SCOTTISH POWER UK PLC
ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2013

Registered No. SC117120

CONTENTS

Some of the statements contained herein are forward looking statements about Scottish Power UK plc and its subsidiaries, and Iberdrola S.A.'s strategic plans. Although Scottish Power UK plc and Iberdrola S.A. believe that the expectations reflected in such statements are reasonable, the statements are not guarantees as to future performance and undue reliance should not be placed on them.

STRATEGIC REPORT

The directors present an overview of Scottish Power UK plc's structure, 2013 performance, strategic objectives and plans.

SCOTTISH POWER UK PLC GROUP

STRATEGIC OUTLOOK AND 2013 PERFORMANCE

Scottish Power UK plc ("the company"), registered company number SC117120, principally acts as the holding company of the Scottish Power UK plc group ("the group"), whose activities comprise the generation, transmission and distribution of electricity, energy management and the supply of electricity and gas in the United Kingdom ("UK"). The four principal segments operated by the group during the year were Energy Networks, Energy Wholesale, Energy Retail and Renewables.

The company is a wholly owned subsidiary of Iberdrola S.A. ("Iberdrola"), one of the world's largest utility companies. The company's UK parent company is Scottish Power Limited which is the holding company of the Scottish Power Limited group ("ScottishPower").

The group's strategic objectives include:

- optimisation of both existing assets and future investments with the aim of maximising value;
- continuing to be a UK leader in renewable energy solutions;
- listening to customers and making improvements to service levels;
- helping customers become more energy efficient and find the best deal for them; and
- being socially aware and engaged in the community.

However, the environment within which the group continues to operate remains volatile, which makes future investment appraisal and strategic decisions within the group's businesses challenging.

The table below provides key financial information relating to the group's performance during the year. Further detail is provided in the individual segmental sections of the Strategic Report.

Financial key performance indicators ("KPIs")	Revenue*		Profit from operations*		Capital investment**	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
Scottish Power UK plc group	**8,230.7**	7,803.1	**706.1**	853.1	**1,273.6**	1,204.6

* The group's total revenue and profit from operations as presented on page 20.

** The group's total capital investment as presented in Note 6(d) on page 41.

In the financial period revenues have increased by £428 million, primarily as a result of increases within the Energy Retail and Energy Networks business segments. Profit from operations has decreased by £147 million, primarily driven by Energy Wholesale performance.

The group's continued commitment to the UK energy market is reflected by a capital spend of over £1.2 billion in both 2012 and 2013. Capital investment is focussed on the Energy Networks and Renewables segments.

ENERGY NETWORKS

SEGMENT DESCRIPTION AND OUTLOOK

Energy Networks owns three regulated electricity network businesses in the UK. These businesses are "asset-owner companies" holding the regulated assets and Electricity Distribution and Transmission Licenses of ScottishPower and are regulated monopolies. They own and operate the network of cables and power lines transporting electricity to around 3.5 million connected customers in the South of Scotland, Cheshire, Merseyside, North Shropshire and North Wales.

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

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

One of the regulated businesses, SP Transmission plc ("SPT") is a transmission network owner. The electricity transmission network consists of the high-voltage electricity wires that convey electricity from power stations to distribution system entry points or, in certain cases, direct to end-users' premises via a national network of high-voltage grids.

The other two regulated businesses are Distribution Network Operators ("DNO"); SP Distribution plc ("SPD") and SP Manweb plc ("SPM"). The electricity distribution networks are regional grids that transport electricity at a lower voltage from the national grids to industrial, commercial and domestic users.

All three regulated businesses are governed by The Office of Gas and Electricity Markets ("Ofgem") via regulatory price controls. Their prices have been so far controlled according to a five-year formula known as RPI-X. The regulator assesses the costs of an efficient network operator and the likely capital programme in order to calculate the return needed to meet a target return on capital. Various incentives have been added to the formula that also takes account of the Retail Prices Index (RPI) and any projected efficiency improvements (-X) in order to calculate the permissible revenues for the network.

This framework is being replaced by the new RIIO framework (Revenue = Incentives + Innovation + Outputs). RIIO is similar to RPI-X, but there are several important changes. These changes are to be applied over the next price reviews which will introduce regulatory periods of eight years (with a limited revision after four years), using a market index for setting the debt cost, and the introduction for electricity of an asset depreciation period of 45 years, replacing the 20 year period used under RPI-X. Under the RIIO framework, there will be a much greater emphasis on network companies playing a full role in developing a sustainable energy sector and delivering services that provide value for money for customers. A key feature is agreement

ENERGY NETWORKS *continued*

SEGMENT DESCRIPTION AND OUTLOOK *continued*

on the set of outputs that companies will be expected to deliver as part of the framework. The process for setting the controls has changed with a "fast-track" process designed to conclude the negotiation in advance for companies who submit business plans that are acceptable to Ofgem.

In the transmission business, SPT's control of RPI-X ended on 31 March 2013. SPT was fast-tracked in the RIIO process, and the new RIIO–T1 framework became effective from 1 April 2013. Distribution controls were adjusted under RPI-X on 1 April 2010 (DPCR5[1]). Its revision within the RIIO framework is underway, with a new control that will run from 1 April 2015 to 31 March 2023. Energy Networks submitted its business plans for its two distribution areas to Ofgem in 2013. However, these plans were not fast-tracked and a new plan was submitted to Ofgem in March 2014.

In line with the group's strategic objectives, and its regulatory obligations, Energy Networks is maintaining its significant investment in the UK energy network. Over the last ten years, the group has invested £5.5 billion in its transmission and distribution network, and during the next ten years, the group plans to invest a further £7 billion to modernise and improve service to customers.

The drive to modernise and improve service to customers, together with the age profile of Energy Network's employees and those of its contactors, means that almost 4,000 people will need to be recruited over the next ten years to support its activities and replace retirees. Energy Networks have carried out a review of their resourcing strategy and have already started on their plan to bridge the industry skills gap by investing in comprehensive training and development programmes. These training programmes include graduate trainees, engineering apprentices, craft apprentices and adult craft trainees. Energy Networks are also providing training to their craftspeople to widen their skills so that they can carry out a range of operational duties. During 2013 Energy Networks recruited 15 graduates, 13 Higher Skills Apprentices and 48 Craft Apprentices.

2013 OPERATIONAL PERFORMANCE

Financial key performance indicators	Revenue*		Profit from operations**		Capital investment***	
	2013 £m	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m
Energy Networks	**1,042.7**	969.2	**591.4**	601.9	**699.4**	629.0

* Segment total revenue as presented in Note 6(b) on pages 37 and 38.

** Segment profit from operations as presented in Note 6(c) on pages 39 and 40.

*** Segment capital investment as presented in Note 6(d) on page 41.

Energy Networks revenue increased by £74 million to £1,043 million in 2013. This was driven by increased allowable transmission revenues in SPT under RIIO-T1 and increased allowable distribution revenues, primarily from SPM, under DPCR5.

Whilst revenues increased, profit from operations decreased by £11 million to £591 million in 2013. The main reason for this was a revision to the estimated useful life of underground cable assets to 40 years and revised methodology for allocating indirect costs. Further details can be found in Note 2 of the Accounts on page 23.

Energy Network's capital investment increased by £70 million to £699 million in 2013, primarily in the Transmission business. SPT is playing a major role in the upgrade of the UK electricity grid, which is running close to maximum capacity. SPT has significant investment plans under RIIO-T1, to upgrade the transmission network. Projects contributing to the increase include the development of a new subsea High-Voltage Direct Current ("HDVC") 400km cable, part of a brand new interconnector running between Scotland and Wales. Other investment is associated with the connection of renewable generation and the bulk transfer of energy around the transmission system. These works are a combination of the construction of new equipment to create new capacity and upgrading of equipment to maximise the capacity available from the existing network.

The three regulated businesses within Energy Networks are required to prepare regulatory accounts for the years ending 31 March. Reporting of key performance indicators is aligned to the regulatory year end. Consequently, the latest available data for the last regulatory year for Energy Networks has been disclosed in the tables below, with the exception of distributed energy that is reported for the years ending 31 December.

Non-financial key performance indicators	Notes	2013	2012
Distributed energy (GWh)			
- SPD		**19,206**	19,483
- SPM		**16,113**	16,038
Customer interruptions	(a)		
- SPD		**51.6**	52.5
- SPM		**34.1**	36.0
Customer minutes lost	(b)		
- SPD		**45.7**	48.8
- SPM		**42.8**	43.6
Customer satisfaction	(c)		
- SPD		**7.8**	n/a
- SPM		**7.9**	n/a
Transmission operational performance			
Annual number of loss of supply incidents affecting more than three customers	(d)	**4**	7

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

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

(c) On 1 April 2012 Ofgem replaced the Telephony Response Measure with a broader measure of customer satisfaction that consists of three components; a customer satisfaction survey, complaints metric and stakeholder engagement. The rating is out of ten. Attached to the new measure are financial rewards and penalties related to DNO performance.

(d) Any event on the licensee's transmission system that causes electricity not to be supplied to more than three customers.

[1] Distribution Price Control Review 5 – the price control currently applicable to electricity DNO's, which runs from 1 April 2010 until 31 March 2015.

ENERGY NETWORKS *continued*

2013 OPERATIONAL PERFORMANCE *continued*

As highlighted in the table above, the operational effectiveness of the distribution network continued to improve in the year due to further investment being made to make the network more resilient. During the course of the year over £25 million was invested to refurbish or rebuild over 2,000 km of the 11 kilovolt ("kV") overhead line network. In addition £15 million was invested in tree cutting activities. Both of these investments have contributed significantly to the improving performance of distribution assets during storms.

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

ENERGY WHOLESALE

SEGMENT DESCRIPTION AND OUTLOOK

Energy Wholesale comprises two principal business functions: generation and energy management.

The generation business owns and operates more than 4,800 Megawatts ("MW") of generating capacity comprising coal, gas and hydro-electric generation assets, giving the business a flexible and balanced portfolio.

The Energy Management business is predominantly responsible for:

- the purchase of external supplies of coal, gas and emissions certificates for the generation of electricity;
- the purchase of external supplies of electricity and gas for onward sale to customers;
- the optimisation of gas storage; and
- the sale of electricity to market participants in the UK.

Energy Wholesale's operations are focused on managing the complex market conditions in relation to the operation of the group's generation asset base (except for those technologies managed by Renewables) and managing the group's exposure to the UK wholesale electricity and gas markets.

The regulatory environment under which Energy Wholesale operates is in the process of changing. It is anticipated that 2014 will bring further clarity over one of the most important regulatory reforms underway, the Electricity Market Reform[2] ("EMR") and specifically the introduction of the Capacity Market, which is designed to provide financial incentives to ensure that the UK has enough reliable electricity capacity to meet demand. The outcome of the EMR will be one of the important factors in making future strategic and long term investment decisions, including building new plant, as well as optimising the existing portfolio. Other considerations include the impact of the Carbon Price Support Rate tax ("Carbon tax") on the business, which is a tax levied by the UK Government on the fossil fuels used to generate electricity. Carbon tax has a significant impact on the UK's coal-fired power stations and therefore, policy development continues to be monitored.

2013 OPERATIONAL PERFORMANCE

Financial key performance indicators	Revenue*		Loss from operations**		Capital investment***	
	2013 £m	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m
Energy Wholesale	**5,731.3**	5,526.8	**(156.6)**	(1.6)	**73.3**	155.2

* Segment total revenue as presented in Note 6(b) on pages 37 and 38.

** Segment profit from operations as presented in Note 6(c) on pages 39 and 40.

*** Segment capital investment as presented in Note 6(d) on page 41.

Energy Wholesale revenue increased by £205 million to £5,731 million in 2013. This was mainly due to increased sales of gas to Energy Retail to meet higher 2013 requirements. These sales are offset by procurement costs, and therefore have a net nil impact on loss from operations.

Loss from operations increased by £155 million to £157 million in 2013. The main reasons for this are the introduction of the Carbon tax, a reduction in the allocation of free carbon dioxide ("CO_2") allowances under Phase III of the European Union ("EU") Emissions Trading Scheme which began in January 2013 and the recognition of an impairment charge of £82 million in 2013 in relation to the goodwill associated with Rye House Combined Cycle Gas Turbine ("CCGT") station, predominantly due to low spark spreads[3].

Energy Wholesale capital investment was £73 million in 2013, a reduction from 2012 of £82 million mainly as a result of reduced coal plant investment, following the completion of the flue-gas desulphurisation ("FGD") projects at Longannet power station, and the transfer of purchased allowances to inventories following the implementation of Phase III of the EU Emissions Trading Scheme on 1st January 2013 (Refer to Note 3l).

[2] Electricity Market Reform is a government initiative to ensure the UK remains a leading destination for investment in low-carbon electricity in an environment of ageing energy infrastructure and growing electricity demand.

[3] The theoretical gross margin of a gas-fired power plant from selling a unit of electricity.

ENERGY WHOLESALE *continued*

2013 OPERATIONAL PERFORMANCE *continued*

Non-financial key performance indicators	Notes	2013	2012
Plant output (GWh)	(a)		
- Coal		**10,108**	11,214
- CCGT		**6,031**	4,429
- CHP	(b)	**73**	94
- Hydro and Other		**655**	689
		16,867	16,426
Generating capacity (MW)	(c)		
- Coal		**2,304**	3,456
- CCGT		**1,915**	1,915
- CHP	(b)	**83**	102
- Hydro and Other		**563**	563
		4,865	6,036
Availability	(d)	**72%**	73%

(a) Plant output is a reflection of the electricity generated by the business, measured in gigawatt-hours ("GWh").
(b) CHP is defined as Combined Heat and Power plants.
(c) Generating capacity is the maximum output per second that generating equipment can supply to system load, adjusted for ambient conditions.
(d) Availability is the percentage of the year that the plant is available for use.

As part of a pre-agreed decommissioning programme with National Grid, Cockenzie power station in East Lothian closed on 15 March 2013, thus reducing Energy Wholesale's coal generating capacity by 1,152 MW and contributing to the reduction in coal plant output in 2013. The station was granted 40,000 hours of operation when it was opted out of the EU's Large Combustion Plant Directive ("LCPD") in 2008.

ENERGY RETAIL

SEGMENT DESCRIPTION AND OUTLOOK

Energy Retail is responsible for the supply of electricity and gas to 5.7 million domestic and business customers throughout Great Britain, as well as providing customer services such as customer registration, billing and receipting processes and handling enquiries in respect of these services. Energy Retail is also responsible for the associated metering activity and managing the group's Energy Services activities.

Energy Retail remains focussed on improving customer service, which will be enhanced by the embedding of a new customer relationship management ("CRM") system, which will tailor the approach to dealing with individual customers and deliver cost efficiencies. Customer service will be further enhanced by the roll-out of smart meters to retail customers, in line with UK Government policy; the aim being that smart meters will provide customers with greater visibility over their energy consumption. Smart metering represents the biggest investment programme undertaken by Energy Retail in recent times.

The delivery of energy efficiency measures continues to be an important part of Energy Retail. 2013 was the first year of the Government's new Energy Company Obligation ("ECO") that replaced the previous Carbon Emissions Reduction Target ("CERT") and Community Energy Saving Programme ("CESP") obligations. The ECO scheme again focuses on reducing heating costs for the most vulnerable customers, but also aims to improve the energy efficiency of harder to heat properties. The Government is currently undertaking a review of the ECO programme to ensure it balances the need to deliver efficiencies with pressure on customer bills. Energy Retail also supports vulnerable customers through the Warm Home Discount scheme ("WHD") under which it provides an annual discount on electricity bills to specific groups of customers.

As well as delivering the WHD, a package of commitments is offered to customers to protect them through the winter period. These commitments include:

- extension of the WHD to other vulnerable customer groups;
- no winter disconnections;
- free insulation and heating measures for qualifying customers;
- a winter debt recovery break for the most vulnerable prepayment customers;
- availability of a fixed tariff through to 31 December 2016; and
- a written estimated saving quote sent to all quarterly credit customers (this has already helped around 30,000 customers reduce their bills over the last two years).

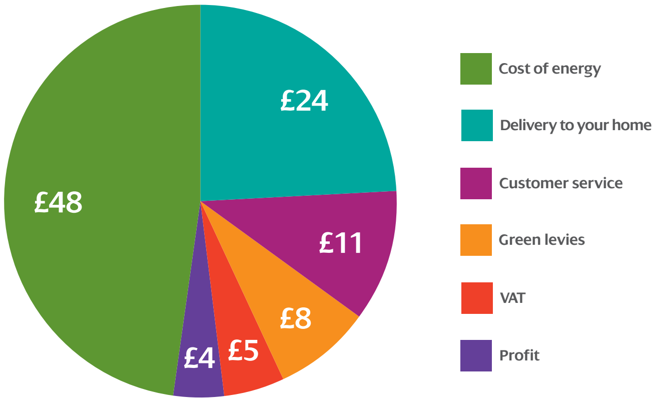
Energy Retail remains fully engaged in Ofgem's proposals for the Retail Market Review[4] ("RMR"). The main objectives of the RMR are simpler tariff choices, clearer information and fairer treatment for customers. In conjunction with these objectives the chart overleaf has been developed to help customers obtain a fuller understanding of how the different types of costs are reflected in their energy bill.

[4] Retail Market Review is a government initiative to make the UK energy market simpler, clearer and fairer for consumers.

ENERGY RETAIL *continued*

SEGMENT DESCRIPTION AND OUTLOOK *continued*

Breakdown of costs for a typical £100 monthly energy bill in 2014^



^ This breakdown is an estimate of typical costs for customers in 2014 based on an average of all the group's domestic dual fuel customers across Great Britain covering all payment methods using Ofgem's current typical annual consumption values (gas usage of 13,500 kWh and standard rate electricity usage of 3,200 kWh). This excludes the new government funded universal rebate of £12.

2013 OPERATIONAL PERFORMANCE

Financial key performance indicators	Revenue*		Profit from operations**		Capital investment***	
	2013 £m	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m
Energy Retail	**4,133.3**	3,818.2	**164.4**	169.5	**49.3**	142.7

* Segment total revenue as presented in Note 6(b) on pages 37 and 38.

** Segment profit from operations as presented in Note 6(c) on pages 39 and 40.

*** Segment capital investment as presented in Note 6(d) on page 41.

Energy Retail revenue increased by £315 million to £4,133 million in 2013. This was driven by higher customer gas consumption as a result of colder than normal weather in the first quarter of 2013, an 86,000 increase in customer numbers (mainly in gas) and, following upward cost pressures, customer price increases on 3 December 2012 (7.0%[5]) and on 7 December 2013 (8.6%[5]). It should be noted, however, that from 31 January 2014, standard tariffs were decreased by 3.3% for an average dual fuel customer.

Whilst revenue increased, profit from operations decreased by £5 million to £164 million in 2013 principally due to higher energy procurement costs, mainly gas, increased costs of delivering gas and electricity to customers' homes through the gas and electricity transmission and distribution networks and increases in the cost of government economic and social initiatives.

The majority of the programming work on Energy Retail's new CRM system was completed in 2012 resulting in capital investment decreasing by £93 million to £49 million in 2013.

Non-financial key performance indicators	Note	2013	2012
Volume supplied (GWh)		**58,477**	55,107
Complaints handing	(a)	**2nd**	3rd
Customers (millions)			
- Electricity		**3.4**	3.4
- Gas		**2.3**	2.2
		5.7	5.6

(a) Based on the Consumer Futures Complaints Handling Report. Ranking reflects the group's position relative to other 'Big 6' Energy Companies and is based on a balanced scorecard considering Citizen's Advice, Consumer Futures and Energy Ombudsman referrals and complaints.

The improvement in complaints handling is illustrative of the group's continual focus on customer service and commitment to treat customers fairly.

[5] Percentage increase for an average dual fuel customer.

RENEWABLES

SEGMENT DESCRIPTION AND OUTLOOK

Renewables is responsible for the origination, development, construction and operation of renewable energy generation plants, predominantly onshore wind, with a large and growing presence in offshore wind, and the exploration of emerging renewable technologies such as tidal stream and wave.

Renewables has a successful track record as a developer of onshore wind farms with a conversion rate of MW from planning to consent of over 90% and is the leading operator of onshore wind farms in the UK with an installed capacity of 1,477 MW at 31 December 2013.

Renewables is a leading developer of offshore wind with 389 MW currently under construction in the East Irish Sea as part of a 50/50 joint arrangement with DONG Energy Limited and a further 7,200 MW of development rights in the East Anglia Zone as part of a 50/50 joint arrangement with Vattenfall Wind Power Limited. The first 1,200 MW project in East Anglia is in the latter stages of the planning process and is awaiting a planning decision in 2014.

Following detailed technical and environmental site studies, Renewables has decided not to take up a lease option to develop the Argyll Array offshore wind farm in the near future. Renewables has been working on the Argyll Array project since 2009 and has thoroughly reviewed the project over the last twelve months in order to evaluate its viability. On the basis of these findings, a decision not to progress has been taken by both Renewables and The Crown Estate (Refer to Note 8(b), footnote (iv)).

In 2013, Renewables have seen increased focus on the cost of renewable energy, including the costs of meeting the EU 2020 renewable targets and the Government's longer term carbon reduction targets. Renewables have actively engaged in the consultation process on the Delivery Plan and Implementation of EMR as outlined in the Department of Energy and Climate Change's ("DECC") consultation documents issued in July 2013 and October 2013 respectively. The Renewable Obligation ("RO") Banding Review was completed in 2012. As a result, onshore wind was subject to a further call for evidence, which concluded in June 2013, that the level of RO certificates received per Megawatt hour ("MWh") shall remain unchanged. The RO will continue to accept accreditation from new projects until its closure on 31 March 2017. In parallel with this process, EMR has advanced Feed In Tariff ("FIT"), and Contracts for Difference ("CfD") are due to be introduced in 2014. Since Renewables intends to accredit projects under the RO until its expiry in 2017, in the short term, EMR will have no impact.

2013 OPERATIONAL PERFORMANCE

Financial key performance indicators	Revenue*		Profit from operations**		Capital investment***	
	2013 £m	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m
Renewables	**281.3**	213.7	**106.9**	63.8	**424.1**	263.4

* Segment total revenue as presented in Note 6(b) on pages 37 and 38.

** Segment profit from operations as presented in Note 6(c) on pages 39 and 40.

*** Segment capital investment as presented in Note 6(d) on page 41.

Renewables revenue increased by £68 million to £281 million in 2013 due primarily to electricity output which increased by 23% to 2,794 GWh. Growth in output was driven by a 16% increase in average operating capacity as well as by average wind speeds during the year.

Increased revenues have been partly offset by higher wind farm operating and maintenance costs as well as by increased depreciation from a larger operational asset base. As a result, profit from operations increased by £43 million to £107 million in 2013.

Capital investment increased by £161 million to £424 million in 2013. The increase is related mainly to the construction of the West of Duddon Sands offshore wind farm. The project will comprise 108 wind turbines with a total installed capacity of 389 MW and will ensure clean renewable energy for around 280,000 UK households. During 2013, an extension to the Whitelee onshore wind farm in East Ayrshire was completed and the construction of an onshore wind farm at Harestanes in Dumfries and Galloway commenced. Capital investment is expected to reduce in 2014 as the construction at West of Duddon Sands reaches completion.

Non-financial key performance indicators	Notes	2013	2012
Plant output (GWh)	(a)	**2,794**	2,277
Installed capacity (MW)	(b)	**1,477**	1,239
Availability	(c)	**97%**	97%

(a) Plant output is a measure of the electrical output generated in the year, which in turn drives the revenues of the business.

(b) Installed capacity represents the total number of MW fully installed within the wind farm sites. This includes all turbines erected irrespective of whether they are generating or not.

(c) Availability is a measure of how effective the business is at ensuring wind generating plant is available and ready to generate.

LIQUIDITY AND CASH MANAGEMENT

Cash and net debt

Net cash flows from operating activities decreased by £179 million to £1,148 million for the year. As detailed in the table below, net debt increased to £4,213 million, principally due to the increase in capital expenditure over the year and the payment of dividends to the parent company. The movement in net debt comprised a decrease in external debt of £11 million and an increase in cash and short term deposits of £23 million. Group loans payable increased by £412 million and group loans receivable were reduced by £378 million.

Analysis of net debt	Notes	2013 £m	2012 £m
Cash and short term deposits	(a)	**53.6**	30.8
Group loans receivable	(b)	**1,860.7**	2,238.6
Group loans payable	(c)	**(4,180.2)**	(3,768.5)
External loans payable	(d)	**(1,947.3)**	(1,958.1)
Net debt		**(4,213.2)**	(3,457.2)

(a) As detailed on the consolidated balance sheet, refer to page 18.
(b) Loans due Iberdrola from group companies, refer to Note 10 on page 49.
(c) Loans with Iberdrola S.A. and other related Iberdrola group companies, refer to Note 18 on page 57.
(d) External loans payable comprises external debt, as detailed in Note 18 on page 57.

Capital and debt structure

The company is funded by a combination of debt and equity. All equity is held by Scottish Power UK Holdings Limited ("SPUKH"). The group's cash management and short-term financing activity is integrated with Iberdrola's. These activities resulted in the increase in net debt as noted above being financed predominantly by group loans. The group's financing structure is determined by its position in the wider Iberdrola group. The Iberdrola Group objective is to retain sufficient liquid resources and facilities to cover anticipated cash flow requirements for a period in excess of twelve months; liquidity at 31 December 2013 was in excess of €10.7 billion, which can be utilised, if required, to fund the group's activities. The company holds investment grade ratings with Moody's Investor Services (Baa1) and Standard & Poor's Rating Services (BBB). These ratings were both reaffirmed during the course of 2013 and early 2014. Details of the group's financial risk management policy are set out at Note 4.

TAXES AND OTHER GOVERNMENT OBLIGATIONS

To help give an understanding of the group's contribution to UK taxes and other government obligations, the following table has been provided, highlighting the key taxes and other obligations in the financial year, on an accruals and cash basis.

Analysis of taxes and other government obligations	Notes	Income statement expense 2013 £m	Income statement expense 2012 £m	Cash tax paid in the year 2013 £m	Cash tax paid in the year 2012 £m
Carbon tax	(a)	**34.3**	–	**30.8**	–
Social security costs	(b)	**25.9**	25.3	**26.7**	25.4
Taxes other than income taxes	(c)	**253.5**	287.3	**282.9**	249.8
UK Corporation Tax	(d)	**122.1**	151.8	**136.3**	51.5
		435.8	464.4	**476.7**	326.7

(a) Carbon tax is a tax levied by the UK Government on the fossil fuels used to generate electricity. This is included within 'Procurements' in the income statement.
(b) Social security costs as presented in Note 23 on page 59.
(c) Taxes other than income taxes as presented in Note 24 on page 60.
(d) UK Corporation Tax as presented in Note 28 on page 61. Corporation tax payments for Scottish Power UK plc and its subsidiaries are remitted to HMRC by Scottish Power Limited on behalf of each company within the group. The cash flows disclosed above are the cash flows between the companies in the Scottish Power UK plc group and Scottish Power Limited company and do not reflect the external taxes remitted to HMRC on behalf of the group for years ended 31 December 2013 and 2012.

HEALTH AND SAFETY

The prevention of harm to employees, contractors and members of the public, and the protection of business assets and operational capability, is a top priority for the group. The organisation has continued to strive for improved performance and both internal and external assessments have again returned positive findings. The main business areas within the group maintained OHSAS 18001 Health and Safety Management System accreditation. The group's annual employee accident and incident statistics have remained positive during 2013. Ten of the twelve employee lost time accidents were required to be reported to the Health and Safety Executive ("HSE") under The Reporting of Injuries, Diseases and Dangerous Occurrences Regulations ("RIDDOR"). The commitment to investigate accidents and incidents to address root causes remains steadfast and is given the highest priority with panels of inquiry being established whenever there is a significant incident. The table below provides the occurrence of lost time accidents in each operating segment.

Loss time accidents*	2013	2012
Energy Networks	**6**	5
Energy Wholesale	**3**	–
Energy Retail	**3**	5
Renewables	**–**	–
	12	10

* Number of accidents on the job resulting in the loss of at least a day's work.

Provision of public safety information and education about electricity safety has continued through delivery of a mixture of internet, community and school teaching programmes. As well as delivering safety education in schools. The group provides electrical safety information advice to groups that are at a high risk of coming into contact with apparatus on the electricity network, including agricultural and construction workers.

PRINCIPAL RISKS AND UNCERTAINTIES

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

During 2013, the governance structure was supported by risk policies approved by the Board of Directors of Iberdrola and adopted by the Board of Directors of Scottish Power Limited ("the Scottish Power Board"). ScottishPower's business risk assessment team and independent group Risk Management function supported the Board in the execution of due diligence and risk management. In addition, ScottishPower is represented at the Iberdrola Risk Management Committee to ensure that the business risks are adequately assessed, monitored, mitigated and managed. Further details of ScottishPower's governance structure and risk management are provided in Note 4 to the Accounts.

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

SCOTTISHPOWER – GLOBAL

RISK	RESPONSE
A major health and safety incident in the course of operations could impact staff, contractors, communities or the environment.	ScottishPower's Health and Safety function provides specialist services and support for the businesses in relation to health and safety. A comprehensive framework of health and safety policy and procedures, alongside audit programmes, is established throughout ScottishPower, which aim to ensure not only continuing legal compliance but also drive towards best practice in all levels of its health and safety operations.
Material deterioration in the relatively stable and predictable UK regulatory and political environment.	Positive and transparent engagement with all appropriate stakeholders to ensure that long-term regulatory stability and political consensus is maintained and necessary public backing is secured for much needed investment in the UK energy system.

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

ENERGY NETWORKS

RISK	RESPONSE
Regulatory uncertainty over future distribution cash flows until RIIO-ED1 price control is concluded in 2014/15.	Mitigating actions include engaging constructively with the regulator; participation in all working groups; use of a dedicated team of internal staff and external advisers working on the business plan; strong executive oversight; and a manager appointed to improve stakeholder engagement. The business plan was submitted in March 2014 with final proposals from Ofgem expected in November 2014.
Failure to deliver the Distribution and Transmission outputs agreed with the regulator in their respective price controls.	Mitigating actions include formulating detailed investment, resource, outage and contingency plans supported by an extensive procurement strategy. Good communication and co-ordination of activities across the business is integral to success, complemented by a comprehensive monitoring regime that provides early warning of potential issues.

ENERGY WHOLESALE

RISK	RESPONSE
Adverse wholesale price movements and reduced energy market liquidity, adversely affecting the returns from generation assets.	Trading activity to secure value of assets and deliver return based on expected price movements, and providing support to Ofgem initiatives to stimulate liquidity.
The potential for plant performance issues reducing availability.	Technical assessments of key risk areas of operational performance, an optimised approach to repairs and maintenance and plans specific to each plant.
Ageing generation plant and the requirement to meet decarbonisation plans.	Co-ordinated activities across commercial, technical and investment decision-making teams to ensure plant performance is optimised in meeting decarbonisation targets.

ENERGY RETAIL

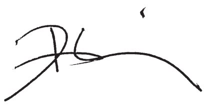
RISK	RESPONSE
Reduction in margins as a result of reduced market share, unfavourable wholesale energy costs and increasing non-energy costs.	Mitigating actions include a continued focus on creating innovative, competitive products that complement current offerings whilst continuing to enhance customer relationships.
If not properly implemented RMR could potentially impact pricing, market liquidity, customer engagement, regulatory compliance and behavioural standards and are likely to require substantial change to strategy.	Engage constructively with stakeholders to ensure that proposals arising from the review are practicable. Reporting and steering groups in place to improve visibility and monitor project progress.
The potential for non-completion of the ECO scheme which carries with it potential fines.	Reporting and steering groups in place to improve visibility and monitor project progress. Delivery split between contractors and strategic relationships to promote efficiency of delivery.
The potential for non-compliance with the UK Government's mandate to complete the roll-out of smart metering to customers in accordance with prescribed timescales.	Dedicated project team focussed on ensuring adequate business processes and systems are developed. The team is responsible for ensuring the roll-out capability is secured to enable deployment of meters. Energy Retail is an active participant in industry bodies responsible for developing smart metering technology and capability across the UK.

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

RENEWABLES

RISK	RESPONSE
Renewables energy policy and new allocation risk resulting from EMR.	The UK Government continues to affirm its intention to meet EU renewables targets and Renewables has implemented mitigating actions to reduce allocation risk, including supporting the Government to ensure any scheme is practicable. In addition to this there is representation on key expert groups.
Potential initiatives to reduce delivery costs and secure the UK supply chain making it more difficult to carry out new investment.	Industry wide initiatives being undertaken along with more informed competitor intelligence.
Failure to deliver large and complex offshore projects.	Delivery experience from large and complex construction programmes across the business, including West of Duddon Sands, as well as ongoing dialogue with stakeholders and significant resources placed at key stages within projects.
The slow and complex nature of the onshore planning process.	Greater degree of engagement at national and local government level as well as significant investment of time in working with local community stakeholder groups.

ON BEHALF OF THE BOARD



Daniel Alcain Lopez
Director
16 April 2014

DIRECTORS' REPORT

The directors present their report and audited Accounts for the year ended 31 December 2013.

INFORMATION CONTAINED WITHIN THE STRATEGIC REPORT

The directors have chosen to disclose information on the following, required by the Companies Act 2006 to be included in the Directors' Report, within the Strategic Report, found on pages 1 to 10:

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

RESULTS AND DIVIDEND

The net profit for the year attributable to the equity holders of the parent amounted to £539.7 million (2012 £612.9 million (as restated)). A dividend of £600.0 million was paid during the year (2012 nil).

TAXATION

In 2011, the Board of Directors of Iberdrola S.A., approved a 'Good Tax Practices Policy', part of the company's corporate governance system, to be implemented worldwide in companies that are part of the Iberdrola Group.

The group are responsible tax payers. Companies in the group seek to be open, honest and transparent in dealings with the tax authorities and to comply with both the letter and the spirit of tax laws set by the Government. ScottishPower, and so the group, remits taxes due on a timely basis, and has a relationship with HM Revenue and Customs based on mutual trust and cooperation.

In common with other businesses, companies in the group take advantage of available reliefs and concessions, many of which are designed to encourage activities or practices that the Government believes are beneficial to the national economy. Generation, transmission and distribution of electricity require significant investment in property, plant and equipment and the group benefits from reliefs that allow a greater proportion of the capital costs of these items to be expensed in the calculation of taxable profit in earlier years of operation. This has no effect on the total amount of Corporation Tax payable during the life of the asset, but it results in lower tax payments initially.

Further details on taxes and other government obligations can be found in the Strategic Report on page 7.

RESEARCH AND DEVELOPMENT

ScottishPower, and so the group, is aware of the importance of innovation to develop an industrial project at the vanguard of the sector. ScottishPower's research and development ("R&D") efforts are aimed at the optimisation of operational performance, improving security and reducing the environmental impact of its activities. All R&D is developed as part of Iberdrola's global open and decentralised R&D model.

ScottishPower's main areas of development during the past year have been focused on the renewables offshore development, smart grids roll-out and the increase in network performance and availability. During the year ended 31 December 2013 R&D effort (expenditure and investment) was £43.3 million. Detailed information in relation to ScottishPower's wider R&D activities can be found in the Iberdrola Innovation Report. The report for 2011-13 can be accessed via the 'Innovation' section of www.iberdrola.com.

ENVIRONMENTAL MANAGEMENT AND REGULATION

Throughout its operations, ScottishPower, and so the group, strives to meet, or exceed, relevant legislative and regulatory environmental requirements and codes of practice. ScottishPower's businesses have environmental systems in accordance with ISO 14001:2004, including fully accredited systems within Energy Wholesale and Energy Networks. The environmental activities of ScottishPower are governed within the Iberdrola Global Environmental Management Model.

Detailed information on ScottishPower's approach to environmental management and performance for 2013 can be found in the Iberdrola Sustainability Report that can be accessed via the 'Shareholders and Investors' section of www.iberdrola.com.

Further information on applicable environmental regulations is available on request from the Company Secretary.

EMPLOYEES

The group had 7,102 employees as at 31 December 2013. Of these, 2,910 were employed in Energy Networks, 647 in Energy Wholesale, 2,552 in Energy Retail and 221 in Renewables, with the remaining employed in corporate services. Refer to Note 23(b) for further details on employees.

Employment regulation

ScottishPower has well-defined policies in place throughout its businesses to ensure compliance with applicable laws and related codes of practice. These policies cover a wide range of employment issues such as disciplinary, grievance, harassment, discrimination, stress, anti-bribery and '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).

EMPLOYEES *continued*

Employee consultation

Regular consultation takes place on key business initiatives or 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. In addition, work on employee engagement is paying dividends with another strong year in terms of "Loop Survey"[1] results. In 2013, ScottishPower's focus was taking action based on the outputs of this survey as well as embedding some elements of "The Deal"[1]. 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 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 group workplace policy and performance can be found in the 'Corporate Governance' section of 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 that encourage the full participation of people with disabilities, which may be achieved through activities such as: making adjustments and/or adaptations to premises; enabling access to the full range of recruitment and career opportunities including the provision of specialist training; and the retention of existing staff who are affected by disability, through rehabilitation, training and reassignment. ScottishPower also works with support organisations, such as Business Disability Forum, which provide support, guidance and sharing of best practice to enable companies to become disability confident.

Positive about disabled people - Double tick accreditation

ScottishPower is a disability positive organisation and in April 2013 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.

COMMUNITY RELATIONSHIPS

Community relationships

Building the trust of communities has been part of ScottishPower's core values for many years. ScottishPower has a significant presence in many communities – with power stations and substations, offices and overhead lines, along with meters in several million homes and businesses. It aims to conduct its activities responsibly, in a way that is considerate to local communities and makes a positive contribution to society.

Community consultation

ScottishPower engages with communities across its operations, where new and modernising developments are planned. The key areas where ScottishPower's business impacts upon the community include the siting of new facilities, the presence of distribution and transmission lines and routine maintenance and upkeep work. ScottishPower takes a proactive approach to providing good information from pre-planning through to construction. It maintains strong relationships with local communities by working with community groups, elected representatives, interest groups and individuals ensuring that those affected by the work are aware of what's happening in their area in advance, allowing communities to have their say.

A variety of methods of consultation are used to keep in touch with the needs and concerns of the communities potentially affected. ScottishPower's community consultation processes include representation at community meetings, presentations and forums. ScottishPower's power stations host visits from community groups, maintain a number of visitor centres and run Local Liaison Committees which provide a forum for discussion between local management teams and community representatives.

Many of ScottishPower's assets, such as wind farms and pylons, are situated on land not owned by ScottishPower, therefore it is important that effective policies are in place to ensure that the safety and integrity of the plant is maintained, while respecting the needs of the landowner, the local community and the general public. Energy Networks and those working on its behalf adhere to a Grantors Charter which sets out guidance of commitment to grantors and has been prepared in consultation with key stakeholders.

Investing in the community

ScottishPower has a long track record of supporting communities not only financially, but also by sharing its resources and the skills of its employees. ScottishPower promotes payroll giving and encourages employee development through volunteering and community based programmes.

ScottishPower uses the London Benchmarking Group ("LBG") model to evaluate its community investment activity. The model is used by hundreds of leading businesses around the world and provides a comprehensive and consistent set of measures for companies to determine their contributions to the community.

During the year ended 31 December 2013, ScottishPower contributed £6.5 million in community support activity of which £3.3 million was contributed to registered charitable organisations. The £6.5 million total incorporated £0.1 million categorised as charitable gifts, £4.0 million categorised as community investment and £2.4 million categorised as commercial initiatives; given in cash, through staff time and in-kind donations.

These figures are compiled from ScottishPower's Community Investment Database, which is submitted annually in a return to LBG. The figures provided above will form part of the company's 2013 return and have not yet been audited by LBG.

[1] The "Loop Survey" and "The Deal" are internal employee relations initiatives.

COMMUNITY RELATIONSHIPS *continued*

ScottishPower Foundation

In 2013, ScottishPower established the ScottishPower Foundation to reinforce ScottishPower's commitment to charitable work throughout the UK. ScottishPower Foundation is a registered Scottish charity (SC043862) and a company limited by guarantee (SC445116). Registered Office: 1 Atlantic Quay, Glasgow G2 8SP. It provides funds to support charitable initiatives that promote the advancement of education, environmental protection, citizenship and community development, arts, culture and science as well as the prevention of poverty or disadvantage.

POLITICAL DONATIONS AND EXPENDITURE

The group is a politically neutral organisation. It is subject to the Political Parties, Elections and Referendums Act 2000, which defines political "donations" and "expenditure" in wider terms than would be commonly understood by these phrases. During the year ended 31 December 2013, The group paid a total of £20,000 for the sponsorship of conferences and events – activities that may be regarded as falling within the terms of the Act.

The recipients of these payments were:

- The Conservative Party £7,000
- The Labour Party £7,000
- The Scottish National Party £6,000

The group was represented at all the major UK political party conferences in 2013, and sponsored receptions at the conferences of the above parties. These occasions provide an important opportunity for the group to represent its views on a non-partisan basis to politicians from across the political spectrum. The payments do not indicate support for any particular party.

CORPORATE GOVERNANCE

The ultimate parent of the company is Iberdrola S.A., which is listed on the Madrid stock exchange.

As a general guiding principle, the group adopts the principles and rules contained in the most widely recognised good governance recommendations and, in particular, has taken as a reference the Uniform Good Governance Code for Listed Companies approved by the National Securities Market Commission of Spain.

Administrative, management and supervisory bodies

Board and management meetings

The company is governed by a Board, consisting of three directors who bring a broad range of skills and experience to the company. All are full-time employees of the Iberdrola group.

The directors of the company are subject to annual evaluation of their performance in respect of their executive responsibilities as part of the performance management system which is in place throughout ScottishPower.

The Co-ordination Committee ensures executive focus on coordinating the activities of ScottishPower.

The Co-ordination Committee meets fortnightly and receives regular information on the activities of ScottishPower in order to support the corporate functions and lines of business in understanding the local, legal, regulatory and market specifics in the UK and assist the Chief Corporate Officer ("CCO") in the performance of his duties. The Co-ordination Committee reports to the ScottishPower Board and currently comprises the following executives: the CCO (who is also Chief Executive Officer ("CEO") of the Renewables business), the directors of Finance, Regulation, Human Resources ("HR"), Communications, the CEO of the Liberalised Business, the CEO of the Regulated Business, the CEO of the Renewables business and the Head of Legal.

The Boards of Scottish Power Energy Networks Holdings Limited ("SPENH"), Scottish Power Generation Holdings Limited ("SPGH") and Scottish Power Renewable Energy Limited ("SPREL") are responsible for the effective management of the Regulated (Energy Networks), Liberalised (Energy Wholesale and Energy Retail) and Renewables businesses respectively, in accordance with the strategy set by the ScottishPower Board. These Boards meet regularly and review strategy, operational performance and risk issues on behalf of the respective business.

SPENH Board

The SPENH Board comprises the Chairman Javier Villalba Sanchez and six other directors. The directors and their attendance at SPENH Board meetings held during the period under review (five meetings) are shown in the table below:

Javier Villalba Sanchez (Chairman)	Attended all meetings
Frank Mitchell (Chief Executive Officer)	Attended all meetings
Nicola Connelly	Attended all meetings
Antonio Espinosa de los Monteros	Attended all meetings
José Izaguirre Nazar	Attended four meetings
Scott Mathieson	Attended four meetings
Dame Denise Holt (Independent non-executive director)	Attended three meetings

Professor Sir James McDonald was appointed to the SPENH Board as an Independent non-executive director on 31 March 2014.

CORPORATE GOVERNANCE *continued*

SPGH Board

The SPGH Board comprises the Chairman Francisco Martínez Córcoles and seven other directors. The directors and their attendance at SPGH Board meetings held during the period under review (five meetings) are shown in the table below:

Francisco Martínez Córcoles (Chairman)	Attended four meetings
Neil Clitheroe (Chief Executive Officer)	Attended all meetings
Heather Chalmers	Attended all meetings
Ángel Chiarri Toscano	Attended all meetings
Hugh Finlay	Attended four meetings
Oscar Fortis Pita	Attended all meetings
Aitor Moso Raigoso	Attended all meetings
Félix Rojo Sevillano	Attended all meetings

SPREL Board

The SPREL Boards comprises the Chairman Xabier Viteri and four other directors. The directors and their attendance at SPREL board meetings held during the period under review (five meetings) are shown in the table below:

Xabier Viteri (Chairman)	Attended all meetings
Keith Anderson (Chief Executive Officer)	Attended all meetings
Jonathan Cole	Attended all meetings
Pablo Canales Abaitua	Attended all meetings
Javier Garcia de Fuentes	Attended all meetings

Non-executive oversight is provided at ScottishPower group level by the ScottishPower Board.

ScottishPower Board

The ScottishPower Board comprises the Chairman José Ignacio Sánchez Galán and eight other directors. José Ignacio Sánchez Galán is also the Chairman and Chief Executive Officer of Iberdrola.

The directors of Scottish Power Limited and their classifications are shown in the table below:

José Ignacio Sánchez Galán (Chairman)	Non-independent, non-executive director
Lord Kerr of Kinlochard GCMG (Vice Chairman)	Independent, non-executive director
José Miguel Alcolea Cantos	Non-independent, non-executive director
Keith Anderson	Executive director
Professor Susan Deacon	Independent non-executive director
Sir Tom Farmer CVO CBE KCSG	Independent non-executive director
Rt Hon Lord Macdonald of Tradeston CBE	Independent non-executive director
Juan Carlos Rebollo Liceaga	Non-independent, non-executive director
José Sainz Armada	Non-independent, non-executive director

ScottishPower Board meetings were held on six occasions during the period under review. Attendance by the directors was as follows:

José Ignacio Sánchez Galán (Chairman)	Attended five meetings
Lord Kerr of Kinlochard GCMG (Vice Chairman)	Attended all meetings
José Miguel Alcolea Cantos	Attended all meetings
Keith Anderson	Attended all meeting
Professor Susan Deacon	Attended all meetings
Sir Tom Farmer CVO CBE KCSG	Attended five meetings
Rt Hon Lord Macdonald of Tradeston CBE	Attended five meetings
Juan Carlos Rebollo Liceaga	Attended all meetings
José Sainz Armada	Attended all meetings

There is no designated Senior Independent Director on the ScottishPower Board.

CORPORATE GOVERNANCE *continued*

ScottishPower Audit and Compliance Committee ("ACC")

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

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

The ACC comprises three members. The Chairman of the ACC has relevant accounting and financial experience, and there is one independent member on the ACC as indicated in the table below.

The ACC met five times during the year under review. The members of the ACC and their attendance record are shown in the table below:

Rt Hon Lord Macdonald of Tradeston CBE (Chairman)	External independent, attended all meetings
Professor Susan Deacon	External independent, attended all meetings
Juan Carlos Rebollo Liceaga	Executive director, attended four meetings

Iberdrola Appointments and Remuneration Committee ("IARC")

There is no separate Appointments Committee or Remuneration Committee within ScottishPower. Instead appointment and remuneration matters relevant to ScottishPower are dealt with by the IARC. The members of the IARC are:

Inés Macho Stadler (Chairman)	External independent
Iñigo Victor de Oriol Ibarra	External independent
Santiago Martínez Lage	External independent

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

Internal control

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

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

ScottishPower has fraud and anti-bribery policies and procedures in place to ensure that all incidences of fraud and bribery are appropriately investigated and reported. Further, ScottishPower has adopted a revised Speaking Out and Whistleblower Protection Policy, incorporating a confidential external reporting service operated by an independent provider. This policy, which is applicable to employees of the company, covers the reporting and investigation of suspected fraud, bribery, and misappropriation, questionable accounting, financial reporting or auditing matters, breaches of internal financial control procedures, and serious breaches of behaviour and ethical principles. There is also a process in existence within ScottishPower whereby all members of staff may report any financial irregularities to the Audit and Risk Supervision Committee of Iberdrola.

Identification and evaluation of risks and control objectives

During the year under review the ScottishPower governance structure was supported by risk policies adopted by the ScottishPower Board. These risk policies are adopted by the ScottishPower Board on an annual basis. ScottishPower business risk assessment teams and the independent group risk management function support the ScottishPower Board in the execution of due diligence and risk management. In addition, the SPENH, SPGH and SPREL Boards are responsible for ensuring that their respective businesses' risks are adequately assessed, monitored, mitigated and managed.

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

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

CORPORATE GOVERNANCE *continued*

Auditor independence

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

Where the work to be undertaken is of a nature that is generally considered reasonable to be completed by the external auditors for sound commercial and practical reasons, including confidentiality, the conduct of such work is permissible provided that it has been pre-approved by the ScottishPower Board.

Social, environmental and ethical matters

Social, environmental and ethical ("SEE") matters are managed through the risk management framework and internal control system within the group. As such, regular account is taken of the strategic significance of SEE matters to the group, and the risks and opportunities arising from these issues that may have an impact on the group's short-term and long-term values are considered.

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

DIRECTORS

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

Daniel Alcain Lopez
Marion Venman
Donald Wright

DIRECTORS' RESPONSIBILITIES FOR THE ACCOUNTS

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

The directors are responsible for preparing Accounts for each financial period that give a true and fair view, in accordance with IFRSs, of the state of affairs of the company and the group and of the profit or loss of the group 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 parent company and the group 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 group 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 the group and to enable them to ensure that the parent company Accounts and the group Accounts comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

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

AUDITORS

Ernst & Young LLP were re-appointed auditors of the company for the year ended 31 December 2013.

ON BEHALF OF THE BOARD

Daniel Alcain Lopez
Director
16 April 2014

INDEPENDENT AUDITOR'S REPORT

to the member of Scottish Power UK plc

We have audited the Accounts of Scottish Power UK plc for the year ended 31 December 2013 which comprise the Consolidated and Company Balance Sheets, the Consolidated Income Statement, the Consolidated and Company Statements of Comprehensive Income, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Cash Flow Statements, and the related notes 1 to 54. 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 regards the parent company financial statements, 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 to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's member, as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement set out on page 16, 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 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 group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the Accounts. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited Accounts, and to identify any information that is apparently materially incorrect based on, or materially inconsistent with the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON ACCOUNTS

In our opinion:

- the Accounts give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2013 and of the group's profit for the year then ended;
- the group Accounts have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company Accounts have been properly prepared in accordance with IFRSs, as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; 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 Strategic Report and 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 parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

Ernst & Young LLP

James Nisbet (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Glasgow
16 April 2014

SCOTTISH POWER UK PLC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
at 31 December 2013 and 31 December 2012

	Notes	2013 £m	2012 Restated* £m
ASSETS			
NON-CURRENT ASSETS			
Intangible assets		**1,007.2**	1,193.5
Goodwill	7	364.6	446.7
Other intangible assets	7	642.6	746.8
Property, plant and equipment		**9,758.3**	8,945.4
Property, plant and equipment in use	8	8,080.4	7,870.4
Property, plant and equipment in the course of construction	8	1,677.9	1,075.0
Financial assets		**69.7**	125.6
Investments accounted for using the equity method		2.2	2.4
Other investments	9	3.2	1.8
Finance lease receivables	9	1.8	2.2
Derivative financial instruments	9, 19	62.5	119.2
Trade and other receivables	10	**15.7**	4.9
NON-CURRENT ASSETS		**10,850.9**	10,269.4
CURRENT ASSETS			
Inventories	11	**298.3**	164.3
Trade and other receivables	10	**2,628.0**	3,120.1
Financial assets		**73.1**	217.6
Finance lease receivables	9	0.3	0.2
Derivative financial instruments	9, 19	72.8	217.4
Cash and short-term deposits	9	**53.6**	30.8
CURRENT ASSETS		**3,053.0**	3,532.8
TOTAL ASSETS		**13,903.9**	13,802.2

* Comparative figures have been restated (see Note 2).

SCOTTISH POWER UK PLC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS *continued*
at 31 December 2013 and 31 December 2012

	Notes	2013 £m	2012 Restated* £m
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the parent	13	**3,870.9**	3,778.3
Share capital	12, 13	872.0	872.0
Share premium	13	398.2	398.2
Hedge reserve	13	(57.3)	(109.1)
Other reserves	13	14.0	14.0
Retained earnings	13	2,644.0	2,603.2
Of non-controlling interests	14	**0.3**	0.2
TOTAL EQUITY		**3,871.2**	3,778.5
NON-CURRENT LIABILITIES			
Deferred income	15	**872.1**	804.1
Provisions		**477.8**	615.7
Provisions for retirement benefit obligations	16	332.7	498.7
Other provisions	17	145.1	117.0
Bank borrowings and other financial liabilities		**2,386.3**	2,389.6
Loans and other borrowings	18	2,356.2	2,328.8
Derivative financial instruments	9, 19	30.1	60.8
Trade and other payables	21	**6.1**	6.1
Deferred tax liabilities	22	**765.2**	800.4
NON-CURRENT LIABILITIES		**4,507.5**	4,615.9
CURRENT LIABILITIES			
Provisions	17	**99.0**	138.3
Bank borrowings and other financial liabilities		**3,867.1**	3,694.8
Loans and other borrowings	18	3,771.3	3,397.8
Derivative financial instruments	9, 19	95.8	297.0
Trade and other payables	21	**1,468.7**	1,459.4
Current tax liabilities		**90.4**	115.3
CURRENT LIABILITIES		**5,525.2**	5,407.8
TOTAL LIABILITIES		**10,032.7**	10,023.7
TOTAL EQUITY AND LIABILITIES		**13,903.9**	13,802.2

* Comparative figures have been restated (See Note 2).

Authorised for issue by the Board and signed on its behalf on 16 April 2014 by:

Daniel Alcain Lopez
Director

The accompanying Notes 1 to 35 are an integral part of the consolidated balance sheets as at 31 December 2013 and 31 December 2012.

SCOTTISH POWER UK PLC AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS

for the years ended 31 December 2013 and 31 December 2012

	Notes	2013 £m	2012 Restated* £m
Revenue		8,230.7	7,803.1
Procurements		(6,059.2)	(5,770.9)
		2,171.5	2,032.2
Staff costs	23	(417.3)	(376.3)
Capitalised staff costs	23	126.1	122.2
Outside services		(461.6)	(410.0)
Other operating income		129.2	206.9
		(623.6)	(457.2)
Taxes other than income tax	24	(253.5)	(287.3)
		1,294.4	1,287.7
Depreciation and amortisation charge, allowances and provisions	25	(588.3)	(434.6)
PROFIT FROM OPERATIONS		**706.1**	853.1
Result of companies accounted for using the equity method		0.1	–
Gains on disposal of non-current assets		0.8	4.4
Losses on disposal of non-current assets		–	(0.5)
Finance income	26	58.1	54.3
Finance costs	27	(211.6)	(211.9)
PROFIT BEFORE TAX		**553.5**	699.4
Income tax	28	(13.7)	(86.4)
NET PROFIT FOR THE YEAR		**539.8**	613.0
Non-controlling interests	14	(0.1)	(0.1)
NET PROFIT FOR THE YEAR ATTRIBUTABLE TO THE PARENT		**539.7**	612.9

* Comparative figures have been restated (see Note 2).

All results relate to continuing operations.

The accompanying Notes 1 to 35 are an integral part of the consolidated income statements for the years ended 31 December 2013 and 31 December 2012.

SCOTTISH POWER UK PLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

for the years ended 31 December 2013 and 31 December 2012

	Note	2013 £m	2012 Restated* £m
NET PROFIT FOR THE YEAR		**539.8**	613.0
OTHER COMPREHENSIVE INCOME			
Items that may be subsequently reclassified to the income statement:			
Cash flow hedges:			
Change in the value of cash flow hedges	13	**37.6**	6.3
Tax relating to cash flow hedges	13	**(9.6)**	(3.1)
		28.0	3.2
Items that will not be reclassified to the income statement:			
Actuarial gains/(losses) on retirement benefits:			
Actuarial gains/(losses) on retirement benefits	13	**146.2**	(309.4)
Tax relating to actuarial gains/(losses) on retirement benefits	13	**(45.1)**	66.9
Cash flow hedges:			
Change in the value of cash flow hedges	13	**31.6**	(17.9)
Tax relating to cash flow hedges	13	**(7.8)**	3.3
		124.9	(257.1)
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**152.9**	(253.9)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**692.7**	359.1
Total comprehensive income for the year attributable to equity holders of the parent		**692.6**	359.0
Total comprehensive income for the year attributable to non-controlling interests		**0.1**	0.1
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**692.7**	359.1

* Comparative figures have been restated (see Note 2).

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

for the years ended 31 December 2013 and 31 December 2012

	Attributable to equity holders of the parent							
	Ordinary share capital £m	Share premium £m	Hedge reserve £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2012	872.0	398.2	(72.6)	14.0	874.0	2,085.6	–	2,085.6
Total comprehensive income for the year	–	–	(11.4)	–	370.4	359.0	0.1	359.1
Business combinations (net of tax)	–	–	(25.1)	–	1,358.8	1,333.7	0.3	1,334.0
Dividends	–	–	–	–	–	–	(0.2)	(0.2)
At 1 January 2013	872.0	398.2	(109.1)	14.0	2,603.2	3,778.3	0.2	3,778.5
Total comprehensive income for the year	–	–	51.8	–	640.8	692.6	0.1	692.7
Dividends	–	–	–	–	(600.0)	(600.0)	–	(600.0)
At 31 December 2013	**872.0**	**398.2**	**(57.3)**	**14.0**	**2,644.0**	**3,870.9**	**0.3**	**3,871.2**

The accompanying Notes 1 to 35 are an integral part of the consolidated statements of comprehensive income and the consolidated statements of changes in equity for the years ended 31 December 2013 and 31 December 2012.

