Property, plant and equipment depreciation charge | **56.4** | 55.1 |
| Intangible asset amortisation | **1.1** | 1.1 |
| Charges and provisions and allowances | **3.7** | (1.4) |
| | **61.2** | 54.8 |

**19 FINANCE INCOME**

| | **2011 £m** | 2010 £m |
|---|---|---|
| Expected return on retirement benefit assets | **49.5** | 47.6 |

## 20 FINANCE COSTS

| | 2011 £m | 2010 £m |
|---|---|---|
| Interest payable to Iberdrola group companies | **13.7** | 12.3 |
| Interest on retirement benefit obligations | **49.6** | 49.4 |
| Interest on bank loans and overdrafts | **0.2** | 2.6 |
| | **63.5** | 64.3 |

## 21 INCOME TAX

| | 2011 £m | 2010 £m |
|---|---|---|
| Current tax: | | |
| UK Corporation tax | **16.9** | 18.1 |
| Adjustments in respect of prior years | **0.1** | (1.0) |
| **Current tax for the year** | **17.0** | 17.1 |
| Deferred tax: | | |
| Origination and reversal of temporary differences | **24.9** | 16.3 |
| Adjustments in respect of prior years | **(0.1)** | 1.0 |
| Impact of rate change on deferred tax | **(15.3)** | (7.0) |
| **Deferred tax for the year** | **9.5** | 10.3 |
| **Income tax expense for the year** | **26.5** | 27.4 |

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

| | 2011 £m | 2010 £m |
|---|---|---|
| Corporation tax at 26.5% (2010 28%) | **41.3** | 34.0 |
| Impact of tax rate change | **(15.3)** | (7.0) |
| Other permanent difference | **0.5** | 0.4 |
| **Income tax expense for the year** | **26.5** | 27.4 |

## 22 DIVIDENDS

| | 2011 pence per ordinary share | 2010 pence per ordinary share | 2011 £m | 2010 £m |
|---|---|---|---|---|
| Interim dividend paid | **12.5** | 5.8 | **75.0** | 35.0 |

## 23 CONTINGENT LIABILITIES

Manweb plc's businesses were the subject of legal separation during the year ended 31 March 2002. This resulted in operational staff of the Distribution business and employees of the Energy Supply business being transferred to other ScottishPower group companies on 1 October 2001. Any liabilities in respect of the Electricity Supply Pension Scheme existing at this time were also transferred to these companies subject to certain contingent liabilities. Under the terms of the transfers, the company would however be required to fund any liabilities in respect of the Electricity Supply Pension Scheme should the other ScottishPower group companies become unable to fulfil their obligations in respect of the scheme.

Also, as the successor company to the Mersey and North Wales Electricity Board, the company will remain potentially liable for any breach of duty to provide pension benefits or secure accrued pension benefits for former protected employees in the event of the contracts of employment being transferred from the company to new employers, if their new employers fail to meet their obligations under the Electricity (Protected Persons) (England and Wales) Pension Regulations 1990.

## 24 FINANCIAL COMMITMENTS

**Other contractual commitments**

| | 2011 £m | 2010 £m |
|---|---|---|
| Provision of asset management services from SPPS | **37.2** | 38.3 |

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

## 25 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** | **Other Iberdrola group companies £m** | Ultimate UK parent (SPL) £m | Immediate parent (ScottishPower Investments Limited) (Note (i)) £m | Other Iberdrola group companies £m |
| **Types of transaction** | | | | | | |
| Sales and rendering of services | **-** | **-** | **80.6** | - | - | 73.7 |
| Purchases and receipt of services | **-** | **-** | **(48.8)** | - | - | (54.1) |
| Finance costs | **(2.9)** | **-** | **(10.8)** | (2.9) | - | (9.4) |
| Purchases of property, plant and equipment | **-** | **-** | **(190.9)** | - | - | (166.1) |
| Dividends paid | **-** | **(75.0)** | **-** | - | (35.0) | - |
| **Balances outstanding** | | | | | | |
| Trade receivables | **-** | **-** | **12.4** | - | - | 9.8 |
| Loans payable | **(75.0)** | **-** | **(412.2)** | (75.0) | - | (291.1) |
| Trade payables | **-** | **-** | **(50.9)** | - | - | (35.7) |
| Interest payable | **(2.7)** | **-** | **(8.6)** | (2.7) | - | (7.9) |

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

(ii) During the year the company received pensions contributions of £43.2 million (2010 £38.2 million) from fellow subsidiary companies.

### (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.

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

### (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.

| Executive directors | **2011 £000** | 2010 £000 |
|---|---|---|
| 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.

**25 RELATED PARTY TRANSACTIONS** ***continued***

**(c) Directors' remuneration** ***continued***

| Highest paid director | **2011** **£000** | 2010 £000 |
|---|---|---|
| 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 SP Manweb plc was transferred from ScottishPower Investments Limited to Scottish Power Energy Networks Holdings Limited (an immediate subsidiary of Scottish Power UK plc).

**26 AUDITORS' REMUNERATION**

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

**27 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

**28 GOING CONCERN**

The company's business activities are set out in the Directors' Report on pages F4 to F9.

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 £299.5 million and net assets of £841.9 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.

# SP MANWEB PLC
# DIRECTORS' REPORT AND ACCOUNTS

## for the year ended 31 December 2010

Registered No. 2366937

# SP MANWEB PLC

# DIRECTORS' REPORT AND ACCOUNTS
# for the year ended 31 December 2010

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# SP MANWEB PLC
# DIRECTORS' REPORT

The directors present their report and audited Accounts for the year ended 31 December 2010.

**ACTIVITIES AND REVIEW**

The principal activity of SP Manweb plc ("the company"), registered company number 2366937, is the ownership and operation of the electricity distribution network within the Mersey and North Wales areas. 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 ultimate parent of the company is Iberdrola, S.A. ("Iberdrola") which is listed on the Madrid stock exchange. Scottish Power Limited ("ScottishPower"), the UK operations of Iberdrola, operates on divisional lines and the activities of the company fall within Energy Networks division ("Energy Networks").

SP Manweb plc and fellow subsidiary companies, SP Distribution Limited 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 ("Power Systems") provides asset-management expertise and conducts the day to day operation of the networks.

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

The company accepted The Office of Gas and Electricity Markets ("Ofgem") electricity Distribution Price Control 5 ("DPC5") which applies to the business over the five years beginning 1 April 2010. The outcome of the review is a slight decrease in regulated revenue over the five year period resulting from pre-privatisation assets becoming fully depreciated. This is offset by increased revenues as a result of increased allowances for higher capital investment to maintain the ageing network and allowances for pension costs. In addition, incentive mechanisms relating to efficiency, reliability and customer service will lead to additional revenue or penalties. During DPC5 the allowed capital expenditure for the company is almost £1 billion.

The company's Accounts for the year ended 31 December 2010 have been prepared for the first time in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"), with prior year comparatives restated on a consistent basis. Details of the basis of preparation of the Accounts under IFRS are set out at Note 1 and the detailed disclosures concerning the transition from UK Generally Accepted Accounting principles ("UK GAAP") to IFRS are set out in Note 31.

**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, allowed regulated returns
- Deliver improved customer performance
- Improve security of supply and network performance

These objectives have to be achieved within the conditions of the most recent Ofgem Price Review (see Note 3).

**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 MANWEB PLC
# 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 2010:

| | **Year ended 31 March 2010** | Year ended 31 March 2009 |
|---|---|---|
| Franchise area ($km^2$) | 12,200 | 12,200 |
| System maximum demand (GW) | 3,294 | 3,337 |
| Distributed energy (GWh) | 16,341 | 16,734 |
| Length of overhead lines (km) | 21,516 | 21,481 |
| Length of underground cables (km) | 27,933 | 27,573 |

**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 2010:

| | **Notes** | **Actual Year ended 31 March 2010** | **Target Year ended 31 March 2010** | Actual Year ended 31 March 2009 | Target Year ended 31 March 2009 |
|---|---|---|---|---|---|
| Customer minutes lost ("CML") | (a) | 44.4 | 44.2 | 54.8 | 46.1 |
| Customer interruptions ("CI") | (b) | 38.9 | 46.7 | 49.3 | 46.7 |
| Average time off supply (minutes) | | 114.0 | 94.0 | 111.0 | 98.0 |
| Electricity supply availability | | 99.99% | 99.99% | 99.99% | 99.99% |
| Quality of response (mean score) | (d) | 4.47 | 4.45 | 4.38 | 4.40 |
| **Customer performance** | | | | | |
| Energywatch (customer complaints) to 30 September 2008 | (e) | - | - | 1 | 6 |
| Energy Ombudsman (customer complaints) from 1 October 2008 | (e) | 7 | - | - | - |

(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 2009/10 there were no storm events. In the prior year the supply of energy to customers was disrupted by one storm event. This event 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.
(d) Quality of Response assesses the speed and quality of telephone response, measuring customer satisfaction on a scale of 1 to 5. DNOs are subject to a sliding-scale penalty if their annual mean performance deteriorated below 4.1.
(e) Up to 30 September 2008 Ofgem monitored the number of customer complaints received by Energywatch, the independent consumer organisation. From 1 October 2008 the Energy Ombudsman, an independent body, was set up to monitor complaint cases. Energywatch actual and target figures are provided in the above table for the period 1 April 2008 to 30 September 2008 and for Energy Ombudsman for the period 1 October 2008 to 31 March 2010.

# SP MANWEB PLC
# DIRECTORS' REPORT *continued*

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.

Customer satisfaction is a measure of customer service, namely Quality of Response, 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.

**OPERATIONAL FINANCIAL PERFORMANCE**

The company's profit from operations was £138.3 million, an increase of £25.3 million compared to the prior year, and net profit was £94.2 million, an increase of £26.1 million compared to the prior year.

**Revenue** increased on the prior year as a result of higher base revenues and higher recovery of rates.

**Procurements** have slightly increased due to higher transmission and distribution use of system charges.

**Outside services** have increased on the prior year as a result of higher Power Systems recharges for the provision of asset management services in 2010 and an increase in other rechargeable costs in comparison to 2009.

**Other operating income** has increased on the prior year as a result of higher rechargeable revenue in 2010.

**Depreciation and amortisation charge, allowances and provisions** has increased on the prior year due to ongoing capital additions being brought into use during 2010, increasing the cost base for depreciation.

