SCOTTISHPOWER ENERGY RETAIL LIMITED
ANNUAL REPORT AND ACCOUNTS
for the year ended 31 December 2016

Registered No. SC190287

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SCOTTISHPOWER ENERGY RETAIL LIMITED
STRATEGIC REPORT

The directors present an overview of ScottishPower Energy Retail Limited's business structure, 2016 performance, strategic objectives and plans.

STRATEGIC OUTLOOK

The principal activity of ScottishPower Energy Retail Limited ("the company") is the supply of electricity and gas to 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. The company is also responsible for managing the Energy Services activities of the Scottish Power Limited group ("ScottishPower"). During 2016 an average of 5.4 million gas and electricity customers were supplied by the company. 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.

On 24 June 2016 the Competition and Markets Authority ("CMA") published its final report regarding the investigation into the Gas and Electricity market in the UK. Energy Retail has been working with The Office of Gas and Electricity Markets ("Ofgem") to implement the remedies as quickly as possible and has identified a number of opportunities for early action. These include supporting Ofgem in early testing of the proposed domestic customer database of disengaged customers and trialing customer engagement messages. In both cases, Energy Retail has been proactively working with Ofgem to support implementation in advance of the CMA timescales.

The regulatory changes in the gas and electricity market in the UK, following the results of the CMA investigation, have removed the restriction on suppliers to only have four tariffs available. Energy Retail has embraced this change by launching a number of new options, open to both existing and new ScottishPower customers.

Domestic market switching levels for 2016 were up 26% on 2015, however Energy Retail continues to outperform other major suppliers in terms of customer churn. Energy Retail currently has the lowest percentage of domestic customers of the major suppliers on standard variable tariffs ("SVTs") with less than half now on SVTs. This is as a result of offering competitively priced products on a consistent basis and enabling Energy Retail customers to switch between tariffs for free at any time.

The CMA remedies have also enabled Energy Retail to introduce a highly innovative app-based energy product called PowerUp, which aims to simplify energy purchasing and increase customer engagement. It allows customers to augment their existing online account management with the ability to buy their energy in multiples of days or months, a unit of measure that is much more easily understood than kilowatt hours by most people. This provides customers with even greater transparency of their energy consumption, allowing them to make more informed decisions about how to use energy more efficiently.

Energy Retail is working hard to make improvements to its customer service and this has been recognised externally. Over the last twelve months Energy Retail has focused its efforts in further enhancing the online experience for both existing and prospective customers, to give them greater freedom as to how they set up a new account or manage an existing account.

The introduction of a number of market-first digital services such as the Direct Debit Manager and the option for customers to make payments via an app on their mobile device, are helping customers to control their energy account and their interaction with ScottishPower. These digital tools provide an additional channel through which customers can more effectively manage their energy account, at a time that suits them. Energy Retail has also implemented a new online Customer Support Centre, which was set up in response to customer feedback from its customer panel and the experience of its customer-facing teams. The Support Centre uses innovative functionality to recognise the customer's account status, to allow Energy Retail to present each customer with information that is most relevant to them.

STRATEGIC OUTLOOK *continued*

In addition to this, Energy Retail offers specific help to its most vulnerable customers:

- The ScottishPower Hardship Fund, which was launched in May 2015, in partnership with the independent administrators, Social Enterprise Direct, has provided over £15 million to customers who are struggling to pay their arrears.
- Energy Retail has also helped to refer circa 3,500 customers to get help with ongoing budget and debt issues from its chosen free debt advice charity, National Debtline.
- Energy Retail is working to bring its Priority Services Register in line with the new Supply Licence requirements to register customers who are vulnerable, with permanent or transient needs, and to work with customers to help them during periods of uncertainty.
- Energy Retail also supports vulnerable customers with their energy bills through the Warm Home Discount Scheme ("WHD") spending almost £31 million in 2016 providing assistance to over 214,000 customers.
- The ScottishPower Energy People Trust (an independent registered charity) funds other registered charities that help people whose lives are affected by fuel poverty. During 2016, the Trust awarded over £1 million to 40 projects, helping over 15,000 households (over 31,000 individuals). Since the Trust was established in November 2005, it has awarded nearly £15 million to around 350 projects helping nearly 2 million people in over 1 million households throughout Great Britain. This has resulted in an increase in household income of £85 million, in addition, 489 jobs were created and 628 volunteers supported these organisations.

The delivery of energy efficiency measures continues to be an important objective of Energy Retail and 2016 was the fourth year of delivery of the UK Government's Energy Company Obligation ("ECO"). The ECO scheme focuses on reducing heating costs for most of the vulnerable customers, and also aims to improve the energy efficiency of properties. Energy Retail continues to make strong progress towards delivering this obligation and has delivered a sufficient volume of measures to meet March 2017 obligation targets.

Energy Retail continues to play its part in the roll out of smart meters and has made good progress in 2016 in mobilising and increasing its smart deployment capabilities. Focusing on achieving the regulatory target of 100% of installs by 2020, Energy Retail has established a network of installers, who, together with Energy Retail's own Metering teams have already made good progress. This provides a strong platform to further increase its deployment capability in 2017 and 2018. The opportunity to engage with customers as Energy Retail go through the smart meter transition will see increased awareness and promotion of the Priority Services Register to support vulnerable customers.