SCOTTISH POWER UK PLC AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENTS
for the years ended 31 December 2013 and 31 December 2012

	2013 £m	2012 Restated* £m
Cash flows from operating activities		
Profit before tax	553.5	699.4
Adjustments for:		
Depreciation, amortisation and impairment	558.1	410.9
Change in provisions	46.9	75.5
Result of companies accounted for using the equity method	(0.1)	–
Capital grants and transfer of assets from customers	(26.4)	(24.5)
Finance income and costs	153.5	157.6
Net losses on disposal/write-off non-current assets	6.3	1.8
Movement in retirement benefits	(39.9)	(31.7)
Net fair value losses on operating derivatives	29.1	4.6
Movement in deferred income	(0.1)	(58.8)
Movement in plant maintenance stocks	(4.3)	(2.5)
Changes in working capital:		
Change in trade and other receivables	109.8	120.0
Change in inventories	(68.4)	52.7
Change in trade and other payables	(41.4)	(124.1)
Provisions paid	(36.0)	(15.7)
Emissions allowances acquired	(65.6)	(3.8)
Assets received from customers	82.1	100.4
Income taxes paid	(136.3)	(51.5)
Interest received	27.3	17.4
Dividends received	0.3	–
Net cash flows from operating activities (i)	**1,148.4**	1,327.7
Cash flows from investing activities		
Investments in intangible assets	(64.9)	(155.7)
Investments in property, plant and equipment (net of capital grants)	(1,113.3)	(932.2)
Investments in other non-current investments	(1.2)	–
Proceeds from disposal of property, plant and equipment	15.2	9.6
Acquisition cost of subsidiaries	–	(27.8)
Net cash and cash equivalents acquired/disposed	–	(832.2)
Net cash flows from investing activities (ii)	**(1,164.2)**	(1,938.3)
Cash flows from financing activities		
Increase in amounts due to Iberdrola group companies	42.5	30.2
Dividends paid to company's equity holders	(600.0)	–
Dividends paid to non-controlling interests	–	(0.2)
Cash inflows from borrowings	–	345.5
Interest paid	(138.0)	(158.7)
Repayments of borrowing	(12.4)	(9.3)
Net cash flows from financing activities (iii)	**(707.9)**	207.5
Net decrease in cash and cash equivalents (i)+(ii)+(iii)	**(723.7)**	(403.1)
Cash and cash equivalents at beginning of year	**(1,092.1)**	(689.0)
Cash and cash equivalents at end of year	**(1,815.8)**	(1,092.1)
Cash and cash equivalents at end of year comprises:		
Consolidated balance sheet cash and cash equivalents and term deposits	53.6	30.8
Bank overdraft	(0.2)	(0.1)
Receivables due from Iberdrola group companies – loans	1,860.7	2,238.6
Payables due to Iberdrola group companies – loans	(3,729.9)	(3,361.4)
Consolidated cash flow statement cash and cash equivalents	**(1,815.8)**	(1,092.1)

* Comparative figures have been restated (see Note 2).

The accompanying Notes 1 to 35 are an integral part of the consolidated cash flow statements for the years ended 31 December 2013 and 31 December 2012.

NOTES TO THE CONSOLIDATED ACCOUNTS
31 December 2013

1 GROUP ACTIVITIES
The group provides electricity transmission and distribution services in the UK, supplies gas and electricity services to homes and businesses across the UK, operates electricity generation and gas storage facilities and provides associated energy management activities in the UK. It also conducts renewable energy activities across the UK and Republic of Ireland.

The group defines operating segments for management purposes based on a combination of factors, principally differences in products and services and the regulatory environment in which the business operates.

For management purposes, the group operated four principal segments during the year: Energy Networks, Energy Wholesale, Energy Retail and Renewables.

Energy Networks

The transmission and distribution businesses within the group's authorised area in the South of Scotland and the distribution business of Manweb operating in Cheshire, Merseyside, North Shropshire and North Wales.

Energy Wholesale

The generation of electricity from the group's own power stations, the purchase of external supplies of coal and gas for the generation of electricity, the purchase of external supplies of electricity and gas for onward sale to customers, the optimisation of gas storage and the sale of electricity to market participants in the UK.

Energy Retail

The sale of electricity and gas to industrial and domestic customers, together with related billing and collection activities.

Renewables

The construction and the development of renewable energy generation assets and the generation and sale of electricity from those assets.

2 BASIS OF PREPARATION
A. BASIS OF PREPARATION OF THE ACCOUNTS
The company is required by law to prepare Accounts for both the company and the group and to deliver them to the Registrar of Companies. Both the group (being these consolidated Accounts) and the company's individual Accounts, have been prepared in accordance with International Accounting Standards ("IAS"), International Financial Reporting Standards ("IFRSs") and International Financial Reporting Interpretations Committee ("IFRIC") Interpretations (collectively referred to as IFRS), as adopted by the EU as at the date of approval of these Accounts and which are mandatory for the financial year ended 31 December 2013. Both the group and company Accounts are prepared in accordance with the Accounting Policies set out in Note 3.

A1 CHANGE IN ACCOUNTING POLICY

A1.1 OFFSHORE TRANSMISSION OWNER ("OFTO") ASSET
As part of the West of Duddon Sands offshore wind farm project, a transmission asset has been constructed. Under licence conditions, the asset must be sold on completion to an OFTO appointed by the regulator. The asset was previously recorded within property, plant and equipment in the course of construction, but in order to align with Iberdrola group policy, the asset has been reclassified to inventory. This change in accounting policy has been applied retrospectively. Comparative figures have been adjusted to reduce property, plant and equipment by £53.7 million and increase inventory by the same amount. There has been no impact on the income statement or the net assets of the group in either the current or prior year.

A2 CHANGES IN ESTIMATES
In order to better align the accounting estimates with those applied by the Iberdrola group and within the industry, the group reduced the estimated useful life of it is underground cable assets to 40 years and revised its methodology for allocating indirect costs. These changes in estimates were applied prospectively as from 1 January 2013. The impact of these changes has been to reduce net profit of the group for the current year by £24.6 million and £36.8 million respectively. It is impracticable to estimate the effect of these changes on future periods.

B. ACCOUNTING STANDARDS
In preparing these Accounts, the group 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 2013.

For the year ended 31 December 2013, the group has applied the following standards and amendments for the first time:

Standard	Notes
• Amendments to IAS 1 'Presentation of Items of Other Comprehensive Income'	(a)
• IAS 19 (Revised) 'Employee Benefits'	(b)
• Amendments to IAS 12 'Income Taxes: Deferred Tax – Recovery of Underlying Assets'	(c)
• IFRS 13 'Fair Value Measurement'	(d)
• Amendments to IFRS 7 'Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities'	(e)
• Annual Improvements to IFRSs (2009-2011)	(c)

2 BASIS OF PREPARATION *continued*

B. ACCOUNTING STANDARDS *continued*

(a) The application of the amendments to IAS 1 as from 1 January 2013 has not had a material impact on the group's accounting policies, financial position or performance. However the Statement of Other Comprehensive Income now groups items of other operating income on the basis of whether they may be reclassifiable to the income statement subsequently or not.

(b) The revisions to IAS 19 have had a significant impact on the results of the group and the company from 1 January 2013. The discount rate (determined by market yields of similar high quality corporate bonds) has been applied to the net benefit liability (or asset) (previously expected return on assets). The impact on the group of this was a £42.3 million increase to net finance costs offset by a £7.1 million reduction to deferred tax in the group's income statement for the year ended 31 December 2012 with a consequential other comprehensive income gain. The impact on the company was a £31.5 million increase to net finance costs offset by a £5.4 million reduction in deferred tax in the company's income statement for year ended 31 December 2012 with a consequential other comprehensive income gain. There was no impact on the overall equity of the group or the company. IAS 19 (Revised) also requires more extensive disclosures and these have been provided for both the group and the company in Note 16.

(c) The application of these pronouncements did not have a material impact the group's accounting policies, financial position or performance.

(d) The application of IFRS 13 for the first time as from 1 January 2013 has not had a material impact on the group's accounting policies, financial position or performance.

(e) The application of the amendments to IFRS 7 for the first time as from 1 January 2013 has not had a material impact on the group's accounting policies, financial position or performance. Additional offsetting disclosures have been provided in Note 9 of the Accounts.

The following new standards, amendments to standards and interpretations have been issued by the International Accounting Standards Board ("IASB") but have an effective date after the date of these financial statement thus have not been implemented by the group:

Standard	Notes	IASB effective date (for periods commencing on or after)	Planned date of application by the group
• IFRS 9 'Financial Instruments' and subsequent amendments	(f), (g), (h)	Not yet assigned	Not yet assigned
• IFRS 10 'Consolidated Financial Statements'	(i), (j)	1 January 2013	1 January 2014
• IFRS 11 ' Joint Arrangements'	(i), (j)	1 January 2013	1 January 2014
• IFRS 12 'Disclosure of Interests in Other Entities'	(i), (j)	1 January 2013	1 January 2014
• IAS 27 (Revised) 'Separate Financial Statements'	(i), (j)	1 January 2013	1 January 2014
• IAS 28 (Revised) 'Investments in Associates and Joint Ventures'	(i), (j)	1 January 2013	1 January 2014
• Amendments to IAS 32 'Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities' ("IAS 32")	(k)	1 January 2014	1 January 2014
• Amendments to IFRS 10, IFRS 11 and IFRS 12 'Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities Transition Guidance'	(i), (j)	1 January 2013	1 January 2014
• Amendments to IFRS 10, IFRS 12 and IAS 27 'Investment Entities'	(k)	1 January 2014	1 January 2014
• Amendments to IAS 36 'Impairment of Asset – Recoverable Amount Disclosures for Non-Financial Assets'	(k)	1 January 2014	1 January 2014
• IFRIC 21 'Levies'	(g), (k)	1 January 2014	1 January 2014
• Amendment to IAS 39 'Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting'	(k)	1 January 2014	1 January 2014
• Amendments to IAS 19 'Employee Benefits Defined Benefit Plans Employee Contributions'	(g), (k)	1 July 2014	1 January 2015
• Annual Improvements to IFRSs (2010-2012)	(g), (k)	1 July 2014	1 January 2015
• Annual Improvements to IFRSs (2011-2013)	(g), (k)	1 July 2014	1 January 2015
• IFRS 14 'Regulatory Deferral Accounts'	(g), (k)	1 January 2016	1 January 2016

(f) The directors are currently in the process of assessing the impact of these amendments to standards in relation to the group's accounting policies, financial position and performance.

(g) These pronouncements have not yet been adopted by the EU.

(h) The IASB decided that the original mandatory date of 1 January 2015 would not allow sufficient time for the entities to apply the new standard as all phases of the IFRS 9 project have not been completed. Accordingly, the IASB removed the mandatory effective date from IFRS 9. In February 2014, the IASB tentatively decided to require an entity to apply IFRS 9 for annual periods beginning on or after 1 January 2018. Entities may still choose to apply the issued sections of IFRS 9 immediately; the group has decided not to do so.

(i) All subsidiaries and investments within the group have been reviewed in light of the requirements of IFRS 10 and IFRS 11 and the revisions to IAS 27 and IAS 28, all of which are effective, for the group, as from 1 January 2014. The impact of these pronouncements has been that under the requirements of IFRS 11, most joint arrangements within the group have been assessed to be joint ventures, thus will be consolidated using the equity method. This is expected to have a negligible impact on the net profit for the year ended 31 December 2014 and on the net assets as at 1 January 2014. Additional disclosures will also be provided in line with the requirements of IFRS 12.

(j) The IASB effective date of these pronouncements is for periods commencing on or after 1 January 2013. However the EU permits adoption of these pronouncements for periods commencing on or after no later than 1 January 2014.

(k) The future application of these pronouncements is not expected to have a material impact on the group's accounting policies, financial position or performance.

(l) The group has chosen not to early adopt any of these standards/amendments for year ended 31 December 2013.

2 BASIS OF PREPARATION *continued*

B. ACCOUNTING STANDARDS *continued*

The Energy Companies Obligation ("ECO") was established on 4 December 2012 by The Electricity and Gas (Energy Company Obligation) Order 2012 ("the Order"). It imposes a legal obligation on larger energy suppliers to deliver energy efficiency measures to domestic energy users.

Once a supplier has been considered eligible for the ECO obligation, based on their domestic customer numbers, the amount of the obligation is established based on the amount of energy supplied to such domestic customers. The overall obligation period is multiannual and commenced on 1 January 2013. The overall obligation period is broken down into different phases. For each phase, Ofgem determines the amount of each supplier's obligation based on the domestic energy supplied by each energy supplier as a proportion of the total domestic energy supplied by all suppliers during the relevant notification period.

The group considers that the appropriate accounting treatment is prescribed by IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', as this obligation complies with the three features to be considered for a provision (present obligation, probable out-flow of resources and a reliable estimate can be made). In accordance with a legal opinion obtained by the group, it is considered that an obligation arises for each phase of the overall obligation period. For this reason, it is appropriate to consider this obligation as an additional cost of supply to domestic customers, as this activity constitutes the obligating event, as defined under IAS 37.

In his Autumn Statement on 5 December 2013, with the goal of reducing the energy tariffs of domestic customers, the Chancellor of the Exchequer announced an extension of the end of the overall obligation period from 31 March 2015 to 31 March 2017. Under the described accounting treatment, as a result of this extension, there would be an immediate and corresponding impact of decreasing the cost of supply to the affected customers in the financial statements in the relevant accounting periods.

The Financial Reporting Council ("FRC") staff paper 'Accounting for the Energy Company Obligation', dated 27 September 2013, indicates that the expenditure should be recognised as the assigned measures are being implemented, regardless of the rate at which energy is supplied to the domestic customers. The external auditor has determined that this is the only accounting treatment which is acceptable.

Based on the FRC staff paper and the opinion of the external auditor, the group has recorded the expense in its financial statements as the measures were actually implemented during the year. This accounting treatment involves recording £40 million in addition to the amount that would have resulted from following a recognition rate of the obligation consistent with the rate of energy supplied to domestic customers during the accounting period.

C. BASIS OF CONSOLIDATION

The consolidated Accounts incorporate the Accounts of the company and its subsidiaries to 31 December each year.

Subsidiaries are those entities over which the group has the power to govern the financial and operating policies, generally accompanying a shareholding that confers more than half of the voting rights.

On acquisition, the assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. The cost of an acquisition is measured at the fair value of any assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. The interest of minority shareholders is initially stated at the minority's proportion of the fair values of the assets and liabilities recognised. In accordance with the exemption permitted by IFRS 1 'First-time Adoption of International Financial Reporting Standards', business combinations accounted for prior to the group's date of transition to IFRS on 1 April 2004 have not been restated to comply with IFRS 3 'Business Combinations'.

The results of subsidiaries acquired or disposed of during the year are included in the income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

For the consolidated group, intra-group transfers of subsidiaries within the Iberdrola group, but outwith the Scottish Power UK plc group, are deemed to be business combinations under common control. These transactions are accounted for using the pooling of interests method. The results for the subsidiaries transferred are included in the income statement from the effective date of acquisition. The net assets incorporated at the date of acquisition reflect the book value of each of the subsidiaries included in the Iberdrola S.A. Consolidated Financial Statements, the highest entity that has common control for which consolidated IFRS financial statements are prepared.

3 ACCOUNTING POLICIES

The principal accounting policies applied in preparing the group's consolidated Accounts and, where applicable, the company's Accounts, are set out below. The 'group' is defined as Scottish Power UK plc and its consolidated subsidiaries. The 'company' or 'SPUK' refers to Scottish Power UK plc.

A. REVENUE

Revenue comprises the sales value of electricity and gas and other related energy services supplied to customers during the year and excludes Value Added Tax and intra-group sales. The group recognises revenue in respect of its principal revenue-generating operations as follows:

Transmission and distribution – revenue comprises charges made to the Great Britain system operator for the use of the transmission network and 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 data flows.

Generation – revenue comprises the value of units supplied during the year. Units are based on energy volumes that can actually be sold on the wholesale market and are recorded on wind farm and power station meters and industry-wide trading and settlement systems. Revenue from wind farms also includes the value of ROCs and Levy Exemption Certificates ("LECs") sold during the year.

Wholesale – revenue comprises the value of units of wholesale energy supplied to customers during the year. Units are based on energy volumes that can actually be sold on the wholesale market and are recorded using industry-wide trading and settlement systems. Purchases of wholesale energy are reported within procurements.

Retail – revenue from the sale of energy to retail customers is the value of units supplied during the year and includes an estimate of the value of units supplied to customers between the date of their last meter reading and the year end, based on external data supplied by the electricity and gas market settlement process.

Interest income is accrued on a time proportional basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate which exactly discounts estimated future cash receipts through the expected life of the asset to that asset's carrying amount.

B. GOODWILL

Goodwill represents the excess of the fair value of the purchase consideration over the group's share of the fair value of the identifiable assets and liabilities of an acquired subsidiary or business at the date of acquisition.

Goodwill is recognised as an asset and reviewed for impairment at least annually and whenever there is an indication of impairment. Any impairment is recognised in the income statement in the period in which it is identified.

On disposal of a subsidiary, associate, jointly controlled entity or business, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions after 31 March 1998 but prior to the group's date of transition to IFRS, 1 April 2004, has been retained as an asset at the previous UK Generally Accepted Accounting Principles amounts as at 1 April 2004.

Goodwill arising on acquisitions prior to 1 April 1998 was written off against reserves and will not be included in determining any subsequent profit or loss on disposal.

3 ACCOUNTING POLICIES *continued*

C. INTANGIBLE ASSETS (EXCLUDING GOODWILL AND EMISSIONS ALLOWANCES)

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 costs is over periods of up to 15 years.

D. PROPERTY, PLANT AND EQUIPMENT

The group and company 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, interest and other directly attributable costs. Borrowing costs directly attributable to the acquisition, construction or production of major qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added 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 the company are as set out below.

	Years
Hydro-electric plants	5-105
Fossil fuel plants	2-48
Combined cycle plants	2-37
Gas storage facilities	10-35
Wind farms	21-24
Transmission facilities	40
Distribution facilities	23-40
Meters and measuring devices	2-10
Other facilities and other items of property, plant and equipment	1-50

E. LEASED ASSETS

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

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

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

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

F. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS (EXCLUDING GOODWILL)

At each balance sheet date, the group 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.

G. FINANCIAL INSTRUMENTS

This policy is applicable to both the group's consolidated Accounts and the company's individual Accounts.

G1. ACCOUNTING POLICIES UNDER IAS 39

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

(b) The carrying amount of finance lease receivables is calculated as set out in Note 3E.

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

(d) Financial liabilities categorised as trade and other payables are recognised and carried at original invoice amount.

3 ACCOUNTING POLICIES *continued*

G. FINANCIAL INSTRUMENTS *continued*

G1. ACCOUNTING POLICIES UNDER IAS 39 *continued*

(e) All interest bearing loans and borrowings are initially recognised at fair value, net of directly attributable transaction costs. Interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method, except where the loan or borrowing is a hedged item in an effective fair value hedging relationship (see G3. Hedge Accounting).

(f) Other investments are valued at fair value at the balance sheet date except where it is not possible to obtain a fair value for unquoted investments. Revaluation surpluses and deficits are recognised in the statement of comprehensive income.

(g) The group enters into sale and purchase transactions for gas, electricity, oil and coal in the normal course of its energy business. Most of these contracts are entered into for the purposes of the group's expected business requirements. These 'own use' contracts are outside the scope of IAS 39 'Financial Instruments: Recognition and Measurement, and are accounted for on an accruals basis.

Certain physical commodity purchase and sale contracts are within the scope of IAS 39 because they are net settled or are capable of net settlement. All such contracts are classified as derivative financial instruments in accordance with IAS 39. The group also enters into treasury-related derivatives to manage its financial risk. The group's policies and management with respect to risks are discussed in Note 4.

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

Unrealised gains or losses on remeasurement of derivatives and embedded derivatives are reported in the income statement except when hedge accounting is applied (see G3 below). Fair value gains and losses on derivatives used in the group's energy management activities are recognised in the income statement within procurements and fair value gains and losses on derivatives used in the group's treasury activities are recognised in the income statement as finance income or finance costs as appropriate.

G2. RISK CONTROL ENVIRONMENT

The group's strategy is to conduct business in a manner benefiting customers through balancing cost and risk while delivering shareholder value and protecting the group's performance and reputation by prudently managing the risks inherent in the business. To maintain this strategic direction the group develops and implements risk management policies and procedures, and promotes a rigid control environment at all levels of the organisation. Further details of the group's strategy and management of risks are discussed in detail in Note 4.

G3. HEDGE ACCOUNTING

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

G3.1 CASH FLOW HEDGES

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

G3.2 FAIR VALUE HEDGES

The gain or loss from remeasuring the hedging instrument at fair value is recognised directly in the income statement in the same location as the gain or loss from remeasuring the hedged item. The gain or loss on the hedged item adjusts the carrying amount of the hedged item (when the item would otherwise have been measured at amortised cost) and is recognised in the income statement. The group starts amortisation of any such adjustments to the carrying value of the hedged item when the hedging relationship ends.

G3.3 HEDGE EFFECTIVENESS

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

G3.4 DISCONTINUING HEDGE ACCOUNTING

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

3 ACCOUNTING POLICIES *continued*

G. FINANCIAL INSTRUMENTS *continued*

G4. VALUATION OF FINANCIAL INSTRUMENTS

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

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

G5. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The group offsets a financial asset and a financial liability and reports the net amount only when the group has a legally enforceable right to set off the amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

H. INVENTORIES (EXCLUDING EMISSIONS ALLOWANCES)

Inventories are valued at the lower of average cost and net realisable value.

I. EMISSIONS ALLOWANCES

The group participates in the EU Emissions Trading Scheme ("EU ETS"). Under Phases I and II of the scheme, sites were granted free emissions allowance certificates, however as from 1 January 2013 when Phase III of the EU ETS began the number of free allowances awarded to the group is negligible; therefore the group must purchase the whole amount of the allowances required.

Until 31 December 2012, purchased emissions allowances were initially recognised at cost within intangible assets. Allocated allowances awarded to the group by the Government or a similar body were recorded initially at the fair value with a corresponding credit to deferred income, which was released to the consolidated income statement in line with the group's expected emissions over the period covered by the allowances. As the allowances held within intangible assets may be surrendered at the end of each compliance period reflecting the consumption of economic benefit, no amortisation was recorded during the year ended 31 December 2012.

In line with the commencement of Phase III of the EU ETS on 1 January 2013, and as there are no specific rules under IFRS dealing with the treatment of emissions allowances, the group, in alignment with Iberdrola group accounting policy, has decided to classify purchased emissions allowances as inventories as they are consumed in the production process. Such allowances are recognised at their acquisition cost. Emissions allowances are charged to the income statement as the emissions arise.

Under both the old and new policy, the group recognises liabilities in respect of its obligations to deliver emissions allowances at the value at which these allowances were initially recognised on the balance sheet. If it is estimated that it will be necessary to deliver more emissions allowances than recorded on the balance sheet, the liability for this shortfall is calculated based on the market price of the allowances at the balance sheet date.

J. GRANTS AND TRANSFERS OF ASSETS FROM CUSTOMERS

Capital and revenue grants and transfers of assets from customers are credited to deferred income within non-current liabilities.

Pursuant to the applicable industry regulations, the group occasionally 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.

Revenue grants and transfers of assets from customers are released to the income statement over the period in which they are intended to contribute to expenditure incurred.

K. RETIREMENT BENEFITS

The group and the company provides pensions through defined benefit schemes and one defined contribution scheme.

The cost of providing benefits under the defined benefit schemes is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Remeasurements of the net defined benefit liability are recognised, 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 is recognised within 'Staff costs' in the consolidated income statement. Interest on the net defined benefit liability is defined by changes in the net defined benefit liability or asset during the reporting period that arises from the passage of the time and is determined by multiplying the net defined benefit liability or asset by the discount rate (market yields on high quality corporate bonds). Net interest on the net defined benefit liability or asset is included within 'Finance costs' and 'Finance income', respectively, in the consolidated income statement. 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 schemes.

Payments to the defined contribution scheme are charged as an expense as they fall due.

3 ACCOUNTING POLICIES *continued*

L. DECOMMISSIONING COSTS

Provision is made, on a discounted basis, for the estimated decommissioning costs at the end of the producing lives of the group's power stations and wind farms. Capitalised decommissioning costs are depreciated over the useful lives of the related assets. The unwinding of the discount is included within 'Finance costs'.

M. FOREIGN CURRENCIES

Transactions in foreign currencies are translated at the spot rate at the date of the transaction. At the year end, monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date, with exchange gains and losses recognised in the consolidated income statement.

N. TAXATION

The group's and 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.

O. INVESTMENTS

The company's investments in subsidiaries are stated in the balance sheet at cost, or fair value of shares issued as consideration where applicable. Dividends from subsidiaries are recognised when the right to receive the dividend is established.

4 FINANCIAL RISK MANAGEMENT POLICY

The group's principal financial liabilities, other than derivatives, comprise loans and borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the group's operations. The group has loans and other receivables, trade and other receivables, and cash and short-term deposits that arise directly from its operations. The group also holds other investments, finance lease receivables and enters into derivative contracts.

During the year ended 31 December 2013, the group has been exposed to energy market risk, credit risk and treasury risk. The group's senior management oversees the management of these risks. Details of the governance structure in place are summarised below.

During the year under review, the ScottishPower governance structure, and so that of the group, was supported by risk policies adopted by the ScottishPower Board. These risk policies are adopted and the risk limits and indicators are approved by the ScottishPower Board on an annual basis. ScottishPower business risk assessment teams and the independent group risk management function support the ScottishPower Board in the execution of due diligence and risk management. In addition, the Boards of the group's businesses are responsible for ensuring that their respective business risks are adequately assessed, monitored, mitigated and managed. The UK Risk Director reports on risks for ScottishPower to the ScottishPower Audit and Compliance Committee and such reports are then presented to the ScottishPower Board.

The governance structure ensured that the risk management policies established for each business to identify, assess, monitor, report, manage and mitigate each of the various types of risk involved in its business were adequately designed and implemented and that an effective and efficient system of internal controls was maintained. The businesses adhered to their specific business risk limits and guidelines which were approved by the ScottishPower Board.

The position on risk and strategy for risk management were contained in the Risk Policy for Iberdrola's businesses in the UK (ScottishPower). The ScottishPower Board adopted these policies and they were implemented through a rigid risk governance structure, whereby responsibilities were vested with groups, committees and individuals on a global as well as business level. Generally, the risk management policy and control environment ensured that transactions undertaken and instruments used fall into the types of transactions approved by the ScottishPower Board and are properly validated within the appropriate levels of authority. Transactions included instruments such as physically settled instruments, financially-settled instruments, other contractual obligations, regulatory requirements and other obligations. The types of instruments which can be used are approved for each business. Subject to the limit requirements discussed above, no transaction was executed unless it was an approved instrument. Authorised personnel were permitted to engage only in those activities specified in the business operational policies and procedures.

4 FINANCIAL RISK MANAGEMENT POLICY *continued*

A clear reporting structure was implemented within the group. It ensured that the portfolios were monitored on a timely basis and sufficient information was made available to management to enable quick response of the business to the dynamic characteristics of its market environment. Those reports included daily position, mark-to-market, Value at Risk ("VaR") reports as well as periodical fundamentals reports, stress and scenario reports, credit watch, credit exposure, accounting and insurance reports.

Further details of the policies in place to manage exposure to the key risks are detailed below:

(a) Energy market risk

The group is exposed to market risk associated with fluctuations in the market price of electricity and generation fuel compounded by volumetric risk caused by unplanned changes in the load and output of its portfolio of generation assets. The risk management policies are implemented at the business level with the oversight of the businesses' Boards, management teams and the independent risk management function. The group uses a number of risk measurement procedures and techniques to ensure that risk is kept within pre-approved limits. The key measures are stop loss limits and volume exposure by tenor limits supported by a daily VaR calculation for controlling earnings volatility and other measures including individual transaction limits. Individual transactions limits are defined by maximum commitment value, physical size, VaR impact, tenor, instrument type and other relevant measures. All valuation models are reviewed and approved by the independent group Risk Management function on an ongoing basis, including changes to assumptions and model inputs. Changes that could have had significant impact on the Accounts required additional review and approval by the appropriate Boards.

VaR is a key measure of the potential financial loss on a price exposure position over a defined period to a given level of confidence. VaR computations for the group's energy commodity portfolios are based on a historical simulation technique or a Monte Carlo simulation technique, which utilises historical or stochastically simulated energy market forward price curve changes to estimate the potential unfavourable impact of price changes in the portfolio positions scheduled to settle within the forward 24 months. The quantification of market risk using VaR provides a consistent measure of risk and sensitivity across the group's continually changing portfolio. VaR is not necessarily indicative of actual results that may occur. Future changes in markets inconsistent with historical data or assumptions used could cause variation in actual results to exceed predicted ranges. The group's VaR computations for its energy commodity portfolio utilise several key assumptions, including a 99% confidence level for the resultant price changes and a holding period of five business days. VaR, while sensitive to changes in portfolio volume, does not account for commodity volume risk. Commodity volume risk is defined as the possibility that a change in the supply of, or demand for, the commodity will create an unexpected imbalance and change the requirements for the commodity. The group applies scenario analysis to reinforce its VaR measurements and uses stochastic analysis to estimate the impact of risk on outcomes.

The group's VaR measures, at 31 December 2013 and over the prior year are shown in the table below.

	2013 £m	2012 £m
VaR	**0.9**	1.8
Average VaR over prior year	**1.2**	2.4
Maximum VaR over prior year	**5.0**	6.7
Minimum VaR over prior year	**0.6**	0.8

Hedging activities associated with energy market risk are undertaken within the energy management functions. The strategy of the business is to mitigate the economic risks associated with electricity generation, purchase of fuel and supply of electricity and natural gas to end users in both the wholesale and retail markets and also to optimise the value of the asset portfolio. From a reporting perspective the objective is to report earnings results that are consistent with its operational strategies and hence recognise the earnings effect of financial and non-financial derivative transactions executed to hedge economic business risks in the same period in which the hedged operational activity impacts earnings. The aim is to minimise earnings volatility, which would otherwise be present as a result of fair valuing all derivative contracts under IAS 39. To achieve this objective, where effectiveness documentation and reporting requirements are met, cash flow hedge accounting is applied by designation of a series of derivative trades and deferring in equity the fair value changes of open derivative positions until the period in which forecast transactions occur. A number of contracts do not qualify for own use or hedge accounting under IAS 39 and are therefore wholly or partially fair valued through the income statement.

4 FINANCIAL RISK MANAGEMENT POLICY *continued*

(a) Energy market risk *continued*

Cash flow hedging strategies are developed for each of the electricity, natural gas, coal and carbon allowances portfolios to hedge the variability in cash flows associated with changes in the market price of each commodity. Forward (fixed price/fixed volume) contracts are designated as hedging instruments in the electricity, gas, and carbon hedges, and financial swaps are designated in the coal hedge.

The electricity, gas, coal and carbon hedges relate to the cash flow variability associated with sales of electricity and purchases of electricity, natural gas, coal and carbon allowances at floating prices that are required to meet forecast demand for each commodity. Forecast demand is based on existing customer numbers and historic profiles of demand at levels that are highly probable of occurring. The associated cash flows extend until 2016 for electricity and gas, and 2015 for coal and carbon allowances.

The assessment of effectiveness of all hedging relationships currently in place is carried out on a monthly basis as part of the financial reporting cycle. Prospective assessment is carried out at inception of the hedge and on an ongoing basis to verify that the forecast is still highly probable of occurring.

Retrospective assessment is also carried out to assess the effectiveness in the period under review. Prospective and retrospective assessment is performed using statistical analysis and the business can apply the hedge accounting rules prescribed by IAS 39 if the hedging relationship passes the criteria of a three-step regression test.

(b) Credit risk

The group is exposed to both settlement risk (defined as the risk of a counterparty failing to pay for energy and/or services which have been delivered), as well as replacement risk (defined as the risk of incurring additional costs in order to replace a sale or purchase contract following a counterparty default). Credit risk is mitigated by contracting with multiple counterparties and limiting exposure to individual counterparties to clearly defined limits based upon the risk of counterparty default.

Aggregate portfolio risk is monitored and reported by a Credit Value-at-Risk Monte-Carlo-based simulation model to quantify the total credit risk within the existing portfolio.

The group considers that 100% of its credit risk associated with energy-related derivatives can be considered to be with counterparties in related energy industries, financial institutions operating in energy markets or fellow Iberdrola group companies. At the counterparty level the group employs specific eligibility criteria in determining appropriate limits for each prospective counterparty and supplements this with netting and collateral agreements including margining, guarantees, letters of credit and cash deposits where appropriate.

Exposure to credit risk in the supply of electricity and gas arises from the potential customer defaulting on their invoiced payables. The financial strength and credit-worthiness of business customers is assessed prior to commencing, and for the duration of their contract of supply. Domestic credit worthiness is reviewed from a variety of internal and external information.

At 31 December 2013 and 31 December 2012, the group evaluated the concentration of risk with respect to trade receivables as low, with no material concentration of credit risk in the group arising from one particular counterparty.

The table below shows trade receivables that are past due but not considered impaired. These relate primarily to retail customers who have not paid the outstanding balance within agreed payment terms:

	2013 £m	2012 £m
Past due but not impaired:		
Less than 3 months	**49.9**	61.2
Between 3 and 6 months	**12.2**	15.8
Between 6 and 12 months	**13.4**	12.1
After more than 12 months	**4.5**	3.8
	80.0	92.9

The requirement for an impairment is analysed at each reporting date and this is estimated by management taking into account future cash flows, prior experience, ageing analysis and an assessment of the current economic climate within which the group operates.

The maximum exposure to credit risk in respect of trade receivables is the carrying value of the trade receivables at the balance sheet date. The carrying value of trade receivables is stated net of the allowance for impairment.

4 FINANCIAL RISK MANAGEMENT POLICY *continued*

(c) Treasury risk

Treasury risk is comprised of liquidity risk and market risk. The group's cash management and short-term financing activity is integrated with ScottishPower whose activities are themselves integrated with Iberdrola's. The group's financing structure is determined by its position in the wider Iberdrola group. The company holds investment grade ratings with Moody's Investor Services (Baa1) and Standard & Poor's Rating Services (BBB). These ratings were all reaffirmed during the course of 2013 and early 2014.

(i) Treasury liquidity risk

Liquidity risk, the risk that the group will have insufficient funds to meet its liabilities, is managed by Iberdrola Group Treasury, who are responsible for arranging banking facilities on behalf of the group. For the purposes of ScottishPower, Iberdrola is the principal counterparty for the loan balances due to and from the subsidiaries of Scottish Power UK plc.

The tables below summarise the maturity profile of the group's financial liabilities as at 31 December 2013 and 31 December 2012 based on contractual undiscounted payments.

Financial liabilities (excluding commodity derivatives)

	2013						
Cash outflows	**2014 £m**	**2015 £m**	**2016 £m**	**2017 £m**	**2018 £m**	**2019 and thereafter £m**	**Total £m**
Derivative financial instruments (excluding commodity derivatives)*	1,033.4	263.9	23.8	–	–	–	**1,321.1**
Loans and other borrowings	3,947.9	138.0	140.3	341.8	275.9	2,822.1	**7,666.0**
Payables**	1,204.4	3.0	3.1	–	–	–	**1,210.5**
	6,185.7	404.9	167.2	341.8	275.9	2,822.1	**10,197.6**

	2012						
Cash outflows	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 and thereafter £m	Total £m
Derivative financial instruments (excluding commodity derivatives)*	1,094.5	292.2	100.3	39.9	–	–	1,526.9
Loans and other borrowings	3,497.4	137.0	138.0	138.8	339.6	3,035.8	7,286.6
Payables**	1,232.3	2.1	2.0	2.0	–	–	1,238.4
	5,824.2	431.3	240.3	180.7	339.6	3,035.8	10,051.9

* The above liquidity analysis is stated after the impact of counterparty netting (refer to Note 9 (c)).
** Contractual cash flows exclude accrued interest as these cash flows are included within loans and other borrowings.

Commodity derivatives

The group believes the liquidity risk associated with commodity derivatives needs to be considered in conjunction with the profile of payments in relation to all derivative contracts rather than only those in a liability position. It should be noted that cash flows associated with future energy sales and commodity contracts which are not IAS 39 financial instruments are not included in this analysis, which is prepared in accordance with IFRS 7 'Financial Instruments: Disclosures'.

	2013						
	2014 £m	**2015 £m**	**2016 £m**	**2017 £m**	**2018 £m**	**2019 and thereafter £m**	**Total £m**
Net cash outflows	832.4	496.7	262.0	85.4	–	–	**1,676.5**

	2012						
	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 and thereafter £m	Total £m
Net cash outflows	855.6	590.9	379.2	250.2	86.4	–	2,162.3

Details of the group's contractual commitments are given in Note 31.

4 FINANCIAL RISK MANAGEMENT POLICY *continued*

(c) Treasury risk *continued*

(ii) Treasury market risk

Market risk is the risk of loss that results from changes in market rates (foreign exchange rates and interest rates). Within the Treasury function the group utilises a number of financial instruments to manage interest rate and foreign currency exposures.

The table below shows the debt structure of the group, after taking hedging derivatives into account.

Interest rate analysis of debt

	2013 £m	2012 £m
Fixed rate	1,735.0	1,733.5
Variable rate	4,392.5	3,993.1
	6,127.5	5,726.6

The reference interest rates for the floating rate borrowings are London Inter Bank Offer Rate ("LIBOR"), Euro Bank Offered Rate ("EURIBOR"), Bank of England Base Rate ("Base") and includes borrowings linked to the Retail Price Index ("RPI").

The variable rate debt consists of a £75.2 million Japanese Yen ("JPY") loan, £260.2 million inflation linked bonds, £176.7 million LIBOR debt and £150.3 million EURIBOR debt, £0.2 million bank overdraft and £3,729.9 million of loans with Iberdrola group companies linked to Base.

The interest on the £75.2 million JPY debt is fixed, however this is changed to variable by a cross currency swap. Interest is based on the Sterling LIBOR curve. For indicative purposes, a 1% increase in LIBOR would result in a £0.5 million increase in the full year interest charge.

For the inflation linked bonds, it is expected that RPI would not rise by more than 1% in the year. If it were to increase by this amount the impact on the annual interest rate charge would be negligible.

For LIBOR/EURIBOR linked debt, a 1% increase in the rate would result in a £3.3 million increase in the full year interest charge.

The interest rate on the short-term variable rate debt is linked to Base, which is not expected to change in the short term.

Cash flow hedges

Hedging of commodity purchases: Where commodities are priced in a currency other than Sterling, the foreign exchange risk is hedged using forward foreign exchange contracts. These are designated as cash flow hedges where they comply with the requirements of IAS 39.

Hedging of asset purchases: the group is subject to cash flow risk resulting from the purchase of various assets which are denominated in foreign currencies. The risk being hedged relates to the fluctuation in the functional currency terms of value of these foreign denominated purchases. the group enters into forward foreign exchange rate contracts to hedge those risks.

Hedging the value of currency denominated intercompany loans: the group has provided funding to or received funding from other Iberdrola companies denominated in currencies other than Sterling. The value of the group's assets or liabilities in relation to this funding is subject to foreign exchange risk. As a result, the group enters into cross currency swaps or foreign exchange rate contracts as hedges and has designated those within a cash flow hedging relationship where they meet required hedging criteria.

Fair value hedges

Hedging the value of cross currency debt: the group has issued debt instruments denominated in JPY. The value of the group's liability with respect to those instruments is subject to foreign exchange risk and interest rate risk. As a result the group has entered into cross-currency swaps as hedges and has designated those within a fair value hedging relationship where they meet required hedging criteria.

Hedge assessment

Hedge assessment is done prospectively to verify that the forecast transactions are still highly probable of occurring (for cash flow hedges) as well as retrospectively, to assess the effectiveness in the period under review. Prospective assessment is performed using sensitivity analysis and critical terms matching. Retrospective assessment is performed using the dollar offset approach which compares the change in fair value of the hedging instrument with the hedged item, to determine whether a high level of correlation exists between those changes.

5 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In determining and applying accounting policies, judgement is often required in respect of items where the choice of specific policy to be followed could materially affect the reported amounts of revenues, expenses, assets and liabilities of the group should it later be determined that a different choice would be more appropriate. Such a policy is discussed at (a) below. In addition, in preparing the consolidated Accounts in conformity with IFRS, the company is required to make estimates and assumptions that impact on the reported amounts of revenues, expenses, assets and liabilities of the group. Actual results may differ from these estimates. These are discussed at (b) to (k) below. These critical accounting judgements and key sources of estimation uncertainty should be read in conjunction with the full statement of Accounting Policies at Note 3.

(a) EMISSIONS ALLOWANCES

In accordance with the group accounting policy as at 31 December 2013, purchased emissions allowances are recognised at cost within inventories. Allocated allowances awarded to the group by the Government or a similar body are recorded initially at their fair value with a corresponding credit to deferred income which is released to the income statement in line with the expected emissions over the period covered by the allowances. The group recognises liabilities in respect of its obligations to deliver emissions allowances. Any liabilities recognised are measured based on the value at which these allowances were initially recognised on the balance sheet. If it is estimated that it will be necessary to deliver more emission allowances than recorded on the balance sheet the liability to this shortfall is calculated based on the market price of the allowances at the balance sheet date.

(b) FINANCIAL INSTRUMENTS

IAS 39 requires certain financial instruments, in particular derivatives, to be recorded as assets and liabilities in the balance sheet. The group's valuation strategy for these financial instruments is to utilise, as far as possible, quoted prices in an active trading market. In the absence of quoted prices for identical or similar assets or liabilities, it is sometimes necessary to apply valuation techniques where contracts are marked to approved models. Models are used for developing both the forward curves and the valuation metrics of the instruments themselves where the instruments are complex combinations of standard or non-standard products. All models are subject to rigorous testing prior to being approved for valuation and subsequent continuous testing and approval procedures designed to ensure the validity and accuracy of the model assumptions and inputs.

The assumptions within the models used to value financial instruments are critical, since any changes in assumptions could have a significant impact on the fair values and movements which are reflected in the group income statement, group statement of comprehensive income and group balance sheet. There is little formal guidance to assist in applying IAS 39 to the group's energy management activities. As a result, significant judgements must be made in applying IAS 39 to the group's energy contracts in particular. Disclosures relating to the group's VaR measures and derivative financial instruments are set out in Notes 4 and 19 respectively.

At 31 December 2013, the carrying value of derivative financial assets was £135.3 million (2012 £336.6 million) and the carrying value of derivative financial liabilities was £125.9 million (2012 £357.8 million).

(c) REVENUE

The nature of the energy industry in the UK in which the group operates is such that the group's revenue recognition is subject to a degree of estimation. The assessment of energy sales to retail customers is based on meter readings, which are carried out on a systematic basis throughout the year. Revenue from the sale of energy to retail customers and from wind farms is the value of units supplied during the year and includes an estimate of the value of the units supplied to customers between the date of their last meter reading and the period end based on external data supplied by the electricity and gas market settlement process. At the end of each accounting period, amounts of energy delivered to customers since the last billing date are estimated and the corresponding unbilled revenue is estimated and recorded in revenue.

Billed revenue not yet received is included in trade receivables and unbilled revenue is included within accrued income in the consolidated balance sheet. Billed and unbilled revenue relating to the group's retail customers included within the consolidated balance sheet at 31 December 2013 amounted to £326.4 million (2012 £283.5 million).

(d) IMPAIRMENT OF TRADE RECEIVABLES

Trade receivables are stated net of allowance for impairment of doubtful debts. The group estimates its provision for impairment taking into account future cash flows, based on prior experience, ageing analysis and an assessment of the current economic environment within which the group operates. Such estimates involve a significant degree of judgement.

The provision for impairment of trade receivables at 31 December 2013 amounted to £47.3 million (2012 £44.5 million) and trade receivables and accrued income (net of the provision for impairment) amounted to £633.9 million (2012 £714.1 million).

5 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *continued*

(e) IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

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

At 31 December 2013, the carrying value of property, plant and equipment amounted to £9,758.3 million (2012 £8,945.4 million).

(f) CONTINGENCIES

Appropriate recognition and disclosure of contingent liabilities is made regarding litigation, tax matters, and environmental issues, among others. Accounting for contingencies requires significant judgement by management regarding the estimated probabilities and ranges of exposure to potential loss. The evaluation of these contingencies is performed by various specialists inside and outside of the group.

The company's assessment of the group's exposure to contingencies could change as new developments occur or more information becomes available. The outcome of the contingencies could vary significantly and could materially impact the group's results and financial position. The company has used its best judgement in applying IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' to these matters.

(g) RETIREMENT BENEFITS

The group operates a number of defined benefit schemes for its employees which are accounted for in accordance with IAS 19 (Revised) 'Employee Benefits' ("IAS 19(R)") using the immediate recognition approach.

The expense and balance sheet items relating to the group's accounting for pension schemes under IAS 19(R) are based on actuarial valuations. Inherent in these valuations are key assumptions, including discount rates, earnings increases, mortality and increases in pensions in payment. These actuarial assumptions are reviewed annually in line with the requirements of IAS 19(R). The assumptions adopted are based on prior experience, market conditions and the advice of plan actuaries.

At 31 December 2013, the liability in the balance sheet for retirement benefit obligations amounted to £332.7 million (2012 £498.7 million). Sensitivity disclosures relating to the group's retirement benefit obligations are set out in Note 16.

(h) DECOMMISSIONING AND ENVIRONMENTAL

The group periodically revises the estimates made concerning the costs to be incurred in the decommissioning of the group's power plants (including wind farms) and the obligation to remove asbestos from the power stations over the course of their operational lives. At 31 December 2013, the present value of the aforementioned costs amounted to £139.6 million (2012 £111.8 million).

(i) REGULATORY PROVISIONS

The group has recognised a provision for Regulatory costs. In determining the fair value of the provision, assumptions and estimates are made in relation to the expected value and timing of these costs. The carrying amount of the provision as at 31 December 2013 was £1.9 million (2012 £29.7 million).

(j) ROC RECYCLE INCOME

As a renewable energy generator, the group's Renewables business receives ROC recycle income. Income is accrued monthly based on Renewables output volumes and an estimated price per unit. The estimated price is calculated factoring in the total UK renewable energy output, generation capacity and demand. The actual price is announced by Ofgem in October each year for the year ended 31 March, following which the estimated income number is adjusted accordingly.

The ROC recycle income for the year ended 31 December 2013 was £7.9 million (2012 £4.0 million).

(k) REORGANISATION AND RESTRUCTURING PROVISIONS

The group has recognised a provision relating to reorganisation and restructuring costs, in particular regarding restructuring within Energy Wholesale and Energy Retail. In determining the fair value of the provision, assumptions and estimates are made in relation to the expected value and timing of these costs.

At 31 December 2013, the carrying value of the provision was £6.6 million (2012 £3.6 million).

6 BUSINESS SEGMENT REPORTING

(a) Operating segments and business divisions

The classification of the group's operating segments for management reporting purposes are based on a combination of factors, principally differences in products and services and the regulatory environment in which each business operates.

For management reporting purposes the group is currently organised into four operating segments, Energy Networks, Energy Wholesale, Energy Retail and Renewables, as detailed in Note 1 of the Accounts. In order to comply with the requirements of IFRS 8 'Operating Segments', the group therefore reports its operating segments on this basis and the measure of profit used for the purpose of reporting to the Chief Operating Decision Maker ("CODM") is profit from operations as per the consolidated income statement. All revenue and profit from operations arise from operations within Great Britain and Ireland.

In accordance with the disclosure requirements of IFRS, the Annual Report and Accounts of SPUK reports the relevant financial results of the operating segments as described above. In the interest of improved transparency the group has voluntarily disclosed revenue and profit from operations for the separate business divisions within the Energy Wholesale, Energy Retail and Renewables operating segments, whilst also providing detail in relation to non-recurring items and certain re-measurements arising from IAS 39, consistent with the Supply and Generation regulatory licence conditions. This information has been calculated, where appropriate, in accordance with Standard Licence Condition 16B of the Electricity Generation Licence and Standard Condition 19A of the Electricity and Gas Supply Licences.

The group's operating segments and business divisions are as follows:

Operating segment	Business division	Business division description
Energy Networks	*Energy Networks*	The transmission and distribution business within the group.
Energy Wholesale	*Generation – Licensed business*[1]	The licensed activity of the Energy Wholesale operating segment, which owns and operates coal, gas and hydro-electric generation plant.
	Energy Management[1]	The non-licensed activities of the Energy Wholesale operating segment, responsible for wholesale market sales and purchases for the Generation and Supply licensed business divisions.
	Other	The other non-licensed activity of the Energy Wholesale operating segment which includes the results of the group's waste water treatment facility.
Energy Retail	*Supply – Licensed business*[1]	The licensed activity of the Energy Retail operating segment responsible for the supply of electricity and gas to domestic and business customers.
	Other	The non-licensed activity of the Energy Retail operating segment which includes the group's Energy Services activities.
Renewables	*Renewables – Licensed business*[1]	The Great Britain licensed activity of the Renewables operating segment, which develops and operates renewable generation plant, other than hydro-electric generation plant.
	Other	The non-licensed activity of the Renewables operating segment, which includes generation activity outside Great Britain and the impact of the amortisation of the fair value attributed to the Renewables operating segment when purchased by Iberdrola during 2007. Refer to Note 34 for further information.

[1] The Generation – Licensed, Supply – Licensed, Renewables – Licensed and the Energy Management businesses are consistent with those disclosed in the Consolidated Segmental Statements for the Supply and Generation licensed businesses presented in accordance with Standard Licence Condition 16B of the Electricity Generation Licence and Standard Condition 19A of the Electricity and Gas Supply Licences. These statements can be found at www.scottishpower.com/pages/company_reporting.asp.

(b) Revenue by operating segment and business division

(i) Revenue by operating segment

Revenue by operating segment for the year ended 31 December 2013

Operating segment	External revenue £m	Inter-segment revenue £m	Total revenue £m
Energy Networks	830.5	212.2*	**1,042.7**
Energy Wholesale	3,263.5	2,467.8	**5,731.3**
Energy Retail	4,112.9	20.4	**4,133.3**
Renewables	23.8	257.5	**281.3**
Elimination of inter-segment revenue			(2,957.9)
			8,230.7

* Inter-segment revenue relating to Energy Networks is predominantly subject to regulation and is based on published tariffs set by the regulator.

6 BUSINESS SEGMENT REPORTING *continued*

(b) Revenue by operating segment and business division *continued*

(i) Revenue by operating segment *continued*

Revenue by operating segment for the year ended 31 December 2012

Operating segment	External revenue £m	Inter-segment revenue £m	Total revenue £m
Energy Networks	738.6	230.6*	969.2
Energy Wholesale	3,252.6	2,274.2	5,526.8
Energy Retail	3,799.4	18.8	3,818.2
Renewables	12.5	201.2	213.7
Elimination of inter-segment revenue			(2,724.8)
			7,803.1

* Inter-segment revenue relating to Energy Networks is predominantly subject to regulation and is based on published tariffs set by the regulator.

(ii) Additional information – Revenue by business division

Revenue by business division for the year ended 31 December 2013

Operating segment	Business division	External revenue £m	Inter-segment revenue £m	Total revenue £m
Energy Networks		**830.5**	**212.2**	**1,042.7**
	Generation – Licensed business	101.6	1,111.7	1,213.3
	Energy Management	3,161.9	3,208.4	6,370.3
	Elimination of internal segmental revenue	–	(1,852.3)	(1,852.3)
Energy Wholesale		**3,263.5**	**2,467.8**	**5,731.3**
	Supply – Licensed business	4,098.6	20.4	4,119.0
	Other	14.3	–	14.3
Energy Retail		**4,112.9**	**20.4**	**4,133.3**
	Renewables – Licensed business	10.1	251.4	261.5
	Other	13.7	6.1	19.8
Renewables		**23.8**	**257.5**	**281.3**
Elimination of inter-segment revenue				(2,957.9)
Total				**8,230.7**

Revenue by business division for the year ended 31 December 2012

Operating segment	Business division	External revenue £m	Inter-segment revenue £m	Total revenue £m
Energy Networks		738.6	230.6	969.2
	Generation – Licensed business	104.6	1,079.2	1,183.8
	Energy Management	3,148.0	2,771.1	5,919.1
	Elimination of internal segmental revenue	–	(1,576.1)	(1,576.1)
Energy Wholesale		3,252.6	2,274.2	5,526.8
	Supply – Licensed business	3,796.8	18.8	3,815.6
	Other	2.6	–	2.6
Energy Retail		3,799.4	18.8	3,818.2
	Renewables – Licensed business	0.6	196.7	197.3
	Other	11.9	4.5	16.4
Renewables		12.5	201.2	213.7
Elimination of inter-segment revenue				(2,724.8)
Total				7,803.1

6 BUSINESS SEGMENT REPORTING *continued*

(c) Profit/(loss) from operations by operating segment and business division

(i) Profit/(loss) from operations by operating segment

Profit/(loss) from operations by operating segment for the year ended 31 December 2013

Operating segment	**Profit/(loss) from operations reported to the CODM £m**
Energy Networks	**591.4**
Energy Wholesale	**(156.6)**
Energy Retail	**164.4**
Renewables	**106.9**
Total	**706.1**

Profit/(loss) from operations by operating segment for the year ended 31 December 2012

Operating segment	Profit/(loss) from operations reported to the CODM £m
Energy Networks	601.9
Energy Wholesale	(1.6)
Energy Retail	169.5
Renewables	63.8
Unallocated	19.5
Total	853.1

(ii) Additional information – Profit/(loss) from operations by business division

Profit/(loss) from operations by business division for the year ended 31 December 2013

Operating segment	**Business division**	Profit/(loss) from operations reported to the CODM £m	Non-recurring items (Note (iii)) £m	Certain remeasurements (Note (iv)) £m	**Adjusted profit/(loss) from operations as per regulatory licence requirements* £m**
Energy Networks		591.4	(9.7)	–	**581.7**
	Generation – Licensed business	(198.6)	76.6	35.2	(86.8)
	Energy Management	40.5	–	(27.3)	13.2
	Other	1.5	–	–	1.5
Energy Wholesale		(156.6)	76.6	7.9	**(72.1)**
	Supply – Licensed business	159.7	20.0	–	179.7
	Other	4.7	–	–	4.7
Energy Retail		164.4	20.0	–	**184.4**
	Renewables – Licensed business	134.9	4.1	–	139.0
	Other	(28.0)	–	–	(28.0)
Renewables		106.9	4.1	–	**111.0**
Unallocated		–	(3.4)	–	(3.4)
Total		706.1	87.6	7.9	**801.6**

*Standard Licence Condition 16B of the Electricity Generation Licence and Standard Condition 19A of the Electricity and Gas Supply Licences.

6 BUSINESS SEGMENT REPORTING *continued*

(c) Profit/(loss) from operations by operating segment and business division *continued*

(ii) Additional information – Profit/(loss) from operations by business division *continued*

Profit/(loss) from operations by business division for the year ended 31 December 2012

Operating segment	Business division	Profit/(loss) from operations reported to the CODM £m	Non-recurring items (Note (iii)) £m	Certain remeasurements (Note (iv)) £m	Adjusted profit/(loss) from operations as per regulatory licence requirements* £m
Energy Networks		601.9	–	–	601.9
	Generation – Licensed business	(51.6)	3.9	50.7	3.0
	Energy Management	48.0	0.8	(46.0)	2.8
	Other	2.0	0.5	–	2.5
Energy Wholesale		(1.6)	5.2	4.7	8.3
	Supply – Licensed business	165.8	9.7	–	175.5
	Other	3.7	1.3	–	5.0
Energy Retail		169.5	11.0	–	180.5
	Renewables – Licensed business	90.4	1.0	–	91.4
	Other	(26.6)	–	–	(26.6)
Renewables		63.8	1.0	–	64.8
Unallocated		19.5	(17.0)	–	2.5
Total		853.1	0.2	4.7	858.0

*Standard Licence Condition 16B of the Electricity Generation Licence and Standard Condition 19A of the Electricity and Gas Supply Licences.

(iii) Non-recurring items

In the year ended 31 December 2013 the following non-recurring items were recorded:

Provisions for restructuring and other liabilities: On review of the group's provisions as at 31 December 2013, restructuring provisions and associated pension costs of £38.9 million were recognised. In addition, the group released £18.3 million of costs associated with various regulatory reviews and other contractual obligations for which provisions were no longer required.

Impairment and non-current asset write-offs: During the year ended 31 December 2013, the group recognised an impairment charge of £82.1 million in relation to the goodwill associated with Rye House power station (refer to Note 7 for further details). In addition, the group recognised impairment charges of £4.1 million in relation to the cancellation of certain development costs and £10.6 million for assets no longer in use which were written off to the income statement.

Taxes other than income tax: During the year, the group recognised a refund of £18.7 million following a resolution of a negotiation with the Scottish Assessors Association on historical property taxes. A refund of £2.0 million for property taxes was also recognised following the closure of Cockenzie power station in 2012.

Operating income: During the year, the group recognised £7.0 million of non-recurring income on settlement of outstanding insurance claims.

Staff costs: During the year, the group recognised a refund of employee insurance premiums of £2.1 million.

In the year ended 31 December 2012 the following non-recurring items were recorded:

Provisions for restructuring and other liabilities: On review of the group's provisions as at 31 December 2012, restructuring provisions and associated pension costs of £13.6 million were recognised. In addition, the group recognised £8.9 million for future costs associated with various regulatory reviews and contractual obligations.

Impairment and non-current asset write-offs: During the year ended 31 December 2012, following the cancellation of certain capitalised development projects, £4.0 million of impairment charges were recognised in the year and £3.0 million of assets no longer in use were written-off to the income statement.

Operating income: During the year ended 31 December 2012, non-recurring operating income of £13.5 million was recognised on settlement of outstanding insurance claims and following a review of the business combinations transactions which took place during 2011 non-recurring income of £15.8 million was recognised.

(iv) Certain remeasurements

Certain remeasurements are the fair value movements on energy contracts arising from the application of IAS 39. These have been disclosed separately to aid the understanding of the underlying performance of the group.

6 BUSINESS SEGMENT REPORTING *continued*

(d) Other financial data by operating segment

Other items by segment for the year ended 31 December 2013	Acquisition of property, plant and equipment and intangible assets reported to the CODM £m	Depreciation, amortisation and impairment reported to the CODM £m	Impairment of trade receivables reported to the CODM £m
Energy Networks	**699.4**	**218.9**	**(1.5)***
Energy Wholesale	**73.3**	**221.6**	**(0.1)***
Energy Retail	**49.3**	**5.1**	**43.6**
Renewables	**424.1**	**91.4**	**–**
Unallocated	27.5	21.1	–
Total	**1,273.6**	**558.1**	**42.0**

*In Energy Networks and Energy Wholesale, the release of excess provisions for impairment exceeded the charge for impairment during the year.

Other items by segment for the year ended 31 December 2012	Acquisition of property plant and equipment and intangible assets reported to the CODM Restated* £m	Depreciation, amortisation and impairment reported to the CODM £m	Impairment of trade receivables reported to the CODM £m
Energy Networks	629.0	172.2	0.2
Energy Wholesale	155.2	135.9	0.1
Energy Retail	142.7	3.3	32.0
Renewables	263.4	76.4	–
Unallocated	14.3	23.1	5.8
Total	1,204.6	410.9	38.1

*Comparative figures have been restated (see Note 2).

7 INTANGIBLE ASSETS

(a) Movements in intangible assets

Year ended 31 December 2012	Notes	Goodwill £m	Other intangible assets: Computer software (Note (i)) £m	Emissions allowances (Note (ii)) £m	Licences £m	Other (Note(iii)) £m	Total £m	Total £m
Cost:								
At 1 January 2012		90.1	467.3	146.1	9.5	–	622.9	713.0
Business combinations	(iv)	364.6	1.6	–	–	532.4	534.0	898.6
Transfer from Iberdrola group company	(v)	–	138.5	–	–	–	138.5	138.5
Additions		–	17.2	63.1	–	–	80.3	80.3
Transfer to property, plant and equipment		–	–	–	–	(42.0)	(42.0)	(42.0)
Disposals		–	–	–	–	(4.0)	(4.0)	(4.0)
Delivery of emissions allowances		–	–	(144.3)	–	–	(144.3)	(144.3)
At 31 December 2012		454.7	624.6	64.9	9.5	486.4	1,185.4	1,640.1
Amortisation:								
At 1 January 2012		8.0	396.2	–	1.4	–	397.6	405.6
Business combinations	(iv)	–	0.4	–	–	4.8	5.2	5.2
Amortisation for the year		–	36.5	–	0.4	0.8	37.7	37.7
Disposals		–	–	–	–	(1.9)	(1.9)	(1.9)
At 31 December 2012		8.0	433.1	–	1.8	3.7	438.6	446.6
Net book value:								
At 31 December 2012		446.7	191.5	64.9	7.7	482.7	746.8	1,193.5
At 1 January 2012		82.1	71.1	146.1	8.1	–	225.3	307.4

Year ended 31 December 2013	Notes	Goodwill £m	Other intangible assets: Computer software (Note (i)) £m	Emissions allowances (Note (ii)) £m	Licences £m	Other (Note(iii)) £m	Total £m	Total £m
Cost:								
At 1 January 2013		454.7	624.6	64.9	9.5	486.4	1,185.4	1,640.1
Additions		–	64.9	–	–	–	64.9	64.9
Transfers to property plant and equipment		–	(1.0)	–	–	(71.9)	(72.9)	(72.9)
Disposals		–	(23.9)	–	–	–	(23.9)	(23.9)
Impairment	(b)	(90.1)	–	–	–	–	–	(90.1)
Delivery of emissions allowances		–	–	(64.9)	–	–	(64.9)	(64.9)
At 31 December 2013		**364.6**	**664.6**	**–**	**9.5**	**414.5**	**1,088.6**	**1,453.2**
Amortisation:								
At 1 January 2013		8.0	433.1	–	1.8	3.7	438.6	446.6
Impairment	(b)	(8.0)	–	–	–	–	–	(8.0)
Amortisation for the year		–	29.0	–	0.4	1.9	31.3	31.3
Disposals		–	(23.9)	–	–	–	(23.9)	(23.9)
At 31 December 2013		**–**	**438.2**	**–**	**2.2**	**5.6**	**446.0**	**446.0**
Net book value:								
At 31 December 2013		**364.6**	**226.4**	**–**	**7.3**	**408.9**	**642.6**	**1,007.2**
At 1 January 2013		446.7	191.5	64.9	7.7	482.7	746.8	1,193.5

(i) The cost of fully amortised computer software still in use at 31 December 2013 was £355.0 million (2012 £350.1 million).

(ii) As of 1 January 2013 purchased allowances are now classified as inventories (refer to Note 3.I). The carrying value of allocated emissions allowances as at 31 December 2012 was £56.1 million.

(iii) The 'Other' category of intangible assets comprises licence amounts relating to the acquisition of gas storage and land rights and the value attributed to future renewables projects recognised by Iberdrola S.A. on acquisition of ScottishPower Renewable Energy Limited ("SPREL").

(iv) On 1 January 2012, as part of an Iberdrola group restructuring exercise, the group acquired certain renewable energy companies from another Iberdrola group company, as set out in Note 34. The cost of goodwill recognised as part of this business combination under common control amounted to £364.6 million. The cost of other intangible assets recognised, amounted to £534.0 million and the related aggregate amortisation amounted to £5.2 million.

(v) On 31 December 2012, the ultimate parent company, Iberdrola S.A., transferred computer software costs of £138.5 million relating to a customer relationship management system to a group company.

7 INTANGIBLE ASSETS *continued*

(b) Impairment tests for goodwill

The group holds goodwill in respect of the Renewables business detailed at (i) below and in respect of Rye House power station detailed at (ii) below.

(i) Renewables

The carrying amount of goodwill for the Renewables business at 31 December 2013 was £364.6 million (2012 £364.6 million).

The recoverable amount for the Renewables business has been determined based on a value-in-use calculation. The calculation uses cash flow projections which reflect past experience and which are based upon a management approved business plan ending in 2022. Cash flows beyond that period reflect asset estimated useful lives as well as management's forward view of prices and the business strategic objectives. It is considered appropriate to assess the cash flows over a period longer than five years as this better reflects the long term nature of energy market operations and governance and of wind farm development lead times.

The value-in-use calculation is based on anticipated generation output over the expected lives of individual wind farm projects.

Cash inflows for all projects are based on anticipated generation output based on wind studies and past experience and are valued at forward power prices based on observable market information where available, assumed continuing government support through ROCs and other mechanisms and on internal model assumptions.

Cash outflows are based on planned operating and capital expenditure.

The value-in-use calculation of the Renewables business exceeds the carrying value. Management believes that any reasonably possible change in the key assumptions on which the value-in-use calculation is based would not cause a change to this conclusion. The expected forward price of power and discount rates applied are the key assumptions to which the value-in-use calculation is most sensitive. The value-in-use still exceeds the carrying value with any reasonably possible reduction of the forward price of power or increase of discount rate.

Main assumptions used for value-in-use calculations	Basis for determining values assigned to key assumptions
Discount rate (pre-tax) Onshore 6.4%, Offshore 7.52%	Discount rate is determined on the basis of market data and the divisional cost of capital
Forward price of power	Market quotes/management future expectations

(ii) Rye House

During the year ended 31 December 2013, the group recognised an impairment charge of £82.1 million, within the 'Depreciation and amortisation charge, allowances and provisions' line of the income statement in relation to the goodwill of Rye House power station, bringing the value of goodwill in relation to Rye House to £nil (2012 £82.1 million). The reduction in value-in-use was predominantly due to low spark spreads (the theoretical gross margin of a gas-fired power plant from selling a unit of electricity). Rye House belongs to the Energy Wholesale operating segment.

Using the following assumptions, the impairment test showed a recoverable amount which was below the carrying amount of the asset value including the goodwill. Only goodwill has been impaired. The impairment test supported the value of the underlying asset.

Main assumptions used for value-in-use calculations	Basis for determining values assigned to key assumptions
Growth rate (beyond the period covered by the business plan) 2.0% nominal, 0% real	Use of a 0% real growth rate is derived from past experience and future expectations for the station
Discount rate (pre-tax) 6.85% (used to calculate extrinsic value)	Discount rate is determined on the basis of market data and the divisional cost of capital
Forward price of underlying commodities	Market quotes/management future expectations
Volatility of underlying commodities (used to calculate extrinsic value)	Market quotes/historical analysis
Correlations of underlying commodities (used to calculate extrinsic value)	Historical analysis

8 PROPERTY, PLANT AND EQUIPMENT

(a) Movements in property, plant and equipment

Year ended 31 December 2012	Notes	Total operating plant (see Note (b)) £m	Other items of property, plant and equipment in use £m	Plant in progress Restated* £m	Other items of property, plant and equipment in progress £m	Total Restated* £m
Cost:						
At 1 January 2012		8,119.5	366.5	1,045.1	21.0	9,552.1
Business combinations	(v)	1,740.6	5.7	459.8	–	2,206.1
Additions		52.8	13.7	913.0	6.3	985.8
Transfer from intangible assets		–	–	42.0	–	42.0
Transfer from inventories	(vi)	–	–	–	11.7	11.7
Transfers from in progress to plant in use		1,410.4	4.7	(1,412.9)	(2.2)	–
Disposals		(124.3)	(7.3)	(1.1)	(3.7)	(136.4)
Impairment	(iv)	–	–	(1.0)	(3.0)	(4.0)
At 31 December 2012		11,199.0	383.3	1,044.9	30.1	12,657.3
Depreciation:						
At 1 January 2012		2,910.2	187.6	–	–	3,097.8
Business combinations	(v)	368.7	0.5	–	–	369.2
Charge for the year		358.7	10.5	–	–	369.2
Disposals		(118.7)	(5.6)	–	–	(124.3)
At 31 December 2012		3,518.9	193.0	–	–	3,711.9
Net book value:						
At 31 December 2012		7,680.1	190.3	1,044.9	30.1	8,945.4
At 1 January 2012		5,209.3	178.9	1,045.1	21.0	6,454.3
The net book value of property, plant and equipment at 31 December 2012 is analysed as follows:						
Property, plant and equipment in use		7,680.1	190.3	–	–	7,870.4
Property, plant and equipment in the course of construction		–	–	1,044.9	30.1	1,075.0
		7,680.1	190.3	1,044.9	30.1	8,945.4

*Comparative figures have been restated (see Note 2).

Year ended 31 December 2013	Notes	Total operating plant (see Note (b)) £m	Other items of property, plant and equipment in use £m	Plant in progress £m	Other items of property, plant and equipment in progress £m	Total £m
Cost:						
At 1 January 2013		11,199.0	383.3	1,044.9	30.1	12,657.3
Additions		62.8	19.3	1,119.5	7.1	1,208.7
Transfers from in progress to plant in use		578.4	10.2	(585.6)	(3.0)	–
Transfers from intangible assets		–	1.0	71.9	–	72.9
Reclassification	(ix)	–	50.8	–	–	50.8
Disposals		(395.1)	(39.2)	(0.2)	(3.0)	(437.5)
Impairment	(iv)	–	–	(3.8)	–	(3.8)
At 31 December 2013		**11,445.1**	**425.4**	**1,646.7**	**31.2**	**13,548.4**
Depreciation:						
At 1 January 2013		3,518.9	193.0	–	–	3,711.9
Charge for the year		422.9	18.0	–	–	440.9
Reclassification	(ix)	–	50.8	–	–	50.8
Disposals		(374.6)	(38.9)	–	–	(413.5)
At 31 December 2013		**3,567.2**	**222.9**	**–**	**–**	**3,790.1**
Net book value:						
At 31 December 2013		**7,877.9**	**202.5**	**1,646.7**	**31.2**	**9,758.3**
At 1 January 2013		7,680.1	190.3	1,044.9	30.1	8,945.4
The net book value of property, plant and equipment at 31 December 2013 is analysed as follows:						
Property, plant and equipment in use		7,877.9	202.5	–	–	8,080.4
Property, plant and equipment in the course of construction		–	–	1,646.7	31.2	1,677.9
		7,877.9	**202.5**	**1,646.7**	**31.2**	**9,758.3**

8 PROPERTY, PLANT AND EQUIPMENT *continued*

(b) The movements in total operating plant are analysed as follows:

Year ended 31 December 2012	Hydro-electric plants £m	Fossil fuel plants £m	Combined cycle plants £m	Wind power plants £m	Gas storage facilities £m	Transmission facilities £m	Distribution facilities £m	Meters and measuring devices £m	Other facilities (Note (vii)) £m	Total operating plant £m
Cost:										
At 1 January 2012	138.5	1,072.4	912.2	–	34.9	1,177.1	4,255.7	354.1	174.6	8,119.5
Business combinations	–	–	–	1,716.2	–	–	24.4	–	–	1,740.6
Additions	–	2.1	0.8	3.8	0.2	–	34.4	11.5	–	52.8
Transfers from in progress to plant in use	4.2	204.3	36.5	293.3	–	205.8	657.4	–	8.9	1,410.4
Disposals	–	(77.2)	(16.6)	(1.0)	(0.7)	(7.1)	(18.8)	(2.9)	–	(124.3)
At 31 December 2012	142.7	1,201.6	932.9	2,012.3	34.4	1,375.8	4,953.1	362.7	183.5	11,199.0
Depreciation:										
At 1 January 2012	65.1	812.3	331.4	–	9.9	309.2	1,073.7	218.8	89.8	2,910.2
Business combinations	–	–	–	362.4	–	–	6.3	–	–	368.7
Charge for the year	4.1	76.0	45.0	72.7	0.7	26.4	99.1	27.7	7.0	358.7
Disposals	–	(77.0)	(13.7)	(1.9)	–	(6.2)	(17.3)	(2.6)	–	(118.7)
At 31 December 2012	69.2	811.3	362.7	433.2	10.6	329.4	1,161.8	243.9	96.8	3,518.9
Net book value:										
At 31 December 2012	73.5	390.3	570.2	1,579.1	23.8	1,046.4	3,791.3	118.8	86.7	7,680.1
At 1 January 2012	73.4	260.1	580.8	–	25.0	867.9	3,182.0	135.3	84.8	5,209.3

Year ended 31 December 2013	Hydro-electric plants £m	Fossil fuel plants £m	Combined cycle plants £m	Wind power plants £m	Gas storage facilities £m	Transmission facilities £m	Distribution facilities £m	Meters and measuring devices £m	Other facilities (Note (vii)) £m	Total operating plant £m
Cost:										
At 1 January 2013	142.7	1,201.6	932.9	2,012.3	34.4	1,375.8	4,953.1	362.7	183.5	11,199.0
Additions	–	0.7	–	42.6	–	–	7.2	12.3	–	62.8
Transfers from in progress to plant in use	2.4	74.9	15.9	120.4	1.1	–	363.2	0.4	0.1	578.4
Disposals	–	(346.2)	(7.6)	(11.1)	–	(6.5)	(18.3)	(3.6)	(1.8)	(395.1)
At 31 December 2013	**145.1**	**931.0**	**941.2**	**2,164.2**	**35.5**	**1,369.3**	**5,305.2**	**371.8**	**181.8**	**11,445.1**
Depreciation:										
At 1 January 2013	69.2	811.3	362.7	433.2	10.6	329.4	1,161.8	243.9	96.8	3,518.9
Charge for the year	4.2	78.5	48.8	83.5	0.9	30.5	145.9	24.2	6.4	422.9
Disposals	–	(334.6)	(6.9)	(7.4)	–	(5.3)	(18.3)	(2.1)	–	(374.6)
At 31 December 2013	**73.4**	**555.2**	**404.6**	**509.3**	**11.5**	**354.6**	**1,289.4**	**266.0**	**103.2**	**3,567.2**
Net book value:										
At 31 December 2013	**71.7**	**375.8**	**536.6**	**1,654.9**	**24.0**	**1,014.7**	**4,015.8**	**105.8**	**78.6**	**7,877.9**
At 1 January 2013	73.5	390.3	570.2	1,579.1	23.8	1,046.4	3,791.3	118.8	86.7	7,680.1

(i) Interest on the funding attributable to major capital projects was capitalised during the year at a rate of 1.6% (2012 1.5%).

(ii) The cost of fully depreciated property, plant and equipment still in use at 31 December 2013 was £785.7 million (2012 £776.6 million).

(iii) Included within the cost of property, plant and equipment are assets in use not subject to depreciation, being land and cushion gas, of £132.5 million (2012 £121.1 million).

(iv) The impairment charge of £3.8 million made during the year ended 31 December 2013 was principally in relation to the Argyll Array offshore wind project. The impairment charge of £4.0 million made during the year 31 December 2012 was in respect of the cancellation of certain capitalised development projects.

(v) On 1 January 2012 as part of an Iberdrola group restructuring exercise, the group acquired certain renewable energy companies from another Iberdrola group company, as set out in Note 34. The cost of property, plant and equipment recognised as part of this business combination under common control, amounted to £2,206.1 million and the related aggregate depreciation amounted to £369.2 million.

(vi) Certain items of plant maintenance stocks were reclassified during the year ended 31 December 2012 as property, plant and equipment to align the presentation of this asset type with that of the Iberdrola group.

(vii) The 'Other facilities' category of operating plant largely comprises water treatment facilities and Energy Networks communications facilities.

(viii) Included within 'Other operating income' in the income statement is £9.6 million (2012 £14.5 million) relating to compensation receivable from third parties for items of property, plant and equipment that were impaired, lost or given up.

(ix) The reclassification during the year ended 31 December 2013 was in respect of fully depreciated IT equipment and had a £nil effect on the net book value of 'Other items of property, plant and equipment in use' at 31 December 2013.

8 PROPERTY, PLANT AND EQUIPMENT *continued*

(c) Operating lease arrangements

(i) Operating lease payments	2013 £m	2012 Restated* £m
Minimum lease payments under operating leases recognised as an expense in the year	**13.8**	18.1
Contingent based operating lease rents recognised as an expense in the year	**55.0**	42.0
Sublease payments recognised as an expense in the year	**1.2**	1.7
	70.0	61.8

The group leases various property, plant and equipment under non-cancellable operating lease arrangements. The leases have varying terms, escalation clauses and renewal rights.

The contingent based operating lease rents primarily relate to contracts under which the group purchases electricity. The expense recognised represents the invoiced amounts under these contacts.

(ii) Operating lease commitments	2013 £m	2012 Restated* £m
The future minimum lease payments under non-cancellable operating leases are as follows:		
Within one year	**28.6**	46.2
Between one and five years	**47.5**	68.0
More than five years	**55.0**	61.5
	131.1	175.7

The group leases various property, plant and equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

(iii) Operating lease receivables	2013 £m	2012 Restated* £m
The future minimum lease payments receivable under non-cancellable operating leases are as follows:		
Within one year	**3.8**	4.7
Between one and five years	**4.1**	6.2
More than five years	**1.7**	2.1
	9.6	13.0

* Following a review of the group's contractual arrangements during the year, further contracts were identified as being operating leases. Comparative figures have been restated accordingly.

The group leases buildings and equipment as a lessor under operating leases. The lease arrangements have initial terms of 1 to 99 years and some contain provisions to extend the term at the option of the lessee. The leases have varying terms, escalation clauses and renewal rights.

Total sublease rentals recognised as income in the year amounted to £2.6 million (2012 £3.2 million).

(d) Capital commitments

	2013 £m	2012 Restated* £m
Contracted but not provided	**721.6**	884.6

* Comparative figures have been restated (see Note 2).

9 FINANCIAL INSTRUMENTS

(a) Carrying value of financial instruments

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

		2013		2012	
	Notes	**Carrying amount £m**	**Fair value £m**	Carrying amount £m	Fair value £m
Financial assets					
Finance lease receivables		**2.1**	**2.1**	2.4	2.4
Derivative financial instruments	(i)	**135.3**	**135.3**	336.6	336.6
Receivables	(ii)	**2,560.3**	**2,560.3**	3,065.6	3,065.6
Other investments		**3.2**	**3.2**	1.8	1.8
Cash	(iii)	**49.2**	**49.2**	23.3	23.3
Short-term deposits	(iv)	**4.4**	**4.4**	7.5	7.5
Financial liabilities					
Derivative financial instruments	(i)	**(125.9)**	**(125.9)**	(357.8)	(357.8)
Loans and other borrowings	(v)	**(6,127.5)**	**(6,424.3)**	(5,726.6)	(6,078.3)
Payables	(ii)	**(1,321.6)**	**(1,321.6)**	(1,316.2)	(1,316.2)

The carrying amount of these financial instruments is calculated as set out in Note 3G. With the exception of loans and borrowings, the carrying value of financial instruments is a reasonable approximation of fair value. The fair value of loans and borrowings is calculated as set out in Note (v).

(i) Further detail on derivative financial instruments is disclosed in Note 19.

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

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

(iv) Short-term deposits mature within a period of less than three months and earn market rates.

(v) The fair value of listed debt is calculated using the most recently traded price to the year-end date and the fair value of all other loans and borrowings is calculated using a discounted cash flow.

(b) Measurement of financial instruments

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

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data. At 31 December 2013, The group had no Level 3 financial assets or liabilities.

	2013				2012			
Fair value of derivative financial instruments	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets measured at fair value	**–**	**135.3**	**–**	**135.3**	–	335.6	1.0	336.6
Liabilities measured at fair value	**–**	**(125.9)**	**–**	**(125.9)**	–	(334.8)	(23.0)	(357.8)
	–	**9.4**	**–**	**9.4**	–	0.8	(22.0)	(21.2)

Reconciliation of Level 3 financial assets and liabilities

	Total £m
At 1 January 2012	109.2
Gains or losses:	
– in income statement credited to Procurements	2.5
Settlements	(33.1)
Transfers out of Level 3*	(100.6)
At 1 January 2013	(22.0)
Transfers out of Level 3*	22.0
At 31 December 2013	**–**

* During the year ended 31 December 2013 £22.0 million (2012 £100.6 million) was transferred to Level 2 classification due to improved clarification of gas prices as the end of the liquid period approaches.

9 FINANCIAL INSTRUMENTS *continued*

(c) Offsetting of financial assets and financial liabilities

The group is eligible to present financial assets and financial liabilities net on the balance sheet as described in Note 3G.5. The following table provides information on the impact of offsetting on the consolidated balance sheet as well as the financial impact of the netting of certain instruments in the event of default or similar agreements.

	2013					
				Related amounts not offset in balance sheet		
	Gross amounts of recognised financial assets/(liabilities) £m	Gross amounts of recognised financial (liabilities)/assets offset in the balance sheet £m	**Net amounts of financial assets/(liabilities) presented in the balance sheet £m**	Financial instruments (Note (i)) £m	Cash collateral (held)/posted (Notes (ii), (iii)) £m	Net amount £m
Financial assets						
Receivables	2,807.3	(247.0)	**2,560.3**	(9.2)	(0.6)	2,550.5
Derivative financial instruments	181.8	(46.5)	**135.3**	(3.8)	(24.5)	107.0
Financial liabilities						
Payables	(1,568.6)	247.0	**(1,321.6)**	9.2	52.1	(1,260.3)
Derivative financial instruments	(172.4)	46.5	**(125.9)**	2.4	–	(123.5)

	2012					
				Related amounts not offset in balance sheet		
	Gross amounts of recognised financial assets/(liabilities) £m	Gross amounts of recognised financial (liabilities)/assets offset in the balance sheet £m	Net amounts of financial assets/(liabilities) presented in the balance sheet £m	Financial instruments (Note (i)) £m	Cash collateral (held)/posted (Notes (ii), (iii)) £m	Net amount £m
Financial assets						
Receivables	3,588.4	(522.8)	3,065.6	(46.4)	(0.3)	3,018.9
Derivative financial instruments	473.0	(136.4)	336.6	(5.9)	(39.1)	291.6
Financial liabilities						
Payables	(1,839.0)	522.8	(1,316.2)	46.4	49.6	(1,220.2)
Derivative financial instruments	(494.2)	136.4	(357.8)	5.4	–	(352.4)

(i) Certain contracts for derivatives, receivables, and payables in relation to the purchase of gas do not currently meet the offsetting criteria within IAS 32, however in the event of default would be required to offset per the requirements of the contract. The above balances show the effect on the group if these contracts were also offset. Due to the nature of certain contracts, it is not possible to split accurately the effect of offsetting these balances across the derivatives, receivables and payables categories. For presentational purposes the impact has been allocated to receivables and payables as appropriate.

(ii) The group enters into standard netting agreements with its commodity trading counterparties in order to mitigate the credit risk exposure of the business. In addition, the group utilises collateral support agreements with derivative counterparties to manage its credit exposure. All collateral is settled in cash. These forms of collateral include margining for trading with exchanges, cash collateral used for bilateral and brokering trading as well as letters of credit. At 31 December 2013, the value of letters of credit held amounted to £27.5 million (2012 £27.5 million) and letters of credit posted amounted to £72.6 million (2012 £67.4 million).

(iii) The group holds cash collateral of £26.7 million (2012 £39.1 million) in respect of derivative financial assets, of which £24.5 million (2012 £39.1 million) can be offset against financial assets.

10 TRADE AND OTHER RECEIVABLES

	Notes	2013 £m	2012 £m
Current receivables:			
Receivables due from Iberdrola group companies – trade		**28.8**	88.3
Receivables due from other Iberdrola group companies – loans	(a)	**1,860.7**	2,152.7
Receivables due from Iberdrola Finance UK Limited – loans	(b)	**–**	85.9
Receivables due from Iberdrola group companies – interest		**34.7**	24.6
Trade receivables and accrued income	(c), (d), (e)	**633.9**	714.1
Prepayments		**23.3**	30.1
Other tax receivables		**46.6**	24.4
		2,628.0	3,120.1
Non-current receivables:			
Prepayments		**13.5**	4.9
Other receivables		**2.2**	–
		15.7	4.9

(a) Current loans receivable due from group companies are receivable on demand with interest linked to the Bank of England base rate. This rate is not expected to change in the short-term.

(b) Loans receivable due from Iberdrola Finance UK Limited, a wholly owned subsidiary of Iberdrola S.A., were repaid in full during 2013.

(c) Trade receivables are stated net of allowance for impairment of doubtful debts of £47.3 million (2012 £44.5 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 group operates. The income statement impact of change in bad debt for the year to 31 December 2013 is £42.0 million (2012 £38.1 million).

(d) Amounts due from contract customers included in trade receivables at 31 December 2013 amount to £3.4 million (2012 £3.1 million).

(e) Certain trade receivables and payables are presented net on the balance sheet when the offsetting criteria under IAS 32 are met (refer to Note 3G.5). A reconciliation between the gross and net position is provided in Note 9(c).

(f) With the exception of retail customers, the group considers that its credit risk can be considered to be with counterparties in related energy industries or with financial institutions operating in energy markets. The carrying amount of receivables represents the maximum exposure to credit risk.

(g) Trading terms are governed by Industry Standard agreements which typically provide for interest to be charged where payments are not made on the specified settlement date.

(h) Movements on the provision for impairment of trade receivables are as follows:

	2013 £m	2012 £m
At beginning of year	**44.5**	54.5
Receivables written off during the year as uncollectible	**(39.2)**	(48.1)
Provision for receivables impairment	**42.0**	38.1
At end of year	**47.3**	44.5

(i) The creation and release of the provision for impaired receivables has been included in "Depreciation and amortisation charge, allowances and provisions" in the consolidated income statement (Note 25).

(ii) The provision for impaired receivables mainly relates to Energy Retail customers where a low likelihood of collection has been assessed.

(iii) At 31 December 2013, trade receivables of £58.3 million (2012 £57.8 million) that would otherwise be past due or impaired were renegotiated. These mainly relate to Energy Retail customers who, subsequent to defaulting on original payment terms, have made new arrangements to pay amounts owed.

11 INVENTORIES

	Notes	2013 £m	2012 Restated* £m
Fuel stocks	(a), (b)	**121.1**	110.6
Emissions allowances	(a), (c)	**67.1**	–
Other inventories	(d), (e)	**110.1**	53.7
		298.3	164.3

* Comparative figures have been restated (see Note 2).

(a) Inventories with a value of £405.6 million (2012 £441.8 million) were recognised as an expense during the year.

(b) Fuel stocks of £0.5 million (2012 £2.6 million) have been written off in the year.

(c) As of 1 January 2013 purchased emissions allowances are now classified as inventories (refer to Note 3.I).

(d) During the year ended 31 December 2012, other inventories with a value of £11.7 million were transferred to property, plant and equipment (Note 8).

(e) Other inventories represents a transmission asset which will be sold to an offshore transmission operator in 2014. Following a change in accounting policy, this has been reclassified from property, plant and equipment (Note 8). Comparative figures have been restated (see Note 2).

12 SHARE CAPITAL

	2013 £m	2012 £m
Authorised:		
3,000,000,002 ordinary shares of 50p each (2012 3,000,000,002)	**1,500.0**	1,500.0

	2013 £m	2012 £m
Allotted, called up and fully paid shares:		
1,743,983,102 ordinary shares of 42p each (2012 1,743,983,102)	**872.0**	872.0

13 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF SCOTTISH POWER UK PLC

	Ordinary share capital £m	Share premium (Note (a)) £m	Hedge reserve (Note (b)) £m	Other reserves (Note (c)) £m	Retained earnings Restated* (Note (d)) £m	Total £m
At 1 January 2012	872.0	398.2	(72.6)	14.0	874.0	2,085.6
Profit for the year attributable to equity holders of Scottish Power UK plc	–	–	–	–	612.9	612.9
Changes in the value of cash flow hedges	–	–	(11.6)	–	–	(11.6)
Actuarial losses on retirement benefits	–	–	–	–	(309.4)	(309.4)
Tax on items relating to cash flow hedges	–	–	0.2	–	–	0.2
Tax on items relating to actuarial losses on retirement benefits	–	–	–	–	66.9	66.9
Business combinations (net of tax)	–	–	(25.1)	–	1,358.8	1,333.7
At 1 January 2013	872.0	398.2	(109.1)	14.0	2,603.2	3,778.3
Profit for the year attributable to equity holders of Scottish Power UK plc	–	–	–	–	539.7	539.7
Changes in the value of cash flow hedges	–	–	69.2	–	–	69.2
Actuarial gains on retirement benefits	–	–	–	–	146.2	146.2
Tax on items relating to cash flow hedges	–	–	(17.4)	–	–	(17.4)
Tax on items relating to actuarial gains on retirement benefits	–	–	–	–	(45.1)	(45.1)
Dividends	–	–	–	–	(600.0)	(600.0)
At 31 December 2013	**872.0**	**398.2**	**(57.3)**	**14.0**	**2,644.0**	**3,870.9**

* Comparative figures have been restated (See Note 2).

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

(b) The hedge reserve represents the balance of gains and losses on cash flow hedges (net of taxation) not yet transferred to income or the carrying amount of a non-financial asset. The hedge reserve relating to business combinations comprises the balances within the hedge reserve as at 1 January 2012 of the companies acquired by the group as part of an Iberdrola group restructuring exercise (see Note 34).

(c) Other reserves at 31 December 2013 comprises of a revaluation reserve of £5.8 million (2012 £5.8 million) and a capital redemption reserve of £8.2 million (2012 £8.2 million). The revaluation reserve comprises the revaluation of assets arising on the purchase of the remaining 50% of the equity share capital of a former joint venture. The capital redemption reserve represents the cumulative nominal value of shares repurchased and cancelled by the company.

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

13 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF SCOTTISH POWER UK PLC *continued*

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

Cash flow hedges	Note	Commodity hedges £m	Foreign exchange rate hedges £m	Gross value of hedges £m	Tax effect £m	Total £m
At 1 January 2012		(102.7)	5.8	(96.9)	24.3	(72.6)
Effective cash flow hedges recognised		(65.0)	(43.2)	(108.2)	24.9	(83.3)
De-designated cash flow hedges		6.2	0.1	6.3	(1.4)	4.9
Removed from equity and recognised in income statement		55.3	2.9	58.2	(13.4)	44.8
Removed from equity and recognised in carrying amount of hedged items		17.0	15.1	32.1	(7.4)	24.7
Business combinations	(i)	–	(33.5)	(33.5)	8.4	(25.1)
Change in future tax rates		–	–	–	(2.5)	(2.5)
At 1 January 2013		(89.2)	(52.8)	(142.0)	32.9	(109.1)
Effective cash flow hedges recognised		(60.5)	(25.9)	(86.4)	18.2	(68.2)
De-designated cash flow hedges		4.0	0.4	4.4	(0.9)	3.5
Removed from equity and recognised in income statement		53.4	1.2	54.6	(11.5)	43.1
Removed from equity and recognised in carrying amount of hedged items		48.6	48.0	96.6	(20.3)	76.3
Change in future tax rates		–	–	–	(2.9)	(2.9)
At 31 December 2013		**(43.7)**	**(29.1)**	**(72.8)**	**15.5**	**(57.3)**

(i) On 1 January 2012, as part of an Iberdrola group reorganisation, the group acquired certain renewable energy companies from another Iberdrola group company, as set out at Note 34. The net cash flow hedge reserve recognised as part of this business combination under common control amounted to £25.1 million.

(ii) The maturity analysis of amounts included in the hedge reserve is as follows:

	2013 £m	2012 £m
Less than 1 year	**(50.1)**	(90.8)
1-2 years	**(6.9)**	(14.8)
2-3 years	**(0.3)**	(2.6)
3-4 years	**–**	(0.9)
	(57.3)	(109.1)

14 NON-CONTROLLING INTERESTS

	Note	£m
At 1 January 2012		–
Business combinations	(a)	0.3
Net profit attributable to non-controlling interests		0.1
Dividends paid to non-controlling interests		(0.2)
At 1 January 2013		0.2
Net profit attributable to non-controlling interests		0.1
At 31 December 2013		**0.3**

(a) On 1 January 2012, as part of an Iberdrola group reorganisation, the group acquired certain renewable energy companies from another Iberdrola group company, as set out at Note 34. Non-controlling interests recognised as part of this business combination under common control, amounted to £0.3 million.

15 DEFERRED INCOME

Year ended 31 December 2012	At 1 January 2012 £m	Business combinations (Note (a)) £m	Receivable during year £m	Released to income statement £m	At 31 December 2012 £m
Capital grants	2.6	2.2	–	(0.7)	4.1
Transfer of assets from customers	723.4	–	100.4	(23.8)	800.0
Emissions allowances allocated	–	–	56.1	(56.1)	–
Other revenue-related deferred income	2.7	–	–	(2.7)	–
Total deferred income	728.7	2.2	156.5	(83.3)	804.1

Year ended 31 December 2013	At 1 January 2013 £m	Receivable during year £m	Released to income statement £m	**At 31 December 2013 £m**
Capital grants	4.1	5.1	(0.5)	**8.7**
Transfer of assets from customers	800.0	89.3	(25.9)	**863.4**
Emissions allowances allocated	–	0.1	(0.1)	**–**
Total deferred income	804.1	94.5	(26.5)	**872.1**

(a) On 1 January 2012, as part of an Iberdrola group reorganisation exercise, the group acquired certain renewable energy companies from another Iberdrola group company, as set out at Note 34. Deferred income recognised as part of this business combination under common control, amounted to £2.2 million.

16 RETIREMENT BENEFIT OBLIGATIONS

(a) Analysis of balance

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

	2013 £m	2012 £m
Non-current liabilities	**332.7**	498.7

(b) Group pension arrangements

The group operates the following pension schemes for staff:

Scheme	**Scottish Power Pension Scheme ('SPPS')**	**Manweb Group of Electricity Supply Pension Scheme ('Manweb')**	**Stakeholder Pension Plan**
Type of benefit	Final salary	Final salary	Defined contribution
New entrants	No *	No	Yes
Funded separately from group assets	Yes	Yes	Yes
Administration method	Trustee board	Trustee board	Insurance contract
Member contributions	5% of salary	5.5% of salary	5% of salary
Group contributions – how determined	Agreement of trustees and group following actuarial valuation (last valuation: 31 March 2012)	Agreement of trustees and group following actuarial valuation (last valuation: 31 March 2012)	Defined
Current actual group contributions	31% of salary	30.1% of salary	Service-related, 6% to 14% of salary
Special contributions during year ended 31 December 2013	£33.5 million	£34.8 million	None
Special contributions planned for year ending 31 December 2014	£49.6 million	£30.0 million	None
Pension charge	Based on advice of independent qualified actuary	Based on advice of independent qualified actuary	Equal to actual group contributions in the year

* After 10 years' membership of the Stakeholder Pension Plan certain members will be offered access to defined benefits for future service.

The age profile of the two final salary schemes is expected to rise over time, due to the reduction in new entrants. This will in turn result in increasing service costs for these two schemes due to the actuarial valuation method used (the projected unit method). The group believes that the projected unit method continues to be appropriate at present, and provides a reasonable basis for assessing the group's final salary pension costs.

Group pension scheme governance

As described in the table above, the group operates two defined benefit pension schemes. Active members continue to accrue benefits in the schemes, which are based on final pensionable salary. The two schemes are however closed to new entrants. The schemes provide benefits which are based on final pensionable salary.

The schemes are approved by HMRC and subject to standard UK pensions and tax law. The defined benefit schemes are subject to the scheme funding requirements as set out in section 224 of the Pensions Act 2004. In accordance with the scheme funding requirements, an actuarial funding valuation is carried out at least triennially to determine the appropriate level of ongoing contributions for both future service and a recovery plan in respect of any deficit at the valuation date. These actuarial valuations will be based on assumptions agreed between the Trustees and the group. The most recent actuarial valuation was as at the effective date of 31 March 2012.

In accordance with UK trust and pensions law, the defined benefit pension schemes are governed by their respective board of trustees. Although the group meets the financial cost of running the schemes, the Trustees are responsible for the management and governance of the schemes and have a duty to act in the best interests of the members.

The strategic management of the assets is the responsibility of the Trustees acting on expert advice. The Trustees take advice from the schemes' actuaries and investment advisers with a view to investing the schemes' assets in a manner that is appropriate to the nature and duration of the expected future retirement and death benefits payable from the schemes. In consultation with the group, the Trustees have set out a target investment strategy for the schemes of 50% matching and 50% growth assets. In terms of the matching portfolio, the schemes utilise a Liability Driven Investment (LDI) strategy. The aim of the LDI portfolio is to invest in a range of assets (mostly bonds) which broadly match the expected future benefit payments from the schemes.

In addition to the defined benefit schemes described above, the group also operates a defined contribution scheme which is open to new entrants. This scheme is a contract based arrangement to which both the group and the employee contribute.

16 RETIREMENT BENEFIT OBLIGATIONS *continued*

(b) Group pension arrangements *continued*

Risk management
The defined benefit schemes expose the group to actuarial risks and details of the specific risks and how they are managed are described below:

Investment (market) risk: there is a risk relating to changes in the value of the portfolio due to movements in the market value of the assets. To the extent that there is a mismatch between the investment strategy and the overall level and profile of the liabilities this can lead to volatility in the funding level and as the portfolio matures there is a risk of not being able to reinvest assets at the assumed rates. The Trustees utilise an LDI strategy which aims to invest 50% of the assets in matching LDIs such as bonds, which broadly match the nature and profile of the future expected benefit payments from the scheme. The Trustees have further diversified the market risk in the growth portfolio across multiple asset types, such as equities, property, diversified growth funds, infrastructure and mezzanine debt. Through diversification, the specific risk associated with individual investments is mostly mitigated and expected volatility of returns is reduced. In addition, the Trustees review the investment strategy on a regular basis to ensure that it remains appropriate and in particular in response to legislative changes, a material change in the schemes' funding levels or changes in the attitude to risk of the Trustees or group.

Mortality risk: the assumptions adopted by the group make allowance for future improvements in life expectancy. There is a risk that life expectancy improves faster than assumed and that benefits are paid for longer than expected, thereby increasing the cost of the schemes. The group and the Trustees regularly review the actual scheme mortality experience to minimise the risk of using an inappropriate assumption. In general, the Trustees will also use prudent assumptions when deriving the triennial actuarial valuation basis used for funding requirements and this will help to manage the risk.

Interest rate risk: a fall in the yield on government bonds increases both the liabilities and assets of the schemes. To the extent that the assets do not fully match the nature and duration of the liabilities, this could lead to a worsening in the funding position of the schemes. The Trustees currently target 50% of the schemes' investments in LDI which include matching assets such as fixed interest bonds. The interest rate hedging strategy adopted within the LDI portfolio provides protection against the impact of changes in yields.

Inflation rate risk: the majority of the schemes' liabilities increase in line with inflation, subject to relevant caps and collars. To the extent that inflation is higher than expected, this will increase the liabilities of the schemes. The schemes' target investment strategy is to invest 50% of the portfolio in LDI investments which will include bonds which are also linked to inflation. The inflation hedging strategy adopted within the LDI portfolio provides protection against the impact of changes in inflation.

Each of the pension schemes is invested in an appropriately diversified range of assets. The broad proportion of each asset class in which the schemes aim to be invested are as 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.

	SPPS 2013	**Manweb 2013**	SPPS 2012	Manweb 2012
Equities	22%	25%	22%	45%
Infrastructure	6%	5%	6%	5%
Liability driven investment	50%	50%	50%	50%
Property	6%	–	6%	–
Mezzanine debt	6%	–	6%	–
Diversified growth funds	10%	20%	10%	–
Total	**100%**	**100%**	100%	100%

No scheme held ScottishPower or Iberdrola shares in 2013 or 2012.

Additional pension arrangement: The group also operates an Unfunded Unapproved Retirement Benefit Scheme ("UURBS") for former senior executives' benefit promises in excess of limits set by the UK taxation authorities. The UURBS has no invested assets, and the group has provided £6.6 million as at 31 December 2013 (2012 £6.1 million) for the benefit promises which will ultimately be paid by the group.

(c) Pensions – defined contribution scheme

The charge for the year ended 31 December 2013 in respect of the Stakeholder Pension Plan is £4.3 million (2012 £2.9 million).

(d) Pensions – defined benefit schemes

The group operates defined benefit pension schemes as described earlier in this note. Formal actuarial valuations were carried out as described earlier and updated to 31 December 2013 by a qualified independent actuary. The major assumptions applied by the actuary are given in footnote (e).

(i) Analysis of net liability relating to pensions

	2013				2012			
	SPPS £m	**Manweb £m**	**UURBS £m**	**Total £m**	SPPS £m	Manweb £m	UURBS £m	Total £m
Present value of funded obligations	**(3,014.8)**	**(1,193.4)**	**–**	**(4,208.2)**	(2,881.2)	(1,153.5)	–	(4,034.7)
Fair value of scheme assets	**2,860.9**	**1,021.2**	**–**	**3,882.1**	2,627.4	914.7	–	3,542.1
Net liability of funded plans	**(153.9)**	**(172.2)**	**–**	**(326.1)**	(253.8)	(238.8)	–	(492.6)
Present value of unfunded obligations	**–**	**–**	**(6.6)**	**(6.6)**	–	–	(6.1)	(6.1)
Net liability	**(153.9)**	**(172.2)**	**(6.6)**	**(332.7)**	(253.8)	(238.8)	(6.1)	(498.7)
Amounts in the balance sheet:								
Non-current liabilities	**(153.9)**	**(172.2)**	**(6.6)**	**(332.7)**	(253.8)	(238.8)	(6.1)	(498.7)
Net liability	**(153.9)**	**(172.2)**	**(6.6)**	**(332.7)**	(253.8)	(238.8)	(6.1)	(498.7)

16 RETIREMENT BENEFIT OBLIGATIONS *continued*

(d) Pensions – defined benefit scheme *continued*

(ii) The amounts recognised are as follows:

	2013				2012 Restated*			
	SPPS £m	Manweb £m	UURBS £m	Total £m	SPPS £m	Manweb £m	UURBS £m	Total £m
Current service cost	40.7	12.8	–	53.5	35.9	11.0	–	46.9
Past service cost**	17.4	15.2	0.4	33.0	9.8	0.4	0.5	10.7
Net interest cost on defined benefit obligation/scheme assets	10.4	9.4	0.3	20.1	1.7	6.9	0.3	8.9
Total income statement charge*	68.5	37.4	0.7	106.6	47.4	18.3	0.8	66.5
Actual return on scheme assets	260.2	100.7	–	360.9	228.3	90.8	–	319.1
Net actuarial gains/(losses) recognised in the Consolidated Statement of Comprehensive Income	89.4	57.0	(0.2)	146.2	(211.9)	(97.0)	(0.5)	(309.4)

* Comparative figures have been restated (see Note 2).
** Included within past service costs is a provision of £30.8 million (2012 £9.2 million) for the pension costs associated with restructuring, principally within Energy Retail and Energy Wholesale.

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

	2013				2012			
	SPPS £m	Manweb £m	UURBS £m	Total £m	SPPS £m	Manweb £m	UURBS £m	Total £m
Defined benefit obligation at beginning of year	(2,881.2)	(1,153.5)	(6.1)	(4,040.8)	(2,492.1)	(988.0)	(5.1)	(3,485.2)
Current service cost	(40.7)	(12.8)	–	(53.5)	(35.9)	(11.0)	–	(46.9)
Interest on obligation	(119.6)	(47.9)	(0.3)	(167.8)	(115.8)	(45.7)	(0.3)	(161.8)
Scheme members' contributions	(8.3)	(2.4)	–	(10.7)	(8.0)	(2.4)	–	(10.4)
Past service costs	(17.4)	(15.2)	(0.4)	(33.0)	(9.8)	(0.4)	(0.5)	(10.7)
Actuarial losses								
Actuarial losses arising from changes in demographic assumptions	(24.3)	(8.8)	–	(33.1)	(111.6)	(50.9)	(0.2)	(162.7)
Actuarial losses arising from changes in financial assumptions	(25.6)	(7.8)	(0.1)	(33.5)	(198.6)	(77.6)	(0.2)	(276.4)
Actuarial (losses)/gains arising from changes of the scheme experience different to that assumed	(11.7)	11.4	(0.1)	(0.4)	(15.9)	(20.5)	(0.1)	(36.5)
Benefits paid	114.0	43.6	0.4	158.0	106.5	43.0	0.3	149.8
Defined benefit obligation at end of year	(3,014.8)	(1,193.4)	(6.6)	(4,214.8)	(2,881.2)	(1,153.5)	(6.1)	(4,040.8)
Analysis of defined benefit obligation								
Plans that are wholly or partly funded	(3,014.8)	(1,193.4)	–	(4,208.2)	(2,881.2)	(1,153.5)	–	(4,034.7)
Plans that are wholly unfunded	–	–	(6.6)	(6.6)	–	–	(6.1)	(6.1)
Total	(3,014.8)	(1,193.4)	(6.6)	(4,214.8)	(2,881.2)	(1,153.5)	(6.1)	(4,040.8)

The defined benefit obligations for SPPS are 33% (2012 36%) in respect of active scheme participants, 12% (2012 11%) in respect of deferred scheme participants and 55% (2012 53%) in respect of retirees. The weighted average duration of the defined benefit obligation as at 31 December 2013 is 19 years.

The defined benefit obligations for Manweb are 35% (2012 36%) in respect of active scheme participants, 8% (2012 9%) in respect of deferred scheme participants and 57% (2012 55%) in respect of retirees. The weighted average duration of the defined benefit obligation as at 31 December 2013 is 18 years.

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

	2013				2012 Restated*			
	SPPS £m	Manweb £m	UURBS £m	Total £m	SPPS £m	Manweb £m	UURBS £m	Total £m
Fair value of scheme assets at beginning of year	2,627.4	914.7	–	3,542.1	2,447.6	825.5	–	3,273.1
Interest income on scheme assets	109.2	38.5	–	147.7	114.1	38.8	–	152.9
Return on assets in excess of interest income	151.0	62.2	–	213.2	114.2	52.0	–	166.2
Employer contributions	79.0	47.0	0.4	126.4	50.0	39.0	0.3	89.3
Scheme members' contributions	8.3	2.4	–	10.7	8.0	2.4	–	10.4
Benefits paid	(114.0)	(43.6)	(0.4)	(158.0)	(106.5)	(43.0)	(0.3)	(149.8)
Fair value of scheme assets at end of year	2,860.9	1,021.2	–	3,882.1	2,627.4	914.7	–	3,542.1

* Comparative figures have been restated (see Note 2).

16 RETIREMENT BENEFIT OBLIGATIONS *continued*

(e) Actuarial assumptions

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

	2013	2012
Rate of increase in salaries	**3.9% p.a.**	4.4% p.a.
Rate of increase in deferred pensions	**3.4% p.a.**	2.9% p.a.
Rate of increase in pensions in payment	**3.3% p.a.**	2.9% p.a.
Discount rate	**4.4% p.a.**	4.2% p.a.
Inflation assumption	**3.4% p.a.**	2.9% p.a.

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

	2013			2012		
Member age 63 (current life expectancy)	**SPPS**	**Manweb**	**UURBS**	SPPS	Manweb	UURBS
Male	**25.2**	**25.2**	**25.2**	24.8	24.8	24.8
Female	**26.9**	**26.9**	**26.9**	26.8	26.8	26.8
Member age 45 (life expectancy at age 63)						
Male	**26.8**	**26.8**	**26.8**	26.2	26.2	26.2
Female	**28.5**	**28.5**	**28.5**	28.4	28.4	28.4

(iii) The following table presents a sensitivity analysis for each critical actuarial assumption showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumptions that were reasonably possible at the balance sheet date. This sensitivity applies to the defined benefit obligation only and not to the net defined benefit pension liability in its entirety, the measurement of which is driven by a number of factors including, in addition to the assumptions below, the fair value of scheme assets.

	2013				2012			
Sensitivity analysis of critical assumptions	**SPPS £m**	**Manweb £m**	**UURBS £m**	**Total £m**	SPPS £m	Manweb £m	UURBS £m	Total £m
Rates of increase in inflation and salary growth								
Increase by 0.1%	**50.4**	**18.8**	**0.1**	**69.3**	17.5	6.1	–	23.6
Decrease by 0.1%	**(49.6)**	**(19.5)**	**(0.1)**	**(69.2)**	(45.0)	(17.1)	–	(62.1)
Discount Rate								
Increase by 0.25%	**(115.6)**	**(42.4)**	**(0.1)**	**(158.1)**	(119.7)	(46.5)	(0.1)	(166.3)
Decrease by 0.25%	**115.6**	**42.4**	**0.1**	**158.1**	128.1	49.7	0.2	178.0
Assumed life expectancy								
Increase mortality by one additional year	**93.9**	**37.8**	**0.1**	**131.8**	84.2	34.5	0.2	118.9

(iv) Allowance for cash commutation

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

(v) The following table provides information on the composition and fair value of plan assets of the SPPS and Manweb pension schemes.

	2013				2012			
SPPS Scheme	**Quoted in an active market £m**	**Other £m**	**Total £m**	**Plan asset allocation %**	Quoted in an active market £m	Other £m	Total £m	Plan asset allocation %
Equities	950.7	–	950.7	33.2%	925.1	–	925.1	35.2%
Infrastructure	–	153.1	153.1	5.4%	15.4	121.0	136.4	5.2%
Liability driven investment	1,214.2	90.7	1,304.9	45.6%	1,217.3	38.1	1,255.4	47.8%
Property	0.9	131.0	131.9	4.6%	1.7	124.8	126.5	4.8%
Cash	7.6	–	7.6	0.3%	22.6	–	22.6	0.9%
Mezzanine debt	–	34.0	34.0	1.2%	–	32.8	32.8	1.2%
Diversified growth funds	278.7	–	278.7	9.7%	128.6	–	128.6	4.9%
Fair value of scheme assets			**2,860.9**				2,627.4	

	2013				2012			
Manweb Scheme	**Quoted in an active market £m**	**Other £m**	**Total £m**	**Plan asset allocation %**	Quoted in an active market £m	Other £m	Total £m	Plan asset allocation %
Equities	279.8	–	279.8	27.4%	382.0	–	382.0	41.8%
Infrastructure	–	45.9	45.9	4.5%	4.6	36.3	40.9	4.5%
Liability driven investment	436.8	72.3	509.1	49.8%	431.0	51.6	482.6	52.7%
Cash	3.0	–	3.0	0.3%	9.2	–	9.2	1.0%
Diversified growth funds	183.4	–	183.4	18.0%	–	–	–	–
Fair value of scheme assets			**1,021.2**				914.7	
TOTAL			**3,882.1**				3,542.1	

(f) Future contributions

The group expects to contribute £137.3 million to the pension schemes in the year ending 31 December 2014, based on the agreement with scheme trustees following the valuation at March 2012. The expected contributions by scheme are as follows: SPPS £93.3 million, Manweb £43.6 million and UURBS £0.4 million.

17 OTHER PROVISIONS

Year ended 31 December 2012	Notes	At 1 January 2012 £m	Business combinations (Note (h)) £m	New provisions £m	Unwinding of discount £m	Transfers £m	Utilised during year £m	Released during year £m	At 31 December 2012 £m
Reorganisation and restructuring	(a)	5.9	–	4.7	–	–	(5.2)	(1.8)	3.6
Decommissioning and environmental	(b)	73.9	35.6	2.3	2.2	–	(2.2)	–	111.8
Emissions allowances	(c)	145.8	–	63.4	–	–	(144.3)	–	64.9
Onerous contracts	(d)	21.1	–	–	0.3	–	(3.2)	(0.8)	17.4
Insurance	(e)	9.3	–	1.0	–	6.9	(1.2)	(1.1)	14.9
Regulatory	(f)	21.5	–	9.0	–	–	(0.8)	–	29.7
Other	(g)	6.2	5.9	4.2	–	–	(3.1)	(0.2)	13.0
		283.7	41.5	84.6	2.5	6.9	(160.0)	(3.9)	255.3

Year ended 31 December 2013	Notes	At 1 January 2013 £m	New provisions £m	Unwinding of discount £m	Transfers £m	Utilised during year £m	Released during year £m	**At 31 December 2013 £m**
Reorganisation and restructuring	(a)	3.6	6.8	–	–	(3.1)	(0.7)	**6.6**
Decommissioning and environmental	(b)	111.8	40.0	1.8	–	(14.0)	–	**139.6**
Emissions allowances	(c)	64.9	65.1	–	–	(65.0)	(0.1)	**64.9**
Onerous contracts	(d)	17.4	–	0.5	0.6	(4.5)	(2.9)	**11.1**
Insurance	(e)	14.9	2.0	–	–	(2.0)	(3.1)	**11.8**
Regulatory	(f)	29.7	–	–	–	(10.0)	(17.8)	**1.9**
Other	(g)	13.0	0.9	–	–	(2.4)	(3.3)	**8.2**
		255.3	114.8	2.3	0.6	(101.0)	(27.9)	**244.1**

Analysis of total provisions	**2013 £m**	2012 £m
Non-current	**145.1**	117.0
Current	**99.0**	138.3
	244.1	255.3

(a) The provision for reorganisation and restructuring principally relates to restructuring within Energy Retail and Energy Wholesale. This provision is expected to be utilised during 2014.

(b) The provision for decommissioning and environmental costs is the discounted future estimated costs of decommissioning the group's power plants (including wind farms) and the obligation to remove asbestos from power stations over the course of their operational lives. The decommissioning of these plants is expected to occur over the period between 2014 and 2037.

(c) The provision for emissions allowances represents the value of emissions allowances certificates expected to be delivered in 2014.

(d) The provision for onerous contracts relates to various property leases. The leases will expire over the period between 2014 and 2025.

(e) The provision for insurance principally represents the value of claims reserves.

(f) The provision for regulatory costs relates to various contractual obligations and the future costs associated with various regulatory reviews. The reviews are expected to be concluded in 2014.

(g) The other category comprises provisions which are not individually sufficiently material to warrant separate disclosure.

(h) On 1 January 2012, as part of an Iberdrola group reorganisation exercise, the group acquired certain renewable energy companies from another Iberdrola group company, as set out in Note 34. Provisions recognised as part of this business combination under common control, amounted to £41.5 million.

18 LOANS AND OTHER BORROWINGS

Analysis by instrument and maturity	Notes	Interest rate*	Maturity	2013 £m	2012 £m
Bank overdraft		Base +1%	On demand	**0.2**	0.1
Loans with Iberdrola group companies		Base + 1%	On demand	**3,729.9**	3,361.4
Collateral		LIBOR	30 June 2014	**26.7**	39.1
£200 million euro-sterling bond	(b),(c)	8.375%	20 February 2017	**199.4**	199.4
Long-term loans with Iberdrola group companies		LIBOR + 0.34%	17 December 2018	**150.0**	150.0
Long-term loans with Iberdrola group companies		3.858%	29 January 2019	**150.0**	150.0
£300 million medium-term note	(d)	5.9%	22 February 2021	**295.2**	294.6
Loans with Iberdrola group companies	(e)	EURIBOR + 1.025%	30 May 2022	**150.3**	107.1
£250 million euro-sterling bond	(b),(f)	6.75%	29 May 2023	**248.5**	248.2
£175 million inflation linked bond	(d)	3.494% x RPI	13 October 2024	**260.2**	252.0
£350 million euro-sterling bond	(b),(g)	5.875%	17 July 2026	**346.4**	346.1
£350 million euro-sterling bond	(b),(h)	4.875%	20 September 2027	**345.5**	345.2
10 billion JPY loan	(i)	4.6%	27 July 2029	**75.2**	83.4
£50 million medium-term note	(d)	5.75%	9 December 2039	**50.0**	50.0
£100 million medium-term note	(d)	6.375%	31 May 2041	**100.0**	100.0
				6,127.5	5,726.6

* Base - Bank of England Base Rate; LIBOR - London Inter-Bank Offer Rate; EURIBOR - Euro Bank Offered Rate; RPI - Retail Prices Index; JPY - Japanese Yen.

Analysis of total loans and other borrowings	Note	2013 £m	2012 £m
Non-current		**2,356.2**	2,328.8
Current	(a)	**3,771.3**	3,397.8
		6,127.5	5,726.6

(a) Current borrowings comprise loans with Iberdrola group companies repayable on demand, the short-term element of the EURIBOR loan with Iberdrola (see Note (e) below), bank overdrafts and collateral together with finance costs due to be amortised within one year, the short term element of fair value hedge adjustments and the adjustments on discontinued fair value hedges due to be amortised within one year, which totalled £(3.5) million (2012 £(2.8) million).

(b) These bonds contain a "Loss of licences" covenant that will require repayment of the outstanding amount should the group lose all of their electricity licences (distribution, transmission and supply licences).

(c) The Sterling Bond due 2017 can be redeemed at any time by the group at the higher of principal amount or redemption price (as determined by HSBC Bank plc) giving 30 to 90 days' notice to lender.

(d) Scottish Power Limited and the company have an established joint US$7 billion euro-medium term note programme. Scottish Power Limited has not issued under the programme. The company has in issue various notes in Sterling which can be redeemed by the company with 30 to 90 days' notice in case of unfavourable and unavoidable changes in the UK tax laws impacting on the note payments.

(e) The EURIBOR loan with Iberdrola that is due to mature in May 2022 has a schedule of repayments commencing in 2014 of £18.0 million. This repayment is classified as current in the above analysis.

(f) The Sterling bond due 2023 can be redeemed at any time by the group at the higher of principal amount or redemption price (as determined by HSBC Bank plc) giving 30 to 45 days' notice to the lender.

(g) The £350 million euro-sterling bond will be redeemed at its principal amount on 17 July 2026 unless previously redeemed or purchased and cancelled. The bond can be redeemed at any time by the group at a higher redemption price (as determined by a financial advisor appointed by the group and Guarantor) giving 30 to 60 days' notice.

(h) The £350 million euro-sterling bond will be redeemed at its principal amount on 20 September 2027 unless previously redeemed or purchased and cancelled. The bond can be redeemed at any time by the group at a higher redemption price (as determined by a financial advisor appointed by the group and Guarantor) giving 30 to 60 days' notice.

(i) The interest rate quoted above on the 10 billion JPY loan is fixed. This is changed to a variable rate by a cross currency swap.

(j) The group had no undrawn committed borrowing facilities at 31 December 2013 (2012 £nil).

19 DERIVATIVE FINANCIAL INSTRUMENTS

Analysis of derivative financial instruments – carrying value

		2013				2012			
		Assets		Liabilities		Assets		Liabilities	
	Note	Current £m	Non Current £m	Current £m	Non Current £m	Current £m	Non Current £m	Current £m	Non Current £m
Hedging derivatives-									
Exchange rate hedges									
Fair value hedge									
– Currency swap		0.8	24.5	–	–	0.7	32.7	–	–
Cash flow hedge									
– Foreign exchange rate		2.3	–	(27.5)	(6.4)	5.0	0.6	(45.4)	(14.5)
Commodity hedge									
– Cashflow hedge		10.6	4.0	(32.1)	(5.9)	15.9	3.0	(63.1)	(11.5)
Non-hedging derivatives									
Exchange rate derivatives									
– Foreign exchange rate		6.3	1.6	(9.1)	(2.1)	4.2	0.6	(4.4)	(0.9)
Commodity derivatives		94.5	37.2	(68.8)	(20.5)	324.4	85.9	(316.9)	(37.5)
Total gross derivatives		**114.5**	**67.3**	**(137.5)**	**(34.9)**	350.2	122.8	(429.8)	(64.4)
Impact of netting	(a)	(41.7)	(4.8)	41.7	4.8	(132.8)	(3.6)	132.8	3.6
Total net derivatives in balance sheet		**72.8**	**62.5**	**(95.8)**	**(30.1)**	217.4	119.2	(297.0)	(60.8)

(a) Certain derivative financial instruments are presented net on the balance sheet. A reconciliation between the gross and net position is provided in Note 9(c).

20 EFFECT OF HEDGING AND DERIVATIVE INSTRUMENTS ON THE RESULTS

An analysis of the effect of hedging and derivative financial instruments on the income statement is given below:

	Notes	2013 £m	2012 £m
Operating derivatives:			
Effect of operating derivative instruments	(a)	**(29.1)**	(4.6)
Financing derivatives:			
Effect of foreign exchange rate derivatives	(a)	**1.8**	(3.8)
Fair value hedges:			
Movements in the fair value of hedging instruments		**5.4**	(4.9)
Movements in the fair value of hedged item		**(5.4)**	4.9
Effect of fair value hedges		**–**	–
Cash flow hedge – amounts released from equity:			
Commodities		**(53.4)**	(55.3)
Foreign exchange rate derivatives		**(1.2)**	(2.9)
Effect of cash flow hedges	(b)	**(54.6)**	(58.2)
Total	(c)	**(81.9)**	(66.6)

(a) The amount includes de-designated cash flow hedges.

(b) The amount relates to gains and losses on the effective portions of cash flow hedges which have previously been deferred in equity which have been transferred to the income statement in the current year to match timing of occurrence of the hedged cash flows or where hedged forecasted cash flows are no longer expected to occur.

(c) The net effect of hedging and derivative financial instruments with Iberdrola group companies on the income statement for the year ended 31 December 2013 was £(0.6) million (2012 £(3.9) million).

21 TRADE AND OTHER PAYABLES

	Notes	2013 £m	2012 £m
Current trade and other payables:			
Payables due to Iberdrola group companies – trade		**113.2**	184.3
Payables due to Iberdrola group companies – capital		**1.6**	11.2
Payables due to Iberdrola group companies – interest		**59.4**	26.0
Trade payables	(a), (b)	**677.7**	782.7
Other taxes and social security		**31.9**	15.4
Payments received on account		**121.3**	133.9
Capital payables and accruals		**257.7**	230.8
Other payables		**205.9**	75.1
		1,468.7	1,459.4
Non-current other payables:			
Other payables		**6.1**	6.1
		6.1	6.1

(a) Trade payables include amounts due on commodity activities.

(b) Certain trade payables and receivables are presented net on the balance sheet when offsetting criteria under IAS 32 are met (refer to Note 3G.5). A reconciliation between the gross and net position is provided at Note 9(c).

22 DEFERRED TAX

Deferred tax provided in the Accounts is as follows:

	Note	Property, plant and equipment £m	Derivative financial instruments £m	Retirement benefits Restated* £m	Intangible assets £m	Other temporary differences £m	Total Restated* £m
At 1 January 2012		598.5	(6.6)	(56.3)	–	(10.1)	525.5
(Credit)/charge to income statement		(42.5)	(7.1)	7.0	–	(12.6)	(55.2)
Recorded in the statement of comprehensive income		–	(0.2)	(66.9)	–	–	(67.1)
Business combinations	(c)	280.9	(8.4)	–	110.4	14.3	397.2
At 1 January 2013		836.9	(22.3)	(116.2)	110.4	(8.4)	800.4
(Credit)/charge to income statement		(78.2)	(1.3)	4.5	(28.8)	6.1	(97.7)
Recorded in the statement of comprehensive income		–	17.4	45.1	–	–	62.5
At 31 December 2013		**758.7**	**(6.2)**	**(66.6)**	**81.6**	**(2.3)**	**765.2**

* Comparative figures have been restated (see Note 2).

(a) At 31 December 2013, the group had unutilised capital losses of £18.8 million (2012 £18.7 million). No deferred tax asset has been recognised in the Accounts due to the unpredictability of suitable future profit streams against which these losses may be utilised.

(b) Finance Act 2012 contained legislation to set the rate of UK Corporation Tax at 23% from 1 April 2013. In the year to 31 December 2012, the rate of tax expected to apply when temporary differences reverse reduced from 25% to 23%. Finance Act 2013 contained legislation to reduce the rate to 21% from 1 April 2014 and to 20% from 1 April 2015. These changes have reduced the tax rates expected to apply when temporary differences reverse.

(c) On 1 January 2012, as part of an Iberdrola group restructuring exercise, the group acquired certain renewable energy companies from another Iberdrola group company as set out in Note 34. Deferred tax recognised as part of this business combination under common control, amounted to £397.2 million.

23 EMPLOYEE INFORMATION

(a) Staff costs

	2013 £m	2012 £m
Wages and salaries	**287.5**	281.8
Social security costs	**25.9**	25.3
Pension and other costs	**103.9**	69.2
Total staff costs	**417.3**	376.3
Less: capitalised staff costs	**(126.1)**	(122.2)
Charged to the income statement	**291.2**	254.1

(b) Employee numbers

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

	Year end 2013	**Average 2013**	Year end 2012	Average 2012
Energy Networks	**2,910**	**2,838**	2,797	2,723
Energy Wholesale	**647**	**679**	754	784
Energy Retail	**2,552**	**2,619**	2,685	2,952
Renewables	**221**	**210**	239	229
Corporate	**772**	**766**	715	718
Total	**7,102**	**7,112**	7,190	7,406

The year end and average numbers of full-time equivalent staff employed by the group, including UK based directors, were:

	Year end 2013	**Average 2013**	Year end 2012	Average 2012
Total	**6,810**	**6,815**	6,891	7,085

24 TAXES OTHER THAN INCOME TAX

	Note	2013 £m	2012 £m
Property taxes		**85.8**	105.6
Business taxes		**1.4**	1.3
Other taxes	(a)	**166.3**	180.4
		253.5	287.3

(a) Other taxes mainly comprise obligations specific to the energy industry, which in 2013 principally comprised ECO and WHD and in 2012 principally comprised WHD, CERT and CESP.

25 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS

	2013 £m	2012 £m
Property, plant and equipment depreciation charge	**440.9**	369.2
Intangible asset amortisation	**31.3**	37.7
Capital grants transferred to income for the year	**(0.5)**	(0.7)
Charges and provisions, allowances and impairment of assets	**116.6**	28.4
	588.3	434.6

26 FINANCE INCOME

	2013 £m	2012 Restated* £m
Interest on bank and other deposits	**1.2**	0.8
Interest receivable from Iberdrola group companies	**35.2**	25.2
Foreign exchange gains	**17.6**	8.6
Fair value and other gains on financing derivatives	**4.1**	19.7
Finance income	**58.1**	54.3

* Comparative figures have been restated (see Note 2).

27 FINANCE COSTS

	Note	2013 £m	2012 Restated* £m
Interest on bank loans and overdrafts		**0.2**	0.3
Interest on amounts due to Iberdrola group companies		**63.3**	54.2
Interest on other borrowings		**118.2**	109.1
Unwinding of discount on provisions		**2.3**	2.5
Foreign exchange losses		**20.4**	11.1
Net interest on retirement benefit obligations		**14.1**	18.9
Fair value losses on financing derivatives		**2.3**	23.5
		220.8	219.6
Capitalised interest	(a)	**(9.2)**	(7.7)
Finance costs		**211.6**	211.9

* Comparative figures have been restated (see Note 2).

(a) The tax relief on the capitalised interest for the year ended 31 December 2013 was £2.1 million (2012 £1.9 million).

28 INCOME TAX

	2013 £m	2012 Restated* £m
Current tax:		
UK Corporation Tax charge on profits for the year	**122.1**	151.8
Adjustments in respect of prior years	**(10.7)**	(10.2)
Current tax for the year	**111.4**	141.6
Deferred tax:		
Origination and reversal of temporary differences	**25.8**	28.2
Adjustments in respect of prior years	**5.3**	(1.1)
Impact of tax rate change	**(128.8)**	(82.3)
Deferred tax for the year	**(97.7)**	(55.2)
Income tax expense for the year	**13.7**	86.4

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

	2013 £m	2012 Restated* £m
Corporation Tax at 23.25% (2012 24.5%)	**128.7**	171.4
Adjustments in respect of prior periods	**(5.4)**	(11.3)
Impact of tax rate change	**(128.8)**	(82.3)
Impairment of goodwill	**19.1**	–
Non deductible expenses and other permanent differences	**0.1**	8.6
Income tax expense for the year	**13.7**	86.4

* Comparative figures have been restated (see Note 2).

The rate of UK Corporation Tax reduced from 24% to 23% on 1 April 2013 and from 26% to 24% on 1 April 2012. The 2013 Finance Act includes legislation which will reduce the rate of UK Corporation Tax to 21% on 1 April 2014 and to 20% on 1 April 2015. These further reductions impact the deferred tax charge as they reduce the tax rate expected to apply when temporary differences reverse.

Comparison of UK Corporation Tax charge and payments	2013 £m	2012 £m
UK Corporation Tax charge on profits for the year	**122.1**	151.8
Corporation Tax in the Consolidated cash flow statement	**136.3**	51.5

Corporation tax payments for Scottish Power UK plc and its subsidiaries are remitted to HMRC by Scottish Power Limited on behalf of each company within the group. The cash flows disclosed above are the cash flows between companies in the Scottish Power UK plc group and Scottish Power Limited company and do not reflect the external taxes remitted to HMRC on behalf of the group.

29 DIVIDENDS

	2013 pence per ordinary share	2012 pence per ordinary share	2013 £m	2012 £m
Interim dividend paid	**34.4**	–	**600.0**	–

30 CONTINGENT LIABILITIES

Legal proceedings

The group's businesses are parties to various legal claims, actions and complaints, certain of which may involve material amounts. Although the group is unable to predict with certainty whether or not it will ultimately be successful in these legal proceedings or, if not, what the impact might be. The group currently believes that disposition of these matters will not have a materially adverse effect on the consolidated Accounts.

31 FINANCIAL COMMITMENTS

Contractual commitments

The group manages its energy resource requirements by integrating long-term firm, short-term and spot market purchases with its own generating resources to manage volume and price volatility and maximise value across the energy value chain. As part of its energy resource portfolio the group is committed under long-term purchase contracts summarised in the tables below.

	2013						
	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 and thereafter £m	**Total £m**
Long-term energy purchase contract commitments	2,639.6	692.4	286.0	85.4	–	–	**3,703.4**
Other contractual commitments	195.1	47.4	21.2	16.8	16.5	32.3	**329.3**

	2012 Restated*						
	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 and thereafter £m	Total £m
Long-term energy purchase contract commitments	5,179.1	1,072.9	463.7	266.1	86.5	–	7,068.3
Other contractual commitments	279.5	56.1	20.3	14.1	10.5	32.2	412.7

* Following a review of the group's contractual arrangements during the year, further contractual commitments were identified in addition to those discussed in Note 2.

32 RELATED PARTY TRANSACTIONS

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

	Related Party									
	2013					2012				
	Ultimate parent (Iberdrola S.A.) £m	UK parent (Scottish Power Limited) £m	Immediate parent (Scottish Power UK Holdings Limited) £m	Other Iberdrola group companies £m	Jointly controlled entities £m	Ultimate parent (Iberdrola S.A.) £m	UK parent (Scottish Power Limited) £m	Immediate parent (Scottish Power UK Holdings Limited) £m	Other Iberdrola group companies £m	Jointly controlled entities £m
Types of transaction										
Sales and rendering of services	1.2	0.6	–	78.9	1.8	17.8	1.0	–	166.5	2.2
Purchases and receipt of services	(36.4)	(4.9)	(2.1)	(455.3)	–	(39.7)	(5.0)	(0.7)	(458.4)	(1.2)
Finance income	–	35.2	–	–	0.1	–	24.7	–	0.5	–
Finance costs	(2.3)	(61.0)	–	–	–	(2.7)	(42.9)	–	(8.6)	(0.1)
Net (losses)/gains on foreign exchange	(0.8)	(3.0)	–	1.5	–	0.8	0.1	–	(1.5)	–
Net gains/(losses) on financing derivatives	–	1.8	–	–	–	–	(3.8)	–	–	–
Dividends paid	–	–	(600.0)	–	–	–	–	–	–	–
Transfer of intangibles	–	–	–	–	–	(138.5)	–	–	–	–
Business combinations (Note (ii))	–	–	–	–	–	–	–	–	(27.8)	–
Balances outstanding										
Loans receivable	–	1,860.7	–	–	–	–	2,152.7	–	85.9	1.5
Trade receivables	–	–	–	28.8	0.7	17.8	–	–	70.5	1.5
Interest receivable	–	34.7	–	–	–	–	24.1	–	0.5	–
Derivative financial assets	0.1	9.7	–	–	–	0.3	9.9	–	–	–
Loans payable	(150.3)	(4,029.9)	–	–	–	(107.1)	(3,661.4)	–	–	–
Trade payables	–	(0.1)	(3.9)	(109.2)	–	(0.4)	(0.1)	(4.8)	(179.0)	(11.9)
Capital payables	–	–	–	(1.6)	–	–	–	–	(11.2)	–
Interest payable	(0.2)	(59.2)	–	–	–	(0.1)	(25.9)	–	–	–
Derivative financial liabilities	(1.4)	(36.0)	–	–	–	(6.7)	(27.1)	–	–	–

(i) The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received in relation to intra-group transactions.

(ii) On 1 January 2012, as part of an Iberdrola group reorganisation, the group acquired certain renewable energy companies from another Iberdrola group company. Details of the transactions that the company participated in, in both years, are set out in Note 34.

(b) Remuneration of key management personnel

The remuneration of the key management personnel of the SPUK group is set out below. As all of the key management personnel are remunerated for their work for the Iberdrola group, it has not been possible to apportion the remuneration specifically in respect of services to the SPUK group. Of the eleven (2012 twelve) key management personnel, four (2012 four) were paid by Iberdrola during the year.

	2013 £m	2012 £m
Short-term employee benefits	**5.5**	4.8
Post-employment benefits	**0.4**	0.4
Other long-term benefits	**0.3**	0.3
Share-based payments	**1.1**	1.2
	7.3	6.7

(c) Directors' remuneration

The total remuneration of the directors that provided qualifying services to the SPUK group are shown below. All directors that provide qualifying services were paid by the SPUK group.

	2013 £000	2012 £000
Aggregate remuneration in respect of qualifying services	**862**	777
Aggregate contributions payable to a defined contribution pension scheme	**4**	14
Number of directors who exercised share options	**2**	3
Number of directors who received shares under a long-term incentive scheme	**1**	2
Number of directors accruing retirement benefits under a defined benefit pension scheme	**2**	2
Number of directors accruing retirement benefits under a defined contribution pension scheme	**1**	2

Highest paid director	2013 £000	2012 £000
Aggregate remuneration in respect of qualifying services	**362**	274
Aggregate contributions payable to a defined contribution pension scheme	**4**	–
Accrued pension benefit	**–**	36

(i) The highest paid director received a benefit under a long-term share incentive scheme in 2012 only.

(ii) The highest paid director exercised share options in 2012 only.

32 RELATED PARTY TRANSACTIONS *continued*

(d) Ultimate parent company

The directors regard Iberdrola S.A. (incorporated in Spain) as the ultimate parent company, which is also the parent company of the largest group in which the results of the company are consolidated. Copies of the Consolidated Accounts of Iberdrola S.A. may be obtained from Iberdrola S.A., Torre Iberdrola, Plaza Euskadi 5, 48009, Bilbao, Spain.

The parent company of the smallest group in which the results of the company are consolidated is ScottishPower UK Holdings Limited. Copies of the consolidated Accounts of ScottishPower UK Holdings Limited may be obtained from The Secretary, ScottishPower UK Holdings Limited, 1 Atlantic Quay, Glasgow, G2 8SP.

33 AUDITORS' REMUNERATION

	2013 £m	2012 £m
Audit of the company's annual Accounts	**0.1**	0.2
Audit of the company's subsidiaries pursuant to legislation	**1.1**	0.9
Audit fees	**1.2**	1.1
Audit-related assurance services	**0.1**	0.1
Other assurance services	**0.3**	0.4
Other services	**0.4**	0.5
Total	**1.6**	1.6

For the year ended 31 December 2013, all fees paid to the auditors of £1.6 million (2012 £1.6 million) were charged to profit from operations.

34 BUSINESS COMBINATIONS

(a) Group restructuring

As part of an Iberdrola group restructuring exercise to re-align the operational structure of ScottishPower with the operational structure of the Iberdrola group, on 1 January 2012, ScottishPower Renewable Energy Limited ("SPREL"), the holding company of the group conducting Iberdrola's renewable energy activity in the UK was transferred from Iberdrola Finance UK Limited ("IBF"), a subsidiary of Iberdrola S.A., for a cash consideration of £27.8 million. This transaction is deemed to be a business combination under common control and has been accounted for under the pooling of interests method in the consolidated Accounts as described in Note 2. The impact of the transfer of these companies on the net assets of the group is set out at Note (b).

(b) Book values of assets and liabilities acquired at 1 January 2012

The details of the book value of the assets and liabilities acquired by the group as part of the restructuring are shown below:

Book values of assets and liabilities at 1 January 2012	Notes to the Accounts	ScottishPower Renewable Energy Limited (Note (ii)) £m
Intangible assets	7	893.4
Property, plant and equipment	8	1,836.9
Investments		0.6
Derivative financial assets		0.4
Trade and other receivables		23.0
Receivables due from Iberdrola group companies – loans		76.1
Current tax		26.6
Cash		4.5
Deferred income	15	(2.2)
Derivative financial liabilities		(33.1)
Provisions	17	(41.5)
Deferred tax	22	(397.2)
Trade and other payables		(36.6)
Current payables due to Iberdrola group companies – loans		(912.8)
Non-current payables due to Iberdrola group companies – loans		(76.3)
Net assets		**1,361.8**
Cash consideration (Note (iii))		**27.8**
Pooling of interest recognised in equity	13	**1,333.7**
Non-controlling interests	14	**0.3**
Total		**1,361.8**

(i) SPREL was acquired by SPUK from IBF for a cash consideration of £27.8 million.

(ii) The net assets shown in respect of this company are the consolidated net assets for SPREL and its subsidiaries, as included in the Iberdrola S.A. Consolidated Financial Statements.

(iii) The analysis of cash flow in respect of the above acquisitions is detailed below:

	£m
Cash consideration	**(27.8)**
Net cash and cash equivalents acquired	**(832.2)**
Cash outflows on group restructuring (included in cash flows from investing activities)	**(860.0)**

35 GOING CONCERN

The group's business activities together with the factors likely to affect its future development and position are set out in the Strategic Report on pages 1 to 10.

The group has recorded a profit after tax in both the current and previous financial years and the group's balance sheet shows that it has net current liabilities of £2,472.2 million and net assets of £3,871.2 million at its most recent balance sheet date.

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

On the basis of these considerations, the directors have a reasonable expectation that the group 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.

PRINCIPAL SUBSIDIARIES AND OTHER INVESTMENTS

as at 31 December 2013

Subsidiaries	Class of share capital	Proportion of shares held		Activity
Energy Networks				
Manweb Services Limited	Ordinary shares £1	100%		Operation of private electricity distribution network
Scottish Power Energy Networks Holdings Limited	Ordinary shares £1	100%	(b)	Holding company
SP Distribution plc (formerly SP Distribution Limited)	Ordinary shares £1	100%		Ownership and operation of distribution network within the ScottishPower area
SP Manweb plc	Ordinary shares 50p	100%		Ownership and operation of distribution network within the Mersey and North Wales area
SP Network Connections Limited	Ordinary shares £1	100%		Multi-utility design and construction service
SP Power Systems Limited	Ordinary shares £1	100%		Provision of asset management services and multi-utility design and construction service
SP Transmission plc (formerly SP Transmission Limited)	Ordinary shares £1	100%		Ownership and operation of transmission network within the ScottishPower area
SPD Finance UK plc	Ordinary shares £1	100%		Finance company
Energy Wholesale				
Scottish Power Generation Holdings Limited	Ordinary shares £1	100%	(b)	Holding company
ScottishPower (DCL) Limited	Ordinary shares £1	100%		Electricity generation
ScottishPower Energy Management Limited	Ordinary shares £1	100%		Wholesale energy management company engaged in purchase and sale of electricity, gas and coal
ScottishPower Energy Management (Agency) Limited	Ordinary shares £1	100%		Agent for energy management activity of ScottishPower Energy Management Limited and Scottish Power UK plc
ScottishPower Generation Limited	Ordinary shares £1	100%		Electricity generation
ScottishPower (SCPL) Limited	'A' and 'B' Ordinary shares £1	100%		Electricity generation
SMW Limited	Ordinary shares £1	100%		Wastewater treatment
SP Gas Transportation Cockenzie Limited	Ordinary shares £1	100%		Holder of Gas Transporter Licence
SP Gas Transportation Hatfield Limited	Ordinary shares £1	100%		Holder of Gas Transporter Licence
Energy Retail				
ScottishPower Energy Retail Limited	Ordinary shares £1	100%		Supply of electricity and gas to domestic and business customers
SP Dataserve Limited	Ordinary shares £1	100%		Data collection, data aggregation, meter operation and revenue protection
Renewables				
ScottishPower Renewable Energy Limited	Ordinary shares £1	100%	(a), (b)	Holding company
ScottishPower Renewables (UK) Limited (Northern Ireland)	Ordinary shares £1	100%		Construction and operation of wind powered electricity generation
Coldham Windfarm Limited	Ordinary shares £1	80%		Electricity generation
ScottishPower Renewables (WODS) Limited	Ordinary shares £1	100%		Development, construction and operation of offshore windfarm
Other				
ScottishPower Insurance Limited (Isle of Man)	Ordinary shares £1	100%		Insurance
ScottishPower Investments Limited	Ordinary shares £1	100%	(b)	Holding company
Equity investments				
Jointly controlled entities				
ScotAsh Limited	'B' Ordinary shares £1	100%	(c)	Sales of ash and ash-related cementitious products
NGET/SPT Upgrades Limited	'B' ordinary shares £1	100%	(c)	Development of offshore HVDC West Coast transmission link
Celtpower Limited	Ordinary shares £1	50%		Electricity generation
East Anglia Offshore Wind Limited	Ordinary shares £1	50%		Offshore wind farm development

Notes

(a) This company and its subsidiaries were acquired by Scottish Power UK plc from Iberdrola Finance (UK) Limited on 1 January 2012 (see Note 34).

(b) The investment in this company is a direct holding of Scottish Power UK plc at 31 December 2013.

(c) Represents 50% of the total issued share capital.

(d) The company considers that to give full particulars of all entities would lead to a statement of excessive length. The information above includes the entities whose results or financial position, in the opinion of the company, principally affect the results or financial position of the group.

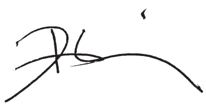
(e) All companies are incorporated in Great Britain, unless otherwise stated.

SCOTTISH POWER UK PLC
COMPANY BALANCE SHEETS

at 31 December 2013 and 31 December 2012

	Notes	2013 £m	2012 £m
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	36	**29.6**	27.9
Property, plant and equipment		**23.6**	24.5
Property, plant and equipment in use	37	22.4	20.8
Property, plant and equipment in course of construction	37	1.2	3.7
Trade and other receivables	38	**1,431.5**	1,285.0
Financial assets		**1,124.7**	1,133.0
Investments in subsidiaries	39	1,099.3	1,099.3
Other investments	39	0.9	1.0
Derivative financial instruments	41, 49	24.5	32.7
Deferred tax asset	40	**38.9**	68.3
NON-CURRENT ASSETS		**2,648.3**	2,538.7
CURRENT ASSETS			
Trade and other receivables	38	**1,380.2**	1,565.7
Current tax receivables		**5.1**	7.5
Financial assets		**0.8**	0.7
Derivative financial instruments	41, 49	0.8	0.7
Cash and short-term deposits	41	–	0.7
CURRENT ASSETS		**1,386.1**	1,574.6
TOTAL ASSETS		**4,034.4**	4,113.3
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the parent		**2,422.5**	2,356.2
Share capital	43, 44	872.0	872.0
Share premium	44	398.2	398.2
Other reserves	44	8.2	8.2
Retained earnings	44	1,144.1	1,077.8
TOTAL EQUITY		**2,422.5**	2,356.2
NON-CURRENT LIABILITIES			
Deferred income	45	**–**	–
Provisions		**171.4**	274.6
Provision for retirement benefit obligations	46	160.5	259.9
Other provisions	47	10.9	14.7
Bank borrowings and other financial liabilities		**1,230.9**	1,229.9
Loans and other borrowings	48	1,230.9	1,229.9
Trade and other payables	50	**1.8**	1.8
NON-CURRENT LIABILITIES		**1,404.1**	1,506.3
CURRENT LIABILITIES			
Provisions	47	**1.8**	4.6
Bank borrowings and other financial liabilities		**127.8**	167.7
Loans and other borrowings	48	127.8	167.6
Derivative financial liabilities	41, 49	–	0.1
Trade and other payables	50	**78.2**	78.5
CURRENT LIABILITIES		**207.8**	250.8
TOTAL LIABILITIES		**1,611.9**	1,757.1
TOTAL EQUITY AND LIABILITIES		**4,034.4**	4,113.3

Approved by the board on 16 April 2014 and signed on its behalf by:



Daniel Alcain Lopez
Director

Notes 1 to 5 and the accompanying Notes 36 to 54 are an integral part of the company balance sheets as at 31 December 2013 and 31 December 2012.

SCOTTISH POWER UK PLC
COMPANY STATEMENTS OF COMPREHENSIVE INCOME
for the years ended 31 December 2013 and 31 December 2012

	2013 £m	2012 Restated* £m
NET PROFIT FOR THE YEAR	**602.1**	1,088.3
OTHER COMPREHENSIVE INCOME		
Items that may be subsequently reclassified to the income statement:		
Cash flow hedges:		
Change in the value of cash flow hedges	**–**	(0.1)
Tax on items relating to cash flow hedges	**–**	–
	–	(0.1)
Items that will not be reclassified to the income statement:		
Actuarial gains/(losses) on retirement benefits:		
Actuarial gains/(losses) on retirement benefits	**89.2**	(212.4)
Tax relating to actuarial gains/(losses) on retirement benefits	**(25.0)**	48.2
	64.2	(164.2)
OTHER COMPREHENSIVE INCOME FOR THE YEAR	**64.2**	(164.3)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**666.3**	924.0

* Comparative figures have been restated (see Note 2).

Total comprehensive income for both years is wholly attributable to the equity holders of Scottish Power UK plc.

COMPANY STATEMENTS OF CHANGES IN EQUITY
for the years ended 31 December 2013 and 31 December 2012

	Ordinary share capital £m	Share premium £m	Hedge reserve £m	Other reserves £m	Retained earnings £m	Total equity £m
At 1 January 2012	872.0	398.2	0.1	8.2	153.7	1,432.2
Total comprehensive income for the year	–	–	(0.1)	–	924.1	924.0
At 1 January 2013	872.0	398.2	–	8.2	1,077.8	2,356.2
Total comprehensive income for the year	–	–	–	–	666.3	666.3
Dividends	–	–	–	–	(600.0)	(600.0)
At 31 December 2013	**872.0**	**398.2**	**–**	**8.2**	**1,144.1**	**2,422.5**

Notes 1 to 5 and the accompanying Notes 36 to 54 are an integral part of the company statements of comprehensive income and the company statements of changes in equity for the years ended 31 December 2013 and 31 December 2012.

SCOTTISH POWER UK PLC
COMPANY CASH FLOW STATEMENTS

for the years ended 31 December 2013 and 31 December 2012

	2013 £m	2012 Restated* £m
Cash flows from operating activities		
Profit before tax	597.2	1,071.6
Adjustments for:		
Depreciation and amortisation	23.9	32.4
Change in provisions	(2.9)	(2.4)
Finance income and costs	24.5	45.3
Shareholding income	(625.0)	(1,122.0)
Loss on disposal of non-current assets	–	0.2
Movement in retirement benefits	(20.9)	(4.1)
Movement in deferred income	–	(2.7)
Changes in working capital:		
Change in trade and other receivables	26.8	2.0
Change in trade and other payables	0.9	(38.5)
Provisions paid	(4.8)	(2.9)
Income taxes received	11.7	29.5
Interest received	65.3	31.1
Dividends received	625.0	1,122.0
Net cash flows from operating activities (i)	**721.7**	1,161.5
Cash flows from investing activities		
Acquisition of subsidiaries	–	(27.8)
Investments in intangible assets	(16.7)	(11.4)
Investments in property, plant and equipment	(8.9)	(4.6)
Proceeds from disposal of property, plant and equipment	–	1.0
Proceeds from disposal of non-current investments	0.1	–
Net cash flows from investing activities (ii)	**(25.5)**	(42.8)
Cash flows from financing activities		
Increase in amounts due from Iberdrola group companies	(330.0)	(890.0)
Dividends paid to company's equity holders	(600.0)	–
Cash inflows from borrowings	–	0.4
Interest paid	(72.8)	(71.9)
Repayments of borrowings	(12.4)	(9.2)
Net cash flows from financing activities (iii)	**(1,015.2)**	(970.7)
Net (decrease)/increase in cash and cash equivalents (i)+(ii)+(iii)	**(319.0)**	148.0
Cash and cash equivalents at beginning of year	**1,353.4**	1,205.4
Cash and cash equivalents at end of year	**1,034.4**	1,353.4
Cash and cash equivalents at end of year comprises:		
Company balance sheet cash and cash equivalents and term deposits	–	0.7
Receivables due from Iberdrola group companies – loans	1,137.9	1,483.5
Payables due to Iberdrola group companies – loans	(103.5)	(130.8)
Company cash flow statement cash and cash equivalents	**1,034.4**	1,353.4

* Comparative figures have been restated (see Note 2).

Notes 1 to 5 and the accompanying Notes 36 to 54 are an integral part of the company cash flow statements for the years ended 31 December 2013 and 31 December 2012.

36 INTANGIBLE ASSETS

Year ended 31 December 2012	Computer software £m
Cost:	
At 1 January 2012	308.8
Additions	11.4
At 31 December 2012	320.2
Amortisation:	
At 1 January 2012	269.7
Amortisation for the year	22.6
At 31 December 2012	292.3
Net book value:	
At 31 December 2012	27.9
At 1 January 2012	39.1

Year ended 31 December 2013	Computer software £m
Cost:	
At 1 January 2013	320.2
Additions	16.7
Disposals	(23.5)
At 31 December 2013	**313.4**
Amortisation:	
At 1 January 2013	292.3
Amortisation for the year	15.0
Disposals	(23.5)
At 31 December 2013	**283.8**
Net book value:	
At 31 December 2013	29.6
At 1 January 2013	27.9

(a) The cost of fully amortised computer software still in use at 31 December 2013 was £246.0 million (2012 £264.3 million)

37 PROPERTY, PLANT AND EQUIPMENT

(a) Movements in property, plant and equipment

Year ended 31 December 2012	Property, plant and equipment in use (Note (ii)) £m	Property, plant and equipment in progress £m	Total £m
Cost:			
At 1 January 2012	115.3	0.3	115.6
Additions	8.4	3.4	11.8
Disposals	(5.4)	–	(5.4)
At 31 December 2012	118.3	3.7	122.0
Depreciation:			
At 1 January 2012	91.9	–	91.9
Charge for the year	9.8	–	9.8
Disposals	(4.2)	–	(4.2)
At 31 December 2012	97.5	–	97.5
Net book value:			
At 31 December 2012	20.8	3.7	24.5
At 1 January 2012	23.4	0.3	23.7

37 PROPERTY, PLANT AND EQUIPMENT *continued*

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

Year ended 31 December 2013	Property, plant and equipment in use (Note (ii)) £m	Property, plant and equipment in progress £m	Total £m
Cost:			
At 1 January 2013	118.3	3.7	122.0
Additions	7.3	0.7	8.0
Transfers from in progress to in use	3.2	(3.2)	–
Disposals	(36.3)	–	(36.3)
At 31 December 2013	**92.5**	**1.2**	**93.7**
Depreciation:			
At 1 January 2013	97.5	–	97.5
Charge for the year	8.9	–	8.9
Disposals	(36.3)	–	(36.3)
At 31 December 2013	**70.1**	**–**	**70.1**
Net book value:			
At 31 December 2013	**22.4**	**1.2**	**23.6**
At 1 January 2013	20.8	3.7	24.5

(i) The cost of fully depreciated property, plant and equipment still in use at 31 December 2013 was £45.5 million (2012 £74.0 million).

(ii) "Property, plant and equipment in use" principally comprises IT equipment and vehicles.

(b) Operating lease arrangements

(i) Operating lease commitments	2013 £m	2012 £m
The future minimum lease payments under non-cancellable operating leases are as follows:		
Within one year	**7.6**	9.4
Between one and five years	**13.7**	19.2
More than five years	**7.4**	8.2
	28.7	36.8

The company leases various property, plant and equipment under non-cancellable operating lease arrangements. The leases have varying terms, escalation clauses and renewal rights.

(ii) Operating lease receivables	2013 £m	2012 £m
The future minimum lease payments receivable under non-cancellable operating leases are as follows:		
Within one year	**2.1**	2.5
Between one and five years	**2.1**	3.3
More than five years	**0.2**	0.4
	4.4	6.2

The company leases buildings as a lessor under operating leases. The lease arrangements have initial terms of 1 to 99 years and some certain provisions to extend the term at the option of the lessee. The leases have varying terms, escalation clauses and renewal rights.

(c) Capital commitments

	2013 £m	2012 £m
Contracted but not provided	**0.6**	0.9

38 TRADE AND OTHER RECEIVABLES

	Notes	2013 £m	2012 £m
Current receivables:			
Receivables due from Iberdrola group companies – trade		**6.3**	35.3
Receivables due from Iberdrola group companies – loans	(a)	**1,329.9**	1,483.5
Receivables due from Iberdrola group companies – interest		**35.6**	32.2
Trade receivables		**2.4**	3.3
Prepayments		**4.8**	11.4
Other tax receivables		**1.2**	–
		1,380.2	1,565.7
Non-current receivables:			
Receivables due from Iberdrola group companies – loans	(b)	**1,418.0**	1,280.0
Prepayments		**13.5**	5.0
		1,431.5	1,285.0

(a) Current loans due from Iberdrola group companies comprise £1,137.9 million (2012 £1,483.5 million) repayable on demand with interest payable at 1% above the Bank of England base rate and £192.0 million (2012 £nil) of loans due to mature in 2022, which earn interest at 3.416%.

(b) Non-current loans due from Iberdrola group companies comprises £768.0 million (2012 £960.0 million) of loans due to be repaid in 2022 which earn interest annually at 3.416%, £330 million (2012 £nil) of loans due to be repaid in 2023 which earn interest annually at 3.57% and £320.0 million (2012 £320.0 million) of loans due to be repaid in 2029 which earn interest annually at 3.365% above 12 month LIBOR.

38 TRADE AND OTHER RECEIVABLES *continued*

(c) At 31 December 2013 trade receivables of £4.6 million (2012 £15.1 million), were past due but not impaired:

	2013 £m	2012 £m
Past due but not impaired:		
Less than 3 months	**4.5**	10.7
Between 3 and 6 months	**–**	4.4
Between 6 and 12 months	**0.1**	–
	4.6	15.1

39 INVESTMENTS

	Note	Subsidiary undertakings shares £m	Other investments (Note (a)) £m	Total £m
At 1 January 2012		1,071.5	1.0	1,072.5
Additions	(b)	27.8	–	27.8
At 1 January 2013		1,099.3	1.0	1,100.3
Disposals		–	(0.1)	(0.1)
At 31 December 2013		**1,099.3**	**0.9**	**1,100.2**

(a) At 31 December 2013 the company held £0.9 million (2012 £1.0 million) of investments for which no quoted market price is available and whose fair value could not be reliably measured.

(b) On 1 January 2012, ScottishPower Renewable Energy Limited, the holding company of the group conducting Iberdrola's renewable energy activity in the UK was transferred from Iberdrola Finance UK Limited ("IBF"), a subsidiary of Iberdrola S.A., to the company for a cash consideration of £27.8 million. This transaction is described in detail at Note 34.

(c) The principal subsidiaries and jointly controlled entities are listed on page 65.

40 DEFERRED TAX ASSET

Deferred tax recognised in the Accounts is as follows:

	Property, plant and equipment £m	Derivative financial instruments £m	Retirement benefits Restated* £m	Other temporary differences £m	Total Restated* £m
At 1 January 2012	5.5	1.6	12.4	2.1	21.6
Credit/(charge) to income statement	1.1	(0.5)	(0.8)	(1.3)	(1.5)
Recorded in the statement of comprehensive income	–	–	48.2	–	48.2
At 1 January 2013	6.6	1.1	59.8	0.8	68.3
Charge to income statement	(1.0)	(0.4)	(2.7)	(0.3)	(4.4)
Recorded in the statement of comprehensive income	–	–	(25.0)	–	(25.0)
At 31 December 2013	**5.6**	**0.7**	**32.1**	**0.5**	**38.9**

* Comparative figures have been restated (See Note 2).

(a) At 31 December 2013, the company had unutilised capital losses of £3.2 million (2012 £3.1million). No deferred tax asset has been recognised in the accounts due to the unpredictability of suitable future profit streams against which these losses may be utilised.

(b) Finance Act 2012 contained legislation to set the rate of UK Corporation Tax at 23% from 1 April 2013. In the year to 31 December 2012, the rate of tax expected to apply when temporary differences reverse reduced from 25% to 23%. Finance Act 2013 contained legislation to reduce the rate to 21% from 1 April 2014 and to 20% from 1 April 2015. These changes have reduced the tax rates expected to apply when temporary differences reverse.

41 FINANCIAL INSTRUMENTS

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

		2013		2012	
	Notes	**Carrying Amount £m**	**Fair Value £m**	Carrying Amount £m	Fair Value £m
Financial assets					
Derivative financial instruments	(a)	25.3	25.3	33.4	33.4
Current receivables	(b)	1,374.2	1,374.2	1,554.3	1,554.3
Non-current receivables	(c)	1,418.0	1,635.5	1,280.0	1,565.2
Other investments		0.9	0.9	1.0	1.0
Cash and short term deposits	(d)	–	–	0.7	0.7
Financial liabilities					
Derivative financial instruments	(a)	–	–	(0.1)	(0.1)
Loans and other borrowings	(e)	(1,358.7)	(1,572.5)	(1,397.5)	(2,406.2)
Payables	(b)	(76.9)	(76.9)	(76.5)	(76.5)

The carrying amount of these financial instruments is calculated as set out in Note 3G. With the exception of non-current receivables and loans and other borrowings, the carrying value of financial instruments is a reasonable approximation of fair value. The fair value of non-current receivables is calculated as set out in Note (c). The fair value of loans and other borrowings is calculated as set out in Note (e).

(a) Further detail on derivative financial instruments is disclosed in Note 49.

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

(c) The fair value of non-current receivables is calculated using a discounted cash flow.

(d) Cash is comprised of deposits with banks and other short-term deposits. As a general rule cash deposited with banks earns interest at rates similar to market rates on daily deposits.

(e) The fair value of listed debt is calculated using the most recently traded price to the year-end date and the fair value of all other loans and borrowings is calculated using a discounted cash flow.

41 FINANCIAL INSTRUMENTS *continued*

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

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

All derivatives held by the company are Level 2.

42 LIQUIDITY ANALYSIS

Maturity profile of financial liabilities

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

		2013						
Cash outflows	Note	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 and thereafter £m	**Total £m**
Derivative financial instruments		2.3	–	–	–	–	–	**2.3**
Loans and other borrowings		202.3	72.3	72.5	272.8	56.3	1,580.3	**2,256.5**
Payables	(a)	36.8	0.9	0.9	–	–	–	**38.6**
		241.4	73.2	73.4	272.8	56.3	1,580.3	**2,297.4**

		2012						
Cash outflows	Note	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 and thereafter £m	Total £m
Derivative financial instruments		1.7	1.7	0.1	–	–	–	3.5
Loans and other borrowings		242.4	72.1	72.4	72.6	272.8	1,576.5	2,308.8
Payables	(a)	36.4	0.6	0.6	0.6	–	–	38.2
		280.5	74.4	73.1	73.2	272.8	1,576.5	2,350.5

(a) Contractual cash flows exclude accrued interest as these cash flows are included within loans and borrowings.

43 SHARE CAPITAL

	2013 £m	2012 £m
Authorised:		
3,000,000,002 (2012 3,000,000,002) ordinary shares of 50p each	**1,500.0**	1,500.0
Allotted, called up and fully paid:		
1,743,983,102 (2012 1,743,983,102) ordinary shares of 50p each	**872.0**	872.0

44 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF SCOTTISH POWER UK PLC

	Share capital £m	Share premium (Note(a)) £m	Hedge reserve (Note(b)) £m	Other reserves (Note(c)) £m	Retained earnings (Note(d)) Restated* £m	Total Restated* £m
At 1 January 2012	872.0	398.2	0.1	8.2	153.7	1,432.2
Profit for the year attributable to the equity holders of Scottish Power UK plc	–	–	–	–	1,088.3	1,088.3
Changes in the value of cash flow hedges	–	–	(0.1)	–	–	(0.1)
Actuarial losses on retirement benefits	–	–	–	–	(212.4)	(212.4)
Tax on items relating to actuarial losses on retirement benefits	–	–	–	–	48.2	48.2
At 1 January 2013	872.0	398.2	–	8.2	1,077.8	2,356.2
Profit for the year attributable to the equity holders of Scottish Power UK plc	–	–	–	–	602.1	602.1
Actuarial gains on retirement benefits	–	–	–	–	89.2	89.2
Tax on items relating to actuarial gains on retirement benefits	–	–	–	–	(25.0)	(25.0)
Dividends	–	–	–	–	(600.0)	(600.0)
At 31 December 2013	**872.0**	**398.2**	**–**	**8.2**	**1,144.1**	**2,422.5**

* Comparative figures have been restated (see Note 2).

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

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

(c) Other reserves at 31 December 2013 comprises a capital redemption reserve of £8.2 million (2012 £8.2 million). The capital redemption reserve comprises the nominal value of the company's ordinary share capital purchased by the company in previous years.

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

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

Cash flow hedges	Foreign exchange rate hedges £m	Tax effect £m	Total £m
At 1 January 2012	0.1	–	0.1
Effective cash flow hedges recognised	(0.1)	–	(0.1)
At 31 December 2012 and 31 December 2013	–	–	**–**

45 DEFERRED INCOME

Year ended 31 December 2012	At 1 January 2012 £m	Released to income statement £m	At 31 December 2012 £m
Other revenue-related deferred income	2.7	(2.7)	–
Total deferred income	2.7	(2.7)	–

As at 31 December 2013 the amount recognised in the balance sheet in respect of deferred income was £nil.

46 RETIREMENT BENEFIT OBLIGATIONS

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

	2013			2012		
	SPPS £m	**UURBS £m**	**Total £m**	SPPS £m	UURBS £m	Total £m
Non-current liabilities	**153.9**	**6.6**	**160.5**	253.8	6.1	259.9

The company recognises the pension scheme deficit in the balance sheet for the schemes for which it is the sponsoring employer as there is no appropriate contractual agreement or group policy to allocate the deficit on a legal entity basis. Detailed disclosures are provided in Note 16 of the group financial statements.

As part of the 2012 actuarial valuations, the company agreed with pension trustees to hold £883 million in retained earnings until the next valuation date (expected to take place at the end of 2015) in return for agreement to a twelve year deficit repair period. Should the company allow retained earnings to fall below that level it will revert to a ten year deficit repair period. This would have the impact of increasing the combined deficit repair payments for SPPS and Manweb by approximately £12.5 million per annum over the three year period to the next valuation.

The company has provided a guarantee to the Trustees of the Manweb pension scheme, callable in the event that SP Manweb plc is unable to fund the pension deficit.

47 OTHER PROVISIONS

Year ended 31 December 2012	Notes	At 1 January 2012 £m	New provisions £m	Unwinding of discount £m	Utilised during year £m	Released during year £m	At 31 December 2012 £m
Reorganisation and restructuring	(a)	1.6	–	–	–	(1.6)	–
Onerous contracts	(b)	20.9	–	0.3	(2.9)	(0.8)	17.5
Other	(c)	–	1.8	–	–	–	1.8
		22.5	1.8	0.3	(2.9)	(2.4)	19.3

Year ended 31 December 2013	Notes	At 1 January 2013 £m	Transfers £m	Unwinding of discount £m	Utilised during year £m	Released during year £m	**At 31 December 2013 £m**
Onerous contracts	(b)	17.5	0.6	0.5	(4.6)	(2.9)	**11.1**
Other	(c)	1.8	–	–	(0.2)	–	**1.6**
		19.3	0.6	0.5	(4.8)	(2.9)	**12.7**

Analysis of total other provisions	**2013 £m**	2012 £m
Non-current	**10.9**	14.7
Current	**1.8**	4.6
	12.7	19.3

(a) The provision for reorganisation and restructuring principally relates to restructuring within corporate office functions and was utilised in 2012.

(b) The provision for onerous contracts relates to various property leases. The leases will expire over the period between 2014 and 2025.

(c) The other category comprises various provisions which are not individually sufficiently material to warrant separate disclosure.

48 LOANS AND OTHER BORROWINGS

Analysis by instrument and maturity	Notes	Interest rate*	Maturity	2013 £m	2012 £m
On demand loans with Iberdrola group companies		Base + 1%	On demand	**103.5**	130.8
Collateral		LIBOR	30 June 2014	**26.7**	39.1
£200 million euro-sterling bond	(b), (c)	8.375%	20 February 2017	**199.4**	199.4
£300 million medium-term note	(d)	5.9%	22 February 2021	**295.2**	294.6
£250 million euro-sterling bond	(b), (e)	6.75%	29 May 2023	**248.5**	248.2
£175 million inflation linked bond	(d)	3.494% x RPI	13 October 2024	**260.2**	252.0
10 billion JPY loan	(f)	4.6%	27 July 2029	**75.2**	83.4
£50 million medium-term note	(d)	5.75%	9 December 2039	**50.0**	50.0
£100 million medium-term note	(d)	6.375%	31 May 2041	**100.0**	100.0
				1,358.7	1,397.5

* Base - Bank of England Base Rate; LIBOR–London Inter-Bank Offer Rate; RPI – Retail Prices Index

Analysis of loans and other borrowings		2013 £m	2012 £m
Non-current		**1,230.9**	1,229.9
Current	(a)	**127.8**	167.6
		1,358.7	1,397.5

(a) Current borrowings comprise loans with Iberdrola Group companies repayable on demand and collateral together with finance costs due to be amortised within one year, short term element of fair value hedge adjustments and the adjustments on discontinued fair value hedges due to be amortised within one year. This totalled £2.4 million (2012 £2.3 million).

(b) These bonds contain a "Loss of licences" covenant that will require repayment of the outstanding amount should the UK group lose all its electricity licences (distribution, transmission and supply licences).

(c) The Sterling bond due 2017 can be redeemed at any time by the company at the higher of principal amount or redemption price (as determined by HSBC Bank plc) giving 30 to 90 days' notice to the lender.

(d) Scottish Power Limited and the company have an established joint US$7 billion euro-medium term note programme. Scottish Power Limited has not issued under the programme. The company has in issue various notes in Sterling, which can be redeemed by the company with 30 to 90 days' notice in case of unfavourable and unavoidable changes in the UK tax laws impacting on the note payments.

(e) The Sterling bond due 2023 can be redeemed at any time by the company at the higher of principal amount or redemption price (as determined by HSBC Bank plc) giving 30 to 45 days' notice to the lender.

(f) The interest rate quoted above on the 10 billion JPY loan is fixed. This is changed to a variable rate by a cross currency swap.

(g) The company has no undrawn committed borrowing facilities at 31 December 2013 (2012 nil).

49 DERIVATIVE FINANCIAL INSTRUMENTS

Analysis of derivative financial instruments – carrying value

		2013				2012			
		Assets		Liabilities		Assets		Liabilities	
	Note	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
Hedging derivatives									
Exchange rate hedges									
Fair value hedge									
– Currency swap	(a)	0.8	24.5	–	–	0.7	32.7	–	–
Cash flow hedge									
– Foreign exchange rate		–	–	–	–	–	–	(0.1)	–
Total derivatives		**0.8**	**24.5**	**–**	**–**	0.7	32.7	(0.1)	–

(a) At 31 December 2013 the company held cash collateral of £26.7 million (2012 £39.1 million) in respect of derivatives.

50 TRADE AND OTHER PAYABLES

	2013 £m	2012 £m
Current trade and other payables:		
Payables due to Iberdrola group companies – trade	**0.4**	0.2
Payables due to Iberdrola group companies – interest	**0.6**	0.6
Trade payables	**22.4**	22.5
Other taxes and social security	**3.1**	3.8
Capital payables	**7.5**	8.4
Other payables	**44.2**	43.0
	78.2	78.5
Non-current other payables:		
Other payables	**1.8**	1.8

51 COMPANY INCOME STATEMENT

As permitted by Section 408 of the Companies Act 2006, the company has not presented its own income statement. The company's income statement was approved by the Board on 16 April 2014. The profit for the financial year per the Accounts of the company was £602.1 million (2012 £1,088.3 million (as restated)).

52 AUDITORS' REMUNERATION

The auditors' remuneration of the group is billed on a group basis and is not recharged to the company. Of the total group audit fee for the year ended 31 December 2013, £34,000 (2012 £30,000) related to the audit of the company Accounts. The total auditors' remuneration for the group is disclosed in Note 33 to the consolidated Accounts.

53 DIVIDENDS

	2013 pence per ordinary share	2012 pence per ordinary share	2013 £m	2012 £m
Interim dividend paid	**34.4**	–	**600.0**	–

54 RELATED PARTY TRANSACTIONS

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

	Related Party								
	2013					2012			
	Ultimate parent company (Iberdrola S.A.) £m	UK parent (Scottish Power Limited) £m	Immediate parent (Scottish Power UK Holdings Limited) £m	Subsidiary companies £m	Other Iberdrola group companies £m	Ultimate parent company (Iberdrola S.A.) £m	UK parent (Scottish Power Limited) £m	Subsidiary companies £m	Other Iberdrola group companies £m
Types of transaction									
Sales and rendering of services	1.2	0.6	–	176.7	2.6	17.7	1.0	192.8	3.0
Purchases and receipt of services	(32.3)	4.9	–	24.8	(0.1)	(33.4)	(5.0)	15.5	–
Finance income	–	21.5	–	47.2	–	–	12.7	25.2	–
Finance costs	–	–	–	(2.3)	–	–	–	(1.1)	–
Dividends received	–	–	–	625.0	–	–	–	1,122.0	–
Dividends paid	–	–	(600.0)	–	–	–	–	–	–
Pensions contributions received	–	–	–	38.5	–	–	–	31.0	–
Acquisitions of subsidiaries (Note (ii))	–	–	–	–	–	–	–	27.8	–
Balances outstanding									
Loans receivable	–	1,111.5	–	1,636.4	–	–	1,483.5	1,280.0	–
Trade receivables	–	–	–	0.1	6.2	17.5	–	3.3	14.5
Interest receivable	–	21.4	–	14.2	–	–	12.7	19.5	–
Loans payable	–	–	–	(103.5)	–	–	–	(130.8)	–
Trade payables	–	–	–	(0.3)	(0.1)	–	–	(0.2)	–
Interest payable	–	–	–	(0.6)	–	–	–	(0.6)	–

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

(ii) On 1 January 2012, as part of the Iberdrola group reorganisation, the group acquired certain renewable energy companies from another Iberdrola group company. Details of the transaction that the company participated in is set out at Note 34.

(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 Iberdrola group, it has not been possible to apportion the remuneration specifically in respect of services to this company. Two of the three key management personnel are paid by the company.

	2013 £m	2012 £m
Short-term employee benefits	**0.8**	0.6
Post-employment benefits	**0.1**	0.1
Share-based payments	**0.1**	0.2
	1.0	0.9

(c) Directors' remuneration

Details of directors' remuneration are set out at Note 32(c).

(d) 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 Holdings Limited. 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 Holdings Limited may be obtained from The Secretary, Scottish Power UK Holdings Limited, 1 Atlantic Quay, Glasgow G2 8SP.

Scottish Power UK plc
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