**Net Finance costs** were lower compared to the prior year due to lower interest rates and lower net finance costs in relation to pension assets and liabilities.

The **income tax expense** has increased compared to the prior year. The increase is due to the rise in taxable profit which has been partially offset by the impact of lowering the corporation tax rate in future years, resulting in a credit to the income statement.

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 £94.2 million (2009 £68.1 million). The aggregate dividends paid during the year amounted to £35.0 million (2009 £30.0 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, Scottish Power Investments Limited.

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 Manweb plc and other subsidiary companies of Scottish Power UK plc were each required to jointly provide guarantees to external lenders of Scottish Power UK plc for debt existing in that company at 1 October 2001.

*Treasury and interest policy*
Treasury services are provided by ScottishPower. ScottishPower and its subsidiary undertakings ("ScottishPower group") have 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 inflation 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 Directors' Report and Accounts of Scottish Power UK Holdings Limited ("SPUKH") for the year ended 31 December 2010.

*Funding*
At the end of the year the company had net debt of £416.1 million (2009 £376.4 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 30.

**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 S.A. and its group of companies (which also outlines expectations for employees' conduct). This document was recently re-launched to employees in November 2010.

*Employee consultation*
ScottishPower's businesses use employee/staff surveys and other tools to understand the key issues for employees within each business unit. Regular consultation takes place 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.

# SP MANWEB PLC
# DIRECTORS' REPORT *continued*

*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 Directors' Report and Accounts of SPUKH for the year ended 31 December 2010.

**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 Directors' Report and Accounts of SPUKH for the year ended 31 December 2010.

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

Scott Mathieson
Frank Mitchell

**CREDITOR PAYMENT POLICY AND PRACTICE**
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 year-end there were no trade creditors outstanding. Therefore the company's creditor days were nil (2009 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.

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.

# SP MANWEB PLC
# DIRECTORS’ REPORT *continued*

**DIRECTORS’ RESPONSIBILITIES FOR THE ACCOUNTS *continued***

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 2010.

**ON BEHALF OF THE BOARD**

**Scott Mathieson**
Director
28 June 2011

# INDEPENDENT AUDITORS' REPORT

to the members of SP Manweb plc

We have audited the Accounts of SP Manweb plc for the year ended 31 December 2010 which comprise the Balance Sheet, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Cash Flow Statement, and the related notes 1 to 31. These Accounts have been prepared under the accounting policies set out therein. 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 and as applied in accordance with the provisions of the Companies Act 2006.

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 pages F36 and F37, 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 financial statements. 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 2010 and of its profit for the year then ended;
- the Accounts have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- the Accounts 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
- the Accounts are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

**Christabel Cowling (Senior Statutory Auditor)**
**for and on behalf of Ernst & Young LLP, Statutory Auditor**
**Glasgow**
**28 June 2011**

# SP MANWEB PLC
## BALANCE SHEETS
**at 31 December 2010, 31 December 2009 and 1 January 2009**

| | Notes | **31 December 2010 £m** | 31 December 2009 £m | 1 January 2009 £m |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **NON-CURRENT ASSETS** | | | | |
| **Intangible Assets** | | **3.0** | 4.1 | 0.1 |
| Other intangible assets | 4 | 3.0 | 4.1 | 0.1 |
| **Property, plant and equipment** | | **1,859.2** | 1,748.5 | 1,642.9 |
| Property, plant and equipment in use | 5 | 1,645.8 | 1,594.2 | 1,418.1 |
| Property, plant and equipment in course of construction | 5 | 213.4 | 154.3 | 224.8 |
| **Non-current trade and other receivables** | 6 | **-** | - | 7.3 |
| **Non-current financial assets** | | **0.1** | 0.1 | 0.1 |
| Fixed asset investments | 7 | 0.1 | 0.1 | 0.1 |
| **NON-CURRENT ASSETS** | | **1,862.3** | 1,752.7 | 1,650.4 |
| **CURRENT ASSETS** | | | | |
| **Current financial assets** | | **-** | - | 0.4 |
| Cash and cash equivalents | 9 | - | - | 0.4 |
| **Current trade and other receivables** | 10 | **43.5** | 51.6 | 40.1 |
| **CURRENT ASSETS** | | **43.5** | 51.6 | 40.5 |
| **TOTAL ASSETS** | | **1,905.8** | 1,804.3 | 1,690.9 |
| **EQUITY AND LIABILITIES** | | | | |
| **EQUITY** | | | | |
| **Of shareholders of the Parent** | | **834.2** | 808.6 | 560.2 |
| Share capital | 11, 12 | 300.0 | 300.0 | 54.2 |
| Share premium | 12 | 3.3 | 3.3 | 3.3 |
| Capital redemption reserve | 12 | 6.0 | 6.0 | 6.0 |
| Retained earnings | 12 | 524.9 | 499.3 | 496.7 |
| **TOTAL EQUITY** | | **834.2** | 808.6 | 560.2 |
| **NON-CURRENT LIABILITIES** | | | | |
| **Deferred income** | 13 | **273.1** | 263.2 | 242.8 |
| **Provisions** | 14 | **135.5** | 115.2 | 56.6 |
| Provision for retirement benefit obligations | | 135.5 | 115.2 | 56.6 |
| **Bank borrowings and other non-current financial liabilities** | | **255.0** | 305.0 | 50.0 |
| Loans and other borrowings | 15 | 255.0 | 305.0 | 50.0 |
| **Deferred tax liabilities** | 16 | **141.7** | 142.0 | 144.1 |
| **NON-CURRENT LIABILITIES** | | **805.3** | 825.4 | 493.5 |
| **CURRENT LIABILITIES** | | | | |
| **Provisions** | 17 | **0.9** | 1.7 | 0.6 |
| **Bank borrowings and other current financial liabilities** | | **161.1** | 71.4 | 544.2 |
| Loans and other borrowings | 15 | 161.1 | 71.4 | 544.2 |
| **Trade and other payables** | 18 | **94.4** | 90.7 | 81.5 |
| **Current tax liabilities** | | **9.9** | 6.5 | 10.9 |
| **CURRENT LIABILITIES** | | **266.3** | 170.3 | 637.2 |
| **TOTAL LIABILITIES** | | **1,071.6** | 995.7 | 1,130.7 |
| **TOTAL EQUITY AND LIABILITIES** | | **1,905.8** | 1,804.3 | 1,690.9 |

Approved by the Board on 28 June 2011 and signed on its behalf by

**Scott Mathieson**
Director

The accompanying notes 1 to 31 are an integral part of the consolidated balance sheets as at 31 December 2010, 31 December 2009 and 1 January 2009.

## SP MANWEB PLC

## INCOME STATEMENTS

**for the years ended 31 December 2010 and 31 December 2009**

| | Notes | **2010** **£m** | 2009 £m |
|---|---|---|---|
| Revenue | | 256.2 | 224.0 |
| Procurements | | (12.0) | (11.6) |
| | | **244.2** | 212.4 |
| Staff costs | 19 | (0.6) | (0.5) |
| Outside services | | (57.9) | (46.5) |
| Other operating income | | 23.4 | 16.9 |
| | | **(35.1)** | (30.1) |
| Taxes (other than income tax) | | (16.0) | (17.4) |
| | | **193.1** | 164.9 |
| Depreciation and amortisation charge, allowances and provisions | 20 | (54.8) | (51.9) |
| **PROFIT FROM OPERATIONS** | | **138.3** | 113.0 |
| Losses on disposal of non-current assets | | - | (0.8) |
| Finance income | 21 | 47.6 | 40.4 |
| Finance costs | 22 | (64.3) | (60.0) |
| **PROFIT BEFORE TAX** | | **121.6** | 92.6 |
| Income tax | 23 | (27.4) | (24.5) |
| **NET PROFIT FOR THE YEAR** | 12 | **94.2** | 68.1 |

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

All results relate to continuing operations.

The accompanying notes 1 to 31 are an integral part of the income statements for the years ended 31 December 2010 and 31 December 2009.

## SP MANWEB PLC
## STATEMENTS OF COMPREHENSIVE INCOME
**for the years ended 31 December 2010 and 31 December 2009**

| | **2010** | 2009 |
|---|---|---|
| | **£m** | £m |
| **NET PROFIT FOR THE YEAR** | **94.2** | 68.1 |
| OTHER COMPREHENSIVE INCOME | | |
| Actuarial losses on retirement benefits: | | |
| Actuarial losses on retirement benefits | (44.2) | (49.4) |
| Tax relating to actuarial losses on retirement benefits | 10.6 | 13.9 |
| | **(33.6)** | (35.5) |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | **60.6** | 32.6 |

## STATEMENTS OF CHANGES IN EQUITY
**for the years ended 31 December 2010 and 31 December 2009**

| | Ordinary share capital £m | Share premium £m | Capital redemption reserve £m | Retained earnings £m | Total equity £m |
|---|---|---|---|---|---|
| At 1 January 2009 | 54.2 | 3.3 | 6.0 | 496.7 | 560.2 |
| Total comprehensive income for the year | - | - | - | 32.6 | 32.6 |
| Share capital issued | 245.8 | - | - | - | 245.8 |
| Dividends | - | - | - | (30.0) | (30.0) |
| At 1 January 2010 | 300.0 | 3.3 | 6.0 | 499.3 | 808.6 |
| Total comprehensive income for the year | - | - | - | 60.6 | 60.6 |
| Dividends | - | - | - | (35.0) | (35.0) |
| **At 31 December 2010** | **300.0** | **3.3** | **6.0** | **524.9** | **834.2** |

The accompanying notes 1 to 31 are an integral part of the statements of comprehensive income and statements of changes in equity for the years ended 31 December 2010 and 31 December 2009.

## SP MANWEB PLC

## CASH FLOW STATEMENTS

**for the years ended 31 December 2010 and 31 December 2009**

| | **2010** | 2009 |
|---|---|---|
| | **£m** | £m |
| Cash flows from operating activities | | |
| Profit before tax | 121.6 | 92.6 |
| Adjustments for: | | |
| Depreciation and amortisation | 56.2 | 50.3 |
| Change in provisions | (0.8) | 1.1 |
| Transfer of assets from customers | (9.1) | (8.4) |
| Finance income and costs | 16.7 | 19.6 |
| Losses from disposal of non-current assets | - | 0.8 |
| Movement in retirement benefits | (25.7) | 6.3 |
| Changes in working capital: | | |
| Change in trade and other receivables | 8.1 | (11.5) |
| Change in trade payables | 16.7 | (0.1) |
| Assets received from customers | 19.0 | 28.8 |
| Income taxes paid | (13.7) | (17.1) |
| Interest received | - | - |
| **Net cash flows from operating activities (i)** | **189.0** | 162.4 |
| Cash flows from investing activities | | |
| Investments in intangible assets | - | (4.0) |
| Investments in property, plant & equipment | (177.1) | (154.2) |
| Proceeds from disposal of property, plant & equipment | 0.3 | 0.1 |
| **Net cash flows from investing activities (ii)** | **(176.8)** | (158.1) |
| **Financing activities** | | |
| Increase in amounts due to Iberdrola group companies | - | 255.0 |
| Dividends paid to company's equity holders | (35.0) | (30.0) |
| Share capital issued | - | 245.8 |
| Interest paid | (16.9) | (10.1) |
| **Net cash flows from financing activities (iii)** | **(51.9)** | 460.7 |
| **Net (decrease)/increase in cash and cash equivalents (i)+(ii)+(iii)** | **(39.7)** | 465.0 |
| **Cash and cash equivalents at beginning of year** | **(71.4)** | (536.5) |
| **Cash and cash equivalents at end of year** | **(111.1)** | (71.5) |
| Cash and cash equivalents at end of year comprises: | | |
| Payables due to Iberdrola group companies - loans | (111.1) | (71.4) |
| **Cash flow statement cash and cash equivalents** | **(111.1)** | (71.4) |

The group loan arrangements of ScottishPower Limited and its subsidiaries (including SP Manweb Limited) were restructured during the year ended 31 December 2009. As a consequence of this loan restructuring, the company has classified group loans payable within one year as cash equivalents for the purposes of the cash flow statement. This is consistent with the way in which the group manages its group loan current balances; that is, on a net basis.

The accompanying notes 1 to 31 are an integral part of the cash flow statements for the years ended 31 December 2010 and 31 December 2009.

## 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 ("IFRS") 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 2010. The Accounts are prepared in accordance with the Accounting Policies set out in Note 2 'Accounting Policies'.

The company's Accounts are prepared for the first time in accordance with IFRS. In previous years, the Accounts were prepared in accordance with UK Generally Accepted Accounting principles ("UK GAAP"). The disclosures concerning the transition from UK GAAP to IFRS required by IFRS 1 'First-time Adoption of International Financial Reporting Standards' (Revised 2007) are set out in Note 31 to the Accounts.

The cash flow statement prepared in conformity with IFRS is set out on page F42. In prior years, the Accounts were prepared under UK GAAP and the company took advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 'Cash Flow Statements' (Revised 1996) as the company was included in the Accounts of Iberdrola S.A., which were publicly available.

In addition, the format of the company's income statement has been changed to align with the format applied by Iberdrola S.A., the ultimate parent company. The principal change from the company's previous format is that expenditure is now analysed by nature rather than by function.

## 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. RETIREMENT BENEFITS
H. 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 aquisition, 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 group and 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 |

### 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 group estimates the recoverable amount of the cash generating unit to which the asset belongs.

## 2 ACCOUNTING POLICIES *continued*

### E. FINANCIAL ASSETS AND LIABILITIES

(a) 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) Cash and cash equivalents and term deposits in the balance sheet comprise cash on hand and term deposits which are readily convertible into a known amount of cash without a significant risk of changes in value. In the cash flow statement, cash and cash equivalents exclude term deposits which have a maturity of more than 90 days at the date of acquisition and include bank overdrafts repayable on demand the next business day and the net of current loans receivable and payable from group companies.

(c) 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. RETIREMENT BENEFITS

The group provides pensions through a defined benefit scheme. The retirement benefits asset and liability recognised in the balance sheet represent the net surpluses and deficits respectively in the group's defined benefit pension scheme for which the entity is the sponsoring employer.

The cost of providing benefits under the defined benefit scheme is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full, directly in retained earnings, in the period in which they occur and are shown in the statement of comprehensive income. The current service cost element of the pension charge which relates to the company's employees is recognised within 'Staff costs' in the income statement.

The expected return on pension scheme assets and interest on pension scheme liabilities are included within 'Finance income' and 'Finance costs', respectively, in the income statement.

### H. 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.

### 3 UK ELECTRICITY REGULATION

The Utilities Act 2000, which defines the regulatory framework within which the company's electricity distribution business must operate, transferred the functions of the previous electricity and gas regulators to the Gas and Electricity Markets Authority ("the Authority"). The administrative body supporting the Authority is Ofgem. 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 the Authority.

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. SP Manweb plc 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. 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 ("DNOs").

**SP MANWEB PLC**
**NOTES TO THE ACCOUNTS *continued***
**31 December 2010**

## 4 INTANGIBLE ASSETS

| Year ended 31 December 2009 | Other intangible assets - Computer software £m |
|---|---|
| Cost: | |
| At 1 January 2009 | 0.2 |
| Additions | 4.0 |
| At 31 December 2009 | 4.2 |
| Amortisation: | |
| At 1 January 2009 | 0.1 |
| Amortisation for the year | - |
| At 31 December 2009 | 0.1 |
| Net book value: | |
| At 31 December 2009 | 4.1 |
| At 1 January 2009 | 0.1 |

| **Year ended 31 December 2010** | Other intangible assets - Computer software £m |
|---|---|
| Cost: | |
| **At 1 January and 31 December 2010** | **4.2** |
| Amortisation: | |
| At 1 January 2010 | 0.1 |
| Amortisation for the year | 1.1 |
| **At 31 December 2010** | **1.2** |
| Net book value: | |
| **At 31 December 2010** | **3.0** |
| At 1 January 2010 | 4.1 |

## 5 PROPERTY, PLANT AND EQUIPMENT

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

| Year ended 31 December 2009 | Operating plant - Distribution facilities £m | Operating plant - Other (note (i)) £m | Other items of property, plant and equipment in use £m | Plant in progress (note (ii)) £m | Other items of property, plant and equipment in progress £m | Total £m |
|---|---|---|---|---|---|---|
| Cost: | | | | | | |
| At 1 January 2009 | 1,883.7 | 114.9 | 0.1 | 223.8 | 1.0 | 2,223.5 |
| Additions | - | 4.7 | - | 147.1 | 2.9 | 154.7 |
| Transfers from in progress to operating plant | 219.4 | 1.1 | - | (220.5) | - | - |
| Transfers from fellow subsidiary (note (iii)) | - | - | 2.1 | - | - | 2.1 |
| Disposals | (5.1) | (2.9) | - | - | - | (8.0) |
| At 31 December 2009 | 2,098.0 | 117.8 | 2.2 | 150.4 | 3.9 | 2,372.3 |
| Depreciation: | | | | | | |
| At 1 January 2009 | 540.0 | 40.6 | - | - | - | 580.6 |
| Charge for the year | 40.6 | 9.6 | 0.1 | - | - | 50.3 |
| Disposals | (5.0) | (2.1) | - | - | - | (7.1) |
| At 31 December 2009 | 575.6 | 48.1 | 0.1 | - | - | 623.8 |
| Net book value: | | | | | | |
| At 31 December 2009 | 1,522.4 | 69.7 | 2.1 | 150.4 | 3.9 | 1,748.5 |
| At 1 January 2009 | 1,343.7 | 74.3 | 0.1 | 223.8 | 1.0 | 1,642.9 |
| The net book value of property, plant and equipment at 31 December 2009 is analysed as follows: | | | | | | |
| Property, plant and equipment in use | 1,522.4 | 69.7 | 2.1 | - | - | 1,594.2 |
| Property, plant and equipment in the course of construction | - | - | - | 150.4 | 3.9 | 154.3 |
| | 1,522.4 | 69.7 | 2.1 | 150.4 | 3.9 | 1,748.5 |

**5 PROPERTY, PLANT AND EQUIPMENT *continued***

| Year ended 31 December 2010 | Operating plant - Distribution facilities £m | Operating plant - Other (note (i)) £m | Other items of property, plant and equipment in use £m | Plant in progress (note (ii)) £m | Other items of property, plant and equipment in progress £m | Total £m |
|---|---|---|---|---|---|---|
| **Cost:** | | | | | | |
| At 1 January 2010 | 2,098.0 | 117.8 | 2.2 | 150.4 | 3.9 | 2,372.3 |
| Additions | - | 6.3 | 2.6 | 157.2 | - | 166.1 |
| Transfers from in progress to operating plant | 93.4 | 0.8 | 3.9 | (94.2) | (3.9) | - |
| Disposals | (5.7) | (0.5) | - | - | - | (6.2) |
| **At 31 December 2010** | **2,185.7** | **124.4** | **8.7** | **213.4** | **-** | **2,532.2** |
| **Depreciation:** | | | | | | |
| At 1 January 2010 | 575.6 | 48.1 | 0.1 | - | - | 623.8 |
| Charge for the year | 44.4 | 10.7 | - | - | - | 55.1 |
| Disposals | (5.6) | (0.3) | - | - | - | (5.9) |
| **At 31 December 2010** | **614.4** | **58.5** | **0.1** | **-** | **-** | **673.0** |
| Net book value: | | | | | | |
| **At 31 December 2010** | **1,571.3** | **65.9** | **8.6** | **213.4** | **-** | **1,859.2** |
| At 1 January 2010 | 1,522.4 | 69.7 | 2.1 | 150.4 | 3.9 | 1,748.5 |
| | | | | | | |
| **The net book value of property, plant and equipment at 31 December 2010 is analysed as follows:** | | | | | | |
| Property, plant and equipment in use | 1,571.3 | 65.9 | 8.6 | - | - | 1,645.8 |
| Property, plant and equipment in the course of construction | - | - | - | 213.4 | - | 213.4 |
| | **1,571.3** | **65.9** | **8.6** | **213.4** | **-** | **1,859.2** |

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

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

(iii) During the year ended 31 December 2009 computer equipment with a cost of £2.1 million and no accumulated depreciation was transferred from a fellow subsidiary company.

(iv) The cost of fully depreciated property, plant and equipment still in use at 31 December 2010 was £72.5 million (31 December 2009 £77.8 million, 1 January 2009 £76.3 million).

(v) Included within the cost of property, plant and equipment are assets in use not subject to depreciation, being land, of £5.9 million (31 December 2009 £4.2 million, 1 January 2009 £3.5 million).

**(b) Operating lease arrangements**

| Operating lease payments | **2010 £m** | 2009 £m |
|---|---|---|
| Sublease payments recognised as an expense in the year | - | 0.1 |
| | **-** | 0.1 |
| The future minimum lease payments under non cancellable operating leases are as follows: | | |
| Within one year | **0.1** | - |
| Between one and five years | **0.1** | 0.1 |
| More than five years | **-** | 0.1 |
| | **0.2** | 0.2 |

| Operating lease receivables | **2010 £m** | 2009 £m |
|---|---|---|
| The future minimum lease payments under non-cancellable operating leases are as follows: | | |
| Within one year | **0.1** | 0.1 |
| Between one and five years | **0.1** | 0.1 |
| More than five years | **-** | 0.1 |
| | **0.2** | 0.3 |

### 5 PROPERTY, PLANT AND EQUIPMENT *continued*

#### (c) Capital commitments

| | **31 December 2010 £m** | 31 December 2009 £m | 1 January 2009 £m |
|---|---|---|---|
| Contracted but not provided | **205.6** | 155.0 | 111.8 |

### 6 NON-CURRENT TRADE AND OTHER RECEIVABLES

| | **31 December 2010 £m** | 31 December 2009 £m | 1 January 2009 £m |
|---|---|---|---|
| Receivables due from Iberdrola group companies - loan | - | - | 7.3 |

### 7 FIXED ASSET INVESTMENTS

| | Shares in subsidiary undertakings £000 | Other unlisted investements £000 | **Total £000** |
|---|---|---|---|
| At 1 January 2009, 31 December 2009 and 31 December 2010 | 75 | 26 | **101** |

| **Subsidiaries** | **Place of incorporation or registration** | **Class of share capital** | **Proportion of shares held** | **Activity** |
|---|---|---|---|---|
| Manweb Services Limited | England | Ordinary shares £1 | 100% | Ancillary services |
| Manweb Nominees Limited | England | Ordinary shares £1 | 99% | Dormant company |
| Manweb Share Scheme Trustees Limited | England | Ordinary shares £1 | 50% | Dormant trustee company |

### 8 FINANCIAL ASSETS

| **Categories of financial assets** | Notes | **31 December 2010 £m** | 31 December 2009 £m | 1 January 2009 £m |
|---|---|---|---|---|
| Cash and cash equivalents and term deposits | | | | |
| - Cash | (a) | **-** | - | 0.4 |
| | | **-** | - | 0.4 |
| Other financial assets: | | | | |
| - Receivables | (b) | **43.5** | 51.4 | 47.4 |
| **Total** | | **43.5** | 51.4 | 47.8 |

(a) As a general rule, cash deposited with banks earns interest at rates similar to market rates on daily deposits.

(b) Balances outwith the scope of IFRS 7, principally prepayments and taxation, have been excluded.

(c ) The fair values of the financial assets are not materially different from their book values.

### 9 CASH AND CASH EQUIVALENTS

| | **31 December 2010 £m** | 31 December 2009 £m | 1 January 2009 £m |
|---|---|---|---|
| Cash | **-** | - | 0.4 |
| | **-** | - | 0.4 |

### 10 TRADE AND OTHER RECEIVABLES

| | Note | **31 December 2010 £m** | 31 December 2009 £m | 1 January 2009 £m |
|---|---|---|---|---|
| **Current receivables:** | | | | |
| Receivables due from Iberdrola group companies - trade | | **9.8** | 18.8 | 13.1 |
| Trade receivables and accrued income | (a) | **28.1** | 25.6 | 24.5 |
| Prepayments | | **-** | 0.2 | - |
| Other receivables | | **5.6** | 7.0 | 2.5 |
| | | **43.5** | 51.6 | 40.1 |

(a) Trade receivables are stated net of allowance for impairment of doubtful debts of £0.2 million (31 December 2009 £0.7 million, 1 January 2009 £1.4 million). Trade receivables are assumed to approximate their fair values due to the short term nature of trade receivables. Provisions for doubtful debts have been estimated by management, taking into account future cash flows, based on prior experience, ageing analysis and an assessment of the current economic environment within which the company operates.

(b) At 31 December 2010 trade receivables of £13.9 million (31 December 2009 £19.6 million, 1 January 2009 £13.3 million) were past due but not impaired.

| | **31 December 2010 £m** | 31 December 2009 £m | 1 January 2009 £m |
|---|---|---|---|
| **Past due but not impaired:** | | | |
| Less than 3 months | **11.7** | 18.4 | 12.5 |
| Between 3 and 6 months | **-** | 0.3 | 0.3 |
| Between 6 and 12 months | **1.0** | 0.9 | 0.5 |
| After more than 12 months | **1.2** | - | - |
| | **13.9** | 19.6 | 13.3 |

## 11 SHARE CAPITAL

| | 31 December 2010 £m | 31 December 2009 £m | 1 January 2009 £m |
|---|---|---|---|
| **Authorised:** | | | |
| 600,000,000 ordinary shares of 50p each (31 December 2009 600,000,000; 1 January 2009 200,000,000) | **300.0** | 300.0 | 100.0 |
| | **300.0** | 300.0 | 100.0 |
| **Allotted, called up and fully paid shares:** | | | |
| 600,000,000 ordinary shares of 50p each (31 December 2009 600,000,000; 1 January 2009 108,458,370) | **300.0** | 300.0 | 54.2 |
| | **300.0** | 300.0 | 54.2 |

On 27 January 2009, the authorised share capital of the company was increased from £100.0 million to £300.0 million by the creation of 400 million ordinary shares of 50p each, ranking pari passu in all respects with the existing ordinary shares of the company.

On the same date, 491,541,630 ordinary shares were issued at par to the immediate parent company, Scottish Power Investments Limited. The share proceeds were used to partially repay group loan borrowings.

## 12 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF SP MANWEB PLC

| | Ordinary share capital £m | Share premium (note (a)) £m | Capital redemption reserve (note (b)) £m | Retained earnings (note (c)) £m | Total £m |
|---|---|---|---|---|---|
| At 1 January 2009 | 54.2 | 3.3 | 6.0 | 496.7 | 560.2 |
| Profit for the year attributable to equity holders of SP Manweb plc | - | - | - | 68.1 | 68.1 |
| Share capital issued | 245.8 | - | - | - | 245.8 |
| Dividends | - | - | - | (30.0) | (30.0) |
| Actuarial losses on retirement benefits | - | - | - | (49.4) | (49.4) |
| Tax on items taken directly to equity | - | - | - | 13.9 | 13.9 |
| At 1 January 2010 | 300.0 | 3.3 | 6.0 | 499.3 | 808.6 |
| Profit for the year attributable to equity holders of SP Manweb plc | - | - | - | 94.2 | 94.2 |
| Dividends | - | - | - | (35.0) | (35.0) |
| Actuarial losses on retirement benefits | - | - | - | (44.2) | (44.2) |
| Tax on items taken directly to equity | - | - | - | 10.6 | 10.6 |
| | **300.0** | **3.3** | **6.0** | **524.9** | **834.2** |

(a) The share premium account represents consideration received for shares issued in excess of their nominal amount.

(b) The capital redemption reserve comprises the nominal value of the company's ordinary share capital purchased by the company in previous years.

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

## 13 DEFERRED INCOME

| Year ended 31 December 2009 | At 1 January 2009 £m | Receivable during year £m | Released to income statement £m | At 31 December 2009 £m |
|---|---|---|---|---|
| Transfer of assets from customers | 242.8 | 28.8 | (8.4) | 263.2 |
| Total deferred income | 242.8 | 28.8 | (8.4) | 263.2 |

| **Year ended 31 December 2010** | At 1 January 2010 £m | Receivable during year £m | Released to income statement £m | **At 31 December 2010 £m** |
|---|---|---|---|---|
| Transfer of assets from customers | 263.2 | 19.0 | (9.1) | **273.1** |
| **Total deferred income** | 263.2 | 19.0 | (9.1) | **273.1** |

## 14 RETIREMENT BENEFIT OBLIGATIONS

### (a) Analysis of balance

The amounts recognised in the balance sheet in respect of retirement benefit obligations are detailed below:

| | **31 December 2010 £m** | 31 December 2009 £m | 1 January 2009 £m |
|---|---|---|---|
| Non-current liabilities | **135.5** | 115.2 | 56.6 |
| | **135.5** | 115.2 | 56.6 |

### (b) Pension arrangements

Details of the Manweb Group of Electricity Supply Pension Scheme are as follows;

| | **SP Manweb Group of Electricity Supply Pension Scheme ('Manweb')** |
|---|---|
| Type of Benefit | Final salary |
| New Entrants | No |
| Funded separately from group assets | Yes |
| Administration method | Trustee board |
| Member contributions | 5.5% of salary |
| Group contribution - how determined | Agreement of trustees and group following actuarial valuation (last valuation: 31 March 2009) |
| Current actual group contributions | 23.3% of salary |
| Special contributions during the year ended 31 December 2010 | £23.0 million |
| Special contributions planned during the year ended 31 December 2011 | £24.1 million |
| Pension charge | Based on advice of independent qualified actuary |

The age profile of the scheme is expected to rise over time, due to there being no new entrants. This will in turn result in increasing service costs for the scheme due to the actuarial valuation method used (the projected unit method). The company believes that the projected unit method continues to be appropriate at present, and provides a reasonable basis for assessing the company's final salary pension costs.

**Investment strategy**
The scheme is invested in an appropriately diversified range of assets. The broad proportions of each asset class in which the scheme aims to be invested are in the table that follows, however it is important to note that this may vary from time to time as markets change and as cash may be held for strategic reasons.

**14 RETIREMENT BENEFIT OBLIGATIONS *continued***

| | **31 December 2010** | 31 December 2009 | 1 January 2009 |
|---|---|---|---|
| Equities | **45%** | 42% | 45% |
| Infrastructure | **4%** | 4% | 5% |
| Liability driven investment | **51%** | 54% | 50% |
| **Total** | **100%** | 100% | 100% |

At 31 December 2010 the scheme held no ScottishPower or Iberdrola shares (2009 None).

