SCOTTISHPOWER RENEWABLES (WODS) LIMITED
DIRECTORS' REPORT AND ACCOUNTS
for the year ended 31 December 2013

Registered No. SC374288

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SCOTTISHPOWER RENEWABLES (WODS) LIMITED
DIRECTORS' REPORT

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

ACTIVITIES AND REVIEW
The principal activity of ScottishPower Renewables (WODS) Limited ("the company"), registered company number SC374288, is the development of the West of Duddon Sands offshore wind farm located in the East Irish Sea.

On 11 March 2010 the company entered into a Joint Operations Agreement ("JOA") with DONG Energy West of Duddon Sands (UK) Limited ("DONG WODS"). Under the terms of the JOA the joint participants have appointed DONG Energy Power UK Limited (formerly known as DONG Wind (UK) Limited) as the Operator with responsibility for the planning, construction, operation and decommissioning of the wind farm. Consent for the wind farm was granted on 23 September 2008, and first generation took place in January 2014. The wind farm is expected to be fully completed by the end of 2014, and will have the capacity to produce 389MW of clean green energy.

The ultimate parent of the company is Iberdrola S.A. ("Iberdrola") which is listed on the Madrid stock exchange and the immediate parent company is ScottishPower Renewables (UK) Limited. The company is part of the ScottishPower Limited group ("ScottishPower"), which is headed by Scottish Power Limited ("SPL").

The company had net current liabilities of £375.5 million at 31 December 2013 (2012 £136.2 million - restated), and net liabilities of £10.7 million (2012 £29.2 million), which includes loans owed to Iberdrola group companies of £450.5 million (2012 £135.6 million). The directors consider that sufficient funding will be made available to the company to continue operations and to meet liabilities as they fall due. Further details of the going concern considerations made by the directors of the company are set out in Note 20.

KEY FACTORS AFFECTING THE BUSINESS
The company's objectives to manage the key drivers impacting the financial performance of the company during the year were as follows:
- Deliver offshore investment programmes efficiently; and
- Develop efficient operations and reduce costs.

MANAGEMENT OF RISKS
The business identifies and assesses the key business risks associated with the achievement of its strategic objectives. Any key actions needed to enhance the control environment are identified, along with the person responsible for the management of the specific risk. Further details of the risk management practices of ScottishPower can be found in Note 4 of the most recent Annual Report and Accounts of SPL.

OPERATIONAL FINANCIAL PERFORMANCE
As the wind farm was still in the development stage the company has not traded in either the current or prior years. As such the profit from operations was £nil (2012 £nil). Overall, the directors are satisfied with the level of business and the year end financial position.

RESULTS AND DIVIDENDS
The net profit for the year was £0.1 million (2012 £nil). No dividends were proposed or paid in the year (2012 £nil).

FINANCING REVIEW
Capital and debt structure
The company is funded almost entirely by debt. The £1 of share capital is held by the immediate parent undertaking, ScottishPower Renewables (UK) Limited.

Treasury and interest policy
Treasury services are provided by SPL. SPL grants the majority of the loan facilities to the company. ScottishPower has a risk policy within treasury and financing which is designed to ensure that the company's exposure to variability of cash flows and asset values due to fluctuations in market interest rates and exchange rates are minimised and managed at acceptable risk levels. Further details of the treasury and interest policy for ScottishPower and how it manages them is included in Note 4 of the most recent Annual Report and Accounts of SPL.

FINANCING REVIEW ***continued***

Liquidity

The directors confirm that the company remains a going concern on the basis of its future cash flow forecasts and has sufficient working capital for present requirements. The directors consider that sufficient funding will be made available to the company to continue operations and to meet liabilities as they fall due. Further details of the going concern considerations made by the directors of the company are set out in Note 20.

Funding

At the end of the year the company had net debt amounting to £422.2 million (2012 £129.8 million).

ENVIRONMENTAL REGULATION

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

HEALTH AND SAFETY

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

DIRECTORS

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

Keith Anderson
Jonathan Cole
Roy Scott

DIRECTORS' RESPONSIBILITIES FOR THE ACCOUNTS

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

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

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

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

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

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

SCOTTISHPOWER RENEWABLES (WODS) LIMITED
DIRECTORS' REPORT *continued*

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

ON BEHALF OF THE BOARD

Keith Anderson
Director
2 June 2014

INDEPENDENT AUDITOR'S REPORT

to the members of ScottishPower Renewables (WODS) Limited

We have audited the Accounts of ScottishPower Renewables (WODS) Limited for the year ended 31 December 2013 which comprise the Balance Sheet, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Cash Flow Statement, and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement set out on page 2, the directors are responsible for the preparation of the Accounts and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Accounts in accordance with the applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE ACCOUNTS

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

OPINION ON ACCOUNTS

In our opinion the Accounts:

- give a true and fair view of the state of the company's affairs as at 31 December 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' Report for the financial year for which the Accounts are prepared is consistent with the Accounts.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

Ernst & Young LLP

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

SCOTTISHPOWER RENEWABLES (WODS) LIMITED
BALANCE SHEETS
as at 31 December 2013 and 31 December 2012

	Notes	2013 £m	2012 Restated* £m
ASSETS			
NON-CURRENT ASSETS			
Investments	3	-	-
Property, plant and equipment	4	**362.3**	104.9
Deferred tax asset	5	**2.8**	8.7
NON-CURRENT ASSETS		**365.1**	113.6
CURRENT ASSETS			
Inventories	6	**110.1**	53.7
Trade and other receivables	7	**17.9**	7.8
Financial assets		**28.3**	6.5
Cash and cash equivalents	8	28.3	6.4
Derivative financial instruments	8, 14	-	0.1
CURRENT ASSETS		**156.3**	68.0
TOTAL ASSETS		**521.4**	181.6
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the parent		**(10.7)**	(29.2)
Share capital	10, 11	-	-
Cash flow hedge reserve	11	(10.8)	(29.2)
Retained earnings	11	0.1	-
TOTAL EQUITY		**(10.7)**	(29.2)
NON-CURRENT LIABILITIES			
Derivative financial instruments	8, 14	**0.3**	6.6
NON-CURRENT LIABILITIES		**0.3**	6.6
CURRENT LIABILITIES			
Provisions	12	**4.6**	4.8
Bank borrowings and other current financial liabilities		**457.5**	161.1
Loans and other borrowings	13	450.5	136.2
Derivative financial instruments	8, 14	7.0	24.9
Trade and other payables	15	**69.7**	38.3
CURRENT LIABILITIES		**531.8**	204.2
TOTAL LIABILITIES		**532.1**	210.8
TOTAL EQUITY AND LIABILITIES		**521.4**	181.6

*Comparative figures have been restated (See Note 1).

Approved by the Board on 2 June 2014 and signed on its behalf by:

Keith Anderson
Director

The accompanying notes 1 to 20 are an integral part of the balance sheets as at 31 December 2013 and 31 December 2012.

SCOTTISHPOWER RENEWABLES (WODS) LIMITED
INCOME STATEMENTS
for the years ended 31 December 2013 and 31 December 2012

	Notes	2013 £m	2012 £m
Finance income	16	0.1	-
Finance costs	17	-	-
PROFIT BEFORE TAX		**0.1**	-
Income tax		-	-
NET PROFIT FOR THE YEAR		**0.1**	-

The profit for both years is wholly attributable to the equity holders of ScottishPower Renewables (WODS) Limited.

All results relate to continuing operations.

STATEMENTS OF COMPREHENSIVE INCOME
for the years ended 31 December 2013 and 31 December 2012

	2013 £m	2012 £m
NET PROFIT FOR THE YEAR	**0.1**	-
OTHER COMPREHENSIVE INCOME		
Items that will not be reclassified to the income statement:		
Cash flow hedges:		
Change in the value of cash flow hedges	24.3	(14.2)
Tax relating to cash flow hedges	(5.9)	2.8
OTHER COMPREHENSIVE INCOME FOR THE YEAR	**18.4**	(11.4)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**18.5**	(11.4)

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

	Ordinary share capital £m	Cash flow hedge reserve £m	Retained Earnings £m	Total £m
At 1 January 2012	-	(17.8)	-	(17.8)
Total comprehensive income for the year	-	(11.4)	-	(11.4)
At 1 January 2013	-	(29.2)	-	(29.2)
Total comprehensive income for the year	-	18.4	0.1	18.5
At 31 December 2013	-	**(10.8)**	**0.1**	**(10.7)**

The accompanying notes 1 to 20 are an integral part of the income statements, statements of comprehensive income and statements of changes in equity for the years ended 31 December 2013 and 31 December 2012.

