SCOTTISHPOWER ENERGY RETAIL LIMITED
ANNUAL REPORT AND ACCOUNTS
for the year ended 31 December 2015

Registered No. SC190287

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CONTENTS

SCOTTISHPOWER ENERGY RETAIL LIMITED
STRATEGIC REPORT

The directors present an overview of ScottishPower Energy Retail Limited's business structure, 2015 performance, strategic objectives and plans.

STRATEGIC OUTLOOK

The principal activity of ScottishPower Energy Retail Limited, registered company number SC190287, ("the company"), is the supply of electricity and gas to 5.5 million domestic and business customers throughout Great Britain, as well as providing customer services such as customer registration, billing and receipting processes and handling enquiries in respect of these services. Energy Retail is also responsible for the associated metering activity and managing ScottishPower's Energy Services activities. The company is part of ScottishPower's Energy Retail business function ("Energy Retail").

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") parent company of the Scottish Power Limited group ("ScottishPower") of which the company is a member.

The retail market continues to be competitive and Energy Retail's response includes a new UK-wide marketing campaign emphasising the 'big and small' benefits provided to customers. Aligned with this, Energy Retail remains committed to delivering the best service possible and treating its customers fairly. The significant investment in the new billing and customer relationship management system is continuing to enhance the customer service offering. The process of moving to the new billing and customer relationship management system has been challenging and resulted in service problems for some customers. Energy Retail has been determined to put these challenges right, and is continuing to correct problems, pay appropriate compensation and ensure that no customer is left financially disadvantaged. Energy Retail is fully committed to delivering continued service improvements, to return to the high service standards long associated with ScottishPower and to ensure that customers realise the very real benefits of the new billing and customer relationship management system investment. Following Energy Retail's adoption of the new billing and customer relationship management system, Ofgem conducted an investigation into Energy Retail's compliance with Standard Licence Condition(s) 25C and 27 and the Gas and Electricity (Consumer Complaint Handling Standards) Regulations 2008. Ofgem's investigation found deficiencies in Energy Retail's billing, customer service and complaint handling performance. In recognition of these issues, Energy Retail agreed a settlement with Ofgem in accordance with which a penalty and consumer redress package totalling £18 million was imposed. The Ofgem investigation began in November 2014 and concluded with a settlement agreed on 25 April 2016. The settlement in line with IAS 10 'Events after the Reporting Period' has been recognised in the 2015 income statement within 'Outside services'.

During 2015 Energy Retail has seen an improvement in key service metrics, with complaint levels reducing each quarter. Energy Retail continues to report service performance on its website on an ongoing basis.

Over the last twelve months Energy Retail's digital team has focused its developments on improving the online customers' experience with the two key aims of treating all customers fairly and putting more control of the customer's account in their own hands. This has provided the following benefits to our customers:

- Energy consumption graphs to assist customers in their understanding of how their energy consumption, particularly for heating, can fluctuate throughout the year. To accompany this, online customers that pay monthly by Direct Debit have the ability to adjust their payments, to help them to pay the correct amount for their energy needs.

- The ability to notify Energy Retail about their home move at a time of their convenience and to view the options for ScottishPower to supply their new home.

- Significant enhancement to the online help section, effectively turning it into an online support centre. This allows customers, at any time, to get the answers to the queries they may have in relation to the services Energy Retail provides to them.

- An enhanced refund process from December 2015 which means that where customers find themselves with a higher than expected credit balance they can trigger the refund process themselves, thereby ensuring their money is back in their account as quickly as possible.

STRATEGIC OUTLOOK ***continued***

Energy Retail also continues to make significant efforts to reunite customers who have closed their ScottishPower energy account with a credit balance with their money, including employing trace agents and participating in the Energy UK led 'My Energy Credit' campaign.

The ongoing IT systems investment has also enabled Energy Retail to be strongly positioned for the mass roll-out of Smart meters and to exploit the ongoing developments in digital service, which will further enhance customer service particularly in relation to the accuracy of bills. Customers will also be able to take greater control of their energy usage with the delivery of real-time data and innovative products. Energy Retail continues to play an active role as a participant in industry bodies in advance of the Smart meter mass rollout activity which is expected to commence during 2016.

In April 2015, Energy Retail launched a new Hardship Fund to help some of its most vulnerable customers. Energy Retail committed initial funding of £5.2 million and then added a further £1 million in May 2015. The fund is being used to offer financial support to customers facing wider financial hardship, who are in arrears on their ScottishPower energy account and meet specific criteria. From 1 April 2015 to 31 December 2015 a total of £4 million was awarded to customers. From April 2016, Energy Retail will transfer any unclaimed domestic customer credits which are over two years old into the Hardship Fund.

Energy Retail also supports vulnerable customers with their energy bills through the Warm Home Discount Scheme ("WHD") spending over £34 million in 2015 providing assistance to over 218,000 customers. As well as delivering the WHD and setting up the Hardship Fund, Energy Retail further supports vulnerable customers through:

- The ScottishPower Energy People Trust, which funds registered charities that help people whose lives are affected by fuel poverty. During 2015 the ScottishPower Energy People Trust awarded £1.1 million to 34 community projects, designed to reduce fuel poverty. These projects provided assistance to 22,385 people in 15,140 households. Since the Trust was formed in November 2005 it has awarded £13.7 million to 297 projects helping 1.6 million people in 1.4 million households, and will continue to provide such support.

- A partnership with The Money Advice Trust (known as 'National Debtline') to proactively assist customers struggling to pay their energy debt. The Trust has been able to support ScottishPower in its objective by engaging with front line staff and delivering bespoke debt awareness training that allows ScottishPower staff to identify when it is appropriate to refer a customer to the free debt advice sector.

- Improving the service Energy Retail provides to some of the more vulnerable customers (identified as having special needs) by proactively identifying contacts from these vulnerable customers and directing their calls to agents who are specially trained in handling sensitive issues.

The delivery of energy efficiency measures continues to be an important objective of Energy Retail and 2015 was the third year of delivery of the Government's Energy Company Obligation ("ECO"). The ECO scheme focuses on reducing heating costs for the most vulnerable customers, and also aims to improve the energy efficiency of properties. Energy Retail has made strong progress towards delivering this obligation, having successfully delivered its March 2015 obligation and is on track to deliver the remaining targets by March 2017.

The Competition and Markets Authority ("CMA") is to conclude its investigation into the market to acquire and supply gas and electricity by 25 June 2016, including issuing its final report by that date. On 10 March 2016 the CMA issued its Summary Provisional Decision on Remedies. ScottishPower has responded to these, focusing on ensuring that the remedies give customers more choice and help competition work better within the market.

SCOTTISHPOWER ENERGY RETAIL LIMITED
STRATEGIC REPORT *continued*

OPERATIONAL PERFORMANCE

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

	Revenue*		Profit from operations*		Capital investment**	
	2015	2014	**2015**	2014	**2015**	2014
Financial key performance indicators	**£m**	£m	**£m**	£m	**£m**	£m
ScottishPower Energy Retail Limited	**3,812.8**	3,956.0	**194.0**	204.5	**38.5**	34.6

*Revenue and profit from operations is presented on page 11.
**Capital investment is presented within Notes 3 and 4 on pages 19 and 20 respectively.

Revenue decreased by £143.2 million to £3,812.8 million in 2015. This reduction was primarily driven by lower priced products reflecting the competitive market and by tariff reductions. This decrease in revenues was offset by a decrease in procurement costs.

Profit from operations decreased by £10.5 million to £194.0 million in 2015 as a consequence of lower ECO scheme delivery costs offset by higher customer service costs, costs associated with regulatory obligations and depreciation.

Capital investment increased by £3.9 million to £38.5 million primarily due expenditure on new billing and customer relationship management system assets and Smart meters.

Non-financial key performance indicators	Notes	**2015**	2014
Volume supplied (GWh)		**52,139**	50,968
Complaints handling	(a)	**6th**	5th
Customers (millions)	(b)		
- Electricity		**3,278**	3,354
- Gas		**2,178**	2,194
		5,456	5,548

(a) Based on the Citizens Advice Complaints Handling Report for October to December 2015, ranking reflects ScottishPower's position relative to other 'Big 6' Energy Companies and is based on a balanced scorecard considering Citizens' Advice, Consumer Futures and Energy Ombudsman referrals and complaints.
(b) Customer numbers are based on the average number of Meter Point Administration Numbers for electricity customers and Meter Point Reference Numbers for gas customers during the year to 31 December.

The movement in complaints handling continues to be influenced by the impact of migrating the Energy Retail customer base to the new billing and customer relationship management system. Despite the movement in industry tables, the complaints handling data for the final quarter of 2015 showed a marked improvement on the data from the first three quarters of the year. It is anticipated that this improvement will continue into 2016.

LIQUIDITY AND CASH MANAGEMENT

Cash and net funds

Net cash flows from operating activities for the year decreased by £539.5 million (refer to cash flow statement on page 13). As detailed in the table below net funds decreased by £128.8 million to £410.0 million. The movement in net funds comprised an increase in cash of £2.3 million and a decrease in group loans receivable of £131.1 million.

		2015	2014
Analysis of net funds	**Notes**	**£m**	£m
Cash	(a)	**3.0**	0.7
Group loans receivable	(b)	**407.0**	538.1
Net funds		**410.0**	538.8

(a) As detailed on the balance sheet, refer to page 10.
(b) As detailed in Note 8 on page 23.

Capital and debt structure

The company is entirely 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.

SCOTTISHPOWER ENERGY RETAIL LIMITED
STRATEGIC REPORT *continued*

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 the risk management practices can be found in Note 4 of the most recent Annual Report and Accounts of SPL.

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

RISK	RESPONSE
Material deterioration in the relatively stable and predictable UK regulatory and political environment.	Positive and transparent engagement with all appropriate stakeholders to ensure that long-term regulatory stability and political consensus is maintained and public backing is secured for the necessary investment in the UK energy system.
Adverse findings and/or remedies from the CMA market investigation.	Proactive and positive engagement in the process with business, legal and regulatory experts and advisers aimed at seeking outcomes that are well founded and positive for competition.
A major health and safety incident in the course of operations could impact staff, contractors, communities or the environment.	ScottishPower's Health and Safety function provides specialist services and support for the businesses in relation to health and safety. A comprehensive framework of health and safety policy and procedures, alongside audit programmes, is established throughout ScottishPower, which aim to ensure not only continuing legal compliance but also drive towards best practice in all levels of its health and safety operations.
Breach in cyber security and unwanted infiltration of the ScottishPower IT infrastructure by external parties.	Implementation of a cyber risk policy which provides the framework for mitigation. Proactive approach to identifying where ScottishPower is vulnerable and addressing these points through technical solutions. Educating company employees as to how behaviour can reduce this risk. Embedding cyber security in IT related projects where appropriate.

SCOTTISHPOWER ENERGY RETAIL LIMITED
STRATEGIC REPORT *continued*

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

The principal risks and uncertainties of Energy Retail, and so that of the company, that may impact current and future operational and financial performance are described below:

RISK	RESPONSE
Reduction in retail margins as a result of reduced market share, unfavourable wholesale energy costs and increasing non-energy costs.	Mitigating actions include the continued focus on improving customer service to enhance customers' experience; creating innovative, competitive products that compliment current offerings; increasing customer awareness of our brand; and improve efficiencies across the business through the new billing system.
The potential for non-compliance with the UK Government's mandate to complete the roll-out of smart metering to customers in accordance with prescribed timescales.	Dedicated project team focussed on ensuring adequate business processes and systems are developed. The team is responsible for ensuring the roll-out capability is secured to enable deployment of meters. Energy Retail is an active participant in industry bodies responsible for developing smart metering technology and capability across the UK.
Reputational risk from customer service performance.	Additional resource in place to handle customer queries and respond to complaints.

ON BEHALF OF THE BOARD

Marc Rossi

Marc Rossi
Director
27 April 2016

SCOTTISHPOWER ENERGY RETAIL LIMITED
DIRECTORS' REPORT

The directors present their report and audited Accounts for the year ended 31 December 2015.

INFORMATION CONTAINED WITHIN THE STRATEGIC REPORT
The directors have chosen to disclose information on the following, required by the Companies Act 2006 to be included in the Directors' Report, within the Strategic Report, found on pages 1 to 5:

- 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 £157.5 million (2014 £165.3 million). The aggregate dividends paid during the year amounted to £nil (2014 £110.0 million). On 28 March 2016 an interim dividend payment of £280.0 million was approved by the board and subsequently paid.

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.

EMPLOYEES
Employment regulation
ScottishPower has well-defined policies in place throughout its businesses to ensure compliance with applicable laws and related codes of practice. These policies cover a wide range of employment issues such as disciplinary, grievance, harassment, discrimination, stress, anti-bribery and 'whistleblowing' and have been brought together in the Code of Ethics of Iberdrola and its group of companies (which also outlines expectations for employees' conduct).

Training
ScottishPower has a continuing commitment to training and personal development for its employees with over 14,300 training events (over 169,000 hours) undertaken in 2015. Much of the training is focused on health and safety and technical training ensuring field staff are safe and competent. In addition ScottishPower recruits over 100 craft and engineering trainees annually who undertake a concentrated training period as part of their induction and development programme, leading toward a recognised apprenticeship or formal engineering qualification. Team leaders and managers also participate in core management skills training and there are management development programmes and modules aimed at increasing our leadership capability.

Employee feedback and consultation
ScottishPower believes that it is important that all employees have the opportunity to get involved and share their views. In 2015, 70% of employees took part in the annual internal employee engagement survey 'The LOOP' and the overall engagement score remained high at 74%. Following the LOOP Survey in 2014, the group focussed on a number of actions in response to employee feedback which included the launch of an online development toolkit for employees, a focus on internal communications to keep employees more informed about what is happening in the organisation and a review of how to best recognise the efforts of employees. Regular consultation takes place with employees using a variety of channels, including monthly team meetings, team managers' conferences, business road shows, safety committees, employee relations mechanisms and presentations.

Equality and diversity
ScottishPower recognises the importance of difference and respects individuality as part of its ongoing commitment to promoting equality and diversity. ScottishPower also understands that diversity goes beyond legally compliant policies and practices. It also includes a focus on creating an innovative, integrated organisation where people feel valued, inspiring them to perform at their best. During 2014 Employers Network for Equality & Inclusion ("ENEI") conducted an external diversity and inclusion audit across ScottishPower and support development of a clear, specific and practical action plan. This action plan will continue to be progressed throughout 2016.

EMPLOYEES *continued*

Employment of disabled persons

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

Employee health and wellbeing

ScottishPower's promotes and supports the physical and mental health and wellbeing of its employees through a programme of health promotion and information run by its occupational health department.

Employee volunteering

ScottishPower prides itself in being a good corporate neighbour, providing support to the communities it serves in each of its businesses. Volunteering is central to community involvement and ScottishPower has an excellent track record in this area. In 2014 ScottishPower introduced a new company-wide Volunteering Policy which has been actively utilised by employees during 2015. This policy gives all registered volunteers, on an annual basis, an opportunity to take an additional one day's paid leave, to be used as a volunteering day.

DIRECTORS

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

Neil Clitheroe
Aitor Moso Raigoso
Marc Rossi

DIRECTORS' RESPONSIBILITIES FOR THE ACCOUNTS

The directors are responsible for preparing the Annual Report and Accounts in accordance with applicable laws 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 Annual Report and Accounts confirms that:

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

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

AUDITOR

Ernst & Young LLP were re-appointed as auditor of the company for the year ended 31 December 2015.

ON BEHALF OF THE BOARD

Marc Rossi

Marc Rossi
Director
27 April 2016

INDEPENDENT AUDITOR'S REPORT

to the members of ScottishPower Energy Retail Limited

We have audited the Accounts of ScottishPower Energy Retail Limited for the year ended 31 December 2015 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 26. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement set out on page 7, 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 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

- adequate accounting records have not been kept by the 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

Annie Graham (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Glasgow
27 April 2016

SCOTTISHPOWER ENERGY RETAIL LIMITED
BALANCE SHEETS
as at 31 December 2015 and 31 December 2014

	Notes	2015 £m	2014 £m
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	3	**152.4**	170.6
Property, plant and equipment		**51.2**	41.2
Property, plant and equipment in use	4	51.0	41.2
Property, plant and equipment in the course of construction	4	0.2	-
Financial assets		**0.1**	0.1
Investments	5	0.1	0.1
Trade and other receivables	8	**38.2**	19.4
NON-CURRENT ASSETS		**241.9**	231.3
CURRENT ASSETS			
Trade and other receivables	8	**1,036.5**	1,117.1
Cash	6	**3.0**	0.7
CURRENT ASSETS		**1,039.5**	1,117.8
TOTAL ASSETS		**1,281.4**	1,349.1
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the parent		**345.6**	187.8
Share capital	9, 10	55.4	55.4
Hedge reserve	10	-	(0.3)
Retained earnings	10	290.2	132.7
TOTAL EQUITY		**345.6**	187.8
NON-CURRENT LIABILITIES			
Deferred income	11	**0.2**	0.3
Trade and other payables	12	**1.4**	0.3
Deferred tax liabilities	13	**7.2**	6.7
NON-CURRENT LIABILITIES		**8.8**	7.3
CURRENT LIABILITIES			
Provisions	14	**0.9**	3.4
Bank borrowings and other financial liabilities		**-**	0.4
Derivative financial instruments	6, 15	-	0.4
Trade and other payables	12	**882.6**	1,104.3
Current tax liabilities		**43.5**	45.9
CURRENT LIABILITIES		**927.0**	1,154.0
TOTAL LIABILITIES		**935.8**	1,161.3
TOTAL EQUITY AND LIABILITIES		**1,281.4**	1,349.1

Approved by the Board on 27 April 2016 and signed on its behalf by:

Marc Rossi

Marc Rossi
Director

The accompanying Notes 1 to 26 are an integral part of the balance sheets for the years ended 31 December 2015 and 31 December 2014.

SCOTTISHPOWER ENERGY RETAIL LIMITED
INCOME STATEMENTS
for the years ended 31 December 2015 and 31 December 2014

	Notes	2015 £m	2014 £m
Revenue		3,812.8	3,956.0
Procurements		(3,010.7)	(3,157.3)
		802.1	798.7
Staff costs	16	(71.2)	(59.9)
Capitalised staff costs	16	3.0	4.7
Outside services		(364.6)	(322.9)
Other operating income		9.9	17.4
		(422.9)	(360.7)
Taxes other than income tax	17	(84.3)	(145.4)
		294.9	292.6
Depreciation and amortisation charge, allowances and provisions	18	(100.9)	(88.1)
PROFIT FROM OPERATIONS		**194.0**	204.5
Dividends received		1.0	-
Finance income	19	7.7	8.5
Finance costs	20	(0.6)	(3.6)
PROFIT BEFORE TAX		**202.1**	209.4
Income tax	21	(44.6)	(44.1)
NET PROFIT FOR THE YEAR		**157.5**	165.3

Net profit for both years is wholly attributable to the equity holders of ScottishPower Energy Retail Limited.

All results relate to continuing operations.

The accompanying Notes 1 to 26 are an integral part of the income statements for the years ended 31 December 2015 and 31 December 2014.

SCOTTISHPOWER ENERGY RETAIL LIMITED
STATEMENTS OF COMPREHENSIVE INCOME
for the years ended 31 December 2015 and 31 December 2014

	Note	2015 £m	2014 £m
NET PROFIT FOR THE YEAR		**157.5**	165.3
OTHER COMPREHENSIVE INCOME			
Items that may be subsequently reclassified to the income statement:			
Cash flow hedges:			
Change in the value of cash flow hedges recognised	10	0.4	(0.1)
Tax relating to cash flow hedges	10	(0.1)	-
OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR		**0.3**	(0.1)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**157.8**	165.2

Total comprehensive income for both years is wholly attributable to the equity holders of ScottishPower Energy Retail Limited.

STATEMENTS OF CHANGES IN EQUITY
for the years ended 31 December 2015 and 31 December 2014

	Ordinary share capital £m	Hedge reserve £m	Retained earnings £m	Total equity £m
At 1 January 2014	55.4	(0.2)	77.4	132.6
Total comprehensive income for the year	-	(0.1)	165.3	165.2
Dividends	-	-	(110.0)	(110.0)
At 1 January 2015	55.4	(0.3)	132.7	187.8
Total comprehensive income for the year	-	0.3	157.5	157.8
At 31 December 2015	**55.4**	**-**	**290.2**	**345.6**

The accompanying Notes 1 to 26 are an integral part of the statements of comprehensive income and the statements of changes in equity for the years ended 31 December 2015 and 31 December 2014.

SCOTTISHPOWER ENERGY RETAIL LIMITED
CASH FLOW STATEMENTS
for the years ended 31 December 2015 and 31 December 2014

	2015 £m	2014 £m
Cash flows from operating activities		
Profit before tax	202.1	209.4
Adjustments for:		
Depreciation and amortisation	46.7	33.9
Change in provisions	(0.8)	2.9
Capital grants	(0.1)	(0.1)
Finance income and costs	(7.1)	(4.9)
Shareholding income	(1.0)	-
Changes in working capital:		
Change in trade and other receivables	(70.3)	(185.2)
Change in trade and other payables	(224.6)	408.9
Provisions paid	(1.7)	(7.2)
Income taxes paid	(46.6)	(19.7)
Interest received	8.1	7.2
Dividends received	1.0	-
Net cash (outflows)/inflows from operating activities (i)	**(94.3)**	445.2
Cash flows from investing activities		
Investments in intangible assets	(20.7)	(20.1)
Investments in property, plant and equipment	(13.8)	(16.5)
Net cash outflows from investing activities (ii)	**(34.5)**	(36.6)
Cash flows from financing activities		
Dividends paid to company's equity holders	-	(110.0)
Net cash outflows from financing activities (iii)	**-**	(110.0)
Net (decrease)/increase in cash and cash equivalents (i)+(ii)+(iii)	**(128.8)**	298.6
Cash and cash equivalents at beginning of year	**538.8**	240.2
Cash and cash equivalents at end of year	**410.0**	538.8
Cash and cash equivalents at end of year comprises:		
Balance sheet cash	3.0	0.7
Group loans receivable	407.0	538.1
Cash flow statement cash and cash equivalents	**410.0**	538.8

The accompanying Notes 1 to 26 are an integral part of the cash flow statements for the years ended 31 December 2015 and 31 December 2014.

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 2015. The Accounts are prepared in accordance with the Accounting Policies set out in Note 2.

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

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 2015.

For the year ended 31 December 2015, the company has applied the following standards and amendments for the first time:

Standard	Note
• Amendments to IAS 19 'Employee Benefits: Defined Benefit Plans: Employee Contributions'	(a)
• Annual Improvements to IFRSs (2010-2012)	(a)
• Annual Improvements to IFRSs (2011-2013)	(a)
• IFRIC 21 'Levies'	(a)

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

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 statement 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
• Amendments to IAS 1 'Presentation of Financial Statements: Disclosure Initiative'	(b)	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'	(b)	1 January 2016	1 January 2016
• Amendments to IAS 16 'Property, Plant and Equipment' and IAS 41 'Agriculture' – 'Bearer Plants'	(b)	1 January 2016	1 January 2016
• Amendments to IAS 27 'Separate Financial Statements: Equity Method in Separate Financial Statements'	(b)	1 January 2016	1 January 2016
• Amendments to IFRS 11 'Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations'	(b)	1 January 2016	1 January 2016
• Annual Improvements to IFRSs (2012-2014)	(b)	1 January 2016	1 January 2016
• Amendments to IFRS 10 'Consolidated Financial Statements', IFRS 12 'Disclosure of Interests in Other Entities' and IAS 28 'Investments in Associates and Joint Ventures' - 'Investment Entities: Applying the Consolidated Exception'	(b), (c), (d)	1 January 2016	1 January 2017
• IFRS 14 'Regulatory Deferral Accounts'	(b), (e)	1 January 2016	To be decided
• Amendments to IAS 12 'Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses'	(b), (c)	1 January 2017	1 January 2017
• Amendments to IAS 7 'Statement of Cash Flows: Disclosure Initiative'	(b), (c)	1 January 2017	1 January 2017
• IFRS 9 'Financial Instruments'	(c), (f)	1 January 2018	1 January 2018
• IFRS 15 'Revenue from Contracts with Customers' (including Amendments to IFRS 15 'Effective date of IFRS 15')	(c), (f)	1 January 2018	1 January 2018

1 BASIS OF PREPARATION *continued*

B. ACCOUNTING STANDARDS *continued*

Standard *continued*	Notes	IASB effective date (for periods commencing on or after)	Planned date of application by the company
• IFRS 16 'Leases'	(c), (f)	1 January 2019	1 January 2019
• 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 '	(b), (c), (g)	Deferred indefinitely	To be decided

(b) The future application of these pronouncements is not expected to have a material impact on the company's accounting policies, financial position or performance.
(c) These pronouncements have not yet been adopted by the EU.
(d) The company applies all relevant standards/pronouncements which have been adopted by the EU as at the date of approval of these accounts. Despite the IASB effective date of 1 January 2016, the amendment has yet to be endorsed by the EU. The endorsement notice will be reviewed but it is anticipated that the company will apply this amendment for the accounting period following adoption, i.e. 1 January 2017.
(e) 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.
(f) The directors are currently in the process of assessing the impact of this standard in relation to the company's accounting policies, financial position and performance.
(g) The IASB set the effective date of this amendment 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 amendment has been postponed, awaiting a revised exposure draft from the IASB. The IASB effective date will be amended in due course.
(h) The company has chosen not to early adopt any of these standards/amendments for year ended 31 December 2015.

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

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

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

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

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

Based on the FRC staff paper and the opinion of the external auditor, ScottishPower, and so the company has recorded the expense in its financial statements as the measures were actually implemented during the year. This accounting treatment involves recording £21.6 million less than (2014 £16.5 million in addition to) the amount that would have resulted from following a recognition rate of the obligation consistent with the rate of energy supplied to domestic customers during the accounting period.

2 ACCOUNTING POLICIES

A REVENUE
B INTANGIBLE ASSETS (COMPUTER SOFTWARE COSTS)
C PROPERTY, PLANT AND EQUIPMENT
D IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS
E LEASED ASSETS
F INVESTMENTS
G FINANCIAL INSTRUMENTS
H TAXATION
I CAPITAL GRANTS
J RETIREMENT BENEFITS

A REVENUE

Revenue comprises the sales value of energy supplied to customers during the year and excludes Value Added Tax. Revenue from the sale of energy is the value of units supplied during the year, and includes an estimate of the value of units supplied to customers between the date of their last meter reading and the year end, based on external data supplied by the electricity and gas market settlement processes. All revenue is earned wholly within the United Kingdom.

B INTANGIBLE ASSETS (COMPUTER SOFTWARE COSTS)

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

C PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost and is generally depreciated on the straight-line method over the estimated operational lives of the assets. Property, plant and equipment includes capitalised employee and other directly attributable costs. 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
Meters and measuring devices	10
Other items of property, plant and equipment	2 - 50

D IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

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

E 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(s) or the arrangement conveys a right to use the asset(s), even if that right is not explicitly specified in the arrangement. For arrangements entered into prior to 1 April 2004, the date of inception is deemed to be 1 April 2004 in accordance with the transitional requirements of IFRIC 4 'Determining Whether an Arrangement Contains a Lease'.

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

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

2 ACCOUNTING POLICIES *continued*

F INVESTMENTS

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

G FINANCIAL INSTRUMENTS

G1 ACCOUNTING POLICIES UNDER IAS 39 'FINANCIAL INSTRUMENTS RECOGNITION AND MEASUREMENT' ("IAS 39")

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

(b) Cash in the balance sheet comprises cash on hand. In the cash flow statement, cash and cash equivalents includes the net of current loans receivable and payable from group companies.

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

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

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

Unrealised gains or losses on remeasurement of derivatives and embedded derivatives used in the group's treasury activities are recognised within finance income or finance costs in the income statement, except where hedge accounting is applied (see G3).

G2 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.

G3 HEDGE ACCOUNTING

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

G3.1 CASH FLOW HEDGES

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

G3.2 HEDGE EFFECTIVENESS

Hedge effectiveness is measured and respective entries recorded in the balance sheet, reserves and income statement on a half-yearly basis. 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%.

2 ACCOUNTING POLICIES *continued*

G FINANCIAL INSTRUMENTS *continued*

G3.3 DISCONTINUING 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.

G4 VALUATION OF FINANCIAL INSTRUMENTS

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

H 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.

I CAPITAL GRANTS

Capital grants in respect of additions to property, plant and equipment are credited to 'Deferred income' within non-current liabilities and are released to the income statement on a straight-line basis over the estimated operational lives of the related assets.

J RETIREMENT BENEFITS

ScottishPower operates a number of defined benefit and defined contribution retirement benefit schemes in the UK. ScottishPower Energy Retail Limited is a participating company in these arrangements, and the contributions for the defined benefit schemes are based on pension costs across all the participating companies. The company is unable to identify its share of the underlying assets and liabilities in the defined benefit schemes, as the scheme administrators do not calculate these separately for each of the various companies participating in the schemes and therefore treats these schemes as if they were defined contribution schemes. The amount charged to the income statement in respect of pension costs is the contributions payable in the period.

3 INTANGIBLE ASSETS

Year ended 31 December 2014	Notes	Computer software £m
Cost:		
At 1 January 2014		178.5
Additions	(i)	20.1
At 31 December 2014		198.6
Amortisation:		
At 1 January 2014		-
Amortisation for the year	(ii)	28.0
At 31 December 2014		28.0
Net book value:		
At 31 December 2014		170.6
At 1 January 2014		178.5

Year ended 31 December 2015	Note	Computer software £m
Cost:		
At 1 January 2015		198.6
Additions	(i)	20.7
At 31 December 2015		**219.3**
Amortisation:		
At 1 January 2015		28.0
Amortisation for the year		38.9
At 31 December 2015		**66.9**
Net book value:		
At 31 December 2015		**152.4**
At 1 January 2015		170.6

(i) During the year ended 31 December 2015 £9.5 million was spent on enhancements to the new billing and customer relationship management system (2014 £10.8 million) alongside expenditure on IT systems to support Smart Metering of £11.2 million (2014 £9.3 million).

(ii) Amortisation in relation to the new billing and customer relationship management system commenced on 1 April 2014.

SCOTTISHPOWER ENERGY RETAIL LIMITED
NOTES TO THE ACCOUNTS *continued*
31 December 2015

4 PROPERTY, PLANT AND EQUIPMENT

(a) Movements in property, plant and equipment

Year ended 31 December 2014	Meters and measuring devices in use £m	Other items of property, plant and equipment in use (Note (i)) £m	Other items of property, plant and equipment in progress (Note (ii)) £m	Total £m
Cost:				
At 1 January 2014	13.9	64.5	-	78.4
Additions	12.3	2.2	-	14.5
Disposals	-	(1.1)	-	(1.1)
At 31 December 2014	26.2	65.6	-	91.8
Depreciation:				
At 1 January 2014	2.0	43.8	-	45.8
Depreciation for the year	2.0	3.9	-	5.9
Disposals	-	(1.1)	-	(1.1)
At 31 December 2014	4.0	46.6	-	50.6
Net book value:				
At 31 December 2014	22.2	19.0	-	41.2
At 1 January 2014	11.9	20.7	-	32.6

Year ended 31 December 2015	Meters and measuring devices in use £m	Other items of property, plant and equipment *in use* (Note (i)) £m	Other items of property, plant and equipment in *progress* (Note (ii)) £m	Total £m
Cost:				
At 1 January 2015	26.2	65.6	-	91.8
Additions	15.8	1.8	0.2	17.8
Disposals	-	(0.8)	-	(0.8)
At 31 December 2015	**42.0**	**66.6**	**0.2**	**108.8**
Depreciation:				
At 1 January 2015	4.0	46.6	-	50.6
Depreciation for the year	3.5	4.3	-	7.8
Disposals	-	(0.8)	-	(0.8)
At 31 December 2015	**7.5**	**50.1**	**-**	**57.6**
Net book value:				
At 31 December 2015	**34.5**	**16.5**	**0.2**	**51.2**
At 1 January 2015	22.2	19.0	-	41.2
The net book value of property plant and equipment at 31 December 2015 is analysed as follows:				
Property, plant and equipment in use	34.5	16.5	-	51.0
Property, plant and equipment in the course of construction	-	-	0.2	0.2
	34.5	16.5	0.2	51.2

(i) The category "Other items of property, plant and equipment in use" principally comprises land and buildings and IT equipment.
(ii) The category "Other items of property, plant and equipment in progress" comprises IT assets under construction in relation to the Smart metering project.
(iii) The cost of fully depreciated property, plant and equipment still in use at 31 December 2015 was £18.5 million (2014 £17.5 million).
(iv) Included within the cost of property, plant and equipment are assets in use not subject to depreciation, being land, of £5.2 million (2014 £5.2 million).

4 PROPERTY, PLANT AND EQUIPMENT *continued*

(b) Operating lease arrangements

(i) Operating lease payments	2015 £m	2014 £m
Minimum lease payments under operating leases recognised as an expense in the year	0.2	1.1
Contingent based operating lease rents recognised as an expense in the year	459.8	361.9
	460.0	363.0

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

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

(ii) Operating lease commitments	2015 £m	2014 £m
The future minimum lease payments under non-cancellable operating leases are as follows:		
Within one year	0.2	1.7
Between one and five years	-	4.7
More than five years	-	4.2
	0.2	10.6

In March 2015 the company cancelled its primary building lease contract.

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

(ii) Operating lease receivables	2015 £m	2014 £m
The future minimum lease payments receivable under non-cancellable operating leases are as follows:		
Within one year	0.9	0.9

The company leases buildings as a lessor under operating leases. The lease arrangements are renewed on a rolling one year basis.

(c) Capital commitments

	2015 £m	2014 £m
Contracted but not provided	0.6	1.5

5 INVESTMENTS

(a) Cost and net book value

	Subsidiary undertakings shares £m
At 1 January 2014, 1 January 2015 and 31 December 2015	**0.1**

(b) Shares in subsidiary undertakings

The subsidiary of the company is set out below:

Name	Principal Activity	Country of incorporation	Proportion of shares held %
Subsidiary			
Manweb Energy Consultants Limited	Provision of energy services	England and Wales	100%

6 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.

		2015		2014	
		Carrying amount	**Fair value**	Carrying amount	Fair value
	Notes	**£m**	**£m**	£m	£m
Financial assets					
Receivables	(i)	**1,072.0**	**1,072.0**	1,136.1	1,136.1
Cash	(ii)	**3.0**	**3.0**	0.7	0.7
Financial liabilities					
Derivative financial instruments	(iii)	**-**	**-**	(0.4)	(0.4)
Payables	(i)	**(834.4)**	**(834.4)**	(1,066.7)	(1,066.7)

The carrying amount of these financial instruments is calculated as set out in Note 2G. The carrying value of financial instruments is a reasonable approximation of fair value.

(i) Balances out with the scope of IFRS 7 'Financial Instruments: Disclosures', namely prepayments, other tax payables and payments on account have been excluded.
(ii) As a general rule, cash deposited with banks earns interest at rates similar to market rates on daily deposits.
(iii) Further detail on derivative financial instruments is disclosed in Note 15.

(b) Measurement of financial instruments

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.

(c) Borrowing facilities

The company had no undrawn committed borrowing facilities at 31 December 2015 (2014 £nil).

7 LIQUIDITY ANALYSIS

Maturity profile of financial liabilities

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

	2015						
	2016	**2017**	**2018**	**2019**	**2020**	**2021 and thereafter**	**Total**
Cash outflows	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Payables*	833.0	0.5	0.5	0.4	-	-	**834.4**

	2014						
	2015	2016	2017	2018	2019	2020 and thereafter	Total
Cash outflows	£m	£m	£m	£m	£m	£m	£m
Derivative financial instruments	4.5	-	-	-	-	-	4.5
Payables*	1,066.4	0.1	0.1	0.1	-	-	1,066.7
	1,070.9	0.1	0.1	0.1	-	-	1,071.2

* Contractual cash flows exclude accrued interest.

8 TRADE AND OTHER RECEIVABLES

	Notes	2015 £m	2014 £m
Current receivables:			
Receivables due from Iberdrola group companies - trade		**61.5**	51.9
Receivables due from Iberdrola group companies - loans	(a)	**407.0**	538.1
Receivables due from Iberdrola group companies - interest		**6.9**	7.9
Receivables due from Iberdrola group companies - other	(b), (c)	**20.9**	-
Trade receivables and accrued income	(c), (d)	**537.5**	518.8
Prepayments		**2.7**	0.4
		1,036.5	1,117.1
Non-current receivables:			
Receivables due from Iberdrola group companies - other	(b), (c), (e)	**38.2**	19.4

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

(b) Following a review of the company's collateral arrangements with SP Manweb Plc and SP Distribution Plc during the year, it has been deemed more appropriate to classify the balance receivable as current rather than non-current. Prior year figures have not been restated. The impact on 2014 would be to reclassify £19.4 million to other current receivables.

(c) The company utilises forms of collateral, externally and internally with ScottishPower group companies, to manage its credit exposure in respect of the provision of network services. All collateral posted is settled in cash. At 31 December 2015, the company posted cash collateral of £23.4 million (2014 £21.8 million) and posted letters of credit of £8.9 million (2014 £9.6 million).

(d) Trade receivables are stated net of allowance for impairment of doubtful debts of £91.0 million (2014 £86.0 million). Provisions for doubtful debts have been estimated by management, taking into account future cash flows, based on prior experience, ageing analysis and an assessment of the current economic environment within which the company operates.

(e) The balance as at 31 December 2015 represents receivables due from Iberdrola group companies as part of a contractual renegotiation.

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

	2015 £m	2014 £m
At beginning of year	**86.0**	46.4
Receivables written off during the year as uncollectible	**(48.6)**	(28.6)
Provisions for receivables impairment	**53.6**	68.2
At end of year	**91.0**	86.0

(i) The creation and release of provision for impaired receivables have been included in "Depreciation and amortisation charge, allowances and provisions" in the income statement (Note 18).

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

(iii) At 31 December 2015, trade receivables of £61.3 million (2014 £43.4 million) were renegotiated that would otherwise be past due or impaired. These relate to retail customers who, subsequent to defaulting on original payment terms, have made new arrangements to pay amounts owed.

(g) At 31 December 2015 trade receivables of £163.6 million (2014 £136.5 million) were past due but not impaired. These relate to retail customers who have not paid the outstanding balance within agreed payment terms.

Past due but not impaired	2015 £m	2014 £m
Less than 3 months	**94.5**	76.0
Between 3 and 6 months	**27.3**	19.3
Between 6 and 12 months	**30.5**	31.5
After more than 12 months	**11.3**	9.7
	163.6	136.5

9 SHARE CAPITAL

	2015 £m	2014 £m
Authorised:		
100,000,000 ordinary shares of £1 each (2014 100,000,000)	**100.0**	100.0
Allotted, called up and fully paid shares:		
55,407,000 ordinary shares of £1 each (2014 55,407,000)	**55.4**	55.4

10 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF SCOTTISHPOWER ENERGY RETAIL LIMITED

	Ordinary share capital £m	Hedge reserve (Note (a)) £m	Retained earnings (Note (b)) £m	Total £m
At 1 January 2014	55.4	(0.2)	77.4	132.6
Profit for the year attributable to equity holders of ScottishPower Energy Retail Limited	-	-	165.3	165.3
Changes in the value of cash flow hedges	-	(0.1)	-	(0.1)
Dividends	-	-	(110.0)	(110.0)
At 1 January 2015	55.4	(0.3)	132.7	187.8
Profit for the year attributable to equity holders of ScottishPower Energy Retail Limited	-	-	157.5	157.5
Changes in the value of cash flow hedges	-	0.4	-	0.4
Tax relating to cash flow hedges	-	(0.1)	-	(0.1)
At 31 December 2015	**55.4**	**-**	**290.2**	**345.6**

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

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

(c) 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 2014	(0.3)	0.1	(0.2)
Effective cash flow hedges recognised	(0.4)	0.1	(0.3)
Removed from equity and recognised in income statement	0.3	(0.1)	0.2
At 1 January 2015	(0.4)	0.1	(0.3)
Effective cash flow hedges recognised	(0.3)	0.1	(0.2)
Removed from equity and recognised in income statement	0.7	(0.1)	0.6
Changes in future tax rates	-	(0.1)	(0.1)
At 31 December 2015	-	-	-

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

	2015 £m	2014 £m
Less than 1 year	-	(0.3)

11 DEFERRED INCOME

Year ended 31 December 2014	At 1 January 2014 £m	Released to income statement £m	At 31 December 2014 £m
Capital grants	0.4	(0.1)	0.3

Year ended 31 December 2015	At 1 January 2015 £m	Released to income statement £m	**At 31 December 2015 £m**
Capital grants	0.3	(0.1)	**0.2**

12 TRADE AND OTHER PAYABLES

	2015 £m	2014 £m
Current trade and other payables:		
Payables due to Iberdrola group companies- trade	**587.9**	644.0
Trade payables	**150.3**	143.7
Other taxes and social security	**49.5**	37.4
Payments received on account	**0.1**	0.5
Capital payables and accruals	**8.1**	4.1
Other payables	**86.7**	274.6
	882.6	1,104.3
Non-current other payables:		
Other payables	**1.4**	0.3

13 DEFERRED TAX

Deferred tax recognised in the Accounts is as follows:

	Property, plant and equipment £m	Derivative financial instruments £m	Other temporary differences £m	Total £m
At 1 January 2014	2.0	(0.1)	(0.1)	1.8
Charge/(credit) to the income statement	5.0	-	(0.1)	4.9
At 1 January 2015	7.0	(0.1)	(0.2)	6.7
Charge/(credit) to the income statement	0.8	-	(0.4)	0.4
Recorded in the statement of comprehensive income	-	0.1	-	0.1
At 31 December 2015	**7.8**	**-**	**(0.6)**	**7.2**

Finance (No.2) Act 2015 included legislation to reduce the rate of UK Corporation Tax to 19% on 1 April 2017 and to 18% on 1 April 2020. These changes reduce the tax rates expected to apply when temporary differences reverse and impact the deferred tax charge. The rate of UK Corporation Tax is now expected to reduce by a further 1% to 17% on 1 April 2020. This will have negligible impact on the deferred tax provision.

14 PROVISIONS

Year ended 31 December 2014	Notes	At 1 January 2014 £m	New provisions £m	Utilised during year £m	Released during year £m	At 31 December 2014 £m
Reorganisation and restructuring	(a)	6.3	0.9	(6.3)	(0.5)	0.4
Regulatory	(b)	1.4	0.8	(0.9)	-	1.3
Overtime and commission	(c)	-	1.7	-	-	1.7
	(d)	7.7	3.4	(7.2)	(0.5)	3.4

Year ended 31 December 2015	Notes	At 1 January 2015 £m	New provisions £m	Utilised during year £m	Released during year £m	**At 31 December 2015 £m**
Reorganisation and restructuring	(a)	0.4	-	(0.4)	-	-
Regulatory	(b)	1.3	-	(1.3)	-	-
Overtime and commission	(c)	1.7	0.1	-	(0.9)	**0.9**
	(d)	3.4	0.1	(1.7)	(0.9)	**0.9**

(a) The provision for restructuring was fully utilised during 2015.

(b) The provision for regulatory costs related to various contractual obligations and the estimated future costs associated with regulatory reviews. The balance at December 2014 related to the Community Energy Saving Programme ("CESP") penalty provisions. This was fully utilised during 2015.

(c) The provision for overtime and commission comprises probable holiday pay entitlements under the Working Time Regulations arising from commission and overtime.

(d) All provisions are classified as current in both the current and prior year.

15 DERIVATIVE FINANCIAL INSTRUMENTS

Analysis of derivative financial instruments – carrying value

	2015				2014			
	Assets		Liabilities		Assets		Liabilities	
	Current	Non-Current	Current	Non-Current	Current	Non-Current	Current	Non-Current
	£m	£m	£m	£m	£m	£m	£m	£m
Hedging derivatives								
Exchange rate hedges								
Cash flow hedge								
- Foreign exchange rate	-	-	-	-	-	-	(0.4)	-

16 EMPLOYEE INFORMATION

(a) Staff costs

	Note	2015 £m	2014 £m
Wages and salaries		**54.0**	57.6
Social security costs		**4.5**	4.7
Pension and other costs	(i)	**12.7**	(2.4)
Total staff costs		**71.2**	59.9
Less: capitalised staff costs		**(3.0)**	(4.7)
Charged to the income statement		**68.2**	55.2

(i) In 2014, 'Pension and other costs' included a release of £13.5 million for the reorganisation costs associated with the restructuring of the Energy Retail business function in 2013.

(b) Employee numbers

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

	Year end 2015	**Average 2015**	Year end 2014	Average 2014
Customer Services	**973**	**982**	1,049	1,226
Administration	**695**	**702**	598	703
Total	**1,668**	**1,684**	1,647	1,929

The year end and average numbers of employees full time equivalent staff employed by the company, including executive directors where appropriate were:

	Year end 2015	**Average 2015**	Year end 2014	Average 2014
Total	**1,527**	**1,541**	1,504	1,748

(c) Retirement benefits

The company's contributions payable in the year were £11.3 million (2014 £9.7 million). The company contributes to ScottishPower's defined benefit and defined contribution schemes in the UK. Full details of these schemes are provided in the most recent Annual Report and Accounts of SPL. As at 31 December 2015, the deficit in the ScottishPower's defined benefit schemes in the UK amounted to £264.4 million (2014 £308.4 million). The employer contribution rate for these schemes in the year ended 31 December 2015 was 30.1% - 31.0%.

17 TAXES OTHER THAN INCOME TAX

	Note	2015 £m	2014 £m
Other taxes	(a)	**84.3**	145.4

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

18 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS

	2015 £m	2014 £m
Property, plant and equipment depreciation charge	7.8	5.9
Intangible asset amortisation	38.9	28.0
Capital grants transferred to income for the year	(0.1)	(0.1)
Charges and provisions and allowances	54.3	54.3
	100.9	88.1

19 FINANCE INCOME

	2015 £m	2014 £m
Interest on bank and other deposits	0.6	0.4
Interest receivable from Iberdrola group companies	7.1	8.1
	7.7	8.5

20 FINANCE COSTS

	2015 £m	2014 £m
Impairment of financial investments	0.6	3.6

21 INCOME TAX

	2015 £m	2014 £m
Current tax:		
UK Corporation tax	46.1	45.9
Adjustments in respect of prior years	(1.9)	(6.7)
Current tax for the year	44.2	39.2
Origination and reversal of temporary differences	(1.5)	(0.6)
Adjustments in respect of prior years	2.0	5.4
Impact of tax rate change	(0.1)	0.1
Deferred tax for the year	0.4	4.9
Income tax charge for the year	44.6	44.1

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

	2015 £m	2014 £m
Corporation tax at 20.25% (2014 21.5%)	40.9	45.0
Adjustments in respect of prior periods	0.1	(1.3)
Impact of tax rate change	(0.1)	0.1
Non deductible expenses and other permanent differences	3.7	0.3
Income tax charge for the year	44.6	44.1

The rate of UK Corporation tax reduced from 21% to 20% on 1 April 2015 and from 23% to 21% on 1 April 2014. Finance (No.2) Act 2015 included legislation to reduce the rate of UK Corporation tax to 19% on 1 April 2017 and to 18% on 1 April 2020. These changes reduce the tax rates expected to apply when temporary differences reverse and impact the deferred tax charge.

22 DIVIDENDS

	2015 £ per ordinary share	2014 £ per ordinary share	2015 £m	2014 £m
Interim dividend paid	-	1.99	-	110.0

On 28 March 2016 an interim dividend payment of £280.0 million was approved by the board and subsequently paid.

23 FINANCIAL COMMITMENTS

	2015						
	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 and thereafter £m	Total £m
Other contractual commitments	5.7	3.8	3.6	1.3	-	-	**14.4**

Financial commitments as at 31 December 2014 were £nil.

24 RELATED PARTY TRANSACTIONS

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

	2015			2014		
	UK parent (SPL) £m	**Other Iberdrola group companies £m**	**Subsidiaries £m**	UK parent (SPL) £m	Immediate parent (SPGH) £m	Other Iberdrola group companies £m
Types of transaction						
Sales and rendering of services	-	**16.9**	-	-	-	19.3
Purchases and receipt of services	-	**(2,518.6)**	-	-	-	(2,682.0)
Interest income	**6.8**	**0.3**	-	7.8	-	0.3
Changes in the value of cash flow hedge reserve	**0.4**	-	-	(0.1)	-	-
Dividends received	-	-	**1.0**	-	-	-
Dividends paid	-	-	-	-	(110.0)	-
Balances outstanding						
Loans receivable	**407.0**	-	-	538.1	-	-
Trade and other receivables	-	**120.6**	-	-	-	71.3
Interest receivable	**6.8**	**0.1**	-	7.8	-	0.1
Trade and other payables	-	**(587.9)**	-	-	-	(644.0)
Derivative financial liabilities	-	-	-	(0.4)	-	-

(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 2015, Scottish Power UK plc made pension contributions of £9.1 million (2014 £9.7 million) on behalf of the company.

(b) Remuneration of key management personnel

The remuneration of the key management personnel of the company is set out below. During the year, the remuneration allocation for the non-UK resident key management personnel changed and thus the element of their remuneration which is specifically in relation to their services to the company is disclosed below. There has been no impact on the income statement as a result of this change, however the comparative figures disclosed for 'Short-term employee benefits', 'Post-employment benefits' and 'Share-based payments' have decreased by £405,000, £8,000 and £112,000 respectively. Of the thirteen (2014: seven) key management personnel, seven (2014: two) were paid by other Iberdrola group companies during the year.

	2015 £m	2014 £m
Short-term employee benefits	**2,023**	1,357
Post-employment benefits	**527**	430
Termination benefits	-	118
Share-based payments	**664**	500
	3,214	2,405

24 RELATED PARTY TRANSACTIONS *continued*

(c) Directors' remuneration

The remuneration of the directors that provided qualifying services to the company is set out below. During the year, the remuneration allocation for the non-UK resident directors changed and thus the element of their remuneration which is specifically in relation to their qualifying services to the company is disclosed below. There has been no impact on the income statement as a result of this change, however the comparative figure disclosed for 'Aggregate remuneration in respect of qualifying services' has decreased by £405,000. One (2014: one) of the directors was paid by another Iberdrola group company during the year.

Executive directors	2015 £000	2014 £000
Aggregate remuneration in respect of qualifying services	702	618
Number of directors who exercised share options	2	2
Number of directors who received shares under a long-term incentive scheme	2	2
Number of directors accruing retirement benefits under a defined benefit scheme	2	2

Highest paid director	2015 £000	2014 £000
Aggregate remuneration	489	409
Accrued pension benefit	77	71

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

(d) Ultimate parent company

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

Copies of the Consolidated Accounts of Iberdrola, S.A. may be obtained from 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.

25 AUDITORS' REMUNERATION

	2015 £m	2014 £m
Audit of the company's annual Accounts	0.2	0.2

26 GOING CONCERN

The company's business activities together with the factors likely to affect its future performance are set out in the Strategic Report on pages 1 to 5. The company has recorded a profit after tax in the current year and in the previous financial year and the company's balance sheet shows that it has net current assets of £112.5 million and net assets of £345.6 million at its most recent balance sheet date.

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

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