OPERATIONAL PERFORMANCE

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

	Revenue*		Operating profit*		Capital investment**	
	2016	2015	**2016**	2015	**2016**	2015
Financial key performance indicators	**£m**	£m	**£m**	£m	**£m**	£m
ScottishPower Energy Retail Limited	**3,712.0**	3,812.8	**110.4**	194.0	**94.0**	38.5

*Revenue and operating profit is presented on page 12.
**Capital investment is presented within Notes 3 and 4 on pages 21 and 22 respectively.

Revenue decreased by £100.8 million to £3,712.0 million in 2016. This reduction was primarily driven by lower priced products reflecting the competitive market, gas tariff reductions and reduced average domestic customer consumption due to weather.

Operating profit decreased by £83.6 million to £110.4 million in 2016 primarily as a consequence of adverse gross margins (lower energy costs more than offset by lower revenues and increases in the cost of both government obligations and transportation of electricity). 2016 operating costs included a £16.4 million restructuring and pension costs provision (refer to Note 15) which was more than offset by the 2015 £18.0 million Ofgem settlement.

Capital investment increased by £55.5 million to £94.0 million reflecting the 2016 investment to support the roll out of the smart metering programme.

OPERATIONAL PERFORMANCE *continued*

Non-financial key performance indicators	Notes	2016	2015
Volume supplied (GWh)*		**52,925**	52,139
Complaints handling	(a)	**6th**	6th
Customers (thousands)	(b)		
- Electricity		**3,218**	3,278
- Gas		**2,143**	2,178
		5,361	5,456

*Gigawatt hours ("GWh")

(a) Based on the Citizens Advice Complaints Handling Report for October to December, 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.

Customer service continues to recover from the migration of the customer base to the new customer relationships management system. Although the ranking remains 6th of the six major energy suppliers, the score has improved by 65% from January 2015 and further improvements are forecast.

LIQUIDITY AND CASH MANAGEMENT

Cash and net funds

Net cash flows from operating activities for the year increased by £311.3 million (refer to cash flow statement on page 14). As detailed in the table below net funds decreased by £135.5 million to £274.5 million. The movement in net funds comprised a decrease in cash of £2.1 million and a decrease in group loans receivable of £133.4 million.

Analysis of net debt/ funds	Notes	2016 £m	2015 £m
Cash	(a)	**0.9**	3.0
Group loans receivable	(b)	**273.6**	407.0
Net funds		**274.5**	410.0

(a) As detailed on the balance sheet, refer to page 11.
(b) As detailed in Note 6 on page 24.

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.

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.

PRINCIPAL RISKS AND UNCERTAINTIES ***continued***

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, including any sudden changes of policy, or new initiatives in the retail market outside the framework of the CMA investigation outcome.	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. Providing stakeholders with evidence of the risks of ad hoc intervention in markets.
Impacts arising from the UK decision to leave the European Union ("EU") or market reactions to events during the negotiation. These impacts could include further depreciation in the value of Sterling and other financial instruments. In the longer term there could be negative or positive changes in the UK economy and in the political and regulatory environment in which the company operates.	In addition to monitoring ongoing developments related to "Brexit" the treasury risk management policy is in place to hedge financial risks which are the most prevalent in the short term. Any longer term impact on the UK economy and its impact on the group and specific business units will be managed in line with developments.
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.

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.	Continued focus on improving customer service to enhance customers' experience; creating innovative, competitive products that compliment current offerings; increasing customer awareness of the ScottishPower 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 focused 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.	Continued investment in additional resource and employee training to handle customer queries and respond to complaints. Further mitigating actions include continued enhancement to key processes to reduce customer effort and improve customer journeys, including investment in the Energy Retail customer website.

ON BEHALF OF THE BOARD

Neil Clitheroe
Director
19 April 2017.

SCOTTISHPOWER ENERGY RETAIL LIMITED
DIRECTORS' REPORT

The directors present their report and audited Accounts for the year ended 31 December 2016.

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 £92.0 million (2015 £157.5 million). The aggregate dividends paid during the year amounted to £280.0 million (2015 £nil).

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 2,700 (2015 2,500) training events and over 139,000 hours (2015 169,000 hours) undertaken in 2016. 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 formal, structured training programme leading towards 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

Employee feedback is recognised as key to driving engagement within ScottishPower and in 2016 the group again carried out its annual employee engagement survey, 'The LOOP'. This year there was a significant increase in the response rate from employees with 75% of employees across the group providing feedback. The overall engagement score increased to 76% in 2016 which is a positive reflection of how employees feel about working for ScottishPower.

All ScottishPower businesses recognise the importance of taking action in response to employee feedback. Action plans were developed following the LOOP survey in 2016 and focus on three key areas across ScottishPower – recognising the day to day achievements of our employees, improving face to face communication and creating a positive employee experience for all employees.

In addition to employee feedback, ScottishPower regularly consults with employees and their representatives via a variety of channels, including monthly team meetings, business conferences, health and safety committees and employee relations forums.

EMPLOYEES *continued*

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 and includes a focus on creating an innovative, integrated organisation where people feel valued, inspiring them to perform at their best.

ScottishPower have a Diversity and Inclusion Governance Group whose objective is to drive the Diversity and Inclusion action plan with key stakeholders across the organisation to ensure that diversity is embedded into ScottishPower's working policies and practices.

Activities over 2016 included E-learning and training on diversity and unconscious bias to raise awareness to employees and key stakeholders. ScottishPower also received external recognition for ScottishPower's flexible and agile working practices to support working families and its development and employment programmes for young people.

ScottishPower is committed to driving gender diversity in the energy sector by encouraging women into leadership roles and engineering careers, not only seeking to develop its diverse and inclusive workforce but take active steps to address the deepening skills shortage in the sector. During 2016 ScottishPower joined the Women's Engineering Society and Powerful Women, sponsored the Top 50 Women in Engineering list and supported National Women in Engineering day.

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. ScottishPower's company-wide Volunteering Policy has been actively utilised by employees during 2016. 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

On 1 April 2017 Marc Rossi resigned as a director of the company.

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.

SCOTTISHPOWER ENERGY RETAIL LIMITED
DIRECTORS' REPORT *continued*

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 2016.

ON BEHALF OF THE BOARD

Neil Clitheroe
Director
19 April 2017.

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 2016 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 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 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 8, 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 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") 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, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

INDEPENDENT AUDITOR'S REPORT

to the members of ScottishPower Energy Retail Limited *continued*

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Directors' Report.

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
for and on behalf of Ernst & Young LLP, Statutory Auditor
Glasgow

21 April 2017.

SCOTTISHPOWER ENERGY RETAIL LIMITED
BALANCE SHEETS
as at 31 December 2016 and 31 December 2015

	Notes	2016 £m	2015 £m
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	3	**131.7**	152.4
Property, plant and equipment		**115.5**	51.2
Property, plant and equipment in use	4	115.3	51.0
Property, plant and equipment in the course of construction	4	0.2	0.2
Financial assets		**0.1**	0.1
Investments	5	0.1	0.1
Trade and other receivables	6	**37.8**	38.2
NON-CURRENT ASSETS		**285.1**	241.9
CURRENT ASSETS			
Trade and other receivables	6	**799.5**	1,036.5
Cash	7	**0.9**	3.0
CURRENT ASSETS		**800.4**	1,039.5
TOTAL ASSETS		**1,085.5**	1,281.4
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the parent		**157.6**	345.6
Share capital	9, 10	55.4	55.4
Retained earnings	10	102.2	290.2
TOTAL EQUITY		**157.6**	345.6
NON-CURRENT LIABILITIES			
Deferred income	11	**0.1**	0.2
Provisions	12	**0.1**	-
Trade and other payables	13	**0.8**	1.4
Deferred tax liabilities	14	**8.4**	7.2
NON-CURRENT LIABILITIES		**9.4**	8.8
CURRENT LIABILITIES			
Provisions	12	**4.8**	0.9
Trade and other payables	13	**886.3**	882.6
Current tax liabilities		**27.4**	43.5
CURRENT LIABILITIES		**918.5**	927.0
TOTAL LIABILITIES		**927.9**	935.8
TOTAL EQUITY AND LIABILITIES		**1,085.5**	1,281.4

Approved by the Board on 19 April 2017 and signed on its behalf by:

Neil Clitheroe
Director

The accompanying Notes 1 to 26 are an integral part of the balance sheets as at 31 December 2016 and 31 December 2015.

SCOTTISHPOWER ENERGY RETAIL LIMITED
INCOME STATEMENTS
for the years ended 31 December 2016 and 31 December 2015

	Notes	2016 £m	2015 £m
Revenue		3,712.0	3,812.8
Procurements		(2,999.1)	(3,010.7)
GROSS MARGIN		**712.9**	802.1
NET OPERATING EXPENSES		**(411.6)**	(422.9)
Net personnel expenses		**(86.3)**	(68.2)
Staff costs	15	(90.1)	(71.2)
Capitalised staff costs	15	3.8	3.0
Net external expenses		**(325.3)**	(354.7)
External services		(336.6)	(364.6)
Other operating income		11.3	9.9
Taxes other than income tax	16	**(76.9)**	(84.3)
EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION		**224.4**	294.9
Depreciation and amortisation charge, allowances and provisions	17	(114.0)	(100.9)
OPERATING PROFIT		**110.4**	194.0
Dividends received		-	1.0
Finance income	18	4.4	7.7
Finance costs	19	(0.8)	(0.6)
PROFIT BEFORE TAX		**114.0**	202.1
Income tax	20	(22.0)	(44.6)
NET PROFIT FOR THE YEAR		**92.0**	157.5

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 2016 and 31 December 2015.

SCOTTISHPOWER ENERGY RETAIL LIMITED
STATEMENTS OF COMPREHENSIVE INCOME
for the years ended 31 December 2016 and 31 December 2015

	Note	2016 £m	2015 £m
NET PROFIT FOR THE YEAR		**92.0**	157.5
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to the income statement:			
Change in the value of cash flow hedges recognised	10	-	0.4
Tax relating to cash flow hedges	10	-	(0.1)
OTHER COMPREHENSIVE INCOME FOR THE YEAR		-	0.3
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**92.0**	157.8

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 2016 and 31 December 2015

	Ordinary share capital £m	Hedge reserve £m	Retained earnings £m	Total equity £m
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 1 January 2016	55.4	-	290.2	345.6
Total comprehensive income for the year	-	-	92.0	92.0
Dividends	-	-	(280.0)	(280.0)
At 31 December 2016	**55.4**	-	**102.2**	**157.6**

The accompanying Notes 1 to 26 are an integral part of the statements of comprehensive income and statements of changes in equity for the years ended 31 December 2016 and 31 December 2015.

SCOTTISHPOWER ENERGY RETAIL LIMITED
CASH FLOW STATEMENTS
for the years ended 31 December 2016 and 31 December 2015

	2016 £m	2015 £m
Cash flows from operating activities		
Profit before tax	**114.0**	202.1
Adjustments for:		
Depreciation and amortisation	**50.4**	46.7
Change in provisions	**4.0**	(0.8)
Capital grants	**(0.1)**	(0.1)
Finance income and costs	**(3.6)**	(7.1)
Shareholding income	**-**	(1.0)
Changes in working capital:		
Change in trade and other receivables	**100.7**	(70.3)
Change in trade and other payables	**(18.6)**	(224.6)
Provisions paid	**-**	(1.7)
Income taxes paid	**(36.9)**	(46.6)
Interest received	**7.1**	8.1
Dividends received	**-**	1.0
Net cash flows from operating activities (i)	**217.0**	(94.3)
Cash flows from investing activities		
Investments in intangible assets	**(20.4)**	(20.7)
Investments in property, plant and equipment	**(52.1)**	(13.8)
Net cash flows from investing activities (ii)	**(72.5)**	(34.5)
Cash flows from financing activities		
Dividends paid to company's equity holders	**(280.0)**	-
Net cash flows from financing activities (iii)	**(280.0)**	-
Net decrease in cash and cash equivalents (i)+(ii)+(iii)	**(135.5)**	(128.8)
Cash and cash equivalents at beginning of year	**410.0**	538.8
Cash and cash equivalents at end of year	**274.5**	410.0

Cash and cash equivalents at end of year comprises:

	2016 £m	2015 £m
Balance sheet cash	**0.9**	3.0
Group loans receivable	**273.6**	407.0
Cash flow statement cash and cash equivalents	**274.5**	410.0

The accompanying Notes 1 to 26 are an integral part of the cash flow statements for the years ended 31 December 2016 and 31 December 2015.

1 BASIS OF PREPARATION

A COMPANY INFOMATION

ScottishPower Energy Retail Limited ("the company"), registered company number SC190287, is a private company limited by shares, incorporated in Scotland and its registered address is 320 St Vincent Street, Glasgow, G2 5AD.

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 2016. 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.

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 which are mandatory for the financial year ended 31 December 2016.

For the year ended 31 December 2016, the company has applied the following standards and amendments for the first time:

Standard	Note
• Amendments to IAS 1 'Presentation of Financial Statements: Disclosure Initiative'	(a)
• Amendments to IAS 16 'Property, Plant and Equipment' and IAS 38 'Intangible Assets' – 'Clarification of Acceptable Methods of Depreciation and Amortisation'	(a)
• Amendments to IAS 16 'Property, Plant and Equipment' and IAS 41 'Agriculture' – 'Bearer Plants'	(a)
• Amendments to IAS 27 'Separate Financial Statements: Equity Method in Separate Financial Statements'	(a)
• Amendments to IFRS 11 'Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations'	(a)
• Annual Improvements to IFRS Standards 2012-2014 Cycle	(a)
• 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'	(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 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
• Amendments to IAS 12 'Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses'	(b), (c), (d)	1 January 2017	1 January 2018
• Amendments to IAS 7 'Statement of Cash Flows: Disclosure Initiative'	(b), (c), (d)	1 January 2017	1 January 2018
• Annual Improvements to IFRS Standards 2014 – 2016 Cycle	(b), (c), (e)	1 January 2017 & 1 January 2018	1 January 2018
• IFRS 9 'Financial Instruments'	(f)	1 January 2018	1 January 2018

1 BASIS OF PREPARATION *continued*

C ACCOUNTING STANDARDS *continued*

Standard *continued*	**Notes**	**IASB effective date (for periods commencing on or after)**	**Planned date of application by the company**
• IFRS 15 'Revenue from Contracts with Customers' (including Amendments to IFRS 15 'Effective date of IFRS 15')	(g)	1 January 2018	1 January 2018
• Clarifications to IFRS 15 'Revenue from Contracts with Customers'	(c), (g)	1 January 2018	1 January 2018
• Amendments to IAS 40 'Investment Property: Transfers of Investment Property'	(b), (c)	1 January 2018	1 January 2018
• Amendments to IFRS 2 'Share-based Payments: Clarification and Measurement of Share-based Payment Transactions'	(b), (c)	1 January 2018	1 January 2018
• Amendments to IFRS 4 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts'	(b), (c)	1 January 2018	1 January 2018
• IFRIC 22 'Foreign Currency Transactions and Advance Consideration'	(b), (c)	1 January 2018	1 January 2018
• IFRS 16 'Leases'	(c), (h)	1 January 2019	1 January 2019
• IFRS 14 'Regulatory Deferral Accounts'	(b), (c), (i)	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'	(b), (c), (j)	Deferred indefinitely	To be decided

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

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

(d) Despite the IASB effective date of 1 January 2017, this pronouncement has yet to be endorsed by the EU (expected 2017). The endorsement notice will be reviewed for specific guidance but in the absence of further information it is anticipated that the company will apply this pronouncement from the accounting period following endorsement i.e. 1 January 2018.

(e) 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. Despite this, the pronouncement has yet to be endorsed by the EU (expected 2017). The endorsement notice will be reviewed for specific guidance but in the absence of further information it is anticipated that the company will apply this pronouncement from the accounting period following endorsement i.e. 1 January 2018.

(f) The company is currently analysing the impact of implementing IFRS 9 'Financial Instruments' which is effective for the company as from 1 January 2018. Following a preliminary analysis, the company provisionally expects that financial assets will be measured at amortised cost, except for equity instruments and derivative financial instruments that will be measured at fair value. The company intends to apply the general approach to the recognition of expected credit losses to all financial assets; except for trade receivables and leases to which the simplified approach will be taken regardless of whether they contain a significant financing component. The probability of default is not expected to be significant given the high credit quality of the financial assets. It is anticipated that more hedging instruments and hedged items will qualify for hedge accounting under IFRS 9. This analysis will continue in 2017.

(g) The company is currently analysing the impact of implementing IFRS 15 'Revenue from Contracts with Customers' and the associated amendments and clarifications, all of which are effective for the company as from 1 January 2018. Following a preliminary analysis of income earning arrangements, the only significant impact expected is the capitalisation of incremental costs of obtaining certain contracts. This analysis will continue in 2017.

(h) The company is currently analysing the impact of implementing IFRS 16 'Leases' which is effective for the company as from 1 January 2019. The company expects to recognise 'right-of-use' assets and corresponding lease liabilities in relation to leases currently classified as operating leases. The value of these is expected to be greater than the future minimum lease payments disclosed in Note 4(b). The company expects to take the exemptions in relation to short-term leases and leases of low-value assets. The company does not intend to bring leases of intangible assets within scope of IFRS 16. On transition, the modified retrospective method is expected to be applied and the new lease definition applied to all existing contracts at this point. The IT systems are currently being modified in order to adapt to the new requirements. This analysis will continue in 2017.

(i) 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.

(j) 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.

1 BASIS OF PREPARATION *continued*

C ACCOUNTING STANDARDS *continued*

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

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

The ECO obligation commenced on 1 January 2013 and was initially expected to run to 31 March 2015. On 5 December 2013 the UK Government announced an extension of the overall obligation period from 31 March 2015 to 31 March 2017.

In November 2015, the UK Government announced that ECO will be replaced with a new longer term supplier obligation to reduce carbon emissions and focus on the fuel poor. Consultation remains ongoing, however, the new obligation is expected to run from 1 October 2018 to 31 March 2022. In transition towards this longer term scheme, a proposed further extension to ECO has reached parliamentary approval which will cover the period from 1 April 2017 to 30 September 2018.

ScottishPower considers that the appropriate accounting treatment is prescribed by IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', as this obligation complies with the three features to be considered for a provision (present obligation, probable out-flow of resources and a reliable estimate can be made). In accordance with a legal opinion obtained by the company, 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.

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

Based on the FRC staff paper and the opinion of the external auditor, the company has recorded the expense in its financial statements as the measures were actually implemented during the year. This accounting treatment involves recording £5.2 million in 2016 less than (2015 £21.6 million less than) 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. At the end of each accounting period, amounts of energy delivered to customers since the last billing date are estimated and the corresponding unbilled revenue is estimated and recorded in revenue.

2 ACCOUNTING POLICIES *continued*

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 facilities and 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.

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.

2 ACCOUNTING POLICIES *continued*

G FINANCIAL INSTRUMENTS *continued*

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

(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%.

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.

2 ACCOUNTING POLICIES *continued*

G FINANCIAL INSTRUMENTS *continued*

G4 VALUATION OF FINANCIAL INSTRUMENTS

In those circumstances where IAS 39 requires financial instruments to be recognised in the balance sheet at fair value, the 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' and are released to the income statement in equal instalments 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 2015	Note	Computer software £m
Cost:		
At 1 January 2015		198.6
Additions	(a)	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

Year ended 31 December 2016	Note	Computer software £m
Cost:		
At 1 January 2016		219.3
Additions	(a)	20.4
At 31 December 2016		**239.7**
Amortisation:		
At 1 January 2016		66.9
Amortisation for the year		41.1
At 31 December 2016		**108.0**
Net book value:		
At 31 December 2016		**131.7**
At 1 January 2016		152.4

(a) During the year ended 31 December 2016, £5.1 million was spent on enhancements to the billing and customer relationship management system (2015 £9.5 million), £13.5 million expenditure on IT systems to support smart metering (2015 £11.2 million) and £1.8 million of additional expenditure (2015 nil).

4 PROPERTY, PLANT AND EQUIPMENT

(a) Movements in property, plant and equipment

Year ended 31 December 2015	Meters and measuring devices £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

Year ended 31 December 2016	Meters and measuring devices £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 2016	42.0	66.6	0.2	108.8
Additions	71.0	2.6	-	73.6
At 31 December 2016	**113.0**	**69.2**	**0.2**	**182.4**
Depreciation:				
At 1 January 2016	7.5	50.1	-	57.6
Depreciation for the year	6.7	2.6	-	9.3
At 31 December 2016	**14.2**	**52.7**	-	**66.9**
Net book value:				
At 31 December 2016	**98.8**	**16.5**	**0.2**	**115.5**
At 1 January 2016	34.5	16.5	0.2	51.2
The net book value of property plant and equipment at 31 December 2016 is analysed as follows:				
Property, plant and equipment in use	98.8	16.5	-	**115.3**
Property, plant and equipment in the course of construction	-	-	0.2	**0.2**
	98.8	16.5	0.2	**115.5**

(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 2016 was £28.2 million (2015 £18.5 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 (2015 £5.2 million).*
(v) On 1 April 2017 the company sold certain of its smart meter assets to SP Smart Meter Asset Limited (another ScottishPower group company) for a cash consideration of £55.6 million.

4 PROPERTY, PLANT AND EQUIPMENT *continued*

(b) Operating lease arrangements

(i) Operating lease payments	2016 £m	2015 £m
Minimum lease payments under operating leases recognised as an expense in the year	**0.2**	0.2
Contingent based operating lease rents recognised as an expense in the year	**352.5**	459.8
	352.7	460.0

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	2016 £m	2015 £m
Within one year	**0.2**	0.2

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	2016 £m	2015 £m
The future minimum lease payments receivable under non-cancellable operating leases are as follows:		
Within one year	**0.4**	0.9

The company leases a building as a lessor under operating leases. This lease arrangement is expected to end in June 2017.

(c) Capital commitments

	2016 £m	2015 £m
Contracted but not provided	**4.1**	0.6

5 INVESTMENTS

(a) Cost and net book value

	Subsidiary undertakings shares £m
At 1 January 2015, 1 January 2016 and 31 December 2016	**0.1**

(b) Shares in subsidiary undertakings

The subsidiary of the company is set out below:

	Principal activity	Country of incorporation	Equity interest 2016	Equity interest 2015
Subsidiaries				
Manweb Energy Consultants Limited	In liquidation	England and Wales	100%	100%

The address of the registered office of this subsidiary is Johnston Carmichael, 107–111 Fleet Street, London, EC4A 2AB, England.

6 TRADE AND OTHER RECEIVABLES

	Notes	2016 £m	2015 £m
Current receivables:			
Receivables due from Iberdrola group companies - trade		**37.0**	61.5
Receivables due from Iberdrola group companies - loans	(a)	**273.6**	407.0
Receivables due from Iberdrola group companies - interest		**3.6**	6.9
Receivables due from Iberdrola group companies - other	(b)	**11.9**	20.9
Trade receivables and accrued income	(b), (c)	**472.9**	537.5
Prepayments		**0.5**	2.7
		799.5	1,036.5
Non-current receivables:			
Receivables due from Iberdrola group companies - trade	(d)	**37.8**	38.2

(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) 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 2016, the company posted cash collateral of £16.0 million (2015 £23.4 million) and posted letters of credit of £11.1 million (2015 £8.9 million).

(c) Trade receivables are stated net of allowance for impairment of doubtful debts of £115.3 million (2015 £91.0 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.

(d) The balance as at 31 December 2016 and 31 December 2015 represents receivables due from Iberdrola group companies as part of a contractual renegotiation.

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

	2016 £m	2015 £m
At beginning of year	**91.0**	86.0
Receivables written off during the year as uncollectible	**(55.4)**	(48.6)
Provisions for receivables impairment	**79.7**	53.6
At end of year	**115.3**	91.0

(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 (refer to Note 17).

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

(iii) At 31 December 2016, trade receivables of £77.2 million (2015 £61.3 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.

(f) At 31 December 2016, trade receivables of £173.3 million (2015 £163.6 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	2016 £m	2015 £m
Less than 3 months	**85.1**	94.5
Between 3 and 6 months	**36.0**	27.3
Between 6 and 12 months	**38.5**	30.5
After more than 12 months	**13.7**	11.3
	173.3	163.6

7 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.

		2016		2015	
		Carrying amount	**Fair value**	Carrying amount	Fair value
	Notes	**£m**	**£m**	£m	£m
Financial assets					
Receivables	(i)	**836.8**	**836.8**	1,072.0	1,072.0
Cash	(ii)	**0.9**	**0.9**	3.0	3.0
Financial liabilities					
Payables	(i)	**(832.1)**	**(832.1)**	(834.4)	(834.4)

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.

(b) Borrowing facilities

The company had no undrawn committed borrowing facilities at 31 December 2016 (2015 £nil).

8 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.

	2016						
Cash outflows	**2017 £m**	**2018 £m**	**2019 £m**	**2020 £m**	**2021 £m**	**2022 and thereafter £m**	**Total £m**
Derivative financial instruments	0.6	-	-	-	-	-	**0.6**
Payables*	831.3	0.4	0.4	-	-	-	**832.1**
	831.9	**0.4**	**0.4**	-	-	-	**832.7**

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

* Contractual cash flows exclude accrued interest.

9 SHARE CAPITAL

	2016 £m	2015 £m
Authorised:		
100,000,000 ordinary shares of £1 each (2015 100,000,000)	**100.0**	100.0
Allotted, called up and fully paid shares:		
55,407,000 ordinary shares of £1 each (2015 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 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 1 January 2016	55.4	-	290.2	345.6
Profit for the year attributable to equity holders of ScottishPower Energy Retail Limited	-	-	92.0	92.0
Dividends	-	-	(280.0)	(280.0)
At 31 December 2016	**55.4**	-	**102.2**	**157.6**

(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 2015	(0.4)	0.1	(0.3)
Effective cash flow hedges recognised	(0.3)	0.1	(0.2)
Removed from equity and recognised in carrying amount of hedged items	0.7	(0.1)	0.6
Changes in future tax rates	-	(0.1)	(0.1)
At 1 January 2016	-	-	-
Effective cash flow hedges recognised	(0.1)	-	(0.1)
Removed from equity and recognised in carrying amount of hedged items	0.1	-	0.1
At 31 December 2016	-	-	-

11 DEFERRED INCOME

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
Year ended 31 December 2016	At 1 January 2016 £m	Released to income statement £m	**At 31 December 2016 £m**
Capital grants	0.2	(0.1)	**0.1**

12 PROVISIONS

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
		3.4	0.1	(1.7)	(0.9)	0.9

Year ended 31 December 2016	Notes	At 1 January 2016 £m	New provisions £m	Released during year £m	**At 31 December 2016 £m**
Reorganisation and restructuring	(a)	-	4.0	-	**4.0**
Overtime and commission	(c)	0.9	-	(0.1)	**0.8**
Other	(d)	-	0.1	-	**0.1**
		0.9	4.1	(0.1)	**4.9**

Analysis of total provisions	**2016 £m**	2015 £m
Non-current	**0.1**	-
Current	**4.8**	0.9
	4.9	0.9

(a) The reorganisation and restructuring provision at 1 January 2015 was fully utilised during 2015. The new provision of £4.0 million was recognised in the year to 31 December 2016 following a further reorganisation. This provision is expected to be fully utilised during 2017.

(b) The provision for regulatory costs related to various contractual obligations and the estimated future costs associated with regulatory reviews. 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. This provision is expected to be utilised during 2017.

(d) The "Other" category comprises various insurance provisions which are not individually material to warrant separate disclosure.

13 TRADE AND OTHER PAYABLES

	2016 £m	2015 £m
Current trade and other payables:		
Payables due to Iberdrola group companies- trade	**545.2**	587.9
Trade payables	**148.3**	150.3
Other taxes and social security	**54.8**	49.5
Payments received on account	**0.2**	0.1
Capital payables and accruals	**29.6**	8.1
Other payables	**108.2**	86.7
	886.3	882.6
Non-current other payables:		
Other payables	**0.8**	1.4

14 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 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 1 January 2016	7.8	-	(0.6)	7.2
Charge to income statement	1.0	-	0.2	1.2
At 31 December 2016	**8.8**	**-**	**(0.4)**	**8.4**

Legislation has been enacted to reduce the rate of UK Corporation Tax to 19% on 1 April 2017 and 17% on 1 April 2020. These changes reduce the tax rates expected to apply when temporary differences reverse and impact the deferred tax charge.

15 EMPLOYEE INFORMATION

(a) Staff costs

	Note	**2016 £m**	2015 £m
Wages and salaries		**55.0**	54.0
Social security costs		**5.2**	4.5
Pension and other costs	(i)	**29.9**	12.7
Total staff costs		**90.1**	71.2
Less: capitalised staff costs		**(3.8)**	(3.0)
Charged to the income statement		**86.3**	68.2

(i) "Pension and other costs" in 2016 includes £16.4 million of costs for a restructuring programme.

(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 2016	**Average 2016**	Year end 2015	Average 2015
Administrative staff	**781**	**780**	695	702
Operations	**890**	**890**	973	982
Total	**1,671**	**1,670**	1,668	1,684

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

	Year end 2016	**Average 2016**	Year end 2015	Average 2015
Total	**1,477**	**1,473**	1,527	1,541

(c) Retirement benefits

The company's contributions payable in the year were £12.2 million (2015 £11.3 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 2016, the deficit in the ScottishPower's defined benefit schemes in the UK amounted to £442.5 million (2015 £264.4 million). The employer contribution rate for these schemes in the year ended 31 December 2016 was 30.1% - 31.0%.

16 TAXES OTHER THAN INCOME TAX

	Note	**2016 £m**	2015 £m
Other taxes	(a)	**76.9**	84.3

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

17 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS

	2016 £m	2015 £m
Property, plant and equipment depreciation charge	**9.3**	7.8
Intangible asset amortisation	**41.1**	38.9
Capital grants transferred to income for the year	**(0.1)**	(0.1)
Charges and provisions, allowances and impairment of assets	**63.7**	54.3
	114.0	100.9

18 FINANCE INCOME

	2016 £m	2015 £m
Interest on bank and other deposits	**0.7**	0.6
Interest receivable from Iberdrola group companies	**3.7**	7.1
	4.4	7.7

19 FINANCE COSTS

	2016 £m	2015 £m
Impairment of financial investments	**0.6**	0.6
Foreign exchange losses	**0.2**	-
	0.8	0.6

20 INCOME TAX

	2016 £m	2015 £m
Current tax:		
UK Corporation tax	**22.4**	46.1
Adjustments in respect of prior years	**(1.6)**	(1.9)
Current tax for the year	**20.8**	44.2
Origination and reversal of temporary differences	**0.5**	(1.5)
Adjustments in respect of prior years	**1.3**	2.0
Impact of tax rate change	**(0.6)**	(0.1)
Deferred tax for the year	**1.2**	0.4
Income tax charge for the year	**22.0**	44.6

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

	2016 £m	2015 £m
Corporation tax at 20% (2015 20.25%)	**22.8**	40.9
Adjustments in respect of prior periods	**(0.3)**	0.1
Impact of tax rate change	**(0.6)**	(0.1)
Other permanent differences	**0.1**	3.7
Income tax charge for the year	**22.0**	44.6

The rate of UK Corporation Tax reduced from 21% to 20% on 1 April 2015. Legislation has been enacted to reduce the rate of UK Corporation Tax to 19% on 1 April 2017 and 17% on 1 April 2020. These changes reduce the tax rates expected to apply when temporary differences reverse and impact the deferred tax charge.

21 DIVIDENDS

	2016 £ per ordinary share	2015 £ per ordinary share	2016 £m	2015 £m
Interim dividend paid	**5.05**	-	**280.0**	-

22 FINANCIAL COMMITMENTS

	2016						
	2017	**2018**	**2019**	**2020**	**2021**	**2022 and thereafter**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Other contractual commitments	8.8	5.8	2.5	1.0	1.0	-	**19.1**

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

23 RELATED PARTY TRANSACTIONS

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

	2016			2015		
	UK parent (SPL) £m	**Immediate parent (SPGH) £m**	**Other Iberdrola group companies £m**	UK parent (SPL) £m	Other Iberdrola group companies £m	Subsidiaries £m
Types of transaction						
Sales and rendering of services	-	-	**16.7**	-	16.9	-
Purchases and receipt of services	-	-	**(2,220.1)**	-	(2,518.6)	-
Interest income	**3.5**	-	**0.2**	6.8	0.3	-
Changes in the value of cash flow hedge reserve	-	-	-	0.4	-	-
Dividends received	-	-	-	-	-	1.0
Dividends paid	-	**(280.0)**	-	-	-	-
Balances outstanding						
Loans receivable	**273.6**	-	-	407.0	-	-
Trade and other receivables	-	-	**86.7**	-	120.6	-
Interest receivable	**3.6**	-	-	6.8	0.1	-
Trade and other payables	-	-	**(545.2)**	-	(587.9)	-

(i) The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.
(ii) During the year ended 31 December 2016, Scottish Power UK plc made pension contributions of £12.2 million (2015 £11.3 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. As all of the key management personnel are remunerated for their work for the ScottishPower group, it has not been possible to apportion specifically in respect of services to this company. Of the 13 (2015 13) key management personnel six (2015 six) were remunerated directly by the company.

	2016 £m	2015 £m
Short-term employee benefits	**1,986**	2,023
Post-employment benefits	**409**	527
Share-based payments	**625**	664
	3,020	3,214

23 RELATED PARTY TRANSACTIONS *continued*

(c) Directors' remuneration

The remuneration of the directors that provided qualifying services to the company is set out below. As these directors are remunerated for their work for the ScottishPower group, it has not been possible to apportion the remuneration specifically in respect of services to this company. Two of the directors (2015 two) were remunerated directly by the company.

Executive directors	2016 £000	2015 £000
Aggregate remuneration in respect of qualifying services	**819**	702
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	2016 £000	2015 £000
Aggregate remuneration	**615**	489
Accrued pension benefits	**85**	77

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

24 AUDITORS' REMUNERATION

	2016 £m	2015 £m
Audit of the company's annual Accounts	**0.2**	0.2

25 EVENTS AFTER THE BALANCE SHEET DATE

On 1 April 2017 the company sold certain of its smart meter assets to SP Smart Meter Asset Limited (another Scottish Power group company) for a cash consideration of £55.6 million.

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 liabilities of £118.1 million and net assets of £157.6 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.