SCOTTISHPOWER ENERGY RETAIL LIMITED
ANNUAL REPORT AND ACCOUNTS
for the year ended 31 December 2017

Registered No. SC190287

SCOTTISHPOWER ENERGY RETAIL LIMITED
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SCOTTISHPOWER ENERGY RETAIL LIMITED
STRATEGIC REPORT

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

STRATEGIC OUTLOOK
The principal activity of ScottishPower Energy Retail Limited ("the company"), registered company number SC190287, 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 associated metering activity and managing the Energy Services activities of the Scottish Power Limited group ("ScottishPower"). During 2017 an average of 5.3 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") holding company of the ScottishPower group, of which the company is a member.

Energy Retail has continued to work with The Office of Gas and Electricity Markets ("Ofgem") to implement the remedies set out in the Competition and Markets Authority ("CMA") report. This includes continued engagement to support Ofgem in the development of the proposed domestic customer database of disengaged customers.

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

Domestic market switching reached record levels in 2017 according to Energy UK, showing a year on year increase of 15% versus 2016 levels. Energy Retail continues to outperform other major suppliers in terms of customer losses, and leads the way in having the lowest percentage of domestic customers of the major suppliers on Standard Variable Tariffs ("SVTs") with well under half of non-prepayment customers now on SVTs.

During the Conservative Party Conference speech on 4 October 2017, Prime Minister Theresa May announced that the UK Government would consult on a bill requiring Ofgem to cap SVT and default tariffs; in effect putting a maximum price on the whole domestic market. Depending on the level of the cap, and whether the UK Government takes any mitigating actions, the measure is likely to have a negative impact on Energy Retail's income and is potentially detrimental to competition and market engagement by consumers. Energy Retail is continuing to stress the benefits of a pro-competitive approach to customer engagement and SVTs, arguing that suppliers should be given targets to reduce SVT numbers, as well as seeking to ensure that the cap is set at an appropriate level and to encourage mitigating actions to be taken. Among these actions, Energy Retail will seek appropriate allowances for the rising cost of the smart metering programme and for the costs of customers, such as those with payment difficulty, who may be expensive to serve. Energy Retail will also seek to ensure that the competitive distortion caused by smaller suppliers being exempt from participating in the UK Government's fuel poverty and insulation programmes is addressed. Due to the time needed for the passage of the bill and the implementation process by Ofgem, the proposed price cap is unlikely to have a significant impact on revenues in 2018. Given that Energy Retail has the lowest proportion of customers on SVTs of the major suppliers, the impact of a proposed price cap will have less impact than on other major suppliers with a greater proportion of SVT customers.

Energy Retail is working hard to continually make improvements to its customer service. In recent years Energy Retail has focused its efforts on improving customer service processes including call centre operations and online services and 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 innovative 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 Energy Retail. 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 feedback from its customer panel and from the experience of its customer-facing teams. The Customer 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, has provided over £25 million in debt relief to customers in hardship.
- Energy Retail has also helped to refer around 7,500 customers to get help with ongoing budget and debt issues from its chosen free debt advice charity, National Debtline.
- Following changes to the supply licence, Energy Retail has made available to customer-facing staff new styles of vulnerable categories, such as those in temporary vulnerable situations. These will better help Energy Retail to support customers during periods of uncertainty.
- The ScottishPower Energy People Trust Fund ("the Trust") (an independent registered charity (SC036980)) funds other registered charities that help people whose lives are affected by fuel poverty. During 2017, the Trust awarded over £0.6 million to 17 projects, helping over 7,000 households (over 16,000 individuals). Since the Trust was established in November 2005, it has awarded over £15 million to 354 projects helping almost 2 million people in over 1 million households throughout Great Britain. This has resulted in an increase in household income of over £90 million. In addition 518 jobs were created and 709 volunteers supported these individuals. In light of ScottishPower's decision to consolidate its future charitable funding through the ScottishPower Foundation (a separate charity established in 2013), the Trustees resolved during 2017 to wind up the Trust upon the completion of all beneficiary projects, and the exhaustion of the Trust's funds within the next two years

The delivery of energy efficiency measures continues to be an important responsibility of Energy Retail and 2017 was the fourth year of delivery of the UK 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 continues to make strong progress towards delivering this obligation and has delivered a sufficient volume of measures to meet its March 2018 obligation targets. Energy Retail also supports vulnerable customers with their energy bills through the Warm Home Discount scheme ("WHD"); spending almost £40 million in 2017 providing assistance to over 214,000 customers.

Energy Retail continues to play its part in the roll out of smart meters and has made good progress in 2017 in mobilising and increasing its smart deployment capabilities, focusing on achieving the regulatory target of taking all reasonable steps to install a smart meter at 100% of premises by the end of 2020. Energy Retail has established a network of installers, who, together with Energy Retail's own metering teams, provide a strong platform to further increase its deployment capability for the remainder of the roll out.

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

	Revenue*		Operating (loss)/profit*		Capital investment**	
	2017	2016	**2017**	2016	**2017**	2016
Financial key performance indicators	**£m**	£m	**£m**	£m	**£m**	£m
ScottishPower Energy Retail Limited	**3,770.1**	3,712.0	**(23.3)**	110.4	**111.5**	94.0

*Revenue and operating (loss)/profit are presented on page 12.
**Capital investment is presented within Notes 3 and 4 on pages 20 and 21 respectively.

Revenue increased by £58.1 million to £3,770.1 million in 2017. This increase was primarily driven by higher volumes of industrial and commercial sales. Underlying domestic revenue fell due to lower customer demand for gas and electricity, and a higher proportion of customers on fixed price tariffs. The increase in revenue has been more than offset by higher procurement costs, being increases in market prices and the increased costs of government obligations.

Operating profit decreased by £133.7 million to an operating loss of £23.3 million in 2017. This is a consequence of an adverse gross margin (lower domestic demand and increases in the costs of energy and government obligations) as well as increases in costs associated with the smart meter roll out and government-levied WHD scheme costs.

Capital investment increased by £17.5 million to £111.5 million reflecting the 2017 investment to support the roll out of the smart metering programme.

SCOTTISHPOWER ENERGY RETAIL LIMITED
STRATEGIC REPORT *continued*

OPERATIONAL PERFORMANCE *continued*

Non-financial key performance indicators	Notes	2017	2016
Volume supplied (GWh)*		**51,105**	52,925
Customer service performance	(a)	**5th**	6th
Customers (thousands)	(b)		
- Electricity		**3,170**	3,218
- Gas		**2,115**	2,143
		5,285	5,361

*Gigawatt hours ("GWh")

(a) Based on the Citizens Advice Domestic Energy Suppliers' Customer Service Report. Rankings reflect Energy Retail's position relative to other 'Big Six' Energy Companies.

(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.

LIQUIDITY AND CASH MANAGEMENT

Cash and net funds

Net cash flows from operating activities for the year decreased by £222.9 million (refer to cash flow statement on page 14). As detailed in the table below net funds decreased by £74.6 million to £199.9 million. The movement in net funds comprised an increase in cash of £1.7 million and a decrease in group loans receivable of £76.3 million.

Analysis of net funds	Notes	2017 £m	2016 £m
Cash	(a)	**2.6**	0.9
Receivables due from Iberdrola group companies - current loans	(b)	**197.3**	273.6
Net funds		**199.9**	274.5

(a) As detailed on the balance sheet, refer to page 11.

(b) As detailed in Note 6 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.

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 interventions outside established regulatory frameworks.	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 movements 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 ScottishPower operates.	In addition to monitoring ongoing developments related to "Brexit" a 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 ScottishPower 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 internal and 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 all 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
The introduction of a price cap for SVT customers, at an inappropriate level or in a way that distorts competition.	Continued focus on encouraging competition and promoting the use of fixed-price products; ongoing dialogue with lobbying of government and regulatory bodies to mitigate the risk.
Reduction in retail margins as a result of increasing non-energy costs, reduced market share and unfavourable wholesale 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, including investment in the Energy Retail customer website.

ON BEHALF OF THE BOARD

Valerie Sim

Valerie Sim
Director
1 June 2018

SCOTTISHPOWER ENERGY RETAIL LIMITED
DIRECTORS' REPORT

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

INFORMATION CONTAINED WITHIN THE STRATEGIC REPORT

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

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

RESULTS AND DIVIDEND

The net loss for the year amounted to £14.8 million (2016 net profit of £92.0 million). A dividend of £40.0 million was paid during the year (2016 £280.0 million).

ENVIRONMENTAL REGULATION

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

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 2,900 (2016 2,700) training events and over 178,000 hours of training undertaken in 2017 (2016 139,000 hours). 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 2017 ScottishPower again carried out its annual employee engagement survey, 'The LOOP'. The response rate in 2017 was in line with 2016 with 75% of employees across ScottishPower providing feedback. The overall engagement score increased to 79% in 2017 which is the highest ever level of engagement for ScottishPower and a positive reflection of how employees feel about working for the company. The results also show that ScottishPower's levels of engagement are in line with global utility peers.

All ScottishPower businesses recognise the importance of taking action in response to employee feedback and action plans are developed across ScottishPower. At a ScottishPower level, health and safety, image and reputation are areas of strength and employee feedback confirms that leadership, customer focus and personal development are the most important areas for 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.

Equality and inclusion

ScottishPower recognises the importance of difference and respects individuality as part of its ongoing commitment to promoting equality and inclusion. 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.

EMPLOYEES *continued*

Equality and inclusion continued

ScottishPower complies with The Equality Act 2010 and has published its gender pay gap information, based on data as at 5 April 2017, on its website.

ScottishPower has 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 during 2017 included e-learning and training on diversity and unconscious bias to raise the awareness amongst management and employees.

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. ScottishPower partners with external organisations such as the Women's Engineering Society and Powerful Women, and continues to sponsor and support industry initiatives such as the Top 50 Women in Engineering list and International 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 the Business Disability Forum, which provide support, guidance and sharing of best practice to enable companies to become disability confident.

Employee health and wellbeing

ScottishPower 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 2017. 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.

Modern slavery statement

ScottishPower is committed to human and labour rights and to eliminating modern slavery that could in any way be connected to its business. ScottishPower welcomed the introduction of the Modern Slavery Act 2015 and published its own Modern Slavery Statement which was approved by the Board of Directors of Scottish Power Limited. ScottishPower's Modern Slavery Statement is published on the ScottishPower website at:
www.scottishpower.com/pages/scottishpowers_modern_slavery_statement.aspx.

DIRECTORS

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

Neil Clitheroe	
Aitor Moso Raigoso	(resigned 28 August 2017)
Colin McNeill	(appointed 11 July 2017)
Marc Rossi	(resigned 1 April 2017)
Valerie Sim	(appointed 27 April 2017)

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

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

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

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

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

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

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

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

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

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

ON BEHALF OF THE BOARD

Valerie S

Valerie Sim
Director
1 June 2018

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SCOTTISHPOWER ENERGY RETAIL LIMITED

Opinion

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

In our opinion the financial statements:

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

Basis for opinion

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

Going concern

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

Strategic Report and Directors' Report

The directors are responsible for the Strategic Report and the Directors' Report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon. Our responsibility is to read the Strategic Report and the Directors' Report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a Strategic Report.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 8, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

The purpose of our audit work and to whom we owe our responsibilities

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

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

SCOTTISHPOWER ENERGY RETAIL LIMITED
BALANCE SHEETS
as at 31 December 2017 and 31 December 2016

	Notes	2017 £m	2016 Restated* £m
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	3	**107.6**	131.7
Property, plant and equipment		**137.3**	115.5
Property, plant and equipment in use	4	137.1	115.3
Property, plant and equipment in the course of construction	4	0.2	0.2
Financial assets		-	0.1
Investments	5	-	0.1
Trade and other receivables	6	**39.1**	37.8
NON-CURRENT ASSETS		**284.0**	285.1
CURRENT ASSETS			
Inventories	7	**234.3**	143.4
Trade and other receivables	6	**855.7**	898.9
Cash	8	**2.6**	0.9
CURRENT ASSETS		**1,092.6**	1,043.2
TOTAL ASSETS		**1,376.6**	1,328.3
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the parent		**102.8**	157.6
Share capital	10, 11	55.4	55.4
Retained earnings	11	47.4	102.2
TOTAL EQUITY		**102.8**	157.6
NON-CURRENT LIABILITIES			
Deferred income	12	**0.1**	0.1
Provisions	13	**0.2**	0.1
Trade and other payables	14	**1.0**	0.8
Deferred tax liabilities	15	**8.5**	8.4
NON-CURRENT LIABILITIES		**9.8**	9.4
CURRENT LIABILITIES			
Provisions	13	**327.3**	264.8
Trade and other payables	14	**936.0**	869.1
Current tax liabilities		**0.7**	27.4
CURRENT LIABILITIES		**1,264.0**	1,161.3
TOTAL LIABILITIES		**1,273.8**	1,170.7
TOTAL EQUITY AND LIABILITIES		**1,376.6**	1,328.3

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

Approved by the Board on 1 June 2018 and signed on its behalf by:

Valerie S.

Valerie Sim
Director

The accompanying Notes 1 to 26 are an integral part of the balance sheets as at 31 December 2017 and 31 December 2016.

SCOTTISHPOWER ENERGY RETAIL LIMITED
INCOME STATEMENTS AND STATEMENTS OF OTHER COMPREHENSIVE INCOME
for the years ended 31 December 2017 and 31 December 2016

	Notes	2017 £m	2016 £m
Revenue		3,770.1	3,712.0
Procurements		(3,152.3)	(2,999.1)
GROSS MARGIN		**617.8**	712.9
NET OPERATING EXPENSES		**(419.6)**	(411.6)
Net personnel expenses		**(82.7)**	(86.3)
Staff costs	16	(87.2)	(90.1)
Capitalised staff costs	16	4.5	3.8
Net external expenses		**(336.9)**	(325.3)
External services		(348.9)	(336.6)
Other operating income		12.0	11.3
Taxes other than income tax	17	**(102.1)**	(76.9)
GROSS OPERATING PROFIT		**96.1**	224.4
Depreciation and amortisation charge, allowances and provisions	18	(119.4)	(114.0)
OPERATING (LOSS)/PROFIT		**(23.3)**	110.4
Losses on disposal of non-current assets		(0.1)	-
Finance income	19	3.9	4.4
Finance costs	20	0.3	(0.8)
(LOSS)/PROFIT BEFORE TAX		**(19.2)**	114.0
Income tax	21	4.4	(22.0)
NET (LOSS)/PROFIT FOR THE YEAR		**(14.8)**	92.0

Net loss for the current year and net profit for the prior year is wholly attributable to the equity holder of ScottishPower Energy Retail Limited.

Net loss for the current year and net profit for the prior year comprises total comprehensive income.

All results relate to continuing operations.

The accompanying Notes 1 to 26 are an integral part of the income statements and statements of other comprehensive income for the years ended 31 December 2017 and 31 December 2016.

SCOTTISHPOWER ENERGY RETAIL LIMITED
STATEMENTS OF CHANGES IN EQUITY
for the years ended 31 December 2017 and 31 December 2016

	Share capital £m	Retained earnings £m	Total £m
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 1 January 2017	55.4	102.2	157.6
Total comprehensive income for the year	-	(14.8)	(14.8)
Dividends	-	(40.0)	(40.0)
At 31 December 2017	**55.4**	**47.4**	**102.8**

The accompanying Notes 1 to 26 are an integral part of the statements of changes in equity for the years ended 31 December 2017 and 31 December 2016.

SCOTTISHPOWER ENERGY RETAIL LIMITED
CASH FLOW STATEMENTS
for the years ended 31 December 2017 and 31 December 2016

	2017 £m	2016 Restated* £m
Cash flows from operating activities		
(Loss)/profit before tax	**(19.2)**	114.0
Adjustments for:		
Depreciation and amortisation	**53.9**	50.4
Change in provisions	**403.3**	332.6
Capital grants and transfer of assets from customers	**-**	(0.1)
Finance income and costs	**(4.2)**	(3.6)
Net losses on disposal of non-current assets	**0.1**	-
Change in trade and other receivables	**(36.6)**	15.5
Change in inventories	**(428.7)**	(228.6)
Change in trade payables	**46.8**	(33.4)
Provisions paid	**(2.9)**	-
Income taxes paid	**(22.2)**	(36.9)
Interest received	**3.8**	7.1
Net cash flows from operating activities (i)	**(5.9)**	217.0
Cash flows from investing activities		
Investments in intangible assets	**(19.1)**	(20.4)
Investments in property, plant and equipment	**(72.2)**	(52.1)
Disposal of other non-current investments	**0.1**	-
Proceeds from disposal of property, plant and equipment	**6.9**	-
Transfer to other Iberdrola group companies	**55.6**	-
Decrease in amounts due from Iberdrola group companies - current loans receivable	**76.3**	133.4
Net cash flows from investing activities (ii)	**47.6**	60.9
Cash flows from financing activities		
Dividends paid to company's equity holder	**(40.0)**	(280.0)
Net cash flows from financing activities (iii)	**(40.0)**	(280.0)
Net increase/(decrease) in cash and cash equivalents (i)+(ii)+(iii)	**1.7**	(2.1)
Cash and cash equivalents at beginning of year	**0.9**	3.0
Cash and cash equivalents at end of year	**2.6**	0.9
Cash and cash equivalents at end of year comprises:		
Cash	**2.6**	0.9
Cash flow statement cash and cash equivalents	**2.6**	0.9

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

The accompanying Notes 1 to 26 are an integral part of the cash flow statements for the years ended 31 December 2017 and 31 December 2016.

1 BASIS OF PREPARATION

A COMPANY 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 2017. 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.

B1 CHANGE IN PRESENTATION

B.1.1 ROCs and LECs

The accounting for Renewable Obligation Certificates ("ROCs") and Levy Exemption Certificates ("LECs") has been aligned with the ScottishPower accounting policy for carbon emissions allowances due to the similar nature of these transactions. Therefore the associated assets and liabilities on the balance sheet are no longer presented net within Trade payables and receivables, but the obligation provision and purchased certificates are presented gross within Provisions and Inventories respectively. The prior period figures have been adjusted accordingly. There is no impact on the income statement or net assets. The impact on the balance sheet was to increase Inventories by £143.4 million, increase Provisions by £260.0 million, increase Trade and other receivables by £99.4 million and decrease Trade and other payables by £17.2 million.

B1.2 CASH FLOW

The company participates in a group arrangement whereby it lends surplus cash to fellow group undertakings for the purposes of their cash management, in the form of short term loans which are repayable on demand. On the balance sheet, these funds are recorded within current trade and other receivables. In prior years the company reported these funds within cash and cash equivalents for the purposes of the cash flow statement. During the year, the directors have reviewed the treatment of these funds and concluded they should be recorded within investing cash flows for the purposes of the cash flow statement. The 2016 cash flow statement has, therefore, been adjusted. The effect on the prior year is to increase the net cash flows from investing activities by £133.4 million and decrease the cash and cash equivalents reported for the purposes of the cash flow statement by £273.6 million. The restatement had no impact on net assets, equity, the statement of comprehensive income or the balance sheet.

C ACCOUNTING STANDARDS

In preparing these Accounts, the company has applied all relevant IAS, IFRS and IFRIC Interpretations that have been adopted by the EU as of the date of approval of these Accounts and that are mandatory for the financial year ended 31 December 2017.

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

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

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

1 BASIS OF PREPARATION ***continued***

C ACCOUNTING STANDARDS ***continued***

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

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

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

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

(e) IFRS 9 'Financial Instruments' is effective for the company as from 1 January 2018. The company considers that the new classification and measurement criteria will not have a material impact on the company's equity as at 1 January 2018. Most financial assets will continue to be valued at amortised cost, except for equity instruments and derivative financial instruments which will continue to be recorded at fair value.
The company will apply the general model for the recognition of expected credit losses to all financial assets, except for trade receivables and leases, to which the simplified model will be applied. Given the high credit quality of the financial assets, the expected credit loss adjustment is only £0.3 million for the company.

(f) IFRS 15 'Revenue from Contracts with Customers' and the associated amendments and clarifications are effective for the company as from 1 January 2018. The company considers that the application of IFRS 15 will not have a material impact on the company's financial position or performance but will continue to refine its accounting policies and monitor emerging industry practice in relation to this standard. The one exception is the effect of capitalising the incremental costs of obtaining certain customer contracts. The company will transition to IFRS 15 using the modified retrospective approach; which will require any cumulative impact of applying this standard to be recognised on implementation at 1 January 2018. The impact of the customer capture costs has been to record a new asset class on the balance sheet of £50.1 million as at 1 January 2018 with a corresponding increase in equity. The asset will be amortised on a straight-line basis over the average customer retention period. No modifications are required to the company's IT systems or processes as a result of this standard.

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

1 BASIS OF PREPARATION *continued*

C ACCOUNTING STANDARDS *continued*

(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's principal leases relate to property, plant and equipment and the output from wind farms. Most of these leases are classified as operating leases under IAS 17 'Leases'. The company expects to recognise 'right-of-use' assets and corresponding lease liabilities where the company is a lessee; the value of which is expected to be greater than the future minimum lease payments disclosed in Note 4(b). The company has tentatively decided to take the exemptions offered by IFRS 16 to exclude short-term leases and leases of low value assets from the recognition requirements in the standard. Leases of intangible assets will be considered for inclusion within the scope of IFRS 16 based on the nature of the underlying asset. The company will quantify the expected impact of the implementation of IFRS 16 based on the different transition options available at the date of its first application. The company is currently modifying its IT systems in order to adapt to the new requirements. This analysis will continue during 2018.

(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.

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. The scheme was subsequently extended further to cover the period from 1 April 2017 to 30 September 2018.

The UK Government have announced that ECO will be replaced with new longer term supplier obligation to reduce carbon emissions and focus on the fuel poor. The UK Government launched a consultation on this new obligation on 30 March 2018.

ScottishPower considers that the appropriate accounting treatment is prescribed by IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' ("IAS 37"), 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.

The 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 £3.4 million (2016 £5.2 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

In preparing the Accounts in conformity with IFRS, the company is required to make estimates and assumptions that impact on the reported amounts of revenues, expenses, assets and liabilities of the company. Actual results may differ from these estimates. The key sources of estimation uncertainty are discussed at accounting policy A and F1(a) below.

- **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 FINANCIAL INSTRUMENTS**
- **G INVESTMENTS**
- **H INVENTORY**
- **I TAXATION**
- **J CAPITAL GRANTS**
- **K RETIREMENT BENEFITS**

A REVENUE

Revenue comprises the sales value of electricity and gas and other related energy services supplied to customers during the year and excludes Value Added Tax. All revenue is earned wholly within the UK. The nature of the energy industry in the UK in which Energy Retail operates is such that revenue recognition is subject to a degree of estimation. The assessment of energy sales to customers is based on meter readings, which are carried out on a systematic basis throughout the year.

Revenue from the sale of energy to retail customers is the value of units supplied during the year and includes an estimate of the value of units supplied to customers between the date of their last meter reading and the year end, based on external data supplied by the electricity and gas market settlement process. At the end of each accounting period, amounts of energy delivered to customers since the last billing date are estimated and the corresponding billed and unbilled revenue is estimated and recorded in Revenue.

Billed revenue, for which payment has not yet been received, is included in Trade receivables and unbilled revenue is included within Accrued income in the balance sheet. Billed revenue relating to retail customers included within the balance sheet at 31 December 2017 amounted to £466.5 million (2016 £412.8 million). Unbilled revenue relating to retail customers included within the balance sheet at 31 December 2017 amounted to £116.6 million (2016 £80.5 million).

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 of the estimated remaining lives and residual values of property, plant and equipment are undertaken annually. 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	15
Other items of property, plant and equipment	4 - 50

2 ACCOUNTING POLICIES *continued*

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.

F1 FINANCIAL INSTRUMENTS

(a) Financial assets categorised as trade receivables are recognised and carried at original invoice amount less a provision for impairment of doubtful debts. Allowance for doubtful debts has been estimated by management, taking into account future cash flows, based on past experience, ageing analysis and an assessment of the current economic environment within which the company operates. Such estimates involve a significant degree of judgment. The provision for impairment of trade receivables at 31 December amounted to £118.0 million (2016 £115.3 million) and trade receivables and accrued income (net of the provision for impairment) amounted to £592.1 million (2016 £572.3 million as restated).
(b) Financial liabilities categorised as trade payables are recognised and carried at original invoice amount.
(c) Cash in the balance sheet and cash and cash equivalents in the cash flow statement comprise cash on hand.

F2 OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

G 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.

H INVENTORY

The company participates in the Renewables Obligation ("RO") scheme administered by Ofgem. As there are no specific rules under IFRS dealing with the treatment of ROCs and LECs, the company, in alignment with Iberdrola group accounting policy, classifies ROCs and LECs as inventories as they are consumed in the production process. Such certificates are recognised at their acquisition cost and are charged to the income statement as the obligations arise.

The company recognises liabilities in respect of its obligations to deliver the scheme at the value at which these certificates were initially recorded on the balance sheet. Any estimated shortfall in the liabilities are calculated based on the relevant buyout price and estimated recycle price at the balance sheet date.

I 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.

2 ACCOUNTING POLICIES *continued*

J TAXATION *continued*

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.

J 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.

K RETIREMENT BENEFITS

ScottishPower operates two defined benefit schemes and one defined contribution retirement benefit scheme in the UK. ScottishPower Energy Retail Limited is a participating company in these group 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 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

Year ended 31 December 2017	Note	Computer software £m
Cost:		
At 1 January 2017		239.7
Additions	(a)	19.1
At 31 December 2017		**258.8**
Amortisation:		
At 1 January 2017		108.0
Amortisation for the year		43.2
At 31 December 2017		**151.2**
Net book value:		
At 31 December 2017		**107.6**
At 1 January 2017		131.7

(a) During the year ended 31 December 2017, £7.1 million was spent on enhancements to the billing and customer relationship management system (2016 £5.1 million), £8.8 million was spent on IT systems to support smart metering (2016 £13.5 million) and there was £3.2 million of additional expenditure (2016 £1.8 million).

(b) During the year ended 31 December 2017, the expenditure on intangibles under construction was £12.1 million (2016 £13.1 million).

4 PROPERTY, PLANT AND EQUIPMENT

(a) Movements in property, plant and equipment

Year ended 31 December 2016	Meters and measuring devices £m	Other facilities £m	Other items of property, plant and equipment in use (Note (i)) £m	Other items of property, plant and equipment in progress £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

Year ended 31 December 2017	Meters and measuring devices £m	Other facilities (Note (ii)) £m	Other items of property, plant and equipment in use (Note (i)) £m	Other items of property, plant and equipment in progress £m	Total £m
Cost:					
At 1 January 2017	113.0	-	69.2	0.2	182.4
Additions	50.0	40.3	2.1	-	92.4
Transfers	(93.5)	93.5	-	-	-
Transfers to other Iberdrola group companies (Note (iii))	(55.0)	-	-	-	(55.0)
Disposals	-	-	(47.8)	-	(47.8)
At 31 December 2017	**14.5**	**133.8**	**23.5**	**0.2**	**172.0**
Depreciation:					
At 1 January 2017	14.2	-	52.7	-	66.9
Depreciation for the year	8.3	1.4	1.0	-	10.7
Transfers	(12.3)	12.3	-	-	-
Transfers to other Iberdrola group companies (Note (iii))	(2.1)	-	-	-	(2.1)
Disposals	-	-	(40.8)	-	(40.8)
At 31 December 2017	**8.1**	**13.7**	**12.9**	**-**	**34.7**
Net book value:					
At 31 December 2017	**6.4**	**120.1**	**10.6**	**0.2**	**137.3**
At 1 January 2017	98.8	-	16.5	0.2	115.5
The net book value of property plant and equipment at 31 December 2017 is analysed as follows:					
Property, plant and equipment in use	6.4	120.1	10.6	-	137.1
Property, plant and equipment in the course of construction	-	-	-	0.2	0.2
	6.4	**120.1**	**10.6**	**0.2**	**137.3**

(i) The category 'Other items of property, plant and equipment in use' principally comprises land and buildings and IT equipment.

(ii) The 'Other facilities' category comprises smart meter infrastructure assets.

(iii) On 1 April 2017 the company sold certain smart meter assets to SP Smart Meter Assets Limited (a fellow Iberdrola group company). The assets were transferred at the net book value of these assets on disposal, being £52.9 million. A prepayment of £2.7 million in relation to the purchase of smart meter assets was also transferred.

(iv) The cost of fully depreciated property, plant and equipment still in use at 31 December 2017 was £3.8 million (2016 £28.2 million).

(v) Included within the cost of property, plant and equipment are assets in use not subject to depreciation, being land, of £0.2 million (2016 £5.2 million).

4 PROPERTY, PLANT AND EQUIPMENT *continued*

(b) Operating lease arrangements

(i) Operating lease payments	2017 £m	2016 £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	**465.7**	352.5
	465.9	352.7

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. Due to the nature of these contracts it is not possible to estimate the future obligation in relation to these contracts with sufficient reliability.

(ii) Operating lease commitments	2017 £m	2016 £m
The future minimum discounted lease payments under non-cancellable operating leases are as follows:		
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.

(iii) Operating lease receivables	2017 £m	2016 £m
The future minimum discounted lease payments receivable under non-cancellable operating leases are as follows:		
Within one year	**-**	0.4

The company leased a building as a lessor under operating leases. This lease arrangement ended in December 2017.

(b) Capital commitments

	2017 £m	2016 £m
Contracted but not provided	**1.5**	4.1

5 INVESTMENTS

(a) Movements in investments

	Note	Subsidiary undertaking shares £m
At 1 January 2016 and 1 January 2017		0.1
Disposals	(i)	(0.1)
At 31 December 2017		-

(i) During 2017, the company received a distribution of £0.1 million from Manweb Energy Consultants Limited following the final meeting, prior to dissolution on 4 April 2018.

(b) List of subsidiaries

Name	Principal activities	Equity interest in ordinary shares 2017	2016
Manweb Energy Consultants Limited	In liquidation (now dissolved)	**100%**	100%

(i) The registered office of the subsidiary is 107-111 Fleet Street, London, EC4A 2AB. The country of incorporation is England and Wales.
(ii) This subsidiary was a direct holding of the company until it was dissolved on 21 January 2018.

6 TRADE AND OTHER RECEIVABLES

	Notes	2017 £m	2016 Restated* £m
Current receivables:			
Receivables due from Iberdrola group companies - trade		**46.2**	37.0
Receivables due from Iberdrola group companies - loans	(a)	**197.3**	273.6
Receivables due from Iberdrola group companies - interest		**3.7**	3.6
Receivables due from Iberdrola group companies - other	(b)	**15.0**	11.9
Trade receivables and accrued income	(b), (c)	**592.1**	572.3
Prepayments		**1.4**	0.5
		855.7	898.9
Non-current receivables:			
Receivables due from Iberdrola group companies - trade	(d)	**39.1**	37.8

*Comparatives have been restated (refer to Note 1).

(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 2017, the company posted cash collateral of £19.2 million (2016 £16.0 million) and posted letters of credit of £18.5 million (2016 £11.1 million).

(c) Trade receivables are stated net of allowance for impairment of doubtful debts of £118.0 million (2016 £115.3 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. The income statement impact of change in bad debt for the year to 31 December 2017 is £56.7 million (2016 £79.7 million).

(d) The balance as at 31 December 2017 and 31 December 2016 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:

	2017 £m	2016 £m
At beginning of year	**115.3**	91.0
Receivables written off during the year as uncollectible	**(54.0)**	(55.4)
Provisions for receivables impairment	**56.7**	79.7
At end of year	**118.0**	115.3

(i) The creation and release of the provision for impaired receivables has been included in 'Depreciation and amortisation charge, allowances and provisions' in the income statement (refer to 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 2017, trade receivables of £68.8 million (2016 £77.2 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 2017, trade receivables of £183.5 million (2016 £173.3 million) were past due but not considered impaired. These relate to retail customers who have not paid the outstanding balance within agreed payment terms.

Past due but not impaired	2017 £m	2016 £m
Less than 3 months	**100.6**	85.1
Between 3 and 6 months	**26.2**	36.0
Between 6 and 12 months	**36.9**	38.5
After more than 12 months	**19.8**	13.7
	183.5	173.3

7 INVENTORIES

	Note	2017 £m	2016 Restated* £m
ROCs and LECs	(a)	**234.3**	143.4

*Comparatives have been restated (refer to Note 1).

(a) Inventories with a value of £392.2 million (2016 £311.6 million as restated) were recognised as an expense in the year.

8 FINANCIAL INSTRUMENTS

(a) Carrying value of financial instruments

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

	Notes	**2017** Carrying amount £m	**2017** Fair value £m	2016 Restated* Carrying amount £m	2016 Restated* Fair value £m
Financial assets					
Receivables	(i)	**893.4**	**893.4**	936.2	936.2
Cash	(ii)	**2.6**	**2.6**	0.9	0.9
Financial liabilities					
Payables	(i)	**(879.0)**	**(879.0)**	(814.9)	(814.9)

*Comparatives have been restated (refer to Note 1).

The carrying amount of these financial instruments is calculated as set out in Note 2F. 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 received 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. Cash at 31 December 2017 includes restricted cash of £2.0 million (2016 £0.2 million).

(b) Borrowing facilities

The company had no undrawn committed borrowing facilities at 31 December 2017 (2016 £nil).

9 LIQUIDITY ANALYSIS

Maturity profile of financial liabilities

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

2017

Cash outflows	**2018 £m**	**2019 £m**	**2020 £m**	**2021 £m**	**2022 £m**	**2023 and thereafter £m**	**Total £m**
Payables	878.0	0.5	0.2	0.2	0.1	-	**879.0**

2016 Restated*

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	814.1	0.4	0.4	-	-	-	814.9
	814.7	0.4	0.4	-	-	-	815.5

*Comparatives have been restated (refer to Note 1).

10 SHARE CAPITAL

	2017 £m	2016 £m
Allotted, called up and fully paid shares:		
55,407,000 ordinary shares of £1 each (2016 55,407,000)	**55.4**	55.4

11 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDER OF SCOTTISHPOWER ENERGY RETAIL LIMITED

	Share capital £m	Retained earnings (Note (a)) £m	Total £m
At 1 January 2016	55.4	290.2	345.6
Profit for the year attributable to equity holder of ScottishPower Energy Retail Limited	-	92.0	92.0
Dividends	-	(280.0)	(280.0)
At 1 January 2017	55.4	102.2	157.6
Loss for the year attributable to equity holder of ScottishPower Energy Retail Limited	-	(14.8)	(14.8)
Dividends	-	(40.0)	(40.0)
At 31 December 2017	**55.4**	**47.4**	**102.8**

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

12 DEFERRED INCOME

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

Year ended 31 December 2017	At 1 January 2017 £m	Released to income statement £m	**At 31 December 2017 £m**
Capital grants	0.1	-	**0.1**

13 PROVISIONS

Year ended 31 December 2016	Notes	At 1 January 2016 Restated* £m	New provisions Restated* £m	Utilised during year Restated* £m	Released during year £m	At 31 December 2016 Restated* £m
Reorganisation and restructuring	(a)	-	4.0	-	-	4.0
Overtime and commission	(b)	0.9	-	-	(0.1)	0.8
ROCs and LECs	(c)	195.6	328.6	(264.2)	-	260.0
Other	(d)	-	0.1	-	-	0.1
		196.5	332.7	(264.2)	(0.1)	264.9

*Comparatives have been restated (refer to Note 1).

Year ended 31 December 2017	Notes	At 1 January 2017 £m	New provisions £m	Utilised during year £m	Released during year £m	**At 31 December 2017 £m**
Reorganisation and restructuring	(a)	4.0	1.2	(2.9)	(0.9)	**1.4**
Overtime and commission	(b)	0.8	0.1	-	-	**0.9**
ROCs and LECs	(c)	260.0	402.8	(337.8)	-	**325.0**
Other	(d)	0.1	0.1	-	-	**0.2**
		264.9	404.2	(340.7)	(0.9)	**327.5**

13 PROVISIONS *continued*

Analysis of total provisions	2017 £m	2016 Restated* £m
Non-current	**0.2**	0.1
Current	**327.3**	264.8
	327.5	264.9

(a) The provision for reorganisation and restructuring in 2016 was largely utilised in 2017, the remainder is expected to be utilised in 2018. The new provision of £1.2 million for reorganisation and restructuring is expected to be utilised in 2018.
(b) 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 2018.
(c) The provision for ROCs and LECs principally represents the value of ROCs for 2017 expected to be delivered in the year ahead.
(d) The 'Other' category comprises various insurance provisions which are not individually material to warrant separate disclosure.

14 TRADE AND OTHER PAYABLES

	2017 £m	2016 Restated* £m
Current trade and other payables:		
Payables due to Iberdrola group companies - trade	**607.9**	545.2
Trade payables	**127.3**	131.1
Other taxes and social security	**57.8**	54.8
Payments received on account	**0.2**	0.2
Capital payables and accruals	**49.8**	29.6
Other payables	**93.0**	108.2
	936.0	869.1
Non-current other payables:		
Other payables	**1.0**	0.8

*Comparatives have been restated (refer to Note 1).

15 DEFERRED TAX

Deferred tax recognised in the Accounts is as follows:

	Property, plant and equipment £m	Other temporary differences £m	Total £m
At 1 January 2016	7.8	(0.6)	7.2
Charge to the income statement	1.0	0.2	1.2
At 1 January 2017	8.8	(0.4)	8.4
Charge/(credit) to the income statement	0.4	(0.3)	0.1
At 31 December 2017	**9.2**	**(0.7)**	**8.5**

Legislation has been enacted to reduce the rate of UK Corporation Tax to 17% on 1 April 2020. This reduces the tax rates expected to apply when temporary differences reverse and impacts the deferred tax charge.

16 EMPLOYEE INFORMATION

(a) Staff costs

	Note	2017 £m	2016 £m
Wages and salaries		**57.3**	55.0
Social security costs		**5.7**	5.2
Pension and other costs	(i)	**24.2**	29.9
Total staff costs		**87.2**	90.1
Less: capitalised staff costs		**(4.5)**	(3.8)
Charged to the income statement		**82.7**	86.3

(i) 'Pension and other costs' in 2017 includes £11.4 million (2016 £16.4 million) of costs for a restructuring programme.

16 EMPLOYEE INFORMATION *continued*

(b) Employee numbers

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

	Year end 2017	**Average 2017**	Year end 2016	Average 2016
Administrative staff	**619**	**653**	781	780
Operations	**903**	**952**	890	890
Total	**1,522**	**1,605**	1,671	1,670

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

	Year end 2017	**Average 2017**	Year end 2016	Average 2016
Total	**1,404**	**1,476**	1,477	1,473

(c) Retirement benefits

The company's contributions payable in the year were £14.9 million (2016 £12.2 million). The company contributes to ScottishPower group's defined benefit and defined contribution schemes in the UK and the contributions payable in the year reflect the contributions payable in respect of active participants in the group schemes who are employed by the company. Full details of these schemes are provided in the most recent Annual Report and Accounts of SPL. As at 31 December 2017, the deficit in the ScottishPower's defined benefit schemes in the UK amounted to £564.8 million (2016 £442.5 million). The employer contribution rate for these schemes in the year ended 31 December 2017 was 45.0% - 48.0%.

17 TAXES OTHER THAN INCOME TAX

	2017 £m	2016 £m
Other taxes	**102.1**	76.9

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

18 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS

	Note	**2017 £m**	2016 £m
Property, plant and equipment depreciation charge		**10.7**	9.3
Intangible asset amortisation		**43.2**	41.1
Capital grants transferred to income for the year		**-**	(0.1)
Charges and provisions, allowances and impairment of assets	(a)	**65.5**	63.7
		119.4	114.0

(a) Charges and provisions, allowances and impairment of assets includes a charge of £56.7 million (2016 £79.7 million) for the impairment of receivables (refer to Note 6(e)).

19 FINANCE INCOME

	2017 £m	2016 £m
Interest on bank and other deposits	**-**	0.7
Interest receivable from Iberdrola group companies	**3.9**	3.7
	3.9	4.4

20 FINANCE COSTS

	Note	**2017 £m**	2016 £m
(Reversal of impairment)/impairment of financial investments	(a)	**(0.4)**	0.6
Foreign exchange losses		**0.1**	0.2
		(0.3)	0.8

(a) This relates to a loan receivable which was deemed to have a low likelihood of recovery, therefore the company had fully provided for the loan as at 31 December 2016. During 2017 the company received a repayment of £0.4 million in relation to this loan.

21 INCOME TAX

	2017	2016
	£m	£m
Current tax:		
UK Corporation Tax	**(4.3)**	22.4
Adjustments in respect of prior years	**(0.2)**	(1.6)
Current tax (credit)/charge for the year	**(4.5)**	20.8
Deferred tax:		
Origination and reversal of temporary differences	**0.8**	0.5
Adjustments in respect of prior years	**(0.4)**	1.3
Impact of tax rate change	**(0.3)**	(0.6)
Deferred tax for the year	**0.1**	1.2
Income tax (credit)/charge for the year	**(4.4)**	22.0

The tax (credit)/charge on (loss)/profit on ordinary activities for the year varied from the standard rate of UK Corporation Tax as follows:

	2017	2016
	£m	£m
Corporation Tax at 19.25% (2016 20%)	**(3.7)**	22.8
Adjustments in respect of prior periods	**(0.6)**	(0.3)
Impact of tax rate change	**(0.3)**	(0.6)
Non deductible expenses and other permanent differences	**0.2**	0.1
Income tax (credit)/charge for the year	**(4.4)**	22.0

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

22 DIVIDENDS

	2017	2016	**2017**	2016
	£ per ordinary share	£ per ordinary share	**£m**	£m
Interim dividend paid	**0.72**	5.05	**40.0**	280.0

23 FINANCIAL COMMITMENTS

	2017						
	2018	**2019**	**2020**	**2021**	**2022**	**2023 and thereafter**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Other contractual commitments	4.2	1.4	1.0	1.0	-	-	**7.6**

	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

24 RELATED PARTY TRANSACTIONS

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

	2017			2016		
	UK parent (SPL) £m	**Immediate parent (SPGH) £m**	**Other Iberdrola group companies £m**	UK parent (SPL) £m	Immediate parent (SPGH) £m	Other Iberdrola group companies £m
Types of transaction						
Sales and rendering of services	-	-	**21.3**	-	-	16.7
Purchases and receipt of services	-	-	**(2,455.1)**	-	-	(2,220.1)
Interest income	**3.7**	-	**0.2**	3.5	-	0.2
Sales of property, plant and equipment and capital prepayments	-	-	**55.6**	-	-	-
Dividends paid	-	**(40.0)**	-	-	(280.0)	-
Balances outstanding						
Loans receivable	**197.3**	-	-	273.6	-	-
Trade and other receivables	-	-	**100.3**	-	-	86.7
Interest receivable	**3.7**	-	-	3.6	-	-
Trade and other payables	-	-	**(607.9)**	-	-	(545.2)

(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 2017, Scottish Power UK plc made pension contributions of £14.9 million (2016 £12.2 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 SPGH group, it has not been possible to apportion specifically in respect of services to this company. Of the 13 (2016 13) key management personnel eight (2016 seven) were remunerated directly by the company.

	2017 £000	2016 £000
Short-term employee benefits	**1,908**	1,986
Post-employment benefits	**370**	409
Share-based payments	**985**	625
	3,263	3,020

(c) Directors' remuneration

The remuneration of the directors that provided qualifying services to the company is shown below. As these directors are remunerated for their work for the SPGH group, it has not been possible to apportion the remuneration specifically in respect of services to this company. All five (2016 three) of the directors who served during the year were remunerated directly by the company.

Executive directors	**2017 £000**	2016 £000
Aggregate remuneration in respect of qualifying services	**1,040**	819
Number of directors who exercised share options	**4**	2
Number of directors who received shares under a long-term incentive scheme	**3**	2
Number of directors accruing retirement benefits under a defined benefit scheme	**3**	2

Highest paid director	**2017 £000**	2016 £000
Aggregate remuneration	**602**	615
Accrued pension benefit	**92**	85

(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.

24 RELATED PARTY TRANSACTIONS *continued*

(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 its registered office, 320 St. Vincent Street, Glasgow, G2 5AD.

In addition to the parent undertakings disclosed above, the company's other related undertaking is disclosed in Note 5.

25 AUDITOR REMUNERATION

	2017	2016
	£m	£m
Audit of the company's annual Accounts	**0.1**	0.2

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

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 loss after tax in the current year and profit after tax in the previous financial year and the company's balance sheet shows that it has net current liabilities of £171.4 million and net assets of £102.8 million at its most recent balance sheet date.

The company is ultimately owned by Iberdrola, S.A. and it participates in the Iberdrola group's centralised treasury arrangements and so shares banking facilities with its parent companies and fellow subsidiaries. As a consequence, the company depends, in part, on the ability of the Iberdrola group to continue as a going concern. 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 does not have the ability to and will not continue to fund the company, should it become necessary, to enable it to continue in operational existence.

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