SCOTTISHPOWER RENEWABLES (WODS) LIMITED
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	0.1	-
Adjustments for:		
Change in provisions	(0.2)	-
Finance income and costs	(0.1)	-
Changes in working capital:		
Change in inventories	(56.4)	(53.7)
Change in trade and other receivables	(10.1)	(0.3)
Change in trade payables	22.8	-
Net cash flows from operating activities (i)	**(43.9)**	(54.0)
Cash flows from investing activities		
Investments in property, plant & equipment	(247.7)	(33.9)
Net cash flows from investing activities (ii)	**(247.7)**	(33.9)
Cash flows from financing activities		
Interest paid	(0.8)	(0.6)
Net cash flows from financing activities (iii)	**(0.8)**	(0.6)
Net decrease in cash and cash equivalents (i)+(ii)+(iii)	(292.4)	(88.5)
Cash and cash equivalents at beginning of year	(129.8)	(41.3)
Cash and cash equivalents at end of year	**(422.2)**	(129.8)

Cash and cash equivalents at end of year comprises:

Balance sheet cash and cash equivalents and term deposits	28.3	6.4
Bank overdraft	-	(0.6)
Payables due to Iberdrola group companies - loans	(450.5)	(135.6)
Cash flow statement cash and cash equivalents	**(422.2)**	(129.8)

*Comparative figures have been restated (See Note 1).

The accompanying notes 1 to 20 are an integral part of cash flow statements for the years ended 31 December 2013 and 31 December 2012.

1 BASIS OF PREPARATION

A. BASIS OF PREPARATION OF THE ACCOUNTS

The company is required by law to prepare accounts and to deliver them to the Registrar of Companies. The Accounts have been prepared in accordance with International Accounting Standards ("IAS"), International Financial Reporting Standards ("IFRSs") and International 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. The Accounts are prepared in accordance with the Accounting Policies set out in Note 2.

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 company in either the current or prior year.

B. ACCOUNTING STANDARDS

In preparing these Accounts, the company has applied all relevant IAS, IFRS and IFRIC Interpretations which have been adopted by the EU as of the date of approval of these Accounts and which are mandatory for the financial year ended 31 December 2013.

For the year ended 31 December 2013, the company has applied the following 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'	(b)
• IFRS 13 'Fair Value Measurement'	(b)
• Amendments to IFRS 7 'Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities'	(c)
• Annual Improvements to IFRSs (2009-2011)	(b)

(a) The application of the amendments to IAS 1 as from 1 January 2013 has not had a material impact on the company'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 application of these pronouncements did not have a material impact on the company's accounting policies, financial position or performance.

(c) 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 company's accounting policies, financial position or performance. Additional disclosures have been provided in Note 8 of the Accounts.

SCOTTISHPOWER RENEWABLES (WODS) LIMITED
NOTES TO ACCOUNTS *continued*
31 December 2013

B. ACCOUNTING STANDARDS *continued*

The following new standards and amendments and interpretations have been issued by the International Accounting Standards Board ("IASB") but have an effective date after the date of these financial statements and have not yet been implemented by the company:

Standard	Notes	IASB Effective Date (for periods commencing on or after)	Planned date of application by the company
• IFRS 9 'Financial Instruments' and subsequent amendments	(d), (e), (f)	Not yet assigned	Not yet assigned
• IFRS 10 'Consolidated Financial Statements'	(g), (h)	1 January 2013	1 January 2014
• IFRS 11 'Joint Arrangements'	(g), (h)	1 January 2013	1 January 2014
• IFRS 12 'Disclosure of Interests in Other Entities'	(g), (h)	1 January 2013	1 January 2014
• IAS 27 (Revised) 'Separate Financial Statements'	(g), (h)	1 January 2013	1 January 2014
• IAS 28 (Revised) 'Investments in Associates and Joint Ventures'	(g), (h)	1 January 2013	1 January 2014
• Amendments to IAS 32 'Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities'	(i)	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'	(g), (h)	1 January 2013	1 January 2014
• Amendments to IFRS 10, IFRS 12 and IAS 27 'Investment Entities'	(i)	1 January 2014	1 January 2014
• Amendments to IAS 36 'Impairment of Asset – Recoverable Amount for Non-Financial Assets'	(i)	1 January 2014	1 January 2014
• IFRIC 21 'Levies'	(e), (i)	1 January 2014	1 January 2014
• Amendments to IAS 39 'Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting'	(i)	1 January 2014	1 January 2014
• Amendments to IAS 19 'Employee Benefits Defined Benefit Plans Employee Contribution'	(e), (i)	1 July 2014	1 January 2015
• Annual Improvements to IFRSs (2010-2012)	(e), (i)	1 July 2014	1 January 2015
• Annual Improvements to IFRSs (2011-2013)	(e), (i)	1 July 2014	1 January 2015
• IFRS 14 'Regulatory Deferral Accounts'	(e), (i)	1 January 2016	1 January 2016
• Amendments to IFRS 11 'Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations'	(e), (i)	1 January 2016	1 January 2016
• Amendments to IAS 16 'Property, Plant and Equipment' and IAS 38 'Intangible Assets' – 'Clarification of Acceptable Methods of Depreciation and Amortisation'	(e), (i)	1 January 2016	1 January 2016
• IFRS 15 'Revenue from Contracts with Customers'	(d), (e)	1 January 2017	1 January 2017

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

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

(f) The IASB decided that the original mandatory date of 1 January 2015 would not allow sufficient time for entities to ally 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 directors have decided not to do so.

(g) These standards will not have a significant impact in relation to the company's accounting policies, financial position and performance. However additional disclosure may be required in line with the requirements of IFRS 12.

(h) 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.

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

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

2 ACCOUNTING POLICIES

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

A PROPERTY, PLANT AND EQUIPMENT
B IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT
C LEASED ASSETS
D FINANCIAL INSTRUMENTS
E INVENTORIES
F FOREIGN CURRENCIES
G TAXATION

2 ACCOUNTING POLICIES *continued*

A PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost and is generally depreciated on the straight-line method over the estimated operational lives of the assets. Property, plant and equipment includes capitalised 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.

Depreciation will commence in the period that revenue is first recognised. Until this time all property, plant and equipment continues to be in a development stage.

B IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

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

C 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.

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

D FINANCIAL INSTRUMENTS

D1. 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 company operates.
(b) Cash and cash equivalents in the balance sheet comprise cash on hand which is readily convertible into a known amount of cash without a significant risk of change in value. In the cash flow statement, cash and cash equivalents exclude term deposits which have a maturity of more than 90 days at the date of acquisition and include bank overdrafts repayable on demand the next business day and the net of current loans receivable and payable from Iberdrola, as appropriate.
(c) Financial liabilities categorised as trade payables are recognised and carried at original invoice amount.
(d) All interest bearing loans and borrowings are initially recognised at fair value, net of directly attributable transaction costs. Interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

The company enters into treasury-related derivatives to manage its financial risk. IAS 39 'Financial Instruments: Recognition and Measurement' requires all derivatives to be recognised on the balance sheet at fair value. Unrealised gains or losses on remeasurement of derivatives are reported in the income statement except when hedge accounting is applied (see D3).

2 ACCOUNTING POLICIES *continued*

D. FINANCIAL INSTRUMENTS *continued*

D2. RISK CONTROL ENVIRONMENT

ScottishPower's strategy 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 rigid control environment at all levels of the organisation. Further details of ScottishPower's strategy and management of risks are discussed in detail in the most recent Annual Report and Accounts of SPL.

D3. HEDGE ACCOUNTING

Hedge accounting is applied when certain conditions required by IAS 39 are met.

D3.1 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 finance costs, as appropriate, are recognised 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.

D3.2 HEDGE EFFECTIVENESS

Hedge effectiveness is measured and respective entries recorded in the balance sheet, reserves and income statement 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%.

D3.3 DISCOUNTINUING HEDGE ACCOUNTING

The company 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.

D3.4 VALUATION OF FINANCIAL INSTRUMENTS

In those circumstances where IAS 39 requires financial instruments to be recognised in the balance sheet at fair value, the company'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.

D3.5 OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The company offsets a financial asset and a financial liability and reports the net amount only when the company 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.

2 ACCOUNTING POLICIES *continued*

E INVENTORIES

Inventories are valued at the lower of cost and net realisable value. Inventories includes capitalised interest and other directly attributable costs.

F FOREIGN CURRENICIES

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 income statement.

G TAXATION

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

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

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

3 INVESTMENTS

The principal holdings of the company are set out below:

Jointly controlled entity	Country of incorporation	Class of share capital	Proportion of shares held %	Activity
Morecambe Wind Limited	England & Wales	£1 ordinary shares	50%	Provision of operational services

The value of investment in Morecambe Wind Limited is £3 (2012 £3).

4 PROPERTY, PLANT AND EQUIPMENT

(a) Movements in property, plant and equipment

Year ended 31 December 2012	Wind power plant in progress Restated* £m
Cost:	
At 1 January 2012	42.7
Additions	62.2
At 31 December 2012	104.9
Net book value:	
At 31 December 2012	104.9
At 1 January 2012	42.7

*Comparative figures have been restated (See Note 1).

4 PROPERTY, PLANT AND EQUIPMENT *continued*

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

Year ended 31 December 2013	Wind power plant in progress £m
Cost:	
At 1 January 2013	104.9
Additions	257.4
At 31 December 2013	**362.3**
Net book value:	
At 31 December 2013	**362.3**
At 1 January 2013	104.9

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

(b) Capital commitments

	2013 £m	2012 Restated* £m
Contracted but not provided	**237.9**	421.0

*Comparative figures have been restated (see Note 1).

(c) Operating lease arrangements

(i) Operating lease payments	2013 £m	2012 £m
Minimum lease payments under operating leases recognised as an expense in the year	-	-

All operating lease payments in current and prior years have been capitalised.

(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	**15.9**	31.5
Between one and five years	**14.2**	29.4
More than five years	**6.8**	6.9
	36.9	67.8

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

5 DEFERRED TAX ASSET

Deferred tax provided in the Accounts is as follows:

	Derivative financial instruments £m
At 1 January 2012	5.9
Recorded in the statement of comprehensive income	2.8
At 1 January 2013	8.7
Recorded in the statement of comprehensive income	(5.9)
At 31 December 2013	**2.8**

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.

6 INVENTORIES

	Note	2013 £m	2012 £m
Other inventories	(a)	**110.1**	53.7

(a) Other inventories represent 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 4). Comparative figures have been restated (see Note 1).

7 TRADE AND OTHER RECEIVABLES

	2013 £m	2012 £m
Prepayments	**6.4**	7.5
Other debtors	**4.5**	-
Amounts receivable from jointly controlled entity	**0.8**	-
Other tax receivables	**6.2**	0.3
	17.9	7.8

8 MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Carrying value of financial instruments

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

	Notes	2013 Carrying amount £m	2013 Fair value £m	2012 Carrying amount £m	2012 Fair value £m
Financial assets					
Receivables	(i)	**5.3**	**5.3**	-	-
Cash and cash equivalents	(ii)	**28.3**	**28.3**	6.4	6.4
Derivative financial instruments	(iii)	**-**	**-**	0.1	0.1
Financial liabilities					
Derivative financial instruments	(iii)	**(7.3)**	**(7.3)**	(31.5)	(31.5)
Loans and other borrowings	(iv)	**(450.5)**	**(450.5)**	(136.2)	(136.2)
Payables		**(69.7)**	**(69.7)**	(38.3)	(38.3)

The carrying amount of these financial instruments is calculated as set out in Note 2D. 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 (iv).

(i) Balances out with the scope of IFRS 7 have been excluded namely prepayments and tax receivables.
(ii) Cash and cash equivalents 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.
(iii) Further details on derivative financial instruments are disclosed in Note 14.
(iv) The loans due to parent companies do not have defined repayment schedules. As it is not possible to estimate reliably the future cash flows or the expected life of these financial instruments, their carrying value is assumed to be a reasonable approximation of their fair value.

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.

SCOTTISHPOWER RENEWABLES (WODS) LIMITED
NOTES TO ACCOUNTS *continued*
31 December 2013

8 MEASUREMENT OF FINANCIAL INSTRUMENTS *continued*

(b) Offsetting of financial assets and financial liabilities

The company is eligible to present financial assets and financial liabilities net on the balance sheet as described in Note 2 section D3.5. The following table provides information on the impact of offsetting on the balance sheet.

	2013		
	Gross amounts of recognised financial assets/(liabilities) £m	Gross amounts of recognised financial assets/(liabilities) offset in the balance sheet £m	**Net amounts of financial assets/(liabilities) presented in the balance sheet £m**
Financial assets			
Derivative financial instruments	0.3	(0.3)	-
Financial liabilities			
Derivative financial instruments	(7.6)	0.3	**(7.3)**

	2012		
	Gross amounts of recognised financial assets/(liabilities) £m	Gross amounts of recognised financial assets/(liabilities) offset in the balance sheet £m	Net amounts of financial assets/(liabilities) presented in the balance sheet £m
Financial assets			
Derivative financial instruments	0.2	(0.1)	0.1
Financial liabilities			
Derivative financial instruments	(31.6)	0.1	(31.5)

9 LIQUIDITY ANALYSIS

Maturity profile of financial liabilities

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

	2013						
Cash outflows	**2014 £m**	**2015 £m**	**2016 £m**	**2017 £m**	**2018 £m**	**2019 and thereafter £m**	**Total £m**
Derivative financial instruments	257.1	5.7	-	-	-	-	**262.8**
Loans and other borrowings	455.2	-	-	-	-	-	**455.2**
Payables*	65.0	-	-	-	-	-	**65.0**
	777.3	**5.7**	**-**	**-**	**-**	**-**	**783.0**

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

	2012						
Cash outflows	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 and thereafter £m	Total £m
Derivative financial instruments	401.9	102.4	5.7	-	-	-	510.0
Loans and other borrowings	137.0	-	-	-	-	-	137.0
Payables*	37.5	-	-	-	-	-	37.5
	576.4	102.4	5.7	-	-	-	684.5

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

10 SHARE CAPITAL

	2013 £	2012 £
Allotted, called up and fully paid shares:		
Ordinary shares of £1 each	1	1

11 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF SCOTTISHPOWER RENEWABLES (WODS) LIMITED

	Ordinary share capital £m	Cash flow hedge reserve (Note (b)) £m	Retained earnings (Note (a)) £m	Total £m
At 1 January 2012	-	(17.8)	-	(17.8)
Changes in the value of cash flow hedges	-	(14.2)	-	(14.2)
Tax on items relating to cash flow hedges	-	2.8	-	2.8
At 1 January 2013	-	(29.2)	-	(29.2)
Profit for the year attributable to equity holders of ScottishPower Renewables (WODS) Limited	-	-	0.1	0.1
Changes in the value of cash flow hedges	-	24.3	-	24.3
Tax on items relating to cash flow hedges	-	(5.9)	-	(5.9)
At 31 December 2013	**-**	**(10.8)**	**0.1**	**(10.7)**

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

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

Cash flow hedges	Foreign exchange rate hedges £m	Tax effect £m	Total £m
At 1 January 2012	(23.7)	5.9	(17.8)
Effective cash flow hedges recognised	(21.7)	5.0	(16.7)
Removed from equity and recognised in carrying amount of hedged items	7.5	(1.7)	5.8
Changes in future tax rates	-	(0.5)	(0.5)
At 1 January 2013	(37.9)	8.7	(29.2)
Effective cash flow hedges recognised	(14.8)	3.0	(11.8)
Removed from equity and recognised in carrying amount of hedged items	39.1	(7.8)	31.3
Changes in future tax rates	-	(1.1)	(1.1)
At 31 December 2013	**(13.6)**	**2.8**	**(10.8)**

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

	2013 £m	2012 £m
Less than 1 year	**(10.6)**	(24.0)
1-2 years	**(0.2)**	(4.9)
2-3 years	**-**	(0.3)
	(10.8)	(29.2)

12 PROVISIONS

Year ended 31 December 2012	Note	At 1 January 2012 £m	Released during the year £m	At 31 December 2012 £m
Provision arising on the purchase of interest in the WODS project	(a)	4.8	-	4.8

Year ended 31 December 2013	Note	At 1 January 2013 £m	Released during the year £m	**At 31 December 2013 £m**
Provision arising on the purchase of interest in the WODS project	(a)	4.8	(0.2)	**4.6**

(a) The provision reflects amounts due to Eurus Energy UK Limited and Eurus Energy Europe BV in respect of the purchase of Eurus Energy's one-third interest in the West of Duddon Sands (WODS) project. The provision is an index-linked amount payable upon commissioning of the full project.

SCOTTISHPOWER RENEWABLES (WODS) LIMITED
NOTES TO ACCOUNTS *continued*
31 December 2013

12 PROVISIONS *continued*

Analysis of total provisions	2013 £m	2012 £m
Current	4.6	4.8

13 LOANS AND OTHER BORROWINGS

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

Instrument	Interest Rate*	Maturity	2013 £m	2012 £m
Loans with Scottish Power Limited	Base + 1%	On demand	450.5	135.6
Bank overdraft	1.25%	On demand	-	0.6
Total debt			**450.5**	136.2

* Base – Bank of England Base Rate

(b) Borrowing facilities

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

14 DERIVATIVE FINANCIAL INSTRUMENTS

		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									
Foreign exchange rate		0.3	-	(7.3)	(0.3)	0.2	-	(25.0)	(6.6)
Total gross derivatives		**0.3**	-	**(7.3)**	**(0.3)**	0.2	-	(25.0)	(6.6)
Impact of netting	(a)	(0.3)	-	0.3	-	(0.1)	-	0.1	-
Total net derivatives		-	-	**(7.0)**	**(0.3)**	0.1	-	(24.9)	(6.6)

(a) Certain derivative financial instruments are presented net on the balance sheet. A reconciliation between the gross and net position is provided in Note 8(b).

15 TRADE AND OTHER PAYABLES

	2013 £m	2012 £m
Current trade and other payables:		
Payables due to Iberdrola group companies	5.0	2.9
Payables due to Iberdrola group companies - interest	4.7	0.8
Payables due to Iberdrola group companies - capital	0.8	0.6
Payables due to jointly controlled entities	0.3	-
Trade payables and accrued expenses	54.0	33.9
Capital payables and accruals	4.9	0.1
	69.7	38.3

16 FINANCE INCOME

	2013 £m	2012 £m
Foreign exchange gains	0.1	-

17 FINANCE COSTS

	2013 £m	2012 £m
Interest on amounts due to Iberdrola group companies	4.7	1.2
	4.7	1.2
Capitalised interest	(4.7)	(1.2)
Total finance costs	-	-

18 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 (SPL) £m	Immediate parent (SPRUK) £m	Other Iberdrola group companies £m	Jointly controlled entity £m	Ultimate parent (Iberdrola S.A.) £m	UK parent (SPL) £m	Other Iberdrola group companies £m
Types of transaction								
Purchases and receipt of services	(3.8)	-	(0.4)	(0.3)	-	(4.1)	-	-
Finance costs	-	(4.7)	-	-	-	-	(0.8)	(0.4)
Balances outstanding								
Amounts receivable from jointly controlled entities	-	-	-	-	0.8	-	-	-
Loans payable	-	(450.5)	-	-	-	-	(135.6)	-
Trade payables	-	-	(0.2)	(4.8)	(0.3)	-	-	(2.9)
Interest payable	-	(4.7)	-	-	-	-	(0.8)	-
Capital payables	-	-	-	(0.8)	-	-	-	(0.6)
Derivative financial liabilities	-	-	-	-	-	-	(0.3)	-

(i) The amounts outstanding will be settled in cash.

(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. All of the key management personnel are paid by other companies within the Iberdrola group.

	2013 £000	2012 £000
Short-term employee benefits	877	818
Post-employment benefits	260	249
Share-based payments	137	94
	1,274	1,161

(c) Directors' remuneration

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

Executive directors	2013 £000	2012 £000
Aggregate remuneration in respect of qualifying services	831	818
Aggregate contributions payable to a defined contribution pension scheme	18	17
Number of directors who exercised share options	1	3
Number of directors who received shares under a long-term incentive scheme	1	1
Number of directors accruing retirement benefits under a defined benefit pension scheme	2	2
Number of directors accruing retirement benefits under a defined contribution scheme	1	1

Highest paid director	2013 £000	2012 £000
Aggregate remuneration in respect of qualifying services	472	461
Accrued pension benefit	53	50

(i) The highest paid director received shares under a long-term incentive scheme during both years.
(ii) The highest paid director exercised share options during both years.

18 RELATED PARTY TRANSACTIONS *continued*

(d) Ultimate parent company and immediate parent company

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

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

19 AUDITORS' REMUNERATION

	2013	2012
	£000	£000
Audit of the company's annual accounts	12	12

20 GOING CONCERN

The company's business activities, together with the factors likely to affect its future development and position, are set out in the Directors' Report on pages 1 to 3.

The company has recorded a profit after tax in the current year of £0.1 million. The company's balance sheet shows that it has net current liabilities of £375.5 million and net liabilities of £10.7 million at its most recent balance sheet date.

The company is ultimately owned by Iberdrola S.A.. The company's cash flow requirements are met by its parent companies and as a consequence, the company depends, in part, on the ability of the Iberdrola group to continue as a going concern. The directors have considered the company's funding relationship with Iberdrola to date and have considered available relevant information relating to Iberdrola's ability to continue as a going concern. In addition, the directors have no reason to believe that Iberdrola will not continue to fund the company, should it become necessary, to enable it to continue in operational existence.

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