# SCOTTISHPOWER (DCL) LIMITED
# ANNUAL REPORT AND ACCOUNTS
# for the year ended 31 December 2017

Registered No. 02675504

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SCOTTISHPOWER (DCL) LIMITED
ANNUAL REPORT AND ACCOUNTS
for the year ended 31 December 2017

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# SCOTTISHPOWER (DCL) LIMITED
# STRATEGIC REPORT

The directors present an overview of ScottishPower (DCL) Limited's business structure, 2017 performance, strategic objectives and plans.

**STRATEGIC OUTLOOK**

The principal activity of ScottishPower (DCL) Limited ("the company") is to hold a loan receivable from another Scottish Power Limited group ("ScottishPower") company. The company will continue with this activity for the foreseeable future.

Prior to 1 March 2016 the principal activity of the company was the generation of electricity at Damhead Creek Power Station; a 792 megawatts combined cycle gas turbine electricity generating plant at Kingsnorth in Kent. On this date the directors approved the transfer of the company's business to ScottishPower Generation Limited ("SPGen"), another ScottishPower company. This transfer was completed with effect from 1 March 2016 when SPGen acquired the company's business for a cash consideration of £286.7 million. This resulted in a gain of £117.0 million being recognised in the income statement.

The ultimate parent of the company is Iberdrola, S.A. ("Iberdrola") which is listed on the Madrid stock exchange and the immediate parent of the company is Scottish Power Generation Holdings Limited ("SPGH"). Scottish Power Limited ("SPL") is the United Kingdom ("UK") holding company of ScottishPower, of which the company is a member.

**OPERATIONAL PERFORMANCE**

The tables below provide key information relating to the company's financial and non-financial performance during the year.

| | Revenue* | | Operating result/(loss)* | | Capital investment** | |
|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| **Financial key performance indicators** | **£m** | £m | **£m** | £m | **£m** | £m |
| **ScottishPower (DCL) Limited** | - | 38.3 | - | (4.3) | - | 1.0 |

* Revenue and operating result/(loss) as presented on page 8.

** *Capital investment as presented in Note 3 on page 14.*

Revenue decreased by £38.3 million as a result of the company's business being transferred to SPGen on 1 March 2016.

As a result of the business transfer, a £nil operating result was recognised in the year compared to a £4.3 million operating loss in 2016. There was £nil capital investment in 2017, a decrease of £1.0 million in 2016.

The transfer of the company's business to SPGen resulted in a gain on sale of non-current assets of £117.0 million during 2016.

**LIQUIDITY AND CASH MANAGEMENT**

*Cash and net funds*

Net cash flows from operating activities increased by £4.1 million (refer to Cash Flow Statement on page 10). Net funds increased by £0.6 million to £55.0 million (refer to Note 7 on page 15).

*Capital structure*

The company is wholly funded by equity. All equity is held by the company's immediate parent undertaking, SPGH. Treasury services are provided by SPL. 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.

**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.

**PRINCIPAL RISKS AND UNCERTAINTIES**

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 robust control environment at all levels of the organisation. Further details of ScottishPower's governance structure and risk management are provided in Note 4 of the Annual Report and Accounts of SPL.

The company has no material risks and uncertainties that may impact its current and future operational and financial performance.

**ON BEHALF OF THE BOARD**

Heather Chalmers White.

**Heather Chalmers White**
**Director**
16 August, 2018

# SCOTTISHPOWER (DCL) LIMITED
# DIRECTORS' REPORT

The directors present their report and audited Accounts for the year ended 31 December 2017.

**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 and 2:

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

**RESULTS AND DIVIDENDS**
The net profit for the year amounted to £0.6 million (2016 £113.8 million). No dividends were paid during the current or prior year.

**ENVIRONMENTAL MANAGEMENT AND 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.

**MODERN SLAVERY STATEMENT**
ScottishPower is committed to human and labour rights and to eliminating modern slavery that could in any way be connected to its business. ScottishPower welcomed the introduction of the Modern Slavery Act 2015 and published its own Modern Slavery Statement which was approved by the Board of Directors of SPL.

ScottishPower's Modern Slavery Statement is published on the ScottishPower website at:
www.scottishpower.com/pages/scottishpowers_modern_slavery_statement.aspx.

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

Heather Chalmers White
Oscar Fortis Pita

**DIRECTORS' INDEMNITY**
In terms of the Company's Articles of Association, a qualifying third party indemnity provision is in force for the benefit of all the directors of the Company and has been in force during the financial year.

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND ACCOUNTS**
The directors are responsible for preparing the Annual Report and Accounts in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union ("EU");
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND ACCOUNTS *continued***

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect 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.

**AUDITOR**

KPMG LLP were appointed as the auditor of the company for the year ended 31 December 2017 in place of the retiring auditor, Ernst & Young LLP.

**ON BEHALF OF THE BOARD**

Heather Chalmers White

**Heather Chalmers White**
**Director**
16 August, 2018

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SCOTTISHPOWER (DCL) LIMITED

**OPINION**

We have audited the financial statements of ScottishPower (DCL) Limited ("the company") for the year ended 31 December 2017 which comprise the Balance Sheet, Income Statement and Statement of Other Comprehensive Income, Statement of Changes in Equity, Cash Flow Statement, and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**BASIS FOR OPINION**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the Financial Reporting Council ("FRC") Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

**GOING CONCERN**

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

**STRATEGIC REPORT AND DIRECTORS' REPORT**

The directors are responsible for the Strategic Report and the Directors' Report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the Strategic Report and the Directors' Report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

**MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION**

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements 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.

We have nothing to report in these respects.

**DIRECTORS' RESPONSIBILITIES**

As explained more fully in their statement set out on pages 3 and 4, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

**AUDITOR'S RESPONSIBILITIES**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

**THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES**

This report is made solely to the company's members, 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 members those matters we are required to state to them 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 members, as a body, for our audit work, for this report, or for the opinions we have formed.

**Philip Charles (Senior Statutory Auditor)**
**for and on behalf of KPMG LLP, Statutory Auditor**
Chartered Accountants
319 St. Vincent Street
Glasgow
G2 5AS
16 August 2018

**SCOTTISHPOWER (DCL) LIMITED**
**BALANCE SHEETS**
**as at 31 December 2017 and 31 December 2016**

| | Notes | 2017 £m | 2016 £m |
|---|---|---|---|
| **ASSETS** | | | |
| **CURRENT ASSETS** | | | |
| **Trade and other receivables** | 7 | **55.7** | 55.0 |
| **CURRENT ASSETS** | | **55.7** | 55.0 |
| **TOTAL ASSETS** | | **55.7** | 55.0 |
| **EQUITY AND LIABILITIES** | | | |
| **EQUITY** | | | |
| **Of shareholders of the parent** | | **55.6** | 55.0 |
| Share capital | 8, 9 | 50.9 | 50.9 |
| Share premium | 9 | 3.3 | 3.3 |
| Retained earnings | 9 | 1.4 | 0.8 |
| **TOTAL EQUITY** | | **55.6** | 55.0 |
| **CURRENT LIABILITIES** | | | |
| **Current tax liabilities** | | **0.1** | - |
| **CURRENT LIABILITIES** | | **0.1** | - |
| **TOTAL LIABILITIES** | | **0.1** | - |
| **TOTAL EQUITY AND LIABILITIES** | | **55.7** | 55.0 |

Approved by the Board on 15 August 2018 and signed on its behalf by:

Heather Chalmers White

**Heather Chalmers White**
**Director**

The accompanying Notes 1 to 19 are an integral part of the balance sheets as at 31 December 2017 and 31 December 2016.

## SCOTTISHPOWER (DCL) LIMITED
## INCOME STATEMENTS AND STATEMENTS OF COMPREHENSIVE INCOME
## for the years ended 31 December 2017 and 31 December 2016

| | Notes | **2017** **£m** | 2016 £m |
|---|---|---|---|
| Revenue | | - | 38.3 |
| Procurements | | - | (36.5) |
| **GROSS MARGIN** | | - | 1.8 |
| External services | | - | (1.5) |
| Taxes other than income tax | 13 | - | (0.6) |
| **GROSS OPERATING RESULT/(LOSS)** | | - | (0.3) |
| Depreciation and amortisation charge, allowances and provisions | 14 | - | (4.0) |
| **OPERATING RESULT/(LOSS)** | | - | (4.3) |
| *Gains on transfer of business to SPGen* | 1 | - | 117.0 |
| Finance income | 15 | 0.7 | - |
| **PROFIT BEFORE TAX** | | **0.7** | 112.7 |
| Income tax | 16 | (0.1) | 1.1 |
| **NET PROFIT FOR THE YEAR** | | **0.6** | 113.8 |

Net profit for both years is wholly attributable to the equity holder of ScottishPower (DCL) Limited.

Net profit for both years comprises total comprehensive income.

All results in the current year relate to continuing operations. All results in the prior year relate to discontinued operations.

The accompanying Notes 1 to 19 are an integral part of the income statements and statements of comprehensive income for the years ended 31 December 2017 and 31 December 2016.

**SCOTTISHPOWER (DCL) LIMITED**
**STATEMENTS OF CHANGES IN EQUITY**
**for the years ended 31 December 2017 and 31 December 2016**

| | Share capital £m | Share premium £m | Retained (losses)/ earnings £m | Total £m |
|---|---|---|---|---|
| At 1 January 2016 | 50.9 | 3.3 | (113.0) | (58.8) |
| Total comprehensive income for the year | - | - | 113.8 | 113.8 |
| At 1 January 2017 | 50.9 | 3.3 | 0.8 | 55.0 |
| Total comprehensive income for the year | - | - | 0.6 | 0.6 |
| **At 31 December 2017** | **50.9** | **3.3** | **1.4** | **55.6** |

The accompanying Notes 1 to 19 are an integral part of the statements of changes in equity for the years ended 31 December 2017 and 31 December 2016.

## SCOTTISHPOWER (DCL) LIMITED
## CASH FLOW STATEMENTS
## for the years ended 31 December 2017 and 31 December 2016

| | 2017 £m | 2016 Restated* £m |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before tax | **0.7** | 112.7 |
| Adjustments for: | | |
| Depreciation | - | 4.0 |
| Change in provisions | - | 2.0 |
| Finance income | **(0.7)** | - |
| Net gain on transfer of business to SPGen | - | (117.0) |
| Movement in plant maintenance stocks | - | (0.2) |
| Changes in working capital: | | |
| Change in trade and other receivables | - | 2.6 |
| Change in trade and other payables | - | (9.9) |
| Emission allowances acquired | - | (2.0) |
| Income taxes received | - | 4.3 |
| Interest received | **0.6** | - |
| **Net cash flows from operating activities (i)** | **0.6** | (3.5) |
| **Cash flows from investing activities** | | |
| Investments in property, plant and equipment | - | (1.3) |
| Net proceeds received from the transfer of business to SPGen | - | 286.7 |
| Increase in amounts due from Iberdrola group companies - current loans receivable | **(0.6)** | (278.5) |
| **Net cash flows from investing activities (ii)** | **(0.6)** | 6.9 |
| **Cash flows from financing activities** | | |
| Interest paid | - | (3.4) |
| **Net cash flows from financing activities (iii)** | - | (3.4) |
| **Net cash and cash equivalents (i)+(ii)+(iii)** | - | - |
| **Cash and cash equivalents at beginning of year** | - | - |
| **Cash and cash equivalents at end of year** | - | - |

*Comparative figures have been restated (refer to Note 1).

All cash flows in the current year relate to continuing operations. All cash flows in the prior year relate to discontinued operations.

The accompanying Notes 1 to 19 are an integral part of the cash flow statements for the years ended 31 December 2017 and 31 December 2016.

## 1 BASIS OF PREPARATION

### A COMPANY INFORMATION

ScottishPower (DCL) Limited, ("the company"), registered company number 02675504, is a private company limited by shares, incorporated in England and Wales and its registered address is 3 Prenton Way, Prenton, CH43 3ET.

### B BASIS OF PREPARATION OF THE ACCOUNTS

The company is required by law to prepare Accounts and to deliver them to the Registrar of Companies. The Accounts have been prepared in accordance with International Accounting Standards ("IAS"), International Financial Reporting Standards ("IFRS") and International 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 2017. The Accounts are prepared in accordance with the Accounting Policies set out in Note 2.

The Accounts contain information about ScottishPower (DCL) Limited as an individual company and do not contain consolidated information as the former parent of subsidiary companies. The company was exempt under Section 400 of the Companies Act 2006 from the requirements to prepare consolidated Accounts as it and its former subsidiary undertakings are included by full consolidation in the consolidated Accounts of Iberdrola, S.A. (refer to Note 17(d)).

During 2016, the directors approved the transfer of the company's business to SPGen, another ScottishPower company. This was deemed to be a discontinued operation. This transfer was completed with effect from 1 March 2016 when SPGen acquired the company's business for a cash consideration of £286.7 million. This resulted in a gain of £117.0 million being recognised in the income statement.

### B1. CHANGE IN PRESENTATION

### B1.1 CASH FLOW PRESENTATION

The company's primary source of short-term funding for cash management purposes is from intercompany loans drawn down from other group undertakings. When the company has surplus cash it loans this to other group undertakings for the purposes of their cash management. Under the terms of these arrangements the short-term loans are repayable on demand. On the balance sheet, these funds are recorded within current loans and borrowings and current trade and other receivables respectively. In prior years, the company reported these funds within cash and cash equivalents for the purposes of the cash flow statement. During the year, the directors have reviewed the treatment of these funds and concluded that the net of funds recorded within current loans and borrowings and current trade and other receivables should be recorded within investing cash flows for the purposes of the cash flow statement. The 2016 cash flow statement has, therefore, been adjusted. The effect is to decrease the net cash flows from investing activities by £278.5 million and decrease the cash and cash equivalents reported for the purpose of the cash flow statement by £54.4 million.

These restatements had no impact on net assets, equity, the Statements of Comprehensive Income or the Balance Sheets.

### C 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 that are mandatory for the financial year ended 31 December 2017.

For the year ended 31 December 2017, the company has applied the following standards and amendments for the first time:

| Standard | Notes |
|---|---|
| • Amendments to IAS 12 'Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses' | (a) |
| • Amendments to IAS 7 'Statement of Cash Flows: Disclosure Initiative' | (a) |
| • Annual improvements to IFRS Standards 2014-2016 Cycle | (a), (b) |

(a) The application of these pronouncements has not had a material impact on the company's accounting policies, financial position or performance.
(b) This pronouncement includes amendments to three standards. The amendments to IFRS 12 'Disclosure of Interests in Other Entities' have been applied by the company effective 1 January 2017. Refer to footnote (d) below for details of other amendments in the pronouncement.

**1 BASIS OF PREPARATION *continued***

**C ACCOUNTING STANDARDS *continued***

The following new standards and amendments to standards have been issued by the International Accounting Standards Board ("IASB") but have an effective date after the date of these financial statements, or have not been endorsed by the EU, thus have not been implemented by the company.

| Standard | Notes | IASB effective date (for periods commencing on or after) | Planned date of application by the company |
|---|---|---|---|
| • Annual Improvements to IFRS Standards 2014 –2016 Cycle | (c), (d) | 1 January 2018 | 1 January 2018 |
| • IFRS 9 'Financial Instruments' | (e) | 1 January 2018 | 1 January 2018 |
| • IFRS 15 'Revenue from Contracts with Customers' (including Amendments to IFRS 15: Effective date of IFRS 15' and Clarifications to IFRS 15 Revenue from Contracts with Customers') | (c) | 1 January 2018 | 1 January 2018 |
| • Amendments to IAS 40 'Investment Property: Transfers of Investment Property' | (c) | 1 January 2018 | 1 January 2018 |
| • Amendments to IFRS 2 'Share-based Payments: Clarification and Measurement of Share-based Payment Transactions' | (c) | 1 January 2018 | 1 January 2018 |
| • Amendments to IFRS 4 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' | (c) | 1 January 2018 | 1 January 2018 |
| • IFRIC 22 'Foreign Currency Transactions and Advance Consideration' | (c) | 1 January 2018 | 1 January 2018 |
| • IFRS 16 'Leases' | (c) | 1 January 2019 | 1 January 2019 |
| • IFRIC 23 'Uncertainty over Income Tax Treatments' | (c), (f) | 1 January 2019 | 1 January 2019 |
| • Amendments to IFRS 9 'Financial Instruments: Prepayment Features with Negative Compensation' | (c) | 1 January 2019 | 1 January 2019 |
| • Amendments to IAS 28 'Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures' | (c), (f) | 1 January 2019 | 1 January 2019 |
| • Annual Improvements to IFRS Standards 2015-2017 Cycle | (c), (f) | 1 January 2019 | 1 January 2019 |
| • Amendments to IAS 19 'Employee Benefits: Plan Amendment, Curtailment or Settlement' | (c), (f) | 1 January 2019 | 1 January 2019 |
| • Amendments to References to the Conceptual Framework in IFRS Standards | (c), (f) | 1 January 2020 | 1 January 2020 |
| • IFRS 17 'Insurance Contracts' | (c), (f) | 1 January 2021 | 1 January 2021 |
| • IFRS 14 'Regulatory Deferral Accounts' | (c), (f), (g) | 1 January 2016 | To be decided |
| • Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures': 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture' | (c), (f), (h) | Deferred indefinitely | To be decided |

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

(d) This pronouncement includes amendments to three standards. The amendments to IFRS 1 'First-time Adoption of International Financial Reporting Standards' and IAS 28 'Investments in Associates and Joint Ventures' have an effective date of 1 January 2018. The amendments to IFRS 12 'Disclosure of Interests in Other Entities' have an effective date of 1 January 2017 (refer to footnote (b) above).

(e) IFRS 9 'Financial Instruments' is effective for the company as from 1 January 2018. The company considers that the new classification and measurement criteria will not have a material impact on the company's equity as at 1 January 2018. Most financial assets will continue to be valued at amortised cost. The company will apply the general model for the recognition of expected credit losses to all financial assets, except for trade receivables, to which the simplified model will be applied. Given the high credit quality of the financial assets, the expected credit loss adjustment is only £40,000.

(f) This pronouncement has not yet been endorsed by the EU.

(g) The endorsement process of this interim standard has not been launched as the EU has decided to wait for the final standard to be issued.

(h) The IASB set the effective date of this pronouncement as for periods commencing on or after 1 January 2016. However, in December 2015, the IASB postponed the effective date indefinitely pending the outcome of its research project on the equity method of accounting. The EU endorsement process for this pronouncement has been postponed, awaiting a revised exposure draft from the IASB. The effective date will be amended in due course.

**2 ACCOUNTING POLICIES**

In preparing the 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 company. Actual results may differ from these estimates. However, no critical accounting judgements or key sources of estimation uncertainty have been identified in relation to these Accounts.

**A REVENUE**
**B PROPERTY, PLANT AND EQUIPMENT**
**C IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT**
**D FINANCIAL INSTRUMENTS**
**E INVENTORIES**
**F DECOMMISSIONING COSTS**
**G TAXATION**

**A REVENUE**

Revenue comprises the sales value of electricity and gas and other energy-related services supplied to customers during the year, primarily ScottishPower companies, and excludes Value Added Tax. Units are based on energy volumes that can actually be sold on the wholesale market and are recorded on power station meters and industry-wide trading and settlement systems. All revenue is earned wholly within the United Kingdom.

**B PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment is stated at cost and is generally depreciated on a straight-line basis over the estimated operational lives of the assets. Property, plant and equipment includes capitalised employee costs, 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 company are as set out below.

| | Years |
|---|---|
| Combined cycle gas turbine | 2 - 37 |
| Other items of property, plant and equipment | 5 - 12 |

**C IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT**

At each balance sheet date, the company reviews the carrying amount of its property, plant and equipment 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.

**D FINANCIAL INSTRUMENTS**

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.

## 2 ACCOUNTING POLICIES *continued*

### E INVENTORIES

The company participated in the EU Emissions Trading Scheme ("EU ETS") prior to 1 March 2016. As there are no specific rules under IFRS dealing with the treatment of emissions allowances, the company, in alignment with group accounting policy, classifies purchased emissions allowances as inventories as they were 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.

The company 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.

### F DECOMMISSIONING COSTS

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

### G TAXATION

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

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

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

## 3 PROPERTY, PLANT AND EQUIPMENT

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

| Year ended 31 December 2016 | Combined cycle gas turbine in use £m | Other items of property, plant and equipment in use £m | Combined cycle plant in progress £m | Other items of property, plant and equipment in progress £m | Total £m |
|---|---|---|---|---|---|
| Cost: | | | | | |
| At 1 January 2016 | 358.3 | 6.4 | 9.1 | 2.2 | 376.0 |
| Additions | - | - | 0.8 | 0.2 | 1.0 |
| Transfer to SPGen (Note (i)) | (358.3) | (6.4) | (9.9) | (2.4) | (377.0) |
| At 31 December 2016 | - | - | - | - | - |
| Depreciation: | | | | | |
| At 1 January 2016 | 168.2 | 0.5 | - | - | 168.7 |
| Depreciation for the year | 4.0 | - | - | - | 4.0 |
| Transfer to SPGen (Note (i)) | (172.2) | (0.5) | - | - | (172.7) |
| At 31 December 2016 | - | - | - | - | - |
| **Net book value:** | | | | | |
| **At 31 December 2016 and 31 December 2017** | - | - | - | - | - |
| At 1 January 2016 | 190.1 | 5.9 | 9.1 | 2.2 | 207.3 |

(i) On 1 March 2016, the company transferred its business to SPGen. The cost of property, plant and equipment transferred amounted to £377.0 million and the related aggregate depreciation amounted to £172.7 million.

## 4 INVESTMENTS

### (a) Movements in investments

| | Cost £000 | Provision £000 | Net book value £000 |
|---|---|---|---|
| At 1 January 2016 | 30.0 | (30.0) | - |
| Disposals | (30.0) | 30.0 | - |
| **At 31 December 2016 and 31 December 2017** | - | - | - |

### (b) List of subsidiaries

| Name | Principal activities | Equity interest in ordinary shares **2017** | 2016 |
|---|---|---|---|
| ScottishPower (DCOL) Limited | Dissolved | - | 100% |

(i) The registered offices and country of incorporation of the subsidiary was KPMG LLP, 8 Salsbury Square, London EC4Y 8BB, England and Wales.
(ii) This investment was a direct holding of the company until it was dissolved on 30 September 2017.

## 5 FINANCIAL INSTRUMENTS

### Carrying value of financial instruments

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

| | **2017** | | 2016 | |
|---|---|---|---|---|
| | **Carrying amount £m** | **Fair value £m** | Carrying amount £m | Fair value £m |
| **Financial assets** | | | | |
| Receivables | **55.7** | **55.7** | 55.0 | 55.0 |

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.

## 6 INVENTORIES

Inventories with a value of £nil (2016 £2.0 million) were recognised as an expense during the year. The inventory balance was transferred to SPGen as part of the transfer of business that took place on 1 March 2016.

## 7 TRADE AND OTHER RECEIVABLES

| | Note | **2017** **£m** | 2016 £m |
|---|---|---|---|
| **Current receivables:** | | | |
| Receivables due from Iberdrola group companies - loans | (a) | **55.0** | 54.4 |
| Receivables due from Iberdrola group companies - interest | | **0.7** | 0.6 |
| | | **55.7** | 55.0 |

(a) The loan receivable from Iberdrola group companies is receivable on demand. Interest is earned on this loan at a rate of Base plus one percent.

## 8 SHARE CAPITAL

| | **2017** **£m** | 2016 £m |
|---|---|---|
| **Allotted, called up and fully paid shares:** | | |
| 50,870,530 ordinary shares of £1 each (2016 50,870,530) | **50.9** | 50.9 |

## 9 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF SCOTTISHPOWER (DCL) LIMITED

| | Share capital £m | Share premium (Note (a)) £m | Retained (losses)/ earnings (Note (b)) £m | Total £m |
|---|---|---|---|---|
| At 1 January 2016 | 50.9 | 3.3 | (113.0) | (58.8) |
| Profit for the year attributable to equity holder of ScottishPower (DCL) Limited | - | - | 113.8 | 113.8 |
| At 1 January 2017 | 50.9 | 3.3 | 0.8 | 55.0 |
| Profit for the year attributable to equity holder of ScottishPower (DCL) Limited | - | - | 0.6 | 0.6 |
| **At 31 December 2017** | **50.9** | **3.3** | **1.4** | **55.6** |

(a) The share premium account represents consideration received for shares issued in excess of their nominal amount.
(b) Retained (losses)/earnings comprise the cumulative balance of profits and losses recognised in the financial statements as adjusted for transactions with shareholders, principally dividends.

## 10 PROVISIONS

| | Notes | At 1 January 2016 £m | New provisions £m | Transfer to SPGen £m | Utilised during year £m | At 31 December 2016 and 31 December 2017 £m |
|---|---|---|---|---|---|---|
| Decommissioning and environmental | (a) | 3.3 | - | (3.3) | - | - |
| Emissions allowances | (b) | 9.8 | 2.0 | (9.8) | (2.0) | - |
| | | 13.1 | 2.0 | (13.1) | (2.0) | - |

(a) The provision for decommissioning costs was the discounted future estimated costs of decommissioning the company's power plant. This provision was transferred to SPGen as part of the transfer of business that took place on 1 March 2016.
(b) The provision for emissions allowances represents the value of emissions allowances certificates expected to be delivered each financial year.

## 11 DEFERRED TAX

Deferred tax provided in the Accounts was as follows:

| | Note | Property, plant and equipment £m |
|---|---|---|
| At 1 January 2016 | | 11.6 |
| Charge to the income statement | | 0.8 |
| Transfers from Iberdrola group companies | (a) | (12.4) |
| **At 1 January 2017 and 31 December 2017** | | - |

(a) The deferred tax provision was transferred to SPGen as part of the transfer of business that took place on 1 March 2016.

## 12 EMPLOYEE INFORMATION

### (a) Staff costs

| | **2017 £m** | 2016 £m |
|---|---|---|
| Wages and salaries | - | 0.4 |
| Pension and other costs | - | 0.1 |
| **Total staff costs** | - | 0.5 |

### (b) Employee numbers

The year end and average numbers of employees (full and part-time) seconded to the company were:

| | **Year end 2017** | **Average 2017** | Year end 2016 | Average 2016 |
|---|---|---|---|---|
| Operations | - | - | - | 37 |

The year end and average numbers of full time equivalent staff seconded to the company were:

| | **Year end 2017** | **Average 2017** | Year end 2016 | Average 2016 |
|---|---|---|---|---|
| **Total** | - | - | - | 37 |

From 1 January 2016 to 29 February 2016, all operational staff were seconded to the company from SPGen. Their contracts of employment were with SPGen, but costs were recharged to the company by SPGen and were included within 'External services' in the income statement. The average number of staff in 2016 shown in the table above represents the period between 1 January 2016 and 29 February 2016. The average number of staff for the 2016 financial year is six.

## 13 TAXES OTHER THAN INCOME TAX

| | **2017 £m** | 2016 £m |
|---|---|---|
| Property taxes | - | 0.6 |

## 14 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS

| | **2017 £m** | 2016 £m |
|---|---|---|
| Property, plant and equipment depreciation charge | - | 4.0 |

## 15 FINANCE INCOME

| | **2017 £m** | 2016 £m |
|---|---|---|
| Interest receivable from Iberdrola group companies | **0.7** | - |

## 16 INCOME TAX

| | 2017 £m | 2016 £m |
|---|---|---|
| Current tax: | | |
| UK Corporation tax | **0.1** | (0.6) |
| Adjustments in respect of prior years | **-** | (1.3) |
| **Current tax charge/(credit) for the year** | **0.1** | (1.9) |
| Deferred tax: | | |
| Origination and reversal of temporary differences | **-** | (0.2) |
| Adjustments in respect of prior years | **-** | 1.0 |
| **Deferred tax charge for the year** | **-** | 0.8 |
| **Income tax charge/(credit) for the year** | **0.1** | (1.1) |

The tax on profit before tax for the year varied from the standard rate of UK Corporation Tax as follows:

| | 2017 £m | 2016 £m |
|---|---|---|
| Corporation Tax at 19.25% (2016 20%) | **0.1** | 22.5 |
| Adjustments in respect of prior periods | **-** | (0.3) |
| Gain on transfer to SPGen | **-** | (23.4) |
| Other permanent differences | **-** | 0.1 |
| **Income tax charge/(credit) for the year** | **0.1** | (1.1) |

The rate of UK Corporation Tax reduced from 20% to 19% on 1 April 2017. Legislation has been enacted to reduce the rate of UK Corporation Tax to 17% on 1 April 2020.

## 17 RELATED PARTY TRANSACTIONS

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

| | 2017 | 2016 | |
|---|---|---|---|
| | **UK parent (Scottish Power Limited) £m** | UK parent (Scottish Power Limited) £m | Other Iberdrola group companies £m |
| **Types of transaction** | | | |
| Sales and rendering of services | **-** | - | 33.7 |
| Purchases and receipt of services | **-** | - | (30.1) |
| Interest income | **0.7** | - | - |
| **Balances outstanding** | | | |
| Loans receivable | **55.0** | 54.4 | - |
| Interest receivable | **0.7** | 0.6 | - |

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

(ii) During the year ended 31 December 2016, emission allowances were purchased by the company from a fellow subsidiary company at a cost of £2.0 million. No emission allowances were purchased during 2017.

(iii) On 1 March 2016, the company transferred its business to SPGen for a cash consideration of £286.7 million. Net assets of £169.7 million were transferred resulting in a net gain on disposal of £117.0 million bring recognised in the income statement.

**17 RELATED PARTY TRANSACTIONS *continued***

**(b) Remuneration of key management personnel**

The remuneration of the key management personnel of the company is below. As all of the key management personnel are remunerated for their work for the SPGH group, it has not been possible to apportion the remuneration specifically in respect of services to this company. The two (2016 five) key management personnel were remunerated by other ScottishPower group companies during both years.

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Short-term employee benefits | 268 | 989 |
| Post-employment benefits | 54 | 258 |
| Termination benefits | - | 281 |
| Share-based payments | 116 | 389 |
| | 438 | 1,917 |

**(c) Directors' remuneration**

The remuneration of the directors of the company is set out below. As all of the directors are remunerated for their work for the SPGH group, it has not been possible to apportion the remuneration specifically in respect of services to this company. The two (2016 three) directors were remunerated by other ScottishPower group companies during both years.

| Executive directors | 2017 £000 | 2016 £000 |
|---|---|---|
| Aggregate remuneration in respect of qualifying services | 286 | 413 |
| Aggregate contributions payable to a defined contribution pension scheme | - | 281 |
| Number of directors who exercised share options | 1 | 1 |
| Number of directors who received shares under a long-term incentive scheme | 1 | 2 |
| Number of directors accruing retirement benefits under a defined benefit scheme | 1 | 2 |

| Highest paid director | 2017 £000 | 2016 £000 |
|---|---|---|
| Aggregate remuneration | 244 | 254 |
| Accrued pension benefit | 103 | 97 |

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

**(d) Ultimate parent company and immediate parent company**

The immediate parent company is SPGH. The registered office of SPGH is 320 St. Vincent Street, Glasgow, G2 5AD.

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 the Consolidated Accounts of Iberdrola, S.A. may be obtained from Iberdrola, S.A., at its registered office, Torre Iberdrola, Plaza Euskadi 5, 48009, Bilbao, Spain. Copies of the Consolidated Accounts of SPUK may be obtained from Scottish Power UK plc, at its registered office, 320 St. Vincent Street, Glasgow, G2 5AD.

**18 AUDITOR'S REMUNERATION**

| | 2017 £000 | 2016 £000 |
|---|---|---|
| Audit of the company's annual Accounts | 8 | 15 |

KPMG LLP were appointed auditor of the group and company during 2017, replacing Ernst & Young LLP. Auditor remuneration for 2017 is primarily payable to KPMG LLP and payable to Ernst & Young LLP for 2016.

**19 GOING CONCERN**

The company'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 and 2.

The company has recorded a profit after tax in both the current year and previous financial year. The company's balance sheet shows that it has net current assets of £55.6 million and net assets of £55.6 million at its most recent balance sheet date.

The company is ultimately owned by Iberdrola, S.A. and it participates in the Iberdrola group's centralised treasury arrangements and so shares banking facilities with its parent companies and fellow subsidiaries. As a consequence, the company depends, in part, on the ability of the Iberdrola group to continue as a going concern. In addition, the directors have no reason to believe that the Iberdrola group does not have the ability to and 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 adopt the going concern basis of accounting in preparing the Accounts.