**(c) Pension Analysis**

(i) Analysis of net liability relating to pensions

| | **31 December 2010 £m** | 31 December 2009 £m |
|---|---|---|
| Present value of funded obligations | (962.3) | (866.2) |
| Fair value of scheme assets | 826.8 | 751.0 |
| **Net liability** | **(135.5)** | (115.2) |
| | | |
| Amounts in the balance sheet: | | |
| Non-current liabilities | (135.5) | (115.2) |
| **Net liability** | **(135.5)** | (115.2) |

(ii) The amounts recognised are as follows:

| | Note | **2010 £m** | 2009 £m |
|---|---|---|---|
| Current service cost | (a) | 10.4 | 7.4 |
| Interest on obligation | | 49.4 | 43.2 |
| Expected return on scheme assets | | (47.6) | (40.3) |
| Past service cost | (a) | 2.1 | 9.8 |
| **Total income statement charge** | | **14.3** | 20.1 |
| **Actual return on scheme assets** | | **79.5** | 115.8 |
| **Net actuarial losses recognised in the Statement of Comprehensive Income** | | **(44.2)** | (49.4) |

(a) The pension costs relating to the employees of fellow subsidiary entities are recharged to the appropriate legal entity.

### 14 RETIREMENT BENEFIT OBLIGATIONS *continued*

(iii) Changes in the present value of the defined benefit obligations are as follows:

| | **2010** | 2009 |
|---|---|---|
| | **£m** | £m |
| Defined benefit obligation at beginning of year | 866.2 | 715.5 |
| Current Service Cost | 10.4 | 7.4 |
| Interest on obligation | 49.4 | 43.2 |
| Scheme members' contributions | 2.5 | 2.4 |
| Past service costs | 2.1 | 9.8 |
| Actuarial losses | 76.1 | 124.9 |
| Benefits paid | (44.4) | (37.0) |
| **Defined benefit obligation at end of year** | **962.3** | 866.2 |

(iv) Changes in the fair value of scheme assets are as follows:

| | **2010** | 2009 |
|---|---|---|
| | **£m** | £m |
| Fair value of scheme assets at beginning of year | 751.0 | 658.9 |
| Expected return on scheme assets | 47.6 | 40.3 |
| Actuarial gains | 31.9 | 75.5 |
| Employer contributions | 38.2 | 10.9 |
| Scheme members' contributions | 2.5 | 2.4 |
| Benefits paid | (44.4) | (37.0) |
| **Fair value of scheme assets at end of year** | **826.8** | 751.0 |

**(d) Actuarial assumptions**

(i) The major assumptions used by the actuary for the pension arrangements were as follows and are expressed as weighted averages:

| | **31 December 2010** | 31 December 2009 | 1 January 2009 |
|---|---|---|---|
| Rate of increase in salaries | **5.0% p.a.** | 5.0% p.a. | 4.3% p.a. |
| Rate of increase in deferred pensions | **3.5% p.a.** | 3.5% p.a. | 2.8% p.a. |
| Rate of increase in pensions payment | **3.4% p.a.** | 3.4% p.a. | 2.8% p.a. |
| Discount rate | **5.3% p.a.** | 5.85% p.a. | 6.15% p.a. |
| Inflation assumption | **3.5% p.a.** | 3.5% p.a. | 2.8% p.a. |

The discount rate is a critical assumption in determining the company's defined benefit obligation. As at 31 December 2010, if the discount rate was to be increased by 0.25% the company's defined benefit obligation would be reduced by £38.0 million (2009 £32.1 million).

### 14 RETIREMENT BENEFIT OBLIGATIONS *continued*

(ii) The weighted average life expectancy for mortality used to determine the benefit obligation was as follows:

| **Member age 63 (current life expectancy)** | **31 December 2010** | 31 December 2009 | 1 January 2009 |
|---|---|---|---|
| Male | 22.1 | 22.0 | 21.4 |
| Female | 25.8 | 25.7 | 25.5 |
| **Member age 45 (life expectancy at age 63)** | | | |
| Male | 23.8 | 23.7 | 22.7 |
| Female | 26.9 | 26.8 | 26.5 |

The mortality assumptions are critical assumptions in determining the company's defined benefit obligation. As at 31 December 2010, if it were to be assumed that the members live one year longer than the assumptions above, the company's defined benefit obligation would increase by £26.1 million (2009 £22.7 million).

(iii) The weighted average asset allocations were as follows:

| | **31 December 2010** | 31 December 2009 | 1 January 2009 |
|---|---|---|---|
| Equities | **44.7%** | 42.1% | 45.0% |
| Infrastructure | **3.8%** | 3.8% | 5.0% |
| Liability driven investment | **51.1%** | 54.0% | 50.0% |
| Cash | **0.4%** | 0.1% | - |

The expected returns on each asset class were as follows:

| | **Long-term rates of return expected** | | |
|---|---|---|---|
| | **31 December 2010** | 31 December 2009 | 1 January 2009 |
| Equities | **7.5% p.a.** | 8.2% p.a. | 7.4% p.a. |
| Infrastructure | **6.2% p.a.** | 6.2% p.a. | 6.8% p.a. |
| Liability driven investment | **4.7% p.a.** | 5.1% p.a. | 5.0% p.a. |
| Cash | **3.8% p.a.** | 4.1% p.a. | - |
| Expected return on scheme assets | **6.0% p.a.** | 6.3% p.a. | 6.1% p.a. |

The long-term rates of return for 31 December 2010 have been derived as follows:

- Equities: the long-term UK Government fixed interest stock yield, plus 3.7% p.a.
- Infrastructure: the long-term UK Government fixed interest stock yield, plus 2.4% p.a.
- Liability driven investment: the long-term UK Government fixed interest stock yield plus 0.9% p.a.

In all cases, for IAS 19 reporting purposes the long-term rates of return have been reduced by 0.3% p.a. (31 December 2009 and 1 January 2009 0.3% p.a.) to reflect scheme expenses to arrive at the figures shown above. These return assumptions are based on both historical performance and independent advisors' forward-looking views of the financial markets.

**(e) History of experience gains and losses**

The amounts for the current year and previous periods in relation to the plan are given below:

| | **Year ended 31 December 2010 £m** | Year ended 31 December 2009 £m | As at 1 January 2009 £m |
|---|---|---|---|
| Difference between expected and actual return on scheme assets: | | | |
| - amount | 31.9 | 75.5 | n/a |
| - percentage of scheme assets | 4% | 10% | n/a |
| Experience gains and losses on scheme liabilities: | | | |
| - amount | 6.2 | (15.0) | n/a |
| - percentage of scheme liabilities | 1% | 2% | n/a |
| Present value of defined benefit obligations | (962.3) | (866.2) | (715.5) |
| Fair value of plan assets | 826.8 | 751.0 | 658.9 |
| Deficit in defined benefit plans | (135.5) | (115.2) | (56.6) |

## 14 RETIREMENT BENEFIT OBLIGATIONS *continued*

### (f) Future contributions

The company intends to contribute £35.1 million to the pension scheme in the year ending 31 December 2011.

## 15 FINANCIAL LIABILITIES

### (a) Categories of financial liabilities

| | Notes | **31 December 2010 £m** | 31 December 2009 £m | 1 January 2009 £m |
|---|---|---|---|---|
| **Loans and other borrowings (current and non-current):** | | | | |
| External borrowings | (i) | **50.0** | 50.0 | 50.0 |
| Loans with Iberdrola group companies | (ii) | **366.1** | 326.4 | 544.2 |
| | | **416.1** | 376.4 | 594.2 |
| **Other financial liabilities:** | | | | |
| Payables | (iii) | **55.3** | 51.8 | 40.6 |
| **Total** | | **471.4** | 428.2 | 634.8 |

(i) Loans and other borrowings are accounted for at amortised cost. Refer to Note 15(c) for further analysis of borrowings.

(ii) The loans with Iberdrola group companies comprise loans with Scottish Power Limited and ScottishPower UK plc. The loan from Scottish Power Limited carries a fixed rate of 3.858%. The loan from Scottish Power UK plc carries a variable rate of 12 months GBP LIBOR plus 336.5 basis points. The short term loan from ScottishPower UK plc carries a base rate plus 100 basis points. Under the conditions of the long term loan agreement between SP Manweb Plc and Scottish Power UK plc, SP Manweb Plc has an option, without fee or penalty, to make a repayment, in whole or in part, of the then outstanding loan principal, plus accrued interest thereon, by providing Scottish Power UK plc with written notice at least 5 business days before the intended repayment date.

(iii) Balances outwith the scope of IFRS 7, principally payments received on account and other amounts not contractually committed, have been excluded. The fair value of payables disclosed above are not materially different from their book values.

**15 FINANCIAL LIABILITIES *continued***

**(b)** The table below analyses the company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | **31 December 2010** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Carrying value £m** | **Contractual cash flows £m** | Less than 1 year £m | Between 1 and 2 years £m | Between 2 and 3 years £m | Between 3 and 4 years £m | Between 4 and 5 years £m | Between 5 and 10 years £m | 10 years and thereafter £m |
| **Loans and other borrowings (current and non-current):** | | | | | | | | | |
| External borrowings | **50.0** | **52.9** | 52.9 | - | - | - | - | - | - |
| Loans with Iberdrola group companies | **366.1** | **649.8** | 122.5 | 12.0 | 13.0 | 14.8 | 15.7 | 159.2 | 312.6 |
| | **416.1** | **702.7** | 175.4 | 12.0 | 13.0 | 14.8 | 15.7 | 159.2 | 312.6 |
| **Other financial liabilities:** | | | | | | | | | |
| Payables* | **55.3** | **42.0** | 42.0 | - | - | - | - | - | - |
| | **471.4** | **744.7** | **217.4** | **12.0** | **13.0** | **14.8** | **15.7** | **159.2** | **312.6** |

| | 31 December 2009 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Carrying value £m | Contractual cash flows £m | Less than 1 year £m | Between 1 and 2 years £m | Between 2 and 3 years £m | Between 3 and 4 years £m | Between 4 and 5 years £m | Between 5 and 10 years £m | 10 years and thereafter £m |
| **Loans and other borrowings (current and non-current):** | | | | | | | | | |
| External borrowings | 50.0 | 55.8 | 2.9 | 52.9 | - | - | - | - | - |
| Loans with Iberdrola group companies | 326.4 | 639.5 | 84.3 | 13.4 | 14.3 | 16.4 | 17.2 | 164.6 | 329.3 |
| | 376.4 | 695.3 | 87.2 | 66.3 | 14.3 | 16.4 | 17.2 | 164.6 | 329.3 |
| **Other financial liabilities:** | | | | | | | | | |
| Payables* | 51.8 | 36.9 | 36.9 | - | - | - | - | - | - |
| | 428.2 | 732.2 | 124.1 | 66.3 | 14.3 | 16.4 | 17.2 | 164.6 | 329.3 |

| | 1 January 2009 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Carrying value £m | Contractual cash flows £m | Less than 1 year £m | Between 1 and 2 years £m | Between 2 and 3 years £m | Between 3 and 4 years £m | Between 4 and 5 years £m | Between 5 and 10 years £m | 10 years and thereafter £m |
| **Loans and other borrowings (current and non-current):** | | | | | | | | | |
| External borrowings | 50.0 | 58.7 | 2.9 | 2.9 | 52.9 | - | - | - | - |
| Loans with Iberdrola group companies | 544.2 | 549.9 | 549.9 | - | - | - | - | - | - |
| | 594.2 | 608.6 | 552.8 | 2.9 | 52.9 | - | - | - | - |
| **Other financial liabilities:** | | | | | | | | | |
| Payables* | 40.6 | 32.0 | 32.0 | - | - | - | - | - | - |
| | 634.8 | 640.6 | 584.8 | 2.9 | 52.9 | - | - | - | - |

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

**(c) Analysis of debt and treasury instruments by category of instrument and maturity**

| | **31 December 2010** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Debt £m | Derivative £m | Total £m | 2011 £m | 2012 £m | 2013 £m | 2014 £m | 2015 £m | 2016 and there-after £m |
| **Loans in Sterling** | | | | | | | | | |
| - Other financial operations | 416.1 | - | 416.1 | 161.1 | - | - | - | - | 255.0 |
| - Unpaid accrued interest | 13.3 | - | 13.3 | 13.3 | - | - | - | - | - |
| **Total debt** | **429.4** | **-** | **429.4** | **174.4** | **-** | **-** | **-** | **-** | **255.0** |

15 **FINANCIAL LIABILITIES** ***continued***

| | 31 December 2009 | | | 1 January 2009 | | |
|---|---|---|---|---|---|---|
| | Debt | Derivative | Total | Debt | Derivative | Total |
| | £m | £m | £m | £m | £m | £m |
| **Loans in Sterling** | | | | | | |
| - Other financial operations | 376.4 | - | 376.4 | 594.2 | - | 594.2 |
| - Unpaid accrued interest | 14.9 | - | 14.9 | 8.6 | - | 8.6 |
| **Total debt** | 391.3 | - | 391.3 | 602.8 | - | 602.8 |

(i) The average weighted interest rate on the above debt at 31 December 2010 is 3.8% (31 December 2009 4.6%; 1 January 2009 2.7%).

(ii) Other financial operations are principally comprised of loans with Iberdrola group companies and also include European Investment Bank loans.

(iii) Debt with the European Investment Bank which may have to be renegotiated or shored up with additional guarantees in the event of a significant rating downgrade totalled £50.0 million (31 December 2009 £50.0 million ; 1 January 2009 £50.0 million).

**Interest rate analysis of debt**

| | **31 December 2010** | 31 December 2009 | 1 January 2009 |
|---|---|---|---|
| | **£m** | £m | £m |
| Variable rate | **299.0** | 261.5 | 549.9 |
| Fixed rate | **130.4** | 129.8 | 52.9 |
| | **429.4** | 391.3 | 602.8 |

The reference interest rates for the floating rate borrowings are LIBOR (London Inter Bank Offer Rate), and the Bank of England base rate.

Based on the variable rate debt of £299.0 million at 31 December 2010 (31 December 2009 £261.5 million, 1 January 2009 £549.9 million) a 10 basis point change in interest rates would result in an annual change in profit before tax of £0.3 million (31 December 2009 £0.3 million, 1 January 2009 £0.5 million). There would be no impact on equity.

**(d) Fair value of external borrowings**

| | **31 December 2010** | 31 December 2009 | 1 January 2009 |
|---|---|---|---|
| | **£m** | £m | £m |
| Fair value of external borrowings | **52.8** | 55.0 | 55.7 |
| Fair value of external borrowings with fixed interest rate | **52.8** | 55.0 | 55.7 |

**(e) Borrowing facilities**

The company has undrawn committed borrowing facilities at 31 December 2010 of £nil (31 December 2009 £nil, 1 January 2009 £nil).

## 16 DEFERRED TAX

Deferred tax provided in the Accounts is as follows:

| | Property, plant and equipment £m | Other temporary differences £m | Total £m |
|---|---|---|---|
| Deferred tax provided at 1 January 2009 | 159.9 | (15.8) | 144.1 |
| Charge/(credit) to income statement | 14.4 | (2.6) | 11.8 |
| Recorded in the statement of comprehensive income | - | (13.9) | (13.9) |
| Deferred tax provided at 1 January 2010 | 174.3 | (32.3) | 142.0 |
| Charge to income statement | 9.3 | 1.0 | 10.3 |
| Recorded in the statement of comprehensive income | - | (10.6) | (10.6) |
| **Deferred tax provided at 31 December 2010** | **183.6** | **(41.9)** | **141.7** |

In his budget speech of 22 June 2010, the Chancellor announced that the main rate of UK corporation tax would be reduced from the current rate of 28% to 24% on 1 April 2014 by a series of 1% annual reductions. In his budget speech in March 2011, he announced that there would be a 2% reduction on 1 April 2011 to 26% and this was substantively enacted on 29 March 2011 by Budget Resolution under the Provisional Collection of Taxes Act. Further 1% reductions will continue to apply, now lowering the rate to 23% on 1 April 2014.

The reduction to 27% was included in the Finance Act that received Royal Assent on 27 July 2010. As this change was enacted at the balance sheet date and reduces the tax rate expected to apply when temporary differences reverse, it had the effect of reducing the deferred tax liability by £5.7 million. The reduction to 26%, however, was not enacted at the balance sheet date. The further rate reductions are to be incorporated within future Finance Acts and hence will not be substantively enacted until later periods. It is expected this will result in total reductions of £20.1 million to the deferred tax liability. The reduction is expected to be £10.5 million in the year ended 31 December 2011 with two further reductions of £5.2 million.

## 17 PROVISIONS

| Year ended 31 December 2009 | Note | At 1 January 2009 £m | New provisions £m | At 31 December 2009 £m |
|---|---|---|---|---|
| Contract termination costs | | 0.6 | - | 0.6 |
| Environmental costs | | - | 1.1 | 1.1 |
| | (a) | 0.6 | 1.1 | 1.7 |

| **Year ended 31 December 2010** | Notes | At 1 January 2010 £m | Released during the year £m | **At 31 December 2010 £m** |
|---|---|---|---|---|
| Contract termination costs | (b) | 0.6 | - | **0.6** |
| Environmental costs | (c) | 1.1 | (0.8) | **0.3** |
| | (a) | 1.7 | (0.8) | **0.9** |

(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.

**18 TRADE AND OTHER PAYABLES**

| | 31 December 2010 £m | 31 December 2009 £m | 1 January 2009 £m |
|---|---|---|---|
| **Current trade and other payables:** | | | |
| Payables due to Iberdrola group companies - trade and other payables | **35.7** | 31.8 | 30.2 |
| Payables due to Iberdrola group companies - interest | **10.6** | 12.3 | 5.7 |
| Other taxes and social security | **2.5** | 5.1 | 4.6 |
| Payments received on account | **36.6** | 33.8 | 36.3 |
| Other payables | **9.0** | 7.7 | 4.7 |
| | **94.4** | 90.7 | 81.5 |

**19 EMPLOYEE INFORMATION**

**(a) Staff costs**

| | Note | 2010 £'000 | 2009 £'000 |
|---|---|---|---|
| Wages and salaries | | **437** | 406 |
| Social security costs | (i) | **40** | 33 |
| Pension and other costs | | **90** | 65 |
| Total employee costs | | **567** | 504 |

(i) The employee costs do not included the directors of the company as they do not have a contract of service with the company. The emoluments of all the directors are included within the employee costs of other ScottishPower group companies. Details of directors' emoluments are set out in Note 27.

**(b) Employee numbers**

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

| | Year end 2010 | Average 2010 | Year end 2009 | Average 2009 |
|---|---|---|---|---|
| Administrative | **8** | **8** | 7 | 8 |
| **Total** | **8** | **8** | 7 | 8 |

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

| | 2010 £m | 2009 £m |
|---|---|---|
| Property, plant and equipment depreciation charge | **55.1** | 50.3 |
| Intangible asset amortisation | **1.1** | - |
| Charges and provisions and allowances | **(1.4)** | 1.6 |
| | **54.8** | 51.9 |

**21 FINANCE INCOME**

| | 2010 £m | 2009 £m |
|---|---|---|
| Interest on bank and other deposits | **-** | 0.1 |
| Expected return on retirement benefit assets | **47.6** | 40.3 |
| **Finance income** | **47.6** | 40.4 |

**22 FINANCE COSTS**

| | 2010 £m | 2009 £m |
|---|---|---|
| Interest on bank loans and overdrafts | **2.6** | 3.0 |
| Interest payable to Iberdrola group companies | **12.3** | 13.8 |
| Interest on retirement benefit obligations | **49.4** | 43.2 |
| **Finance costs** | **64.3** | 60.0 |

## 23 INCOME TAX

| | 2010 £m | 2009 £m |
|---|---|---|
| Current tax: | | |
| UK Corporation tax | **18.1** | 12.4 |
| Adjustments in respect of prior years | **(1.0)** | 0.3 |
| **Current tax for the year** | **17.1** | 12.7 |
| Deferred tax: | | |
| Origination and reversal of temporary differences | **16.3** | 12.1 |
| Adjustments in respect of prior years | **1.0** | (0.3) |
| Impact of rate change on deferred tax | **(7.0)** | - |
| **Deferred tax for the year** | **10.3** | 11.8 |
| **Income tax expense for the year** | **27.4** | 24.5 |

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

| | 2010 £m | 2009 £m |
|---|---|---|
| Corporation tax at 28% | **34.0** | 25.9 |
| Additional deferred tax on IAS 19 adjustment | **-** | (1.8) |
| Impact of tax rate change | **(7.0)** | - |
| Other permanent differences | **0.4** | 0.4 |
| **Income tax expense for the year** | **27.4** | 24.5 |

## 24 DIVIDENDS

| | 2010 pence per ordinary share | 2009 pence per ordinary share | 2010 £m | 2009 £m |
|---|---|---|---|---|
| Interim dividend paid | **5.8** | 5.0 | **35.0** | 30.0 |

## 25 CONTINGENT LIABILITIES

Manweb plc's businesses were the subject of legal separation during the year ended 31 March 2002. This resulted in operational staff of the Distribution business and employees of the Energy Supply business being transferred to other ScottishPower group companies on 1 October 2001. Any liabilities in respect of the Electricity Supply Pension Scheme existing at this time were also transferred to these companies subject to certain contingent liabilities. Under the terms of the transfers, the company would however be required to fund any liabilities in respect of the Electricity Supply Pension Scheme should the other ScottishPower group companies become unable to fulfil their obligations in respect of the scheme.

Also, as the successor company to the Mersey and North Wales Electricity Board, the company will remain potentially liable for any breach of duty to provide pension benefits or secure accrued pension benefits for former protected employees in the event of the contracts of employment being transferred from the company to new employers, if their new employers fail to meet their obligations under the Electricity (Protected Persons) (England and Wales) Pension Regulations 1990.

## 26 FINANCIAL COMMITMENTS

**Other contractual commitments**

| | **31 December 2010 £m** | 31 December 2009 £m | 1 January 2009 £m |
|---|---|---|---|
| Provision of asset management services from SP Power Systems | **38.3** | 17.4 | 15.7 |

## 27 RELATED PARTY TRANSACTIONS

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

| | Sales to /(purchases from) related parties | | Amounts due from/(to) related parties | | |
|---|---|---|---|---|---|
| **Type of related party** | **2010 £m** | 2009 £m | **31 December 2010 £m** | 31 December 2009 £m | 1 January 2009 £m |
| **Sales** | | | | | |
| Fellow ScottishPower subsidiary companies | **73.7** | 73.6 | **9.8** | 18.8 | 13.1 |
| **Purchases** | | | | | |
| Fellow ScottishPower subsidiary companies | **(54.1)** | (42.0) | **(35.7)** | (32.2) | (30.2) |

(i) Sales comprises revenue from related parties which is included within "Revenue" in the income statement and management charge and other income which is included within "Other operating income".

(ii) Purchases comprise purchases from related parties which is included within "Procurements" in the income statement and management charge and other costs which is included within "Outside Services".

**(b) Funding transactions and balances arising in the normal course of business**

| | Interest receivable from related parties | | Amounts due from related parties | | |
|---|---|---|---|---|---|
| **Type of related party** | **2010 £m** | 2009 £m | **31 December 2010 £m** | 31 December 2009 £m | 1 January 2009 £m |
| Fellow Scottish Power subsidiary companies | **-** | - | **-** | - | 7.3 |

| | Interest payable to related parties | | Amounts due to related parties | | |
|---|---|---|---|---|---|
| **Type of related party** | **2010 £m** | 2009 £m | **31 December 2010 £m** | 31 December 2009 £m | 1 January 2009 £m |
| Ultimate UK parent company | **2.9** | 2.2 | **77.7** | 77.2 | - |
| Fellow subsidiary companies | **9.4** | 11.6 | **299.0** | 261.1 | 549.9 |

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

(ii) During the year ended 31 December 2010, dividends paid to the immediate parent company amounted to £35.0 million (2009 £30.0 million).

(iii) During the year the company received pension contributions of £38.1 million (2009 £10.3 million) from fellow subsidiary companies.

## 27 RELATED PARTY TRANSACTIONS *continued*

### (c) Remuneration of key management personnel

The remuneration of the key management personnel of the group (which comprises the Board of Directors and members of the ScottishPower Executive Team based in the UK) is set out below.

| Type of related party | 2010 £000 | 2009 £000 |
|---|---|---|
| Short-term employee benefits | **412** | 546 |
| Post-employment benefits | **242** | 79 |
| | **654** | 625 |

### (d) 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 ScottishPower group as a whole, it has not been possible to apportion the emoluments specifically in respect of services to this company.

| Executive directors | 2010 £000 | 2009 £000 |
|---|---|---|
| Basic salary | **290** | 283 |
| Bonuses | **115** | 257 |
| Benefits in kind | **7** | 6 |
| **Total** | **412** | 546 |

(i) Two directors (2009: two) had retirement benefits accruing under defined benefit pension schemes.

| Highest paid director | 2010 £000 | 2009 £000 |
|---|---|---|
| Basic salary | **192** | 151 |
| Bonuses | **77** | 134 |
| Benefits in kind | **1** | - |
| **Total** | **270** | 285 |

(i) The amount of pension benefit accrued for the highest paid director at 31 December 2010 was £71,482 (2009 £94,050).

### (e) 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 UK plc 1 Atlantic Quay, Glasgow, G2 8SP.

## 28 AUDITORS' REMUNERATION

| Type of related party | 2010 £m | 2009 £m |
|---|---|---|
| Audit of the company's annual accounts and regulatory accounts | **0.1** | 0.1 |

For the year ended 31 December 2010, the total audit and non-audit fees paid to the auditors of £0.1 million (2009 £0.1million) were charged to profit from operations.

### 29 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 2010.

In particular, the company has adopted IFRIC 18 'Transfers of Assets from Customers' for year end 31 December 2010. IFRIC 18 applies to agreements in which an entity receives from its customers items of property, plant and equipment 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, and those in which the entity receives cash from customer for the construction of such items of property, plant and equipment.

If the items of property, plant and equipment transferred meet the definition of an asset set out in the Framework of IFRSs, they are measured at fair value.

As the company considers the installation received as payment for ongoing access to the supply of the goods and services, the fair value is credited to the income statement over the period of the agreement with the customer. There has been no change to the company's policy as a result of adopting IFRIC 18. The company's policy in relation to transfers of assets from customers is set out in Note 2.

The EU has adopted certain revised IAS and IFRIC interpretations which are not mandatory for the year ended 31 December 2010.

- IAS 32 'Amendment Classification of Rights Issues'
- IAS 24 'Related Party Disclosure'

In addition, the International Accounting Standards Board has also issued a number of pronouncements which have not yet been adopted by the EU and a number of exposure drafts. The company is currently considering the impact of these pronouncements.

### 30 GOING CONCERN

The company's business activities are set out in the Directors' Report on pages F32 to F37.

The company has recorded a profit after tax in both the current and previous financial years and the company's balance sheet shows that it has net current liabilities of £222.8 million and net assets of £834.2 million at its most recent balance sheet date.

The company is ultimately owned by Iberdrola S.A. and it participates in the Iberdrola group's centralised treasury arrangements and so shares banking facilities with its parent companies and fellow subsidiaries.

As a consequence, the company depends, in part, on the ability of the Iberdrola group to continue as a going concern.

The directors have considered the company's funding relationship with Iberdrola to date and have considered available relevant information relating to Iberdrola's ability to continue as a going concern. In addition, the directors have no reason to believe that 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.

### 31 RECONCILIATION OF PREVIOUSLY REPORTED FINANCIAL STATEMENTS UNDER UK GAAP TO IFRS

The company's financial statements for the year ended 31 December 2010 are its first annual financial statements prepared under accounting policies that comply with IFRS.

SP Manweb Plc's transition date to IFRS is 1 January 2009. The company prepared its opening IFRS balance sheet as at that date.

The following disclosures are provided:

(a) Reconciliation of the Profit and Loss Account under UK GAAP to the Income Statement under IFRS for the year ended 31 December 2009;

(b) Reconciliation of the Balance Sheet under UK GAAP to IFRS as at 1 January 2009;

(c) Reconciliation of the Balance Sheet under UK GAAP to IFRS as at 31 December 2009;

(d) Notes to the balance sheet reclassifications; and

(e) Notes to the balance sheet IFRS remeasurements.

The format of the income statement and balance sheet has been prepared in accordance with the requirements of IAS 1 and reflects the impact of adopting IFRS compliant Accounts.

This is also the first year that the company Accounts have presented a cash flow statement.

In prior years due to the company Accounts being prepared under UK GAAP, the company had taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 'Cash Flow Statements (revised 1996)' as the company was included in the Accounts of Iberdrola S.A., which were publicly available.

As stated in the accounting policies the format of the Company's income statement has been changed to align with the format applied by Iberdrola S.A., the ultimate parent company. The principal change from the Company's previous format is that expenditure is now analysed by nature rather than function. Therefore, staff costs, depreciation and amortisation charges and taxes (other than income taxes), previously included within cost of sales, transmission and distribution costs and administrative expenses, are now shown separately. Costs relating directly to revenue have now been included within procurements, other costs are included in outside services. Certain non-energy related income, previously accounted for within revenue, has now been reclassified to other operating income. The above changes have no impact on profit before operations.

The UK GAAP column of the reconciliation of the Profit and Loss Account under UK GAAP to the Income Statement under IFRS for the year ended 31 December 2009 has been presented reflecting these format changes.

**(a) Reconciliation of the Profit and Loss Account under UK GAAP to the Income Statement under IFRS for the year ended 31 December 2009**

| | UK GAAP | IFRS reclassifications | IFRS remeasurement IAS 12 | IFRS remeasurement IAS 19 | IFRS |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| Revenue | 224.0 | - | - | - | 224.0 |
| Procurements | (11.6) | - | - | - | (11.6) |
| | **212.4** | **-** | **-** | **-** | **212.4** |
| Staff costs | (0.5) | - | - | - | (0.5) |
| Outside services | (46.5) | - | - | - | (46.5) |
| Other operating income | 16.9 | - | - | - | 16.9 |
| | **(30.1)** | **-** | **-** | **-** | **(30.1)** |
| Taxes (other than income tax) | (17.4) | - | - | - | (17.4) |
| | **164.9** | **-** | **-** | **-** | **164.9** |
| Depreciation and amortisation charge and allowances | (51.9) | - | - | - | (51.9) |
| **PROFIT FROM OPERATIONS** | **113.0** | **-** | **-** | **-** | **113.0** |
| Losses on disposal of non-current assets | (0.8) | - | - | - | (0.8) |
| Finance income | 0.1 | - | - | 40.3 | 40.4 |
| Finance costs | (16.8) | - | - | (43.2) | (60.0) |
| **PROFIT BEFORE TAX** | **95.5** | **-** | **-** | **(2.9)** | **92.6** |
| Income tax | (27.0) | - | (0.1) | 2.6 | (24.5) |
| **NET PROFIT FOR THE YEAR** | **68.5** | **-** | **(0.1)** | **(0.3)** | **68.1** |

## 31 RECONCILIATION OF PREVIOUSLY REPORTED FINANCIAL STATEMENTS UNDER UK GAAP TO IFRS *continued*

### (b) Reconciliation of the Balance Sheet under UK GAAP to IFRS as at 1 January 2009

| | UK GAAP | IFRS reclassifications | IFRS remeasurement IAS 12 | IFRS remeasurement IAS 19 | IFRS |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| **ASSETS** | | | | | |
| **NON-CURRENT ASSETS** | | | | | |
| **Intangible assets** | **-** | **0.1** | **-** | **-** | **0.1** |
| Other intangible assets | - | 0.1 | - | - | 0.1 |
| **Property, plant and equipment** | **1,643.0** | **(0.1)** | **-** | **-** | **1,642.9** |
| Property, plant and equipment in use | 1,418.2 | (0.1) | - | - | 1,418.1 |
| Property, plant and equipment in the course of construction | 224.8 | - | - | - | 224.8 |
| **Non-current trade and other receivables** | **-** | **7.3** | **-** | **-** | **7.3** |
| **Non-current financial assets** | **0.1** | **-** | **-** | **-** | **0.1** |
| Other non-current investments | 0.1 | - | - | - | 0.1 |
| **NON-CURRENT ASSETS** | **1,643.1** | **7.3** | **-** | **-** | **1,650.4** |
| **CURRENT ASSETS** | | | | | |
| **Cash and cash equivalents** | **0.4** | **-** | **-** | **-** | **0.4** |
| **Current trade and other receivables** | **47.4** | **(7.3)** | **-** | **-** | **40.1** |
| **CURRENT ASSETS** | **47.8** | **(7.3)** | **-** | **-** | **40.5** |
| **TOTAL ASSETS** | **1,690.9** | **-** | **-** | **-** | **1,690.9** |
| **EQUITY AND LIABILITIES** | | | | | |
| **EQUITY** | | | | | |
| **Of shareholders of the parent** | **608.0** | **-** | **(7.0)** | **(40.8)** | **560.2** |
| Share capital | 54.2 | - | - | - | 54.2 |
| Share premium | 3.3 | - | - | - | 3.3 |
| Capital redemption reserve | 6.0 | - | - | - | 6.0 |
| Retained earnings | 544.5 | - | (7.0) | (40.8) | 496.7 |
| **TOTAL EQUITY** | **608.0** | **-** | **(7.0)** | **(40.8)** | **560.2** |
| **NON-CURRENT LIABILITIES** | | | | | - |
| **Deferred income** | **242.8** | **-** | **-** | **-** | **242.8** |
| **Provisions** | **0.6** | **(0.6)** | **-** | **56.6** | **56.6** |
| Provision for retirement benefit obligations | - | - | - | 56.6 | 56.6 |
| Other provisions | 0.6 | (0.6) | - | - | - |
| **Bank borrowings and other non-current financial liabilities** | **50.0** | **-** | **-** | **-** | **50.0** |
| Loans and other borrowings | 50.0 | - | - | - | 50.0 |
| **Deferred tax liabilities** | **152.9** | **-** | **7.0** | **(15.8)** | **144.1** |
| **NON-CURRENT LIABILITIES** | **446.3** | **(0.6)** | **7.0** | **40.8** | **493.5** |
| **CURRENT LIABILITIES** | | | | | |
| **Provisions** | **-** | **0.6** | **-** | **-** | **0.6** |
| **Bank borrowings and other current financial liabilities** | **544.2** | **-** | **-** | **-** | **544.2** |
| Loans and other borrowings | 544.2 | - | - | - | 544.2 |
| **Trade and other payables** | **92.4** | **(10.9)** | **-** | **-** | **81.5** |
| **Current tax liabilities** | **-** | **10.9** | **-** | **-** | **10.9** |
| **CURRENT LIABILITIES** | **636.6** | **0.6** | **-** | **-** | **637.2** |
| **TOTAL LIABILITIES** | **1,082.9** | **-** | **7.0** | **40.8** | **1,130.7** |
| **TOTAL EQUITY AND LIABILITIES** | **1,690.9** | **-** | **-** | **-** | **1,690.9** |

## 31 RECONCILIATION OF PREVIOUSLY REPORTED FINANCIAL STATEMENTS UNDER UK GAAP TO IFRS *continued*

### (c) Reconciliation of the Balance Sheet under UK GAAP to IFRS as at 31 December 2009

| | UK GAAP | IFRS reclassifications | IFRS remeasurement IAS 12 | IFRS remeasurement IAS 19 | IFRS |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| **ASSETS** | | | | | - |
| **NON-CURRENT ASSETS** | | | | | |
| **Intangible assets** | **-** | **4.1** | **-** | **-** | **4.1** |
| Other intangible assets | - | 4.1 | - | - | 4.1 |
| **Property, plant and equipment** | **1,752.6** | **(4.1)** | **-** | **-** | **1,748.5** |
| Property, plant and equipment in use | 1,598.3 | (4.1) | - | - | 1,594.2 |
| Property, plant and equipment in the course of construction | 154.3 | - | - | - | 154.3 |
| **Non-current financial assets** | **0.1** | **-** | **-** | **-** | **0.1** |
| Other non-current investments | 0.1 | - | - | - | 0.1 |
| **NON-CURRENT ASSETS** | **1,752.7** | **-** | **-** | **-** | **1,752.7** |
| **CURRENT ASSETS** | | | | | - |
| **Current trade and other receivables** | **45.3** | **-** | **-** | **6.3** | **51.6** |
| **CURRENT ASSETS** | **45.3** | **-** | **-** | **6.3** | **51.6** |
| **TOTAL ASSETS** | **1,798.0** | **-** | **-** | **6.3** | **1,804.3** |
| | | | | | |
| **EQUITY AND LIABILITIES** | | | | | |
| **EQUITY** | | | | | |
| **Of shareholders of the parent** | **892.3** | **-** | **(7.1)** | **(76.6)** | **808.6** |
| Share capital | 300.0 | - | - | - | 300.0 |
| Share premium | 3.3 | - | - | - | 3.3 |
| Capital redemption reserve | 6.0 | - | - | - | 6.0 |
| Retained earnings | 583.0 | - | (7.1) | (76.6) | 499.3 |
| **TOTAL EQUITY** | **892.3** | **-** | **(7.1)** | **(76.6)** | **808.6** |
| | | | | | |
| **NON-CURRENT LIABILITIES** | | | | | |
| **Deferred income** | **263.2** | **-** | **-** | **-** | **263.2** |
| **Provisions** | **1.7** | **(1.7)** | **-** | **115.2** | **115.2** |
| Provision for retirement benefit obligations | - | - | - | 115.2 | 115.2 |
| Other provisions | 1.7 | (1.7) | - | - | - |
| **Bank borrowings and other non-current financial liabilities** | **305.0** | **-** | **-** | **-** | **305.0** |
| Loans and other borrowings | 305.0 | - | - | - | 305.0 |
| **Deferred tax liabilities** | **167.2** | **-** | **7.1** | **(32.3)** | **142.0** |
| **NON-CURRENT LIABILITIES** | **737.1** | **(1.7)** | **7.1** | **82.9** | **825.4** |
| **CURRENT LIABILITIES** | | | | | |
| **Provisions** | **-** | **1.7** | **-** | **-** | **1.7** |
| **Bank borrowings and other current financial liabilities** | **71.4** | **-** | **-** | **-** | **71.4** |
| Loans and other borrowings | 71.4 | - | - | - | 71.4 |
| **Trade and other payables** | **97.2** | **(6.5)** | **-** | **-** | **90.7** |
| **Current tax liabilities** | **-** | **6.5** | **-** | **-** | **6.5** |
| **CURRENT LIABILITIES** | **168.6** | **1.7** | **-** | **-** | **170.3** |
| **TOTAL LIABILITIES** | **905.7** | **-** | **7.1** | **82.9** | **995.7** |
| **TOTAL EQUITY AND LIABILITIES** | **1,798.0** | **-** | **-** | **6.3** | **1,804.3** |

**31 RECONCILIATION OF PREVIOUSLY REPORTED ACCOUNTS UNDER UK GAAP TO IFRS** ***continued***

**(d) Notes to the balance sheet reclassifications**

Certain balances, previously reported under UK GAAP, have been reclassified to comply with the format of the company Accounts as presented under IFRS. None of these reclassifications have any impact on the company's previously reported net assets or shareholders funds.

(i) IAS 1 – Presentation of Financial Statements
Provision for liabilities and charges due within one year of £1.7 million at 31 December 2009 (1 January 2009 £0.6 million), previously presented within non-current liabilities, have been reclassified and shown within current liabilities.

Intercompany debtor balances due in more than one year of £7.3 million at 1 January 2009, previously presented within current trade and other receivables have been reclassified and shown within non-current financial assets.

(ii) IAS 12 – Income Taxes
Current corporate tax balances of £6.5 million at 31 December 2009 (1 January 2009 £10.9 million), previously included within current trade and other payables, have been shown separately on the face of the balance sheet.

(iii) IAS38 – Intangible Assets
Certain non-current assets at 31 December 2009, being capitalised software of £4.1 million (1 January 2009 £0.1 million) previously included within tangible assets (property, plant and equipment) have been reclassified as intangible assets as required by IAS 38.

**(e) Notes to the balance sheet remeasurements**

(i) IAS 12 – Income Taxes
Under UK GAAP, deferred tax is provided based on timing differences, whilst IFRS has a wider scope and requires deferred tax to be provided on temporary differences.

In accordance with the requirements of IFRS, deferred tax has been provided on the temporary difference relating to assets that qualify for Industrial Buildings Allowances**.**

(ii) IAS 19 - Employee Benefits
Pensions have been accounted for in accordance with IAS 19. It is the group's policy to recognise the pension scheme surplus/deficit in the company balance sheet for which the company is the sponsoring employer. The company's accounting policy for pensions therefore requires separate recognition of the operating and financing costs of defined benefit pension schemes in the income statement. IAS 19 permits a number of options for the recognition of actuarial gains and losses relating to defined benefit pension schemes.

The company's accounting policy is to recognise any actuarial gains and losses in full immediately in the statement of comprehensive income.

Previously, under UK GAAP, the company's policy was to recognise a charge for its defined benefit pension schemes in arriving at operating profit.

**THE ISSUER**

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