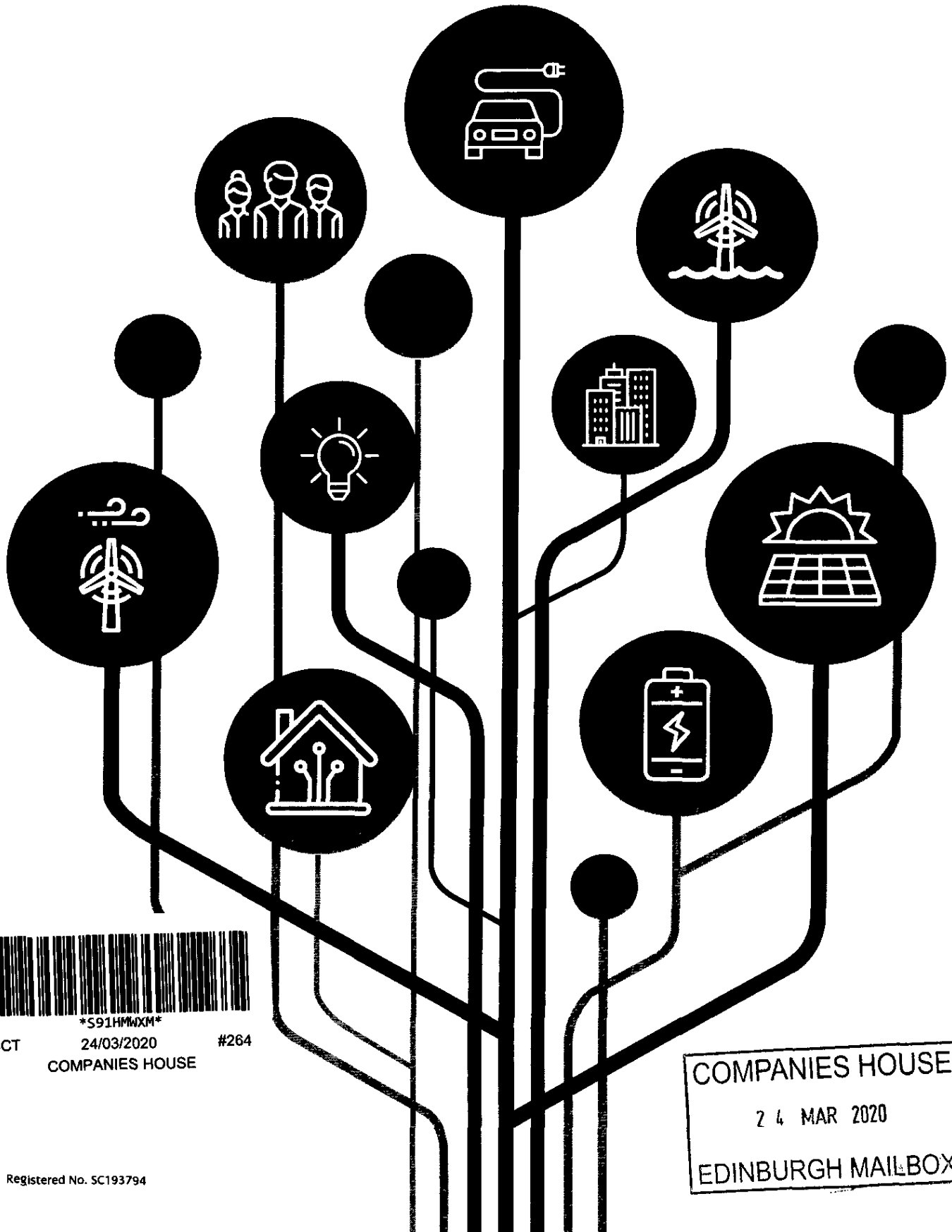




**SCOTTISHPOWER**

**SCOTTISH POWER LIMITED**  
**ANNUAL REPORT AND ACCOUNTS**  
FOR THE YEAR ENDED 31 DECEMBER 2019



TUESDAY



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# CONTENTS

<b>1</b>	<b>STRATEGIC REPORT</b>
<b>26</b>	<b>DIRECTORS' REPORT</b>
<b>31</b>	<b>INDEPENDENT AUDITOR'S REPORT</b>
<b>33</b>	<b>CONSOLIDATED BALANCE SHEET</b>
<b>35</b>	<b>CONSOLIDATED INCOME STATEMENT</b>
<b>36</b>	<b>CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME</b>
<b>36</b>	<b>CONSOLIDATED STATEMENT OF CHANGES IN EQUITY</b>
<b>37</b>	<b>CONSOLIDATED CASH FLOW STATEMENT</b>
<b>38</b>	<b>NOTES TO THE CONSOLIDATED ACCOUNTS</b>
<b>85</b>	<b>COMPANY BALANCE SHEET</b>
<b>86</b>	<b>COMPANY STATEMENT OF CHANGES IN EQUITY</b>
<b>87</b>	<b>COMPANY CASH FLOW STATEMENT</b>
<b>88</b>	<b>NOTES TO THE COMPANY ACCOUNTS</b>

Some of the statements contained herein are forward looking statements about Scottish Power Limited and its subsidiaries, and Iberdrola, S.A.'s strategic plans. Although Scottish Power Limited and Iberdrola, S.A. believe that the expectations reflected in such statements are reasonable, the statements are not guarantees as to future performance and undue reliance should not be placed on them.

# Group Strategic Report for the year ended 31 December 2019

The directors present their Strategic Report on the group for the year ended 31 December 2019. This includes an overview of Scottish Power Limited's structure, 2019 performance and strategic outlook including principal risks and uncertainties.

**“ScottishPower: creating a better future, quicker,  
by delivering a low carbon future for the UK”**

## WHO WE ARE

Scottish Power Limited (“the company”), registered company number SC193794, principally acts as the holding company of the Scottish Power Limited group (“ScottishPower” or “the group”), whose activities comprise the generation, transmission and distribution of electricity, energy management and the supply of electricity and gas principally in the United Kingdom (“UK”). The company is a wholly owned subsidiary of Iberdrola, S.A. (“Iberdrola”), one of the largest utility companies in the world and a leader in renewable energy.

The main responsibility of the company, which has its own board of directors, is to disclose, implement and ensure compliance with the policies, strategies and general guidelines of ScottishPower and to own Scottish Power UK plc which centralises the provision of common corporate services to its subsidiary businesses.

The three divisions operated by the group during the year were Energy Networks, Renewables and Energy Retail and Wholesale, which are owned by their respective Head of Business Sub-holding Companies: Scottish Power Energy Networks Holdings Limited (“SPENHL”), ScottishPower Renewable Energy Limited (“SPREL”), and Scottish Power Retail Holdings Limited (“SPRHL”).

The Head of Business Sub-holding Companies have their own boards of directors and have the necessary autonomy to carry out the day-to-day management and effective administration of their division.

Further information regarding the corporate governance and board structure of ScottishPower is set out in the Directors’ Report within the Corporate Governance section on page 26.

## OUR ACTIVITIES

ScottishPower has three operating divisions:

### Energy Networks

Energy Networks is responsible for three regulated electricity network businesses in the UK. These businesses are ‘asset-owner companies’, holding the regulated assets and electricity distribution and transmission licences of the group, and are regulated monopolies. They own and operate the network of cables and power lines transporting electricity to around 3.5 million connected customers in the Central Belt and South of Scotland, Cheshire, Merseyside, North Shropshire and North Wales.

### Renewables

Renewables is responsible for the origination, development, construction and operation of renewable energy generation plants, principally onshore and offshore wind, with a growing presence in emerging renewable technologies and innovations such as battery storage and solar.

### Energy Retail and Wholesale

Energy Retail is responsible for the supply of electricity and gas to almost five million domestic and business customers throughout the UK, including customer registration, billing and handling enquiries in respect of these services. Energy Retail is also responsible for the associated metering activity including the smart meter installation programme, and managing the group’s Energy Services activities.

Energy Wholesale is responsible for managing the group’s exposure to the UK wholesale electricity and gas markets for Energy Retail and Renewables and the optimisation of gas storage.

## ScottishPower 2019 financial highlights

**REVENUE**  
**£5,124.5m**

(2018 £4,995.4m)

**OPERATING  
PROFIT**  
**£822.5m**

(2018 £938.2m)

**CAPITAL  
INVESTMENT**  
**£1,660.9m**

(2018 £1,192.8m)

**ADJUSTED  
NET DEBT**  
**£4,839.8m**

(2018 £4,578.1m)

## OUR PURPOSE, VALUES, STRATEGY AND ROLE

Iberdrola and ScottishPower are “committed to an energy model that prioritises the well-being of people and the preservation of the planet.”

### OUR PURPOSE

#### Shaping the future of energy in the UK

Following our exit from thermal generation at the end of 2018, all of the group's generation capacity is now from renewable energy sources. We started 2019 in the unique position of being the first integrated energy utility in the UK to generate 100% green electricity.

Our focus is on wind energy, smart grids and driving the change to a cleaner, electric future. We are playing a leading role in the delivery of a clean, low-carbon system for the UK, currently investing £5 million every working day to create a better future, quicker.

With our future plans to invest significantly in renewables generation and the electricity network infrastructure that will support the green transition, we are well placed to contribute to helping the UK meet its 'net zero' ambitions. In November 2020, the UK will host the United Nations ("UN") Climate Change Conference, Conference of the Parties ("COP 26"), in our home city of Glasgow, and this presents an important opportunity to raise public awareness of the importance and urgency of the climate change challenge, and to galvanise the action necessary to meet the UK's decarbonisation goals.

#### Delivering a better future, quicker for everyone

We are committed to speeding up the transition to cleaner electric transport, improving air quality and, over time, helping to reduce energy bills.

As part of Iberdrola, one of the world's largest integrated utility companies and a global leader in wind energy, we believe in developing an energy model that prioritises the well-being of people and the preservation of the planet. Recognising the importance of taking care of the environment and people's health, we want to offer society our experience in addressing these urgent social needs through our work on the decarbonisation and electrification of the economy as a whole, using renewable energy sources, efficient energy storage, smart grids and digitisation.

We share Iberdrola's purpose and values, and these are the bridge that connects the communities we serve with our growing group. We are dedicated to the purpose of building together, each day, a healthier, more accessible energy model, based on electricity.

### OUR VALUES

Our values rest on continuing to develop as a leading, global and sustainable group in the 21st century. To meet our purpose, we are founded on three corporate values that define the group's identity and form the foundation of our strategy: being sustainable, dynamic and collaborative.

#### Sustainable

We are pioneers of renewable energy. We seek to inspire others by creating economic, social and environmental value wherever we are now and looking to the future. We put this value into action by continually putting safety first, respecting the environment, and acting ethically, rationally and responsibly to meet our commitments.

#### Dynamic

We bring about efficient change, big and small, through constantly challenging ourselves and our processes. We innovate to deliver continuous improvement. We put this value into action by challenging ourselves to do things more simply or efficiently, coming up with ideas and leading innovation, and anticipating our customers' needs.

#### Collaborative

We are an energetic and responsible force for change. Through working together, we build and grow talent to achieve our common goals and purpose. We put this value into action by sharing knowledge and information; working together with our employees, suppliers and customers; and by breaking the mould, and encouraging diversity.

### OUR STRATEGY

Our strategy is to create value from investment in networks, renewable energy generation and retail to help our customers realise a better future, quicker, under the pillars of our strategic values.

Our key strategic goals include:

- investing in networks to make them smarter, more resilient and creating a platform for the UK's sustainable electric future;
- investing in renewable energy generation, principally onshore and offshore wind, to tackle climate change and reduce the cost of electricity generation;
- creating a fairer and more transparent market where customers are in control of their energy usage through digitisation and smart metering; and
- designing and delivering an energy system to facilitate and encourage the growth of electric vehicles ("EVs") and clean heating solutions to improve air quality and tackle climate change.

To achieve these goals:

- We will continue to invest in transmission and distribution networks, to ensure all customers have the power they need as set out in the RII0-1 (Revenue = Incentives + Innovation + Outputs) business plan. RII0 refers to the price control framework in which the Networks business operates. The first round of this eight year price control (RII0-1) ends for the transmission business (T1) in March 2021 and for the distribution business (ED1) in March 2023. In December 2018, The Office of Gas and Electricity Markets ("Ofgem") published its sector specific consultation for the next round of RII0-2 price controls. Energy Networks submitted its final RII0-T2 transmission business plan to Ofgem in December 2019.

# Group Strategic Report for the year ended 31 December 2019

## OUR PURPOSE, VALUES, STRATEGY AND ROLE *continued*

- With the cost of renewable generation continuing to fall, we have a significant opportunity to expand our current onshore and offshore wind generating fleet. Phase 1 of the East Anglia One ("EA1") offshore wind project achieved first export in Q3 2019, construction commenced on the Beinn an Tuirc extension ("BAT III") and Halsary onshore wind farms, and procurement for the Gorman and Whitelee battery storage systems is underway. BAT III and Halsary onshore wind farms are supported by corporate offtake agreements with Amazon and Tesco respectively, and the battery systems are amongst the first of their kind and scale in the UK and Ireland. We will continue to consider further opportunities to invest more widely in renewable generation, including solar, as well as exploring opportunities for the development of hybrid sites.
- In Retail, we continue to innovate and seek efficiencies following the introduction of a retail price cap by Ofgem in January 2019, which runs until the end of 2020 (extendable on an annual basis until 2023). We will continue to engage with customers to help ensure that they are on the best deal for them. As the smart meter rollout continues, we will explore opportunities to offer customers a wider range of products to help them control their energy usage consistent with their lifestyle.
- We will also seek commercial opportunities across our businesses to offer products and services as the electrification of transport increases at pace. This will include further development of a domestic retail offer following the launch of a partnership with Arnold Clark in November 2018; as well as exploring market opportunities for public charging. Energy Networks will continue to engage with governments and regulators on reinforcing the network which will be required to sustain the growth of EVs.

## OUR ROLE

In the wider legislative, regulatory and commercial context in which we operate, our commitment to playing a leading role in the UK's contribution to combating climate change has been reflected in a number of significant developments during 2019.

In May 2019, the Committee on Climate Change published its advice to the UK Government on the delivery of net zero emissions targets by 2050 for the UK as a whole, and by 2045 for Scotland. In June 2019, the UK Government accepted the advice and brought forward legislation to enact a new target of a 100% reduction in net zero emissions by 2050. Having declared a climate emergency in April 2019, the Scottish Government passed a new Climate Change Act, which established a legally binding net zero target for all greenhouse gases by 2045. In tandem, several municipal and local authorities have committed themselves to delivering net zero targets within similar or more ambitious timeframes.

We welcome these developments. Supporting the successful delivery of these targets will require significant change in the UK's approach to energy policy and the decarbonisation of the economy; not only for national and local government and regulatory authorities, but for the industry and the general public as well. In October 2019, we launched our Zero Carbon Communities initiative, which established our ambition to support local communities in identifying the steps they need to take to meet their decarbonisation goals. Launched in Liverpool, and planned to be rolled out to other areas during 2020, Zero Carbon Communities set out independent forecasts for the scale of the decarbonisation challenge as a 'road map' to assist local policy-makers and communities in assessing future electricity infrastructure needs in respect of EV charge points, energy efficient home heating solutions, and network investment. We are able to make an active contribution to these policy debates, using our expertise and experience across many aspects of the electricity generation, retail and network infrastructure sectors.

In Networks, Ofgem confirmed in July 2018 the overall framework for the second round of price controls based on the RIIO regime. In May 2019, Ofgem published a methodology decision covering the RIIO-T2 price control for transmission networks (to run 2021-2026), for which Energy Networks submitted its final business plans to Ofgem in December 2019. In August 2019, Ofgem also launched the consultation process for the RIIO-ED2 price control for distribution networks, which will run to April 2023.

In September 2019, Renewables' East Anglia Three ("EA3") offshore wind project was unsuccessful in the UK Government's third Contracts for Difference ("CfD") auction round. The project has since been redefined and will now be developed as part of the East Anglia Hub ("EA Hub"), together with the East Anglia One North ("EA1 North") and East Anglia Two ("EA2") projects. Leveraging on this scale in the supply chain is expected to produce significant optimisation opportunities that will benefit the business case. As part of the Offshore Wind Sector Deal, the UK Department for Business, Energy and Industrial Strategy ("BEIS") has committed to run CfD auctions every two years or so, within an overall £557 million budget, with the next auction due in 2021. The EA Hub timing should coincide with this anticipated CfD auction and will support the UK's decarbonisation objectives, which target up to 40 gigawatts ("GW") of offshore wind technology by 2030. The UK Government has confirmed that the next auction will be open to both established technologies, including onshore wind and solar, and less established technologies, such as offshore wind, in recognition that all technologies will play an important role in meeting the UK Government's objective of decarbonising the power sector to meet net zero at the lowest cost.

In Retail, the current obligation on energy suppliers to use all reasonable steps to install smart meters ends on 31 December 2020, and the UK Government is consulting on a number of proposals to help inform the policy framework for energy suppliers to continue installing smart meters after 31 December 2020. As required by the Domestic Gas and Electricity (Tariff Cap) Act 2018, a new price cap for default tariffs came into effect on 1 January 2019. The cap will remain in force until the end of 2020 and can be extended annually thereafter for up to three years. Ofgem continues to consult on its approach to setting the smart allowance under the cap for future periods.

Other notable developments during 2019 include the first review of the Scottish Government's Energy Strategy, the Annual Energy Statement, which was published in the first half of the year, and highlighted continued support for renewables, in particular onshore wind, and for energy efficiency measures and local energy systems. At the same time, the Scottish Government launched the Energy Consumer Action Plan, which set out what will be done to ensure better outcomes for consumers in Scotland's energy market. The Action Plan outlines that, as well as providing more holistic support to vulnerable energy consumers, it will establish an Energy Consumers Commission, which will work with other stakeholders to develop an energy consumer charter, and continue to lobby the UK Government and Ofgem in relation to the need for regulatory reforms. In September 2019, the Scottish Government's Programme for Government set out a range of funding and policy measures that include a Green Growth Accelerator, a pledge to decarbonise the public sector fleet by 2025, £30 million of funding for low carbon heating, and a commitment to update the Scottish Climate Change Plan. The Programme also expressed continued support for the development of EV infrastructure, referring to the August 2019 announcement by Transport Scotland, Energy Networks and Scottish and Southern Electric Networks of a £7.5 million strategic partnership to deliver more EV charging points.

Looking forward, we will continue to invest £4.5 billion in the UK until 2023 in an operating environment that looks set to remain challenging. The macro economic situation in the UK is likely to remain relatively stable but with significant adverse Brexit risks. We will continue to engage with the UK Government to help shape the future of energy policy.

## Group Strategic Report for the year ended 31 December 2019

### GROUP PRINCIPAL RISKS AND UNCERTAINTIES

The delivery of our strategy requires the group to conduct business in a manner benefitting customers through balancing cost and risk while delivering shareholder value and protecting our performance and reputation by prudently managing the risks inherent in the business. To maintain this strategic direction, the group develops and implements risk management policies and procedures, and promotes a robust control environment at all levels of the organisation.

During 2019, the governance structure was supported by risk policies approved by the Board of Directors of Iberdrola and adopted by the Board of Directors of Scottish Power Limited ("the Board"). Our business risk assessment team and independent group risk management function supported the Board in the execution of due diligence and risk management. In addition, ScottishPower is represented at the Iberdrola Risk Management Committee to ensure that the business risks are adequately assessed, monitored, mitigated and managed. Further details of ScottishPower's governance structure and risk management are provided in Note 9(e) to the Accounts. The principal risks and uncertainties of ScottishPower, other than those specific to Brexit and the individual divisions, that may impact current, future operational and financial performance and the management of these risks are described below:

SCOTTISHPOWER GLOBAL	
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.
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 aims to ensure not only continuing legal compliance but also to drive towards best practice in all levels of health and safety operations.
Breach in cyber security and unwanted infiltration of ScottishPower's 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 and contractors as to how behaviour can reduce this risk. Embedding cyber security in all projects where appropriate.

In light of the emergence and spread of the coronavirus (COVID-19), the group continues to assess the impact of this on the global supply chain through continued engagement with our suppliers. No operational issues have arisen, however, we will continue to monitor the situation and put mitigating actions in place when appropriate.

#### UK decision to leave the EU (Brexit)

The UK was originally scheduled to leave the European Union ("EU") on 29 March 2019. Following intensive negotiations on the subjects of a separation payment, mutual recognition of citizens' rights and avoiding a hard border between Northern Ireland and the Republic of Ireland, two key documents were approved by the EU Council on 25 November 2018: the EU Withdrawal Agreement (a legally binding document setting out the terms of the UK's exit from the EU, including citizens' rights and the Irish 'backstop'); and the Political Declaration (setting out the basis for a future negotiation of the future UK-EU relationship after Brexit, including UK-EU trade and security). However, the UK Parliament did not approve the deal until Mrs. May's Irish 'backstop' had been replaced by Mr. Johnson's differential Great Britain ("GB") and Northern Ireland ("NI") arrangements, approved by the EU Council on 18 October 2019, which allow NI to be treated as remaining in the EU Customs Union and Single Market after Brexit. On this basis, and following two postponements and a General Election, the UK left the EU on 31 January 2020, although all EU laws will remain in force in the UK until 31 December 2020, when the transition period expires.

The purpose of the transition period is to allow time to implement the new GB/NI arrangements, and to negotiate the future UK/EU relationship. If no agreement on the future relationship were reached by 31 December 2020, UK/EU trade relations would revert to World Trade Organisation ("WTO") terms, becoming subject to customs checks and tariffs, with some resultant economic disruption.

A cross-business operational working group will continue to co-ordinate our preparations to mitigate the impact on ScottishPower of such an outcome. Some of the key risks considered relevant to the company are explained in the table on the following page.

# Group Strategic Report for the year ended 31 December 2019

## GROUP PRINCIPAL RISKS AND UNCERTAINTIES *continued*

SCOTTISHPOWER – BREXIT RISKS	
RISK	RESPONSE
Impacts arising from the UK decision to leave the EU or market reactions to events during the negotiation of the future relationship between the UK and the EU. These impacts could include movements in the value of Sterling and other financial instruments. In the longer term there could be positive or negative changes in the UK economy and in the political and regulatory environment in which the group 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 ScottishPower-wide regulatory group is monitoring any potential risks arising from a regulatory perspective and is engaging with governments and regulators to minimise any disruption.
Supply chain disruption – import delays of key equipment and components for major programmes causing project delays. This is applicable across ScottishPower.	Assessment of key equipment and components was undertaken and additional orders placed in order to increase stock levels prior to 31 January 2020, including any additional storage requirements.  This process will be repeated in the event that the future relationship between the UK and the EU has not been agreed prior to 31 December 2020.
Foreign exchange rate exposure and additional tariffs if WTO rules apply. This is applicable across ScottishPower.	Exchange rate hedged on existing orders and contracts.  Legal review of all critical contracts to determine potential exposure to additional tariffs.
Contractual risk for existing non-trading contracts including the risk of contract re-openers, clauses such as force majeure/material adverse change clauses and jurisdiction. This is applicable across ScottishPower.	Legal review of all critical contracts to determine potential exposure and mitigation specific to each contract.
Contractual risk for existing trading contracts (Energy Retail and Wholesale) including master trading agreements and broker and exchange contracts.	Risk based assessment of all contracts although some are UK-only contracts and are therefore unaffected and the majority of brokers and exchanges are UK-based.
Free movement of labour – potential restrictions on EU nationals working in the UK or international assignees from elsewhere in the Iberdrola group, not currently in the UK but wishing to enter the UK. This is applicable across ScottishPower.	The UK Government confirmed EU nationals in the UK will be part of an EU settlement scheme. Clarity is required as to how this will operate post 31 December 2020.  Workplace audit completed such that affected staff will be identified more easily going forward.
Data Protection – impact of General Data Protection Regulation (“GDPR”) rules and status of UK post Brexit could impact transfer of data between group companies and suppliers in the normal course of business. This is applicable across ScottishPower.	All intercompany contracts reviewed to update contractual clauses.  High risk suppliers identified and where appropriate discussions commenced to amend contractual terms.

Even in the event of an agreement being concluded, exiting the EU may have both risks and opportunities for ScottishPower. Until the terms of the future relationship are clear, it is not possible to be definitive about these.

Many of the risks described above relating to a ‘no-deal’ scenario arise from so-called ‘horizontal’ issues, which may present challenges affecting businesses in many sectors of the economy. UK official forecasts are for a negative impact on the UK economy as a whole; in the event of a ‘no-deal’ scenario it might be sharply negative, at least in the short and medium term.

ScottishPower, and therefore the company, will continue to monitor the impact of Brexit and take appropriate action to protect operations as the outcome of the post-Brexit deal becomes clearer.

# Group Strategic Report for the year ended 31 December 2019

## HOW SCOTTISHPOWER PERFORMED

### Financial highlights

- Revenue from continuing operations up 3% year on year
- Operating profit from continuing operations decreased 12% year on year
- Capital investment in the UK energy market was £1.7 billion in 2019

### 2019 Group operating performance

The table below provides key financial information relating to our performance during the year. Further detail is provided in the individual divisional sections of the Strategic Report.

Financial key performance indicators ("KPIs")	Revenue*		Operating profit*		Capital investment	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
Continuing operations – ScottishPower	5,124.5	4,995.4	822.5	938.2	1,660.9	1,132.8

\* ScottishPower revenue and operating profit from continuing operations as presented on page 35.

In the financial year revenues, have increased by £129 million. Operating profit for the financial year was £823 million, a decrease of £116 million. This decrease reflects the Energy Retail and Wholesale division gross margin performance which was adversely impacted by lower customer numbers, milder weather and the impact of the price cap on default tariffs. Operating profit increased in the Networks division reflecting increased regulatory revenues and in the Renewables division as a result of higher energy prices.

ScottishPower's capital investment increased by £528 million to £1.7 billion in 2019, primarily due to the Renewables division investment in the EA1 wind farm.

### Liquidity and cash management

#### Cash and net debt

ScottishPower operates and manages a centralised cash management model within the UK with liquidity being centralised at the Scottish Power Limited level. Our liquidity position and short-term financing activities are integrated and aligned with Iberdrola's.

The Iberdrola group objective is to retain sufficient liquid resources and facilities to cover anticipated cash flow requirements for a period in excess of twelve months; currently liquidity in the Iberdrola group is in excess of €14 billion, which can be utilised if required to fund our activities.

Net cash flows from operating activities decreased by £113.5 million to £862.7 million for the year, as detailed on page 37. As detailed in the table below, cash decreased by £683.1 million with overall adjusted net debt increasing by £261.7 million to £4,839.8 million.

Analysis of net debt	Notes	2019 £m	2018 £m
Cash and short-term deposits	(a)	199.4	882.5
Group loans payable	(b)	(2,409.5)	(3,622.5)
External loans payable	(c)	(2,178.7)	(1,838.1)
Lease liabilities	(d)	(451.0)	–
Adjusted net debt		(4,839.8)	(4,578.1)

(a) As detailed on the consolidated balance sheet on page 33.

(b) Loans with Iberdrola and other related Iberdrola group companies as detailed in Note 18 on page 76.

(c) External loans payable comprises external debt as detailed in Note 18 on page 76.

(d) Lease liabilities, arising due to adoption of IFRS 16, detailed in Note 7 on page 55.

### Capital and debt structure

The company is funded by a combination of debt and equity; all equity is held by SPW Investments Limited. Our financing structure is determined by its position in the wider Iberdrola group. As stated above, we can obtain funding via the liquidity resources maintained at the Iberdrola group.

The company holds Investment grade ratings with Moody's Investor Services (Baa1), Standard & Poor's rating services (BBB+) and Fitch Ratings (BBB+). Details of our financial risk management policy are set out in Note 9(e).

### Dividend policy

The company's approved dividend policy is to pay a sustainable dividend between 65% to 75% of the group's net profits attributable to ordinary shareholders taking into consideration the impacts on current and forecast credit rating metrics and forecast profitability over a medium-term horizon. The dividend policy is in line with the expected pay-out ratio of the ultimate parent company.

### Investment and funding

The overall funding objective is to maintain a forecast debt position for the various group entities at least in line with their current credit ratings.

As indicated previously above, the ongoing support of the ultimate parent company for future funding and liquidity provides a central underpinning for the directors in their assessments of ongoing funding for the company and group.



# Group Strategic Report for the year ended 31 December 2019

## HOW SCOTTISHPOWER PERFORMED *continued*

### Taxes and other government obligations

To help give an understanding of our contribution to UK taxes and other UK Government obligations, the table below highlights the key taxes and other obligations in the financial year, on an accruals and cash basis.

Analysis of taxes and other government obligations	Notes	Income statement expense		Cash tax paid in the year	
		2019 £m	2018 £m	2019 £m	2018 £m
Carbon tax	(a)	–	38.9	–	46.3
Social security costs	(b)	29.5	31.4	30.4	30.2
Taxes other than income taxes	(c)	201.8	197.6	195.3	193.3
UK Corporation Tax	(d)	77.7	103.5	86.2	63.7
		309.0	371.4	311.9	333.5

- (a) Carbon tax is a tax levied by the UK Government on the fossil fuels used to generate electricity. This is included within procurements in the Income statement.  
 (b) Social security costs as presented in Note 22 on page 80.  
 (c) Taxes other than income taxes as presented in Note 23 on page 80.  
 (d) UK Corporation Tax as presented in Note 27 on page 81.

## SCOTTISHPOWER DIVISIONS

### ENERGY NETWORKS

#### Introduction to Energy Networks division

Our Energy Networks division is responsible for three regulated electricity network businesses in the UK. These businesses are 'asset-owner companies', holding the regulated assets and the electricity distribution and transmission licences of the group, and are regulated monopolies. They own and operate the network of cables and power lines transporting electricity to around 3.5 million connected customers in the South of Scotland, Cheshire, Merseyside, North Shropshire and North Wales.

One of the regulated businesses, SP Transmission plc ("SPT"), is a transmission network owner. The electricity transmission network consists of the high voltage electricity wires that transport electricity from power stations to distribution system entry points or, in certain cases, direct to end users' premises via a national network of high voltage assets.

The other two regulated businesses are Distribution Network Operators ("DNOs"); SP Distribution plc ("SPD") and SP Manweb plc ("SPM"). The electricity distribution networks are regional grids that transport electricity at a lower voltage from the national transmission grid and embedded generators and connect to industrial, commercial and domestic users.

All three regulated businesses are natural monopolies and are governed by Ofgem via regulatory price controls. The primary objective of the regulation of the electricity networks is the protection of consumers' interests while ensuring that demand can be met and companies are able to finance their activities. Price controls are the method by which the amount of allowed revenue is set for network companies over the period of the price control. Price control processes are designed to cover each company's efficient costs and allow them to earn a reasonable return, provided they act in an efficient manner, deliver value for customers, and meet Ofgem targets. Price controls are delivered on a regulatory basis covering April to March of any given year. Therefore, a majority of Energy Networks' performance and key deliverables are measured and reported on this basis.

#### Operating review

##### Transmission business

During 2019, we moved into the final two years of the eight year price control. Our RIIO-T1 asset replacement related programme is continuing well with delivery of a broad range of outputs. This is evident from the extent to which we are ahead of plan; on a cumulative basis, we have delivered 67% of our total asset renewal outputs, which is well ahead of our RIIO-T1 plan of 60% for the first six years. Indeed, we are almost 75% through our overhead line replacement programme of 800km; 60km ahead of our plans at this stage.

The Western Link High Voltage Direct Current ("HVDC") project, a joint venture with National Grid Electricity Transmission ("NGET") to increase the interconnection capacity between Scotland and England, was partially operational in late summer 2017. The main aim of the project is to support the transition to a low carbon economy by providing further capacity for renewable energy schemes in Scotland to reach the wider Great Britain market, however it has also been designed to enhance the ability to import power into Scotland during periods of low renewable generation. The final full commissioning works were completed through 2019 and the Western Link was formally taken over in November 2019 by SPT and NGET. In January 2020 the Western HVDC Link suffered a cable fault in the southern onshore location which was the cause of an outage for the link. SPT and NGET worked closely with the cable manufacturer and the repair works were completed in early February 2020 and the link returned to service on 7 February 2020. Ofgem have opened an investigation into both SPT and NGET in relation to compliance with their respective obligations relating to the Western Link and we are proactively working with Ofgem to bring this to a satisfactory conclusion.

During 2019, connections to our network increased with two new wind farms being connected in the year, both to Coalburn, a key substation, on the 'west' power corridor to England, delivering 140 MW of new generation capacity. Kype Muir wind farm accounted for nearly two-thirds of the total. This brings the total connections to 1,500 MW. Our forecast for the RIIO-T1 period remains at 1,620 MW. We continue to work closely with developers to seek early connection opportunities where it is cost efficient and economical to do so.

We currently forecast that by the end of the RIIO-T1 period, we will have spent £76 million less than our allowance, through efficient project delivery and changes to forecast allowance and expenditure for generation connections.

# Group Strategic Report for the year ended 31 December 2019

## SCOTTISHPOWER DIVISIONS *continued*

### Distribution business

We continue to serve our distribution customers in the Central Belt and South of Scotland, Cheshire, Merseyside, North Shropshire and North Wales with 99.99% reliability levels at a cost which equates to 23p per day on a typical bill. This is at a time when we are facing an unprecedented level of change to the way in which the UK's energy networks operate. With energy decarbonisation, digitisation and decentralisation, we are moving away from the traditional model where DNOs deliver electricity in one direction from centralised power plants to homes and communities, to one which requires Distribution System Operators ("DSOs") to play an active coordinating role between all market participants.

During 2019, we moved into the second half of the eight year RII0-ED1 price control period. We are on track to deliver our agreed outputs during the remainder of the period while also working to position ourselves to build on the development of our flexible, accessible and low carbon network. The implementation of our Network Asset Management System has enabled our business to enhance its efficient delivery and reporting capabilities and has improved the alignment of our reporting to the regulator. Our reporting reveals that in 2019 we are performing on, or ahead of, targets in our approach to safety, reliability and availability, and customer service. We have also recently established our RII0-ED2 price control team to lead engagement with a number of stakeholders across the business over the coming two years on the development of our next set of business plans, which will detail our investment decisions for the years 2024 to 2029.

Innovation has been a key focus in 2019 for our distribution business as we build towards delivering a dynamic and accessible network for our customers. We are continuing to see the benefits of our innovation projects which are helping us to realise our goal of being a flexible distribution system operator on the road to net zero. Our Low Voltage ("LV") Engine project, continuing throughout 2019, revolves around trialling smart transformers on our network, allowing us the flexibility to connect low carbon technologies while maximising the use of our existing assets. Our CHARGE project began in January 2019, aiming to develop a strategy to facilitate and accelerate the electrification of transport, specifically, the connection of charging infrastructure. Our FUSION project continued through 2019, aiming to rollout network access to all parties and to develop the flexibility of our existing network. This will empower customers to commoditise their flexibility, thanks to new routes to market for existing and emerging flexibility providers in the distribution network.

### Our values in action

Net zero has attracted huge public attention in 2019. We are collaborating with the Scottish, Welsh and UK Governments to deliver their sustainability plans and meet the challenges of the low carbon revolution, with a focus on accommodating increasing electrical flows associated with growing low carbon energy sources and meeting the needs of both our current and future customers. We place great value in all parts of society benefiting from the low carbon revolution, access to EVs and the health benefits of low or zero emissions. There has been much debate around the role of anticipatory investment for low carbon solutions. The future is uncertain and we have encountered reluctance from the regulator to invest ahead of need, but we contend that without investment in our infrastructure now, there will be significant lost opportunities that could slow down the pace required to meet the net zero deadline.

In 2019, we have further facilitated competition by developing design tools to quickly identify where the adoption of flexibility can save consumers money on upgrading our network. These new tools resulted in an initial tender in March 2019 for 116 mega volt amps ("MVA") and more recently, up to 95 MW tendered for flexibility services in our licence areas.

2019 has marked our 'Year of Innovation'. In support of this, we have created opportunities for wider engagement in business-focused challenges and developing champions who can drive local innovation. This work will continue throughout 2020.

In March 2018, we announced the launch of a Green Economy Fund ("the Fund"). Working alongside the Scottish Government, Ofgem and independent economic advisors, funding has been made available for initiatives focused on delivering sustainable low carbon transport and heating. The Fund aims to further Scotland's ambitious green energy plans and at the same time create economic growth opportunities for local communities. We have awarded 35 projects through three rounds of funding, ensuring that all of the £20 million of available funds are committed. Projects have been selected that not only meet the overall aims of the scheme but that can also be delivered within the two years that this funding is available.

Our commitment as a business area to our values has been invaluable, earning a number of awards in 2019:

- We won two major awards at the prestigious 2019 Network Awards for 'Network of the Year' and 'The Smart Cities Award'.
- The company was benchmarked first in the UK by Institute of Customer Service versus an equivalent seventh place last year.
- We won the Engineering and Technology Innovation of the Year Award and the Information Technology Award in conjunction with Heriot-Watt University for our Network Constraints Early Warning System.
- Our Green Economy Fund has been awarded the Outstanding Project Award 2019 at the Scottish Green Energy Awards.
- Our Mid-Cheshire district won the Customer Care Award at the 2019 Utility Week Awards in December 2019.
- We were the first utility company in the world to achieve the BSI Kitemark for Customer Service.
- We received the Excellence in Planning for the Natural Environment award for our Beaulieu Denny Visual Mitigation Project from the Royal Town Planning Institute Awards 2019.
- We also achieved the Gold Award for our Kilmarnock Depot via the Keep Scotland Beautiful National Award for Environmental Excellence.

### 2019 performance

Financial key performance indicators ("KPIs")	Revenue*		Operating profit		Capital Investment	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
Continuing operations – Energy Networks	1,246.8	1,167.4	572.8	545.9	586.6	594.3

\* Energy Networks' revenue as presented in Note 21 on page 78.

Energy Networks' revenue was £79 million higher than the prior year. Allowable transmission revenues have increased under RII0-T1 by £28 million. Distribution revenues have increased by £49 million mainly due to base revenues allowed under RII0-ED1.

Operating profit increased by £27 million to £573 million in 2019, due to higher revenues offset by increased regulatory spend as well as increased depreciation charges of £21 million reflecting continued levels of investment. Energy Networks' capital investment decreased by £8 million to £587 million in 2019, primarily due to reduced Western Link HVDC project spend.

# Group Strategic Report for the year ended 31 December 2019

## SCOTTISHPOWER DIVISIONS *continued*

The three regulated businesses within Energy Networks are required to prepare regulatory accounts for the years ending 31 March. Reporting of key performance indicators is aligned to the regulatory year end. Consequently, the latest available data for the last regulatory year for Energy Networks has been disclosed in the table below, with the exception of distributed energy that is reported for the years ending 31 December.

Non-financial key performance indicators ("KPIs")	Notes	Actual 2019	Target 2019	Actual 2018	Target 2018
<b>Distributed energy (GWh)*</b>					
- SPD		17,003	N/A	17,547	N/A
- SPM		14,448	N/A	14,913	N/A
<b>Customer interruptions ("CI")</b>	(a)				
- SPD		49.3	51.1	41.3	51.6
- SPM		36.1	37.0	30.6	37.6
<b>Customer minutes lost ("CML")</b>	(b)				
- SPD		35.0	43.4	31.2	44.8
- SPM		35.6	40.3	33.1	42.4
<b>Customer Performance:</b>	(c)				
<b>Broader customer service measure – Interruptions</b>					
- SPD		8.89	8.20	8.82	8.20
- SPM		9.00	8.20	8.86	8.20
<b>Broader customer service measure – connections</b>					
- SPD		8.82	8.20	8.52	8.20
- SPM		8.88	8.20	8.43	8.20
<b>Broader customer service measure – general enquiries</b>					
- SPD		9.30	8.20	8.95	8.20
- SPM		9.33	8.20	9.39	8.20
<b>Energy ombudsman (customer complaints)</b>	(d)				
- SPD		3	–	2	–
- SPM		3	–	3	–
<b>Transmission operational performance (incentivised incidents)</b>	(e)				
- SPT		9	–	2	–

\* Gigawatt hours ("GWh")

(a) Customer interruptions are reported as the number of customers, per 100 customers, that are affected during the year by power cuts that last three minutes or more.

(b) Customer minutes lost is reported as the average number of minutes that a customer is without power during a year due to power cuts that last three minutes or more.

(c) Broader customer service measures are assessed using the following three methods: a customer satisfaction survey, complaints metric and stakeholder engagement.

(d) The Energy Ombudsman Services, an independent body, monitors and adjudicates complaint cases.

(e) Transmission operational performance is reported as the number of 'energy not supplied' and associated incidents. These incentivised incidents are incidents where the loss of supply is longer than three minutes.

Underlying CML and CI, quoted in the table above, are key statistics, which measure the reliability and security of supply typically provided to customers. The company is focused on minimising CML and CI to outperform the System Performance (IIS) targets agreed with Ofgem.

The underlying CML and CI for the year to 31 March 2019 were 35.0 and 49.3 for SPD and 35.6 and 36.1 for SPM respectively. These values have been validated and confirmed by Ofgem, and published in November 2019. During 2018/19 the supply of energy to customers was disrupted by three major wind and gale storm events in June 2018, September 2018 and October 2018 which met Ofgem's 'exceptional event' exclusion criterion (two exceptional storm events in 2017/18). The actual CML and CI figures for the year ended 31 March 2018 were confirmed by Ofgem, and published in Ofgem's RIIO-ED1 Annual Report 2017/18.

The long-term safety and reliability of Energy Networks' electricity distribution networks and their impact on customers are key business priorities. Whilst working to improve reliability and restoration, the networks are designed and operated in a way that ensures the safety of the public and employees, with a minimal number and duration of supply interruptions.

**Customer service performance:** Information regarding all contact with customers relating to interruption of power supplies, requests for and delivery of new connections to the network and any other general enquiries are passed to an independent research agency on a weekly basis (for all DNOs). The independent agency randomly samples customers each week to ask a series of customer satisfaction questions. Sampled customers give a score out of ten and the average annual score for each of the three categories drives each year's performance in this incentive. A reward is received if the average score is above 8.2 out of 10 and anything below 8.2 attracts a financial penalty. The customer satisfaction performance for each of the three elements in 2018/19 is shown in the table above.

**Complaints performance:** This is a 'penalty-only' incentive. Companies are measured on their complaints performance over a number of key metrics: volume of complaints resolved in one day; volume of complaints resolved in 31 days; volume of repeat complaints; and the number of complaints referred to the Energy Ombudsman which have been ruled against the company. The Energy Ombudsman, an independent body, monitors and adjudicates complaint cases. The Energy Ombudsman performance is shown in the table above for 2018/19 performance. The wider complaints metric results of 1.59 for SPD and 1.85 for SPM, translates to a position of fourth and sixth for SPD and SPM respectively, out of the fourteen distribution areas.

**Stakeholder engagement and customer vulnerability:** This is a 'reward-only' incentive and is an annual assessment of the company's stakeholder engagement activities. An annual submission is provided to Ofgem in April in respect of the previous regulatory year and is assessed by Ofgem and an independent panel (including social assessors) in July and scored out of ten in order to determine a financial reward. The submissions set out the company's strategy, engagement and outputs for stakeholder engagement and customer vulnerability. The results for 2018/19, published in November 2019, show that we scored 4.94 for our transmission business and 6.71 for our distribution business. This is equivalent to an award in line with previous years of £2.4 million.

# Group Strategic Report for the year ended 31 December 2019

## SCOTTISHPOWER DIVISIONS *continued*

### Outlook for 2020 and beyond

In line with ScottishPower's strategic goals and its regulatory obligations, we are maintaining significant investment in the UK's energy networks. Over the last ten years, we have invested around £5.6 billion in the transmission and distribution networks, and during the next ten years, we plan to invest a further £6.6 billion to modernise and improve service to customers. Our ten year investment plans are reviewed annually in detail to ensure plans are aligned with and continue to support UK Government energy policy.

In 2017, both the Scottish and UK Governments outlined plans to limit the purchase of new diesel or petrol vehicles after 2032 and 2040 respectively. In 2020, the UK Government announced the ban on selling new diesel, petrol and hybrid cars will be brought forward to 2035. To enable the wide scale rollout of EVs, it is key that the UK's electricity networks can facilitate suitable charging infrastructure for customers at a reasonable cost. We continue to engage with a range of stakeholders to understand the capabilities of EV products and thereby understand the potential impact on customers' electrical needs.

We have a significant part to play in meeting the UK Government's carbon reduction targets. Our ultimate aim is to empower our cities and communities to achieve the economic and health ambitions which can be realised from a low carbon economy.

We have collaborated with CALA Homes to monitor new housing developments that are pioneering the use of a range of heat pump and renewable technologies. By understanding how customers use technologies, we will be better informed to provide future-ready networks to engage on how we meet the UK Government's net zero targets. We continue to be a key facilitator to increasing productivity by introducing new technologies to support economic growth and to increase the working age population as a result of job creation.

When smart meters are installed, our smart meter systems team will focus on the data which will be useful to a DNO to create benefits for customers. We will have more information about the end points of our network to better inform the design and management of the network as we respond to the uptake of low carbon technologies. This will help us to identify power outages and consequently improve our service to customers.

As stated previously, in 2019 we finalised our business plan submission for the RIIO-T2 period (which takes effect from April 2021), where the role of the network will continue to evolve as the demands on the network continue to change. The generation landscape will undergo further radical change as existing nuclear and carbon intensive generation closes and more renewable generation connects to the system. In the same timescale, demand patterns are expected to change as a result of the increase in electrification of transport and heat. This is expected to begin reversing the trend of reducing demand that we have seen over the last ten years. As a result of this transition, the role of the transmission network will become even more vital to the economy; transferring power across the country to facilitate greater interconnection and maintaining a coordinated national system. It is therefore important to invest in the network at the correct time to ensure that there is no risk of stranded assets or barriers created for customers.

### Principal risks and uncertainties

The group's principal risks and uncertainties are described on page 4. The specific risks associated with the Energy Networks division and how we are mitigating these risks are detailed below:

ENERGY NETWORKS	
RISK	RESPONSE
Potential reduction in base regulatory revenues as a result of RIIO-2 price control process set out in Ofgem's sector specific methodology consultations, published in December 2018, suggesting lower estimates for company returns.	Steering group and dedicated teams in place to produce robust business plan submission; extensive proactive engagement with Ofgem and other stakeholders.
Inability to recruit or retain an appropriately skilled workforce.	A Strategic Workforce Planning and Implementation plan has been put in place that incorporates: a) retirement profiles with demographics; b) a one year ahead strategic recruitment plan; and c) a ten year strategic recruitment plan. Identification of business critical roles and succession planning.
Reduced security of supply due to potential asset failures alongside reduced generation capacity.	Risk based asset investment programme in place, business continuity and emergency planning well established including Black Start. Strategic spares policy in place.
Failure to deliver the distribution and transmission outputs agreed with Ofgem in their respective price controls.	Mitigating actions include formulating detailed investment, resource, outage and contingency plans supported by an extensive procurement strategy. Good communication and co-ordination of activities across the business is integral to success, complemented by a comprehensive monitoring regime that provides early warning of potential issues.
Failure to protect customer service performance.	Well-established customer service processes to respond to power loss, including storm readiness. Priority Service Register to protect vulnerable customers in the event of power loss. Implementation of a single emergency number to route customer queries.
Failure to respond to customers' changing requirements and to deploy new technologies through low carbon transition, for example electric vehicles, distributed generation, storage and heat pumps.	Mitigating actions include owning a clear DSO vision and influencing developments at industry forums, undertaking scenario modelling of the impact of low carbon technologies, considering technical and commercial innovation projects and engaging with key stakeholders.

# Group Strategic Report for the year ended 31 December 2019

## SCOTTISHPOWER DIVISIONS *continued*

### RENEWABLES

#### Introduction to Renewables

Renewables is responsible for the origination, development, construction and operation of renewable generation plants principally onshore and offshore wind, with a growing presence in emerging renewable technologies and innovations such as battery storage and solar.

#### Operating review

##### Onshore renewables

The onshore operational wind farms continue to deliver production and availability in line with expectations. The portfolio is operated centrally from the control centre at Whitelee wind farm, with local field-based resources deployed at each wind farm to carry out operations and maintenance, and to manage the activities of wind turbine and infrastructure maintenance companies. These functions are supported centrally in the delivery of engineering support, commercial services and maintenance planning and logistics.

The onshore business has grown its pipeline of onshore projects to approximately 3 GW (from approximately 1GW in 2018). We are targeting significant growth in our operating fleet by 2030 and this will include seeking opportunities in the Irish market in addition to the repowering of the Barnesmore wind farm. During the year, construction commenced at BAT III and Halsary onshore wind farms and procurement for the Gorman and Whitelee battery storage systems is underway. The Gorman project is also supported by a six year contract awarded in Ireland's first DS3 System Services Volume Capped auction. The onshore wind farms were supported by corporate offtake agreements with Amazon and Tesco and the battery systems are amongst the first of their kind and scale in the UK and Ireland. The onshore business has also been successful in securing six enhanced reactive power contracts in response to the National Grid tender (this is the first time that wind has competed for these contracts). We will continue to assess further opportunities to invest more widely in renewable generation, including solar and further battery projects, as well as exploring opportunities for the development of hybrid sites.

##### Offshore wind

The 389 MW West of Duddon Sands ("WODS") project in the East Irish Sea, a 50/50 joint arrangement with Orsted West of Duddon Sands (UK) Limited ("Orsted"), continues to deliver availability and production in line with expectations. The project has moved into the second operational term, with Orsted appointed as the operations and maintenance service provider. Activities are underway to further enhance performance by implementing Power Curve upgrades, innovative Power Boost software (which can increase power production of the turbine by raising the output limitation under specific operating conditions) and the application of polymer shells to the leading edge area of each blade which mitigates against the impact of blade erosion.

At the 714 MW EA1 project, construction has continued throughout the year. First export was achieved on 2 September 2019, and the first of the three phases of the project achieved the milestone to qualify for CfD revenues through the contract with the Low Carbon Contracts Company ("LCCC") on 30 October 2019. On 30 August 2019, Scottish Power Renewables (UK) Limited ("SPRUKL") entered into an agreement with Bilbao Offshore Holding Limited, a Green Investment Group company (part of the Macquarie Group) to sell 40% of EA1L for £1.2 billion. SPRUKL continues to be the majority shareholder and retains control, with 60% of the EA1L offshore wind farm, which is expected to be fully operational in 2020. A net gain of £452.2 million was recognised in equity attributable to the parent in respect of this transaction. The funds from this transaction will be allocated to the group's organic growth.

We continue to develop the pipeline of projects within the EA Hub area. In June 2019, BEIS approved a non-material change to the existing planning consent to increase the overall capacity of EA3 to 1,400 MW. The project was not awarded a CfD contract in the Allocation Round 3 ("AR3") auction, which cleared at £39.65 per megawatt hour ("MWh") and £41.61 MWh (2012 prices) for delivery years 2023/24 and 2024/25 respectively. Consent applications were submitted to the Planning Inspectorate for the 900 MW EA2 and 800 MW EA1 North projects during October 2019.

#### 2019 performance

Financial key performance indicators ("KPIs")	Revenue*		Operating profit		Capital investment	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
Continuing operations – Renewables	638.3	542.0	318.9	271.7	859.4	346.3

\* Renewables' revenue as presented in Note 21 on page 78.

Renewables' revenue increased by £96 million to £638 million in 2019 reflecting the impact of higher energy prices as well as the inclusion for the first time of £18 million of revenue from the EA1 offshore wind farm.

Operating profit increased by £47 million to £319 million in 2019 mainly as a result of increased revenues partly offset by increased operating and maintenance costs and the non-repetition of various insurance and liquidated damage claims of £29 million received in 2018.

Capital investment increased by £513 million to £859 million in 2019 reflecting investment in the EA1 wind farm.

Non-financial key performance indicators	Notes	2019	2018
Plant output (GWh)	(a)	4,640	4,568
Installed capacity (MW)	(b)	2,520	2,100
Availability	(c)	97%	96%

(a) Plant output is a measure of the electrical output generated in the year, which in turn drives the revenues of the business.

(b) Installed capacity represents the total number of MW installed within the wind farm sites. This includes all turbines erected irrespective of whether they are generating or not. The increase this year is a result of the ongoing EA1 project.

(c) Availability is a measure of how effective the business is at ensuring wind generating plant is available and ready to generate.

# Group Strategic Report for the year ended 31 December 2019

## SCOTTISHPOWER DIVISIONS *continued*

### Outlook for 2020 and beyond

ScottishPower is the first integrated energy company in the UK to be producing 100% green electricity from onshore and offshore wind.

We have a successful track record as a developer of onshore and offshore wind, with a current installed capacity of over 2,500 MW of wind capacity. Our portfolio also now includes battery storage (including a consented 50 MW battery at Whitelee wind farm), solar developments, and a focus on new technologies, innovation and the hybridisation of sites. For example, a renewable energy park at Sheirdrim which is currently in planning, includes 114 MW of onshore wind, 20 MW solar and up to 38 MW battery energy storage; a highly significant development of its kind in the UK. As at 31 December 2019, the onshore business had 184 MW in construction, a further 110 MW consented and 452 MW in planning, consisting of 314 MW wind, 40 MW solar and 98 MW battery energy storage. These advanced stage development projects are part of a 3 GW pipeline which also includes earlier pre-planning projects. Of these pre-planning projects, approximately 0.75 GW is expected to be submitted into planning during 2020.

The UK Government has committed to run CfD auctions every two years with the next auction (Allocation Round 4) due to take place in 2021. The UK Government has confirmed that the next auction will be open to both established technologies, including onshore wind and solar, and less-established technologies such as offshore wind, in recognition that all technologies will play an important role in meeting the UK Government's objective of decarbonising the power sector to meet net zero at the lowest cost. The Committee on Climate Change Net Zero report in 2019 identified the need to decarbonise and quadruple the low carbon generation mix by 2050 which would require increased deployment of both onshore and offshore wind. CfD's are allocated in a competitive auction process, in which projects compete with each other within established and less-established technology groups. The CfD framework has proven to be an effective tool in reducing costs and further deployment of onshore and offshore wind will support economic growth and jobs across the UK.

The planning process has a key role to play in facilitating the deployment of the renewable energy generation that is required to deliver net zero. Following the passing of the Planning (Scotland) Act in 2019, the Scottish Government is beginning to prepare the new National Planning Framework 4, which offers the opportunity to put in place policies which will ensure that the planning process acts as a tool to the delivery of the 2030 and 2045 emissions targets. A proportionate and timely consenting process will also be key to the delivery of these targets, and we will continue to engage with the Scottish Government to advocate for improvements in planning performance to support the delivery of new and repowered renewable energy projects.

As well as the focus on developing the onshore pipeline, we continue to look for ways to improve the performance of our offshore operational wind farm and development pipeline. The technological investments noted in the operating review which commenced in 2019 at WODS will be completed and will allow the project to continue delivering strong performance.

In relation to EA1, the full project will move from construction into the operational phase and the CfD for delivery phases two and three will be completed in 2020. The transfer process for the offshore transmission assets, regulated and led by Ofgem, will continue throughout 2020, with completion expected in 2021.

We will continue to develop the remainder of the 3.1 GW of projects in the EA Hub, progressing towards consent for the EA1N and EA2 projects and in anticipation of the fourth allocation of CfD contracts. With an attractive project scale, the EA Hub will focus on the development of synergies, strategic agreements and a continuous installation that accelerates development and increases its competitiveness.

The Crown Estate's offshore wind leasing Round 4 was launched on 19 September 2019, allowing pre-qualified bidders to secure exclusive rights to develop the seabed in England and Wales. Between 7 and 8.5 GW of projects will be awarded during a process which will invite project proposals to be pre-approved by April 2020 and financial bids submitted in a multi-cycle auction in September 2020. We support the Crown Estate's ambitions and intend to participate in the Round 4 process.

The Crown Estate Scotland will launch its ScotWind offshore wind leasing round in 2020. Up to 10 GW of potential sites, including those suitable for floating wind technology, are expected to be offered to the market, within which bidders will propose potential projects. An auction is expected in summer 2020, with successful bidders entering Agreements for Lease shortly thereafter. We intend to participate in ScotWind leasing and we are encouraging the Scottish Government and the Crown Estate Scotland to maximise ambition through this and subsequent leasing rounds.

### Principal risks and uncertainties

The group's principal risks and uncertainties are described on page 4. The specific risks associated with the Renewables division and how we are mitigating these risks are detailed below:

#### RENEWABLES

##### RISK

Allocation risk in competitive CfD auction.

##### RESPONSE

Engagement with the UK Government regarding access and parameters of the CfD framework.

Working to optimise Renewables' portfolio of assets and approach to development to ensure high performing and competitive assets will be able to participate in future auctions. EA3 was not awarded a CfD in the AR3 auction, however, the project will now be developed as a hub together with EA1N and EA2, increasing synergies and economies of scale. These additional efficiencies will increase its competitiveness and likelihood of success in the next CfD auction.

# Group Strategic Report for the year ended 31 December 2019

## SCOTTISHPOWER DIVISIONS *continued*

RENEWABLES <i>continued</i>	
RISK	RESPONSE
Limited route to market for new onshore wind.	Engagement with national and local government to influence and inform policy regarding the role of onshore wind (including life extension and repowering) in the future generation mix to ensure optimal levels of deployment, particularly in Scotland. In addition, exploration of new routes to market such as private and corporate power purchase agreements ("PPA") continues.
The potential for plant performance issues reducing availability.	Proactive technical assessments and monitoring of key risk areas associated with wind turbine performance, diversification of the service and maintenance model where reliance is placed on framework agreement for key activities, optimising service and maintenance activities to ensure each activity is appropriate based on operational knowledge. In addition, co-ordination with the procurement team in negotiating terms and conditions with turbine suppliers and independent operations and maintenance service providers to ensure plant performance is optimised.
Failure to deliver large and complex projects on time and within budget.	ScottishPower and Iberdrola have a strong track record in delivering large scale engineering projects and have gained significant experience from developing onshore wind farms, and the WODS, Wiking and EA1 offshore wind farms. Use of established and experienced suppliers and advisors along with robust financial management including appropriate foreign exchange hedging.

## ENERGY RETAIL AND WHOLESALE

### Introduction to Energy Retail and Wholesale

Our Energy Retail business is responsible for the supply of electricity and gas to domestic and business customers throughout Great Britain, including customer registration, billing and handling enquiries in respect of these services. Energy Retail is also responsible for the associated metering activity including the smart meter installation programme, and managing ScottishPower's Energy Services activities. During 2019, an average of 4.8 million gas and electricity customers were supplied by Energy Retail. As at 31 December 2019, Energy Retail supplied 4.7 million gas and electricity customers.

Our Energy Wholesale business focuses on managing the group's exposure to the UK wholesale electricity and gas markets for Energy Retail and Renewables. Energy Wholesale is predominantly responsible for the purchase of external supplies of electricity and gas for onward sale to customers; the optimisation of gas storage; and the sale of electricity from wind PPAs to wholesale market participants in the UK.

### Operating review

The level of competition in the UK market has continued to increase, with new entrant suppliers now accounting for 31% of the domestic market share, up from around 20% in 2017. Whilst the introduction of a price cap was expected to lead to reduced switching rates, this has not been the case, with yet another record year of switching levels. As at the end of December 2019, domestic switching was up 9% year-to-date versus the same period in 2018 (source: Energy UK). The aggressive pricing strategies used by new entrants, together with the implementation of the price cap, has had a negative year on year impact on both our domestic market share and the Retail financial results.

Ofgem implemented the price cap on default tariffs required by the Domestic Gas and Electricity (Tariff Cap) Act on 1 January 2019 which limits the rates charged for the supply of gas and electricity to domestic customers on default tariffs until the end of 2020. This is extendable on an annual basis until 2023, with the first assessment of whether an extension will be implemented due to be made in the second half of 2020. The initial cap period (1 January to 31 March 2019) was set at £1,137 for dual fuel customers with typical consumption paying by Direct Debit ("DD"), and £1,222 for those paying by standard credit ("SC"). Centrica won a Judicial Review challenging Ofgem's methodology for the allowance under the cap for this period in November 2019, with Ofgem noting it would consider its next steps in relation to the judgement.

Two further cap periods impacting on 2019 results commenced on 1 April and 1 October 2019 with the respective caps at £1,254 for those paying by DD and £1,344 for those paying by SC in April, and £1,179 for those paying by DD and £1,265 for those paying by SC in October. During February 2020, the price cap covering the period 1 April 2020 to 30 September 2020 was announced with a cap of £1,162 for those paying by DD, and £1,247 for those paying by SC. Ofgem continues to consult on its approach to setting the smart allowance under the cap for future periods as, due to the uncertainty of the smart rollout costs and benefits, it delayed updating its approach to this part of the cap to allow for further analysis and consultation. The price cap is likely to continue to have a negative impact on our income in 2020 although it will have less impact on us than on other major suppliers who have been less successful in presenting their standard variable tariff ("SVT") customers with attractive alternative products.

While the new entrant market share has increased, we are now seeing a decline in the number of active domestic suppliers, with several small to medium suppliers either choosing to cease trading or, due to liquidity challenges, being forced to exit and then being swept up into the regulatory Supplier of Last Resort ("SoLR") process. We were named as SoLR for Extra Energy's 220,000 customers in November 2018, and will continue to assess future SoLR opportunities.

# Group Strategic Report for the year ended 31 December 2019

## SCOTTISHPOWER DIVISIONS *continued*

We remain committed to the rollout of smart meters across our domestic and small and medium-sized enterprises ("SME") customer base. We strongly support the aims and objectives of the smart meter programme and we believe that this investment in our infrastructure is critical to realising the smart energy future that we aspire to deliver for our customers, for our business and to enable the UK to meet its legally binding target of net zero emissions by 2050.

We have made significant efforts and investments to support our smart meter rollout thus far and demonstrable progress is being made, having installed approximately 1.5 million smart meters across Great Britain as at the end of 2019. We have established a network of installers across Great Britain, who provide a strong platform to further increase our deployment capability for the remainder of the rollout. We intend to maximise, in whatever way we can, the level of customer uptake of smart meters between now and 31 December 2020. The UK Government is consulting on a number of proposals to help inform the policy framework for energy suppliers to continue installing smart meters after 31 December 2020. We have taken part in this consultation process and will work with Government to reach an appropriate policy for post 2020 which enables a successful conclusion of the smart metering implementation in a timely and cost-efficient manner.

Our Energy Services business continues to grow with a wider range of products and services across Home Services and an emerging EV proposition. We offer more variation in product scope and multiple price points for our new and existing customers to choose from. Within Home Services, this is across boiler care, appliance care and now new plumbing, drains and electrical insurance products. We also provide a smart thermostat to give our customers greater control over their energy usage. The expanded customer choice has positioned our Home Services solutions well in the UK market which, together with improved service delivery from our strategic partners such as Domestic and General and AXA, has led to a 42% increase in Home Services customers during 2019.

In 2018, we announced our focus on the UK's switch to cleaner, greener transport, and launched the first end-to-end package for EV owners through our partnership with major car retailer, Arnold Clark, allowing buyers to purchase or lease an EV of their choice, book a home charging point installation and sign up to an exclusive 100% renewable energy tariff as part of the same package. In 2019 we have continued to develop our proposition for home charging and have increased our offering to now include both business and public charging. While these propositions are still in their infancy and volumes are low, this strategic move into the EV market is essential to support the growing demand and use of EVs particularly as businesses and employers across the UK increasingly look to encourage and support the move to a net zero environment and so achieve a better future, quicker.

Following the sale of the Generation business on 31 December 2018, the Wholesale business has reorganised to focus on meeting the commodity trading requirements of the Energy Retail and Renewables businesses. During 2019, this has included the commissioning of the EA1 offshore wind farm, removal of the secure and promote licence obligation and revised retail hedging strategies following the introduction by Ofgem of the retail price cap.

## 2019 Performance

Financial key performance indicators ("KPIs")	Revenue*		Operating (loss)/profit		Capital investment	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
Continuing operations – Energy Retail and Wholesale	3,962.3	3,919.9	(81.3)	124.8	190.1	165.4

\* Energy Retail and Wholesale revenue as presented in Note 21 on page 78.

Energy Retail and Wholesale revenue increased by £42 million to £3,962 million in 2019. This was driven by higher domestic prices for both price cap and competitive product customers partly offset by lower domestic demand (weather and lower customer numbers) within Energy Retail.

Operating profit decreased by £206 million to an operating loss of £81 million in 2019. This decrease was primarily caused by lower retail gross margins. The adverse volume impact seen in revenue was compounded by the impact of the price cap on default tariffs. Whilst domestic revenue prices increased, the increase did not offset year on year increases in energy, network and government obligation charges. Operating cost increases included £9 million due to the profile incurred to deliver government obligations as well as a £17 million adverse movement in reorganisation costs year on year. Depreciation also increased in 2019, reflecting the continued investment in smart meters and supporting IT system requirements and in customer contracts investment.

Capital investment in Energy Retail and Wholesale increased by £25 million reflecting an increase in customer contract costs as customer switching levels remain high.

Non-financial key performance indicators	Notes	2019	2018
Volume supplied (GWh)		43,907	47,781
Customer service performance	(a)	6th	4th
Smart meters installed (cumulative) (thousands)		1,486	1,170
Customers (thousands)	(b)		
- Electricity		2,856	2,951
- Gas		1,904	1,956
		4,760	4,907

(a) Based on the Citizens Advice Domestic Energy Suppliers' Customer Service Report. Rankings reflect ScottishPower's position relative to the 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.



# Group Strategic Report for the year ended 31 December 2019

## SCOTTISHPOWER DIVISIONS *continued*

### Outlook for 2020 and beyond

We expect further market consolidation over the coming months and years, based on a combination of regulatory and competitive pressures, and this will present opportunities for well-placed suppliers to grow. Increased opportunity exists with the forecast growth of EVs and subsequent increased electricity demand. This demand will place a greater onus on smart metering technology and behavioural incentives, such as 'time of use' tariff offerings, which will play an important role. With the price cap and intense competitive pressures in place, cost efficiency will remain a key consideration for suppliers to support profitability and growth objectives. Environmental considerations are also likely to form a greater part of consumer purchasing criteria, and suppliers will need to meet or exceed customer expectations. We are well-placed to meet this demand following our move to 100% green electricity generation at the start of 2019 – a key differentiator in this regard.

Central to delivering these emerging market demands, will be the continued digitisation of our customer propositions and internal processes. Utilising an in-house, customer-centric digital development capability, we are well-placed to respond to these demands. While we continue to focus on providing a digital experience that benefits our customers, we will be harnessing the latest technologies and innovations in areas such as Artificial Intelligence and Machine learning to further expand our retail digital offering throughout 2020 and beyond.

Our Smart Energy Services business will continue to grow and expand in 2020. Not only through customer growth from a broader product range of services that our customers want and need, but also through focussing on the customer journeys and service experience. Our long term strategic partners are fully committed to offering the best service possible and will continue to work closely with our business to understand customers' needs and challenges and ultimately improve our customers' experience.

Growth will also continue in the developing EV marketplace and we will continue to build partnerships with manufacturers, installers and technology providers in order to expand the accessibility of the EV charging throughout the UK. We have developed a range of EV products, services and tariffs to help customers charge at home, at work and in public locations that offer a cost-effective, smart solution to cater for their EV charging needs. This will expand further in 2020 with key partnerships with our core city regions of Glasgow and Liverpool, and the wider business network across the UK. We are determined to continue evolving and building new products and services to meet the needs of our customers and drive a cleaner electric future.

In support of the move to a better future quicker, we have the decarbonisation of heat in our sights and will look towards small pilot schemes in the next couple of years to test and explore future heating technology options and how these may accelerate the decarbonisation of the heating market in future decades.

For 2020 and beyond, Energy Wholesale will continue to contribute towards the management of new, flexible assets being commissioned by Renewables and delivery of greener energy for Energy Retail. Our Energy Wholesale business continues to optimise the value of its gas storage facility and to manage the ongoing decommissioning and sale of the non-operational sites of former generation plant.

### Principal risks and uncertainties

The group's principal risks and uncertainties are described on page 4. The specific risks associated with the Energy Retail and Wholesale division and how we are mitigating these risks are detailed below:

ENERGY RETAIL AND WHOLESALE	
RISK	RESPONSE
Price cap values are not set at an accurate rate to reflect the real cost of servicing the customer preventing a reasonable profit margin.	Continued focus on encouraging competition and promoting the use of fixed-price products; ongoing support to the government and regulatory bodies to demonstrate the need for accurate price cap calculations. Lower proportion of customers on default tariffs reduces the impact in comparison to other major suppliers.
Reputational risk from poor customer service performance.	Continued investment in the simplification and enhancement of the processes our customers use together with continual training of our customer facing staff. Ongoing actions to remove the need for our customers to contact ScottishPower with greater flexibility for our customers to contact us through a variety of channels.
Inability to efficiently hedge the exposure to power prices due to the complexity of the price cap pricing mechanism.	Continuous assessment of the wholesale energy markets and constant monitoring of the impact of market movements across seasons.
The potential for non-compliance with the UK Government's mandate to complete the rollout 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.
Impact of competition on Energy Retail's market share and profitability.	Constantly managing our operating cost base to ensure that our profitability is protected and focusing on growth through organic and other acquisition opportunities.
Deterioration in the level of overdue debt impacting on the level of debt write-off required.	There are measures in place across the Retail business to manage the key drivers of overdue debt, assess and implement remedial and preventative action, and to establish key metrics to monitor progress in reducing debt levels.

## ENGAGING WITH STAKEHOLDERS

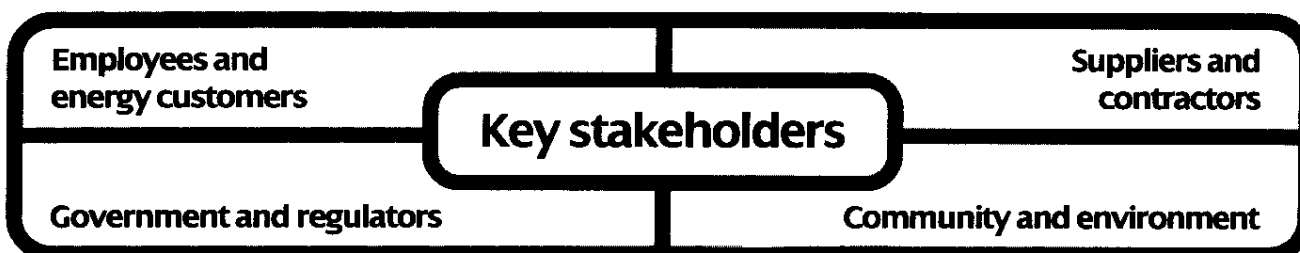
### THE IMPORTANCE OF ENGAGING WITH OUR STAKEHOLDERS

As part of the Iberdrola Group, we are developing a responsible and sustainable energy model which focuses on the wellbeing of people, the protection of the environment and the economic and social progress in the communities in which we operate. We strongly believe that effective and meaningful engagement with stakeholders and employees is key to promoting the success and values of the group.

Meaningful engagement with these stakeholder groups supports the ethos of Section 172 of the Companies Act 2006 which states that directors should have regard to stakeholder interests when discharging their duty to promote, in good faith, the success of the company for the benefit of its members as a whole. Details of how ScottishPower and our individual businesses engage with our stakeholders, and how these activities influence the group's operations, are set out below.

#### Our key stakeholders

We have four key Stakeholder categories:



Behind these stakeholders are millions of people, and thousands of institutions, organisations and groups. All of them, with their decisions and opinions, which influence the group and are also affected by our activities. In addition, these stakeholders interact with each other, creating a universe of relationships that the group needs to manage in order to achieve a better understanding of our operating environment and to deliver a more sustainable performance across our activities.

Our shareholders are also important to us. All shareholder management activities are carried out on our behalf by our ultimate parent company, Iberdrola, which is listed on the Madrid Stock exchange. Iberdrola is committed to dialogue, proximity and actions in favour of shareholders. Iberdrola is one of the first companies in the world, to formalise a Shareholder Engagement Policy focusing upon two-way interaction with the shareholders in order to forge a sense of belonging and to encourage their engagement in the corporate life of Iberdrola. Iberdrola's Shareholder Engagement Policy is published at <https://www.iberdrola.com/corporate-governance/corporate-governance-system/corporate-policies/shareholder-engagement-policy>.

## "Putting people first to achieve a better future, quicker"

### EMPLOYEES AND ENERGY CUSTOMERS

#### Employees

ScottishPower employs approximately 5,600 employees, working across a range of roles within our Energy Networks, Renewables and Energy Retail and Wholesale business divisions and our Corporate function. Our employees make a real difference in determining how successfully we operate. The creativity, innovation and individuality of our employees enables us to build on our future capability to operate effectively in a competitive market and continue to have aspirations which are challenging and rewarding. We respect and recognise the importance of individuality as part of our ongoing commitment to promoting a culture where individuality is celebrated. We also understand that being a diverse organisation goes beyond having legally compliant policies and practices; it includes a focus on creating an innovative, integrated organisation where people feel valued, inspiring them to perform at their best.

#### Employment regulation

We have well-defined policies in place throughout our 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, anti-corruption 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

We have a continuing commitment to training and personal development for our employees and provided 3,190 training events in 2019 (3,061 in 2018). The priorities across ScottishPower remain compliance related training; health and safety critical and engineering-based training ensuring field staff, both onshore and offshore, are safe and competent. In addition, training is focused around new requirements such as data analytics and agile project management. We recruit over 100 craft and engineering trainees annually who undertake a 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

In 2019 as part of the global group engagement survey framework, we carried out our annual employee engagement survey, the 'LOOP'. The LOOP provides an opportunity for all our employees across the organisation to share their views on the employee experience at ScottishPower. This year, the level of response rate remained high, with all employees including field staff, having the opportunity to answer the survey online. Overall, the positive insights from the LOOP feedback showed an increase in employee engagement and employee enablement across the group. The opportunities highlighted from the survey included ensuring a focus on cross-company collaboration, which aligns with our values as described in detail on page 2.

# Group Strategic Report for the year ended 31 December 2019

## ENGAGING WITH STAKEHOLDERS *continued*

As well as employee feedback through the LOOP, we consult regularly with employees and their representatives via a variety of channels, including monthly team meetings, business conferences, health and safety committees and employee relations forums.

### **Inclusion and diversity**

We are committed to driving diversity in the energy industry, increasing our diverse and inclusive workforce whilst taking action to address the deepening skills shortage in the sector.

We want to attract and inspire the best talent regardless of gender, age, sexual orientation, disability, ethnicity or any other factor. We value every individual's differences and the insights they bring to how we think, what we believe and who we are.

We published our second Gender Pay Report in March 2019 and reiterated our commitment to pay for performance equally and fairly. This continued our focus on breaking down barriers across the employee lifecycle, as over time this will improve our gender pay gap position whilst widening the inclusion of other under-represented groups. E-learning and training on unconscious bias has been designed and rolled out to over 600 recruiting managers and new people managers to date. In addition, the STEM (science, technology, engineering and mathematics) Returners programme aims to help employees returning to work after a lengthy career break to grow and develop their career, offering the time and support needed to refresh and redevelop their skills to help them in returning to employment on a more permanent basis. The 2018/19 programme celebrated the scheme's fourth year with one of the participants securing a permanent job with ScottishPower as a direct result of taking part in the programme. The 2019/20 programme has commenced with a record number of placements across the business with six females and three males participating this year.

For more information go to: [https://www.scottishpower.com/pages/gender\\_pay.aspx](https://www.scottishpower.com/pages/gender_pay.aspx)

As part of our commitment to closing our gender pay gap, the Senior Leadership Team set two aspirational targets in 2018 to break down the barriers for women:

- increase in the number of women in ScottishPower's senior leadership population to exceed 30%; and
- increase in the number of women in ScottishPower's middle management population to exceed 40%.

An update on progress against targets will be included in the Gender Pay Report 2019 which will be published on or before the end of March 2020.

Work is continuing on the following initiatives to achieve these targets and progress is monitored on a continuing basis:

- Inclusive recruitment principles such as balanced shortlisting and gender balanced interviewing are now incorporated into all our external recruitment campaigns.
- Implementation of gender de-coding (i.e. highlighting masculine and feminine language for all our external job adverts).
- STEM engagement – throughout 2019 the team have delivered our message to over 22,000 school age girls and boys; we work with a range of partners and events to communicate our early careers programmes to school children and their families.
- Inspiring women in sport – Energy Networks has extended its rugby partnerships in Scotland and Wales to support more women in sport. This includes becoming the first shirt sponsor of the Scotland Women national squad and the creation of more Welsh age group teams for girls. With our support, the number of young women playing organised rugby in North Wales has doubled.
- ScottishPower became a founding partner of the Energy Leaders Coalition which comprises eight of the leading Chief Executive Officers from the UK's energy sector who are making a public declaration to improve gender diversity in their groups and in the sector as a whole.
- We are a corporate partner of the Women's Engineering Society to help with the important work that they do in supporting women engineers and encouraging girls to see engineering as a career option.
- We receive continuing accreditation from Tommy's Healthy Pregnancy Charity.

We continue to work with a number of recognised organisations as part of our commitment to diversity and inclusion. These include: Business Disability Forum, Carers UK Employers Network for Equality & Inclusion, Equate, Working Families, ENABLE, POWERful Women and Stonewall.

We expect all our employees to be treated with respect and we have supporting policy guidance to help ensure equality of employment opportunity for people with disabilities. We have renewed the Disability Confident standard and increased our accredited level from 'engaged' to 'established' with Carers Scotland.

In 2019 we welcomed our second cohort of the inspirational Breaking Barriers programme. The programme aims to support aspirations for young people with learning disabilities and provide equal opportunities to access university courses. Between January and June 2019, 15 learners aged 18 to 24 studied for a Certificate in Applied Business Skills at the University of Strathclyde Business School. As part of this experience, seven of those learners gained valuable skills and work experience as part of an eight-week placement with ScottishPower, two of whom have gone on to secure paid employment within the group. To date, 40 ScottishPower employees have been involved in supporting the Breaking Barriers programme and planning has commenced for the 2020 programme.

Over the past 18 months, ScottishPower has continued to support the growth of its employee-led networks; Future Connections, Connected Women, Carers and In-Fuse. In September 2019 we celebrated the launch of our first multi-ethnic employee network, VIBE. Employee-led networks now play a key role in the attraction and retention of new employees from underrepresented groups to maximise engagement and performance.

### **Rewards and benefits**

As our business continues to change and evolve, it is important that the benefits that we provide to our people also develop to meet these challenges. We recognise that the benefit needs of employees are unique to the individual and we want employees to be able to tailor benefits to their own circumstances. We provide a benefits programme 'Your ScottishPower Benefits' which offers employees the flexibility to choose from a vast range of benefits such as participation in the ScottishPower Share Incentive Plan ("SIP") or cycle to work scheme, dental insurance, private medical insurance, payroll giving and purchasing additional holidays. Employees also participate in one of the group's various pension schemes. The company has both a defined contribution and three defined benefit schemes which allow employees to save for their retirement. All employees who joined the organisation on or after 1 April 2006 are offered membership of the Iberdrola Group (UK) Stakeholder Pension Plan.

# Group Strategic Report for the year ended 31 December 2019

## ENGAGING WITH STAKEHOLDERS *continued*

### Health and Safety

The prevention of harm to employees, contractors and members of the public, and the protection of business assets and operational capability, is a top priority for us. We have continued to strive for improved performance and both internal and external Health and Safety assessments have again returned positive findings.

We have an established Health and Safety Management System ("HSMS") to ensure that the group and its employees meet all its applicable internal, external, legal and regulatory requirements and standards, and aligns with the Iberdrola Global Health and Safety approach.

This HSMS has been established to provide an overview of how Health and Safety is managed across the organisation and includes how risks are managed. The HSMS includes items such as:

- The Health and Safety Policy, which details what we want to achieve with respect to Health and Safety, who will implement the requirements (detailing the roles and responsibilities) and how the Policy will be achieved.
- How the Health and Safety Programmes such as the annual Preventive Activity Plan, Operational Plans and Communications Plans have been implemented. All these are aimed at maintaining and improving Health and Safety performance.
- How compliance is delivered through a governance structure, audits and inspections and external and internal certification.
- An annual training plan is established to ensure employees are competent on the basis of appropriate education, training or experience.
- A Risk Management Procedure details how we will manage and control hazards and risks.
- In relation to the communication of Health and Safety information, we have an established annual Health and Safety communication plan.
- At ScottishPower group level, a Health and Safety Management Review is completed every six months and a specific report format used to record and communicate the findings.

### Business specific HSMS

To work in conjunction with the group HSMS, each of our divisions has its own specific HSMS. Each business HSMS expands upon the group HSMS but is not intended to duplicate or contradict. The intention is to focus on division specific scope of works and requirements.

### Performance

We maintained our OHSAS 18001 Health and Safety Management System certification and are currently transitioning to ISO 45001. The annual ScottishPower employee accident and incident statistics remained low with nine lost time accidents\* in 2019; this equates to approximately 1.6 lost time accidents per 1,000 employees. Six of these lost time accidents were reported to the Health and Safety Executive ("HSE") under The Reporting of Injuries, Diseases and Dangerous Occurrences Regulations ("RIDDOR"). The commitment to investigate accidents and incidents to address root causes remains steadfast and is given the highest priority. The table below provides the occurrence of lost time accidents in each business division (including Corporate):

Lost time accidents	Employees		Contractors		Total	
	2019	2018	2019	2018	2019	2018
Energy Networks	9	4	10	12	19	16
Renewables	–	–	12	8	12	8
Energy Retail and Wholesale	–	2	6	2	6	4
Corporate	–	–	–	–	–	–
	9	6	28	22	37	28

\* Number of accidents on the job involving ScottishPower employees and contractors resulting in the loss of at least a day's work.

As described above, there were nine employee lost time accidents during 2019 compared to six in 2018. Despite the increased employee lost time accidents in 2019, Health and Safety standards and performance remain high and the increase was mainly due to situational awareness incidents (slips, trips and falls) which, although they resulted in lost time, were ultimately low severity incidents. Regarding contractor lost time accidents, there were 28 in 2019 compared with 22 in 2018. Once again, the severity was mainly low, and the increase can be explained by the upturn in construction activity in our Renewables division.

The total number of employee and contractor lost time accidents in 2019 were 37 compared with 28 in 2018.

Energy Networks showed a slight upward spike in lost time accidents between 2018 and 2019, however, the division continues to show an overall downwards trend in lost time accidents for employees and contractors combined over the last few years reducing from a total of 32 in 2014 to 19 in 2019. The main contributory factor in lost time accidents continues to be slips, trips and falls caused by momentary lapses in situational awareness. Lost time due to electrical hazards continues to be low with only one such lost time accident recorded in 2019.

Employee lost time incidents in Renewables have maintained the excellent zero result from 2018, however, our contractor population unfortunately saw an increase year on year. In the main, the incidents were low severity, however, they have been reviewed to allow us to address the root causes to minimise the risk of these incidents recurring.

In Energy Retail and Wholesale, lost time accident numbers for 2019 have increased from those reported in 2018. All 2019 incidents occurred within the contractor population with no employee lost time accidents. Sadly, a contractor fatality occurred on the Longannet power station demolition site where a principal contractor has been employed to complete the demolition activity. The incident involved a contractor operative falling from height and the HSE are currently undertaking an investigation. All other Energy Retail and Wholesale lost time accidents were attributed to a lack of situational awareness (slips, trips and falls). In Corporate, there were no employee or contractor lost time accidents during 2019 and 2018.

# Group Strategic Report for the year ended 31 December 2019

## ENGAGING WITH STAKEHOLDERS *continued*

### Public safety

As part of our overall Health and Safety priorities, public safety is a fundamental requirement, and various initiatives and programmes are delivered each year within each business area. For example, within Energy Networks, provision of public safety information and schools' education regarding safety around electricity has continued through a mixture of attendance at community events, safety centres and school teaching programmes. As well as delivering safety education in schools, electrical safety information is provided to groups who are at a high risk of coming into contact with apparatus on the electricity network, including agricultural and construction workers.

### Employee health and wellbeing

We promote and support the physical and mental health and wellbeing of our employees through a programme of health promotion and information run by our Occupational Health department. This includes statutory and voluntary health surveillance for employees. As part of our focus on health and wellbeing, conscious efforts have been made to reduce the stigma and discrimination surrounding mental health and increase the support available to employees. Occupational Health has initiated a mental health first aiders' training programme and support forums. Over 257 employees have volunteered to be a mental health first aider, with 144 employees trained during 2019.

### Employee volunteering

We pride ourselves in being a good corporate neighbour, providing support to the communities we serve in each of our businesses. Volunteering is central to community involvement and we have an excellent track record in this area. Our company-wide Volunteering Policy has been actively utilised by employees during 2019, giving all registered volunteers, on an annual basis, an opportunity to take one additional day's paid leave as a volunteering day.

### Modern Slavery Statement

We are committed to human and labour rights and to eliminating modern slavery that could in any way be connected to our business. We welcomed the introduction of the Modern Slavery Act 2015 and published our own Modern Slavery Statement, which was approved by the Board. This statement is published on the ScottishPower website at: [www.scottishpower.com/pages/scottishpowers\\_modern\\_slavery\\_statement.aspx](http://www.scottishpower.com/pages/scottishpowers_modern_slavery_statement.aspx).

## Energy customers

We provide energy and related services to millions of domestic and business customers. Our success depends on our ability to understand the needs of our customers and engagement is key to our success in meeting our customers' needs in this rapidly changing environment. We seek feedback in several ways including forums, market research and product testing as well as via complaints channels and surveys.

### Energy Networks

As with the rest of the RIIO price controls, our performance in this area is measured and reported on a regulatory year basis (April to March of any given year).

### Delivering for stakeholders and vulnerable customers

Improving customer service has been a key objective for us in 2019, particularly for vulnerable members of society.

We are the first utility company in the world to achieve the BSI Customer Service Kitemark Certification and Vulnerability Standard, in addition to performing better than the top ranked UK Service Leader (First Direct) in the Institute of Customer Service benchmarking exercise, demonstrating our commitment to exceptional customer service.

We are dedicated to understanding the needs of vulnerable customers in our licence areas, demonstrated by the addition of 187,000 customers to our Priority Services Register in 2018/19, bringing the total to 920,000, and covering 32% of customers in our Low Resilience Communities.

Under the Stakeholder Engagement and Consumer Vulnerability ("SECV") Incentive, set out in the Energy Networks '2019 Performance' section above, we were awarded £2.4 million for 2018/19.

### Earning customer satisfaction

We continue to raise awareness of how best to contact us and the services we provide for customers. As a result of our targeted awareness campaign, we have seen the number of people calling in a power cut rise from 13% to 21% and the awareness of our Priority Services Register increase from 8% to 29%. Making continual improvements to customer service is a cornerstone of our RIIO-ED1 strategy. Our focus in the Broad Measure of Customer Service incentive scheme ("BMCS") has placed us third across all the UK DNOs during 2018/19 with scores of 8.94 in SPD and 9.01 in SPM, and puts us ahead of where we committed to be on our journey to score 9.42 by the end of the RIIO-ED2 price control period. This performance in 2018/19 delivered a reward for customer satisfaction of £7.1 million.

### The value in connections

Core engagement, such as connections stakeholder panels and in-depth annual surveys, help us to shape our strategic direction, confirming stakeholder priorities and identifying new themes as they emerge. In response to stakeholder feedback we have increased the number of ways to engage, and reach more stakeholders than ever before. In 2018/19 we received 29,579 enquiries and issued 22,352 quotations. We were awarded a total of £1.4 million under the Average Time to Connect Incentive for 2018/19, up from £1.3 million the previous year. Ofgem confirmed in October 2018 its decision not to penalise us under the 'penalty only' Incentive on Connections Engagement. We have not received a penalty since the introduction of the scheme at the beginning of the RIIO-ED1 price control period.

### Targeting reliable supply performance

Under Ofgem's Interruptions Incentive Scheme, we are incentivised on our performance in the number of CML and CI, which include both planned and unplanned supply interruptions. By 2023, we aim to have reduced the average time our customers are off supply by 25% over the current price control period. By achieving a 20% reduction so far, we are well on our way to exceeding this target.

2018/19 was a challenging year for unplanned supply interruptions where energy to customers was disrupted by three storm events which met Ofgem's 'exceptional event' exclusion criterion; wind and gale storms in June 2018, September 2018 and October 2018 (2017/18 two exceptional storm events; wind and gale storms in October 2017 and March 2018). Storm Ali impacted 96,898 customers across both SPD and SPM, however 97% of all customers had their supply restored within 24 hours.

As a result, the underlying CML and CI for the year to 31 March 2019 were 35.0 and 49.3 respectively for SPD and 35.6 and 36.1 respectively for SPM. This corresponds to our total award of £8.3 million for 2018/19 performance (£17.9 million in 2017/18).

# Group Strategic Report for the year ended 31 December 2019

## ENGAGING WITH STAKEHOLDERS *continued*

### Energy Retail

Understanding our retail customers extends to our ability to identify the needs of our customers, in particular our vulnerable customers.

Our commitment to providing our customers with a quality of service remains resolute. In 2019 we brought into ScottishPower the Extra Energy customers we were awarded as part of the SoLR process. To limit the interruption to the customer, the SoLR process requires a company to operate at pace; our experience and ability allowed us to create digital read and communication processes within 48 hours to assist in the communication and gathering of essential data between our new customers and ScottishPower.

We are continuing to focus on improving customer service through the ongoing development and enhancement of digital channels, as well as a retained focus on providing a good customer experience through the traditional telephone service channels. Prospective customers now benefit from an enhanced online process to review product and tariff offers and compare across a range of power, gas and energy service product needs. This new digital journey makes the process of joining ScottishPower simple and quick. Existing customers also benefit from the new digital online webchat and mobile chat options to support with product, tariff and account enquiries.

Through ongoing expansion of the range of digital services across 2019 we have seen continued adoption of digital tools as the channel of choice amongst our customer base. With over 451,000 digital interactions per week, this growth has been supported primarily through increased app adoption and the utilisation of more accessible, easier to use services such as web and in-app chat. In line with the rollout of smart meters and EVs, several new services have been developed such as online Smart Prepayment Top Up functionality and an EV charge-point finder application which have opened up new avenues for engagement with customers. This has been supported by improvements to existing services such as the online Warm Home Discount ("WHD") scheme application helping to extend digital into both new areas and previously harder to reach customer segments.

The customer is at the heart of our Energy Services operations with a range of products that will protect customers at a time of need, for example when their boiler fails or their washing machine breaks down. With our strategic partners, it is imperative that we continually focus on the service delivered to all our customers, but particularly those who may be vulnerable. We identify the customer circumstance and provide the service tailored to that customer's needs. Measuring our performance and learning from customers' feedback is essential to delivering the right level of service.

We are committed to ensuring that our EV charging solutions make it easy for our customers to transition to EVs and are backed by 100% green energy. As we expand the availability of ScottishPower EV charge points we will also look towards new technology and the installation of rapid chargers that will charge or top-up a customer's EV in the time it takes to grab a coffee or snack, improving customer convenience.

For our most vulnerable customers we offer specific help:

- The ScottishPower Hardship Fund continues to be a focus to support our vulnerable customer base and has provided over £38.1 million in debt relief to customers with financial difficulties since its launch in 2015. We are fully committed to the hardship fund as a cornerstone of our policy in alleviating the debt of our most vulnerable customers. An additional prepayment voucher fund to help customers who have self-disconnected and who contact food banks and Citizens Advice bureau has also provided £100,000 of support.
- We have also helped to refer around 14,000 customers in 2019 to get help with ongoing household budget and debt issues from our free debt advice charity partner, National Debtline.
- We have a wide range of categories of vulnerability for customer-facing staff to use to ensure that we understand customer circumstances, both temporary and longer term. This ensures that we can offer appropriate support to customers on an ongoing basis, or through shorter periods of uncertainty.

As an energy company who wishes to remain in contact with its customers, we are one of the very few who continue to offer a community liaison service where our service experts will visit customers throughout Great Britain to help resolve any service related query.

The delivery of energy efficiency measures continues to be an important responsibility of our business and 2019 was the sixth 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. We continue to make strong progress towards meeting this. Legislation which defines the 'ECO 3' scheme came into effect in December 2018 and covers the period from that date until 31 March 2022. Changes to the scheme now require the participation of some smaller suppliers who have previously been exempt.

We also support vulnerable customers with their energy bills through the WHD. Now in its ninth year, the WHD is the UK Government's main policy for tackling fuel poverty. The scheme is delivered by energy suppliers to qualifying customers by providing rebates on electricity accounts to help when bills may be higher over the winter period. During scheme year 8, which ran from 1 April 2018 to 31 March 2019, we spent £29.3 million providing assistance to 209,027 customers by providing a rebate of £140 on their electricity account.

In addition, over £4 million of funding was awarded to third party organisations to deliver industry initiative projects to provide a range of assistance to domestic customers. Measures included fuel debt assistance, benefit entitlement checks and energy advice.

## "Being collaborative"

### GOVERNMENT AND REGULATORS

Governments and regulators play a central role in shaping the energy sector. We engage with them directly and through trade associations, responding to issues of concern and providing expertise to support policy development around topics such as decarbonisation, market competition, price controls and protection of vulnerable consumers. Through this engagement we aim to contribute to the delivery of a UK energy system that functions in the interests of customers now and in the future, including achievement of long-term carbon targets.

# Group Strategic Report for the year ended 31 December 2019

## ENGAGING WITH STAKEHOLDERS *continued*

### “Being responsible”

#### SUPPLIERS AND CONTRACTORS

As part of our mission for a better future, quicker we are always looking for new suppliers and contractors and also for ways we can improve our working relationships with our existing suppliers and contractors. We have a broad and diverse supply chain with over 3,000 suppliers and during 2019 we awarded contracts with a cumulative value of around £1.5 billion. Our suppliers have a key role to play in the delivery of our projects and services that we are undertaking to deliver a low carbon future for the UK. We aim to develop and maintain strong relationships across our supply base with a focus on Health and Safety, quality and cost. We expect our suppliers to operate to a high standard including working in an ethical and sustainable manner and we have a range of policies that all suppliers must adhere to including ScottishPower's Code of Ethics.

Engaging proactively with our supply chain is key in ensuring positive outcomes for both us and our suppliers, and we seek to engage specifically with suppliers through a variety of methods including business update sessions focused on the supply chain, participation at trade fairs and our Supplier Awards which recognise excellence in the supply chain along with giving a wide range of suppliers the opportunity to interact with both the procurement team and other ScottishPower employees.

#### COMMUNITY AND ENVIRONMENT

##### The community

Building the trust of communities has been at the heart of our activities for many years. We have a significant presence in many communities and we aim to conduct our activities responsibly, in ways that are considerate to local communities and make a positive contribution to society. Engaging with these communities, as key stakeholders, is therefore an essential aspect to delivering our objectives, and underpins our core values of collaborating through sharing knowledge and information to help us make informed decisions.

##### Community consultation

We engage with communities across our operations, where both new and modernisation developments are planned, or where we are decommissioning redundant or non-operational assets. The key areas where our businesses interact with the community include the siting of new facilities such as wind farms, the presence of distribution and transmission lines, decommissioning older plant and routine maintenance and upkeep work. We take a proactive approach to providing good and accurate information, from pre-planning through to completion.

We maintain strong relationships with local communities by working with community groups, elected representatives, interest groups and individuals, in order to ensure that those who may be affected by our work are aware of what is happening in their area in advance, and thus allowing communities to have their say. This is of particular importance to our businesses as developer, owner and operator, with longstanding relationships in many of the communities in which we work.

A variety of methods of consultation are used to keep in touch with the needs and concerns of communities potentially affected. Our community consultation processes include representation at community meetings, presentations and forums such as public information days and the publication of information on the ScottishPower website and social media outlets. Our facilities host visits from community groups, maintain a number of visitor centres and run Local Liaison Committees which provide a forum for discussion between local management teams and community representatives.

As many of our assets, such as wind farms and pylons, are situated on land that we do not own, it is important that effective policies are in place to ensure that the safety and integrity of the plant is maintained, while respecting the needs of the landowner, the local community and the general public. Energy Networks, and those working on its behalf, adhere to a Grantor's Charter which sets out guidance of commitment to grantors and has been prepared in consultation with key stakeholders.

Energy Networks has shaped its business around geographical districts, enabling them to get closer to the communities they serve and allowing local communities to have unprecedented influence upon the delivery of network projects in their area. A wide range of local partnerships have been developed to gain a better understanding of community needs, including vulnerability and to increase resilience in the communities served, whilst maintaining focus on excellent customer service. Strong engagement is placed at the heart of decision making at all levels of the organisation, winning the trust of communities and other stakeholders.

Renewables also focuses activities on the communities near to new wind farm developments, with specialist teams who deal with planning and community liaison. Relationships are established with a variety of local stakeholders including local authorities, local councillors, local Members of Parliament, industry groups and other interested parties in the area. This ensures that they are kept up to date with development plans and progress throughout all stages of the project and that they have every opportunity to engage in the consultation process. We are mindful that we will be operating in the area for many years and our aim is to ensure that we are trusted neighbours working alongside the communities in which our assets are situated.

##### Investing in the community

We have a long track record of supporting communities not only financially, but also by sharing our resources and the skills of our employees. We promote payroll giving and encourage employee development through volunteering and community-based programmes. We aim, where possible, to create opportunities for local employment during construction and operations, through events such as “Meet the Developer” days where local contractors are invited to find out about opportunities at our facilities. We work closely with the UK Government and devolved administrations to develop policy on community engagement and benefit, and to ensure that we adhere to all voluntary codes of good practice.

As part of the Iberdrola Group, we use the London Benchmarking Group (“LBG”) Framework to evaluate our community investment activity. This framework is used by leading businesses around the world and provides a comprehensive and consistent set of measures for companies to determine their contributions to the community.

# Group Strategic Report for the year ended 31 December 2019

## ENGAGING WITH STAKEHOLDERS *continued*

During 2019, ScottishPower voluntarily contributed £17.3 million (2018 £12.8 million) in community support activity, through cash, time, in kind support and management costs associated with running community programmes. The £17.3 million (2018 £12.8 million) incorporated £11.7 million (2018 £6.9 million) categorised as community investment, £5.2 million (2018 £5.4 million) categorised as commercial initiatives, £0.3 million (2018 £nil) categorised as charitable gifts and £0.1 million (2018 £0.5 million) in management costs. Included within these figures, Renewables made £5.3 million (2018 £5.2 million) in voluntary community benefit payments to the communities neighbouring its wind farms. These figures are compiled for the Iberdrola Sustainability Report and will also be independently verified in early 2020 by 'Managing a Sustainable Business, S.L.' ("MasBusiness") which administers LBG in Spain.

### Community engagement – Whitelee Windfarm Visitor Centre

Within Renewables, Whitelee Visitor Centre continues with its public activities and community engagement events. Located at Whitelee wind farm, our Visitor Centre has welcomed over 800,000 visitors since it opened in September 2009. Managed by the Glasgow Science Centre, it is a free facility offering a hands-on, interactive, educational experience for members of the public and houses a cafe, shower facilities, a bike shed and free car parking (including a solar car charging canopy) which can accommodate charging for four EVs. Visitors to the facility are able to book bus tours to explore the windfarm, learn more about the history and ecology of the site and get close to the wind turbines.

The Visitor Centre offers an education programme, with curriculum-based sessions from nursery level right through to further education with over 46,000 school pupils attending educational programmes since it opened. There is also a programme of craft activities delivered at weekends and during school holidays.

2019 marked the tenth anniversary of Whitelee wind farm which provides significant economic, social and environmental benefits. Whitelee wind farm represents a total lifetime investment of £1.5 billion and is supported by a wide range of supply chain expertise, supporting 600 jobs every year through operating and maintenance. Whitelee has provided an average of almost 5% of all renewable electricity generated in Scotland. We hosted a 'Family Fun Day' at Whitelee to celebrate its tenth birthday, which was attended by over 7,000 people.

### ScottishPower Foundation

The ScottishPower Foundation ("the Foundation") was established in 2013 to reinforce our commitment to charitable work throughout the UK. It is a registered Scottish charity (SC043862) and a company limited by guarantee (SC445116).

There are five main categories of funding are:

- the advancement of education;
- the advancement of environmental protection;
- the advancement of the arts, heritage, culture or science;
- the prevention or relief of poverty and the relief of those in need by reason of disability or other disadvantage; and
- the advancement of citizenship and community development.

Decisions to award funding are made independently of ScottishPower by an experienced Board of Trustees who have a special interest in the above areas.

During the year ended 31 December 2019, the Foundation awarded funding of £1.25 million to 25 registered charities to support their work throughout the UK. Projects included 'Primary Panathlon', run by the Panathlon Foundation, giving young disabled children the opportunity to experience competitive sport. A number of competitions were held in iconic and inspirational venues including Stoke Mandeville Stadium, which is also known as the home of the Paralympics. The Foundation also supported the 'MockCOP' run by Size of Wales, which empowers young people from across Wales to use their voices to tackle climate change.

The funding pot included £30,000 which was awarded to the winners and runners up at the annual ScottishPower Foundation Awards ceremony, held in September 2019. There are four award categories, including the Charity Champion Award which gives special recognition to individuals working in the charitable sector for their personal dedication. A further 21 awards of funding were approved by trustees in November 2019 to be delivered throughout the UK during 2020.

## The environment

### Environment

We are working to minimise our carbon footprint through environmental management systems, which align with the UN Sustainable Development Goals ("SDGs"). We have formal Environmental Management Systems ("EMS"), certified to International Standard 14001:2015, and managed by our operational businesses. At a corporate level, we have an Integrated EMS ("IEMS") which was subject to a successful external surveillance audit in June 2019. We are committed to reducing our environmental footprint by:

- reducing emissions to air, land and water, and preventing environmental harm;
- cutting waste and encouraging re-use and recycling;
- protecting natural habitats and restoring biodiversity;
- minimising energy consumption and use of natural and man-made resources; and
- sourcing material resources responsibly.

In Energy Networks, we are committed to delivering environment protection and enhancement. For example, reducing the volume of waste associated with our construction projects, and making greater use of alternatives for sulphur hexafluoride ("SF<sub>6</sub>") in our network assets; a gas that has many times the global warming potential of carbon dioxide ("CO<sub>2</sub>"). We aim to minimise and mitigate construction impacts for the benefit of species and habitats throughout our work. Therefore, collaboration with landowners and organisations like Scottish Forestry and North Wales Wildlife Trust have provided opportunities to encourage natural regeneration, create woodland and prevent bird collisions with overhead lines including the red kite and peregrine falcon.

In our Renewables division, we recognise the importance of biological diversity and cultural heritage, and respecting natural resources in order to enhance the environment. For example, Renewables have implemented habitat management plans (covering over 9,000 hectares of land) and committed



# Group Strategic Report for the year ended 31 December 2019

## ENGAGING WITH STAKEHOLDERS *continued*

to over 200 ecological activities in relation to onshore wind farms, the majority of which concern the restoration of degraded habitat, creation of native woodlands and species monitoring. In addition, we are supporting and implementing research in partnership with a wide range of bodies such as collaboration with Royal Society for Protection of Birds to support nationally important bird species including black grouse and the short eared owl.

Our offshore projects are developed and delivered with industry-leading environmental collaborations and innovative techniques focused on marine biodiversity, such as acoustic bubble-curtains to reduce underwater noise impacts on protected species like harbour porpoise and monitoring of underwater noise during clearance of unexploded ordnance. In ornithology, we are leading an innovative pilot scheme working with key UK stakeholders to identify research needs for Black-legged Kittiwake and hosted our fourth Strategic Offshore ornithology conference at our head office in Glasgow in November 2019. In order to ensure consistency, quality and continuous improvement across all of these activities, we have implemented a business-level EMS across the offshore global portfolio and completed a plan of internal audit.

## Sustainability

The fight against climate change and respect for the environment lie at the heart of both Iberdrola's and ScottishPower's Sustainable Energy Business Model. This focuses upon working to achieve sustainable development by integrating the Sustainable Development Goals 2030 Agenda into strategy and operations. Across the Iberdrola Group, the General Sustainable Development Policy states the strategic pillars which align our sustainability values with the UN SDGs. Therefore, our focus is on working in partnerships and collaborations to deliver:

- more and smarter networks;
- more and smarter clean electricity generation;
- more and smarter energy storage; and
- more and smarter customer solutions.

Our contributions to the SDGs map accordingly to each of the 17 Global Goals. Iberdrola's Sustainability Report gives a more in-depth picture of these impacts at a global and UK level. It describes the programme of leadership, investment and innovation in delivering sustainable outcomes with a strong focus in contributing to the decarbonisation of energy (SDG 7) and climate action (SDG 13). This is evidenced by our commitment to renewable generation, low carbon technologies such as electric transport, and a smarter electricity infrastructure to enable a low carbon future.

Furthermore, in line with our 'Sustainable' value, our achievements in successfully influencing employee engagement and behaviour change were recognised in winning EDIE's Sustainability Leaders Award in February 2019.

In 2020 and beyond, we will continue to build upon Iberdrola's commitment to achieve a 30% reduction in its CO<sub>2</sub> intensity emissions by 50% by 2030 and become carbon neutral by 2050. These objectives were approved by the independent experts in the Science Based Target Initiative (March 2019). Our focus in 2020 will be to establish associated targets and actions specifically aimed at ScottishPower's ambitions in environmental leadership and tackling climate change.

## INNOVATION

Our future and strategic success relies on an innovative and dynamic culture in both internal initiatives and external collaborations. Our diverse range of stakeholders help us to deliver innovation activities across technical and commercial challenges. With consideration of our group values, collaboration features strongly in our open invitation model which allows close working relationships with academics, supply chain, public agencies and customers, amongst others.

For example, in 2019 we invested more than £150,000 in continuing our collaborative research in the University of Strathclyde's Technology Innovation Centre. A three year agreement was signed in August 2018 which focuses on innovative projects in a Low Carbon Power and Energy Programme. In the past year, innovation projects have included research in the use of smart meters for analysis of impacts in the distributed electricity network, scenario planning for the future of EVs in the UK, and engineering analysis of long-term operations of onshore wind turbines.

This collaborative programme was shortlisted in November 2019 at The Engineer – Collaborate to Innovate Awards, in recognition of the consortium's multi-party approach to innovation in the Energy and Environment category.

2019 has also seen further investment in support of low carbon, local energy system projects such as the HALO Project in Kilmarnock. This project looks to build a net zero carbon campus for homes, offices, education and leisure facilities in South West Scotland. Through low carbon transport, smart home technology and electricity provided by renewables, this energy system aims to serve as an example of an affordable, 100% electric local energy framework for communities across the UK. This example project typifies our values – Sustainable – Collaborative – Dynamic.

In the drive for an innovative culture in our new talent, October 2019 also saw our inaugural Talent Hackathon. This innovative event aimed to engage with entrepreneurial talent from leading universities in the challenge of creating zero carbon business models, services, products and communities.

## Energy Networks

- 2019 has seen a transformative internal programme continuing to influence the team through a 'Year of Innovation'. This initiative has driven a pipeline of innovations across engineering, procedural and stakeholder-focused projects.
- In relation to EVs, Project Charge will provide tools to deliver a step-change in the rollout of public infrastructure for EVs. The project brings together experts in transport planning, electricity network planning and charging systems to identify the best locations for new charge points. In particular, it will address more challenging locations for EV infrastructure, such as crowded city streets, destination charging and areas with little or no access to off-street parking.
- In October 2019, we launched Zero Carbon Communities – the first detailed roadmap to show how local communities can play their part in reaching net zero targets, as the country transitions to an electric future. The campaign launched in Liverpool, with the City Region chosen as the first Community to benefit from this roadmap approach. For the first time, Zero Carbon Communities sets out the details of what this means at a local level. The Zero Carbon Communities campaign will rollout to other areas served by our Energy Networks team, including major cities like Edinburgh and Glasgow, and rural communities in Anglesey and Cheshire, to reflect how different places have differing needs.

# Group Strategic Report for the year ended 31 December 2019

## INNOVATION *continued*

### Renewables

- In progressing innovations in energy storage, in June 2019 the Scottish Government approved plans for battery storage at Whitelee wind farm. Charged with clean green renewable power from the site's 215 turbines, the planned battery storage centre will support the National Grid in maintaining the resilience and stability of the electricity grid, even at times when the wind may not be blowing; a first for a wind farm in the UK at this scale.
- We have used commercial innovations in the structuring of new support frameworks for new onshore wind farms. Two onshore wind farms will be built in order to provide clean, sustainable energy for corporate giants Amazon and Tesco. For example, the project with Amazon will see 50 MW of green energy capacity constructed which will provide enough energy each year to power the equivalent of 46,000 homes.
- The future of renewable generators providing substantial ancillary services to the energy system such as frequency response and black start, are being explored as part of a government-backed 'Virtual Synchronous Machine' project. The project consortium is looking to demonstrate the operational systems and technological capability which will ensure large-scale renewables generators will play a key role in a secure and reliable future energy system.

### Energy Retail and Wholesale

- With the desire of the UK and ScottishPower to reduce the country's carbon footprint, ScottishPower is working to support this aim. One of the new areas of focus has been the introduction of domestic, business and community EV charging points. 2019 also saw the introduction of a supporting 100% EV Green tariff.
- The open innovation and collaboration model was utilised in partnerships such as with Arnold Clark, as well as the minority equity investment in EV charge point equipment manufacturer Wallbox (through Iberdrola's investment vehicle, Perseo).
- Across the division, research in the use of data analytics has delivered progress in several areas including customer service journeys, extracting value from smart meter datasets for customers, and forecasting techniques in energy trading and aggregation capabilities.

## SECTION 172 STATEMENT

### Statement by the directors in performance of their statutory duties in accordance with section 172 of the Companies Act 2006

The Companies (Miscellaneous) Reporting Regulations 2018 introduced a new statutory reporting requirement for financial reporting years beginning on or after 1 January 2019. As a result, the directors of Scottish Power Limited are required to give a statement which describes how the directors have had regard to the matters set out in section 172(1) of the Companies Act 2006 when discharging their duty under that section.

The directors acknowledge and understand their duties and responsibilities, including that, under section 172 of the Companies Act 2006, a director of a company must act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

- (a) the likely consequences of any decision in the long term;
- (b) the interests of the company's employees;
- (c) the need to foster the company's business relationships with suppliers, customers and others;
- (d) the impact of the company's operations on the community and the environment;
- (e) the desirability of the company maintaining a reputation for high standards of business conduct; and
- (f) the need to act fairly as between members of the company.

The delivery of ScottishPower's strategy requires the group to conduct business in a manner benefitting customers through balancing cost and risk while delivering shareholder value and protecting ScottishPower's performance and reputation by prudently managing risks inherent in the business. In setting and updating this strategy, the directors' duties under section 172 of the Companies Act 2006 have been considered.

The directors strongly believe that effective and meaningful engagement with stakeholders and employees is key to promoting the success of the company. Details of our key stakeholders and how we engage with them are as follows:

- **Customers:** details of how ScottishPower assesses broader customer service measures are explained in the 'Energy customers' sub-section of the Strategic Report, on page 19.
- **Employees:** details of how ScottishPower engages with its employees are set out in the 'Employees' sub-section of the Strategic Report, on page 16.
- **Communities and the environment:** details of how ScottishPower engages with communities are set out in the 'Community and environment' section of the Strategic Report, on page 21.
- **Suppliers:** details of how ScottishPower engages with its suppliers are set out in the 'Suppliers and contractors' sub-section of the Strategic Report, on page 21.
- **Government and regulators:** details of how ScottishPower engages with governments and regulators are set out in the 'Government and regulators' section of the Strategic Report, on page 20.

In addition, a statement in relation to the company's interaction with its shareholders is described in the introduction to the 'Engaging with stakeholders' section of the Strategic Report on page 16.

The directors, both individually and together as a board, consider that the decisions taken during the year ended 31 December 2019 in discharging the function of the board in accordance with its terms of reference (published at [scottishpower.com/userfiles/file/Terms\\_of\\_Reference\\_of\\_the\\_Scottish\\_Power\\_Limited\\_Board\\_of\\_Directors.pdf](https://scottishpower.com/userfiles/file/Terms_of_Reference_of_the_Scottish_Power_Limited_Board_of_Directors.pdf)) were in conformance with their duty under section 172 of the Companies Act 2006.

## Group Strategic Report for the year ended 31 December 2019

### **SECTION 172 STATEMENT** *continued*

We ensure the Board are assisted in considering key stakeholders as part of the decision-making process by including stakeholder considerations in board papers as appropriate, and Board papers are carefully reviewed and considered by all directors.

### **BY ORDER OF THE BOARD**



**Marlon S Venman**  
Secretary  
5 March 2020

## Directors' report

The directors present their report and audited Accounts for the year ended 31 December 2019.

### 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 25:

- information on financial risk management and policies;
- information regarding future developments of the business;
- information in relation to innovation activities; and
- information on employee regulations and policies.

### Results and dividend

The net profit for the year attributable to the equity holders of the parent amounted to £522.7 million (2018 £805.3 million). A dividend of £342 million was paid during the year (2018 £396.0 million).

### Taxation

The Board of Directors of Iberdrola ("Iberdrola Board") has explicitly acknowledged its responsibility for tax policy and strategy in all of the companies that it controls. The Iberdrola Board has approved a Corporate Tax Policy which forms part of the Corporate Governance System and sets out that board's commitment to responsible tax practices throughout the Iberdrola group. The Corporate Tax Policy was initially approved by the Iberdrola Board in 2010 and is regularly updated.

The Board of Directors of Scottish Power Limited ("the Board") has adopted this Corporate Tax Policy and its Audit and Compliance Committee has approved the ScottishPower Tax Strategy which accords with the policy and, as required by UK law, is published on the company's website. This can be found at: [www.scottishpower.com/pages/tax\\_strategy.aspx](http://www.scottishpower.com/pages/tax_strategy.aspx).

We are a responsible tax payer and seek to be open, honest and transparent in dealings with the tax authorities and to comply with both the letter and the spirit of tax laws set by the UK Government. We remit taxes due on a timely basis, and have a relationship with HM Revenue and Customs ("HMRC") based on mutual trust and cooperation. Payment of taxes is our principal contribution to sustaining public expenditure and one of our contributions to society.

Further details on taxes and other government obligations can be found in the Strategic Report on page 7.

### Political donations and expenditure

We are a politically neutral organisation. We are subject to the Political Parties, Elections and Referendums Act 2000, which defines political 'donations' and 'expenditure' in wider terms than would be commonly understood by these phrases. During the year ended 31 December 2019, we incurred expenditure of £39,000 (2018 £24,500) for the sponsorship of conferences and events – activities that may be regarded as falling within the terms of the Act.

The recipients of these payments were:

- |                               |                        |
|-------------------------------|------------------------|
| • The Conservative Party      | £7,000 (2018 £7,000)   |
| • The Labour Party            | £7,000 (2018 £7,000)   |
| • The Scottish National Party | £15,500 (2018 £10,500) |
| • The Liberal Democrat Party  | £9,500 (2018 £nil)     |

These amounts were for sponsored receptions at the 2019 conferences of the above parties. These occasions provide an important opportunity for us to represent our views on a non-partisan basis to politicians from across the political spectrum and were open to everyone attending the conference, including party members, non-governmental organisations, the media and trade unions. The payments do not indicate support for any particular party.

## CORPORATE GOVERNANCE

### Statement regarding the corporate governance arrangements of the group

The Companies (Miscellaneous) Reporting Regulations 2018 introduced new reporting requirements for financial reporting years beginning on or after 1 January 2019 in relation to the corporate governance arrangements of certain companies. The directors of the company have set out as follows a statement of the corporate governance arrangements of the company.

The ultimate parent of the company is Iberdrola, S.A., which is listed on the Madrid stock exchange. The company, which is wholly owned by Iberdrola, S.A., does not apply a corporate governance code on the basis that the Board, in accordance with the Board's terms of reference and the Policy for the Definition and Coordination of the Iberdrola Group and Foundations of Corporate Organisation (the "Group Governance Framework"), has adopted its own rules and principles which are based on widely recognised good governance recommendations. Those rules and principles that applied to the company and its group during 2019 are set out as follows:

The Board's terms of reference are published at [https://www.scottishpower.com/userfiles/file/Terms\\_of\\_Reference\\_of\\_the\\_Scottish\\_Power\\_Limited\\_Board\\_of\\_Directors.pdf](https://www.scottishpower.com/userfiles/file/Terms_of_Reference_of_the_Scottish_Power_Limited_Board_of_Directors.pdf).

The Group Governance Framework is published at <https://www.iberdrola.com/corporate-governance/corporate-governance-system/corporate-policies/definition-coordination-policy>.

## Directors' Report *continued*

### CORPORATE GOVERNANCE *continued*

#### Corporate governance system

The company is governed by the Board, which consists of directors who bring a broad range of skills and experience to the company. The Board is regulated in accordance with the company's Articles of Association (published at [https://www.scottishpower.com/pages/memorandum\\_and\\_article\\_of\\_association.aspx](https://www.scottishpower.com/pages/memorandum_and_article_of_association.aspx)) and the Board's terms of reference.

In discharging its responsibilities and in the exercise of its decision-making powers, and in accordance with the company's Articles of Association and the Board's terms of reference, the Board has, in accordance with the 'Group Governance Framework', defined and approved the ScottishPower corporate governance system which applies to the company and its group. The ScottishPower corporate governance system includes the internal corporate rules (including the Purpose and Values of the Iberdrola Group, the Code of Ethics, corporate policies and other internal codes and procedures) that make up the corporate governance system of the Iberdrola group, which the Board, having reviewed the same, has expressly adopted as part of the ScottishPower corporate governance system, as well as the specific rules and regulations required to implement or supplement it.

In addition, the Board routinely considers and takes into account those parts of the corporate governance system of the Iberdrola group (of which the company is part) which may have direct or indirect application to ScottishPower. Furthermore, the Board actively considers and adopts specific policies and rules which apply to ScottishPower.

#### Board composition

The Board comprises the Chairman (non-independent, non-executive director), the Vice-Chairman (independent, non-executive director), the Chief Executive Officer, and seven other non-executive directors (three non-independent directors and four independent directors). The company has a separate Chairman and Chief Executive Officer to ensure that the balance of responsibilities, accountabilities and decision making are effectively maintained.

A biography for each director can be found on the company's website at <https://www.scottishpower.com/pages/composition.aspx>. The Board is structured to have an appropriate balance of skills, background, knowledge and experience.

There is no separate appointments committee within ScottishPower. Instead, appointment matters relevant to ScottishPower and the company are dealt with by the Iberdrola, S.A. Appointments Committee ("IAC"). The IAC has a function to report on the process of selection of directors and senior managers of the Iberdrola group companies.

#### Purpose and values

The structure of the company, and its group, is set out in the 'Who we are' section of the Strategic Report.

During 2019, the Board resolved to adopt the latest version of the Purpose and Values of the Iberdrola Group and the Code of Ethics (published at [https://www.scottishpower.com/pages/corporate\\_policies.aspx](https://www.scottishpower.com/pages/corporate_policies.aspx)). These documents define and promote the purpose, values and culture of the company and its group.

#### Director responsibilities

The directors are fully aware on their duties under the Companies Act 2006, including as set out in section 172 of the same. The primary responsibilities of the Board, which has its own management team, is to (i) disclose, implement and ensure compliance with the policies, strategies and general guidelines of the company's group, and (ii) to own Scottish Power UK plc which centralises the provision of common corporate services to the three Head of Business Sub-holding companies, in accordance at all times with the provisions of all applicable legislation and regulations.

Further information on the administrative, management and supervisory bodies of the board are described in the section below.

The Head of Business Sub-holding companies have their own boards of directors which have the necessary autonomy to carry out the day-to-day management and effective administration of their respective divisions, as well as responsibility for their ordinary control.

Further information on the administrative, management and supervisory bodies of the boards of the three Head of Business Sub-holding companies are described in the section below.

#### Opportunity and risk

The delivery of ScottishPower's strategy requires the group to conduct business in a manner benefitting customers through balancing cost and risk while delivering shareholder value and protecting our performance and reputation by prudently managing the risk inherent in the business.

To maintain this strategic direction, we develop and implement risk management policies and procedures and promotes a robust control environment at all levels of the organisation. Details of the risk policies which were adopted by the Board are published at [https://www.scottishpower.com/pages/risk\\_policies.aspx](https://www.scottishpower.com/pages/risk_policies.aspx).

During 2019, the governance structure was supported by risk policies considered and adopted by the Board. Our business risk assessment team and independent group risk management function supported the Board in the execution of due diligence and risk management, as described in the 'Group Principal Risks and Uncertainties' and business-division specific 'Principal Risks and Uncertainties' sections of the Strategic Report.

#### Remuneration

The directors of the company are subject to an annual evaluation of their performance in respect of their executive responsibilities as part of the performance management framework which is in place throughout ScottishPower.

There is no separate Remuneration Committee within ScottishPower. Instead, remuneration matters relevant to ScottishPower and the company are dealt with and reviewed by the Iberdrola, S.A. Remuneration Committee ("IRC"). The IRC has a function to report on the remuneration of directors and senior managers of the Iberdrola group companies.

## Directors' Report *continued*

### CORPORATE GOVERNANCE *continued*

#### Stakeholders

The Board fully recognises that effective and meaningful engagement with stakeholders is key to promoting the success of the company. The details of our key stakeholders, why they are important to the company, and how we engage with our stakeholders are an integral part of our strategic goals and are described in the 'Our strategy' section in the Strategic Report.

ScottishPower identifies and interacts with its stakeholders via its three principal business divisions. Please refer to the Energy Networks, Renewables, and Energy Retail and Wholesale sections of the Strategic Report for further information on these business divisions respective engagement with their specific stakeholders. In particular, refer to the 'Engaging with stakeholders' section of the Strategic Report which sets out the Board's oversight of the consideration given to the company's, and its group's, engagement with key stakeholders.

#### Administrative, management and supervisory bodies

##### Scottish Power Limited Board

The Board comprised the Chairman José Ignacio Sánchez Galán and nine other directors as at 31 December 2019. José Ignacio Sánchez Galán is also the Chairman and Chief Executive Officer of Iberdrola.

The directors of the Board were:

José Ignacio Sánchez Galán	Chairman, non-independent, non-executive director
Lord Kerr of Kinlochard GCMG	Vice Chairman, independent, non-executive director
Keith Anderson	CEO
Juan Carlos Rebollo Liceaga	Non-independent, non-executive director
José Sainz Armada	Non-independent, non-executive director
Gerardo Codes Calatrava	Non-independent, non-executive director (appointed 11 December 2019)
Suzanne Fox	Independent, non-executive director
Iñigo Fernández de Mesa Vargas	Independent, non-executive director
Professor Sir James McDonald	Independent, non-executive director
Dame Nicola Brewer	Independent, non-executive director

Meetings of the Board were held on five occasions during the year under review. Attendance by the directors was as follows:

José Ignacio Sánchez Galán	Attended all meetings
Lord Kerr of Kinlochard GCMG	Attended all meetings
Keith Anderson	Attended all meetings
Juan Carlos Rebollo Liceaga	Attended all meetings
José Sainz Armada	Attended four meetings
Gerardo Codes Calatrava	Attended one meeting
Suzanne Fox	Attended all meetings
Iñigo Fernández de Mesa Vargas	Attended all meetings
Professor Sir James McDonald	Attended four meetings
Dame Nicola Brewer	Attended all meetings

##### ScottishPower Limited Audit and Compliance Committee ("SP ACC")

The SP ACC, a permanent internal body, has an informative and consultative role, without executive functions, with powers of information, assessment and presentation of proposals to the Board within its scope of action, which is governed by the Articles of Association of the company and by the terms of reference of the SP ACC.

The SP ACC's responsibilities include:

- monitoring the financial reporting process for ScottishPower;
- monitoring the effectiveness of ScottishPower's internal control, internal audit, compliance and risk management systems;
- monitoring the statutory audit of the Annual Report and Accounts of ScottishPower; and
- monitoring the independence of the external auditor and recommending to the Board the appointment or reappointment of the auditor and the associated terms of engagement

The SP ACC's terms of reference are published at: [www.scottishpower.com/pages/audit\\_and\\_compliance\\_committee.aspx](http://www.scottishpower.com/pages/audit_and_compliance_committee.aspx).

##### Membership and attendance

The SP ACC met five times during the year under review. The members of the SP ACC and their attendance record are shown below:

Professor Sir James McDonald, Chairman (external independent director)	Attended all meetings
Dame Nicola Brewer (external independent director)	Attended all meetings
Juan Carlos Rebollo Liceaga (internal non-independent director)	Attended four meetings
Iñigo Fernández de Mesa Vargas (external independent director)	Attended all meetings.

In addition to the attendance set out above, the ScottishPower Control and Administration Director, Head of Internal Audit, and the Compliance Director normally attend, by invitation, all meetings of the SP ACC. Other members of senior management are also invited to attend as appropriate. During the year under review, the external auditor attended four meetings of the SP ACC.

## Directors' Report *continued*

### CORPORATE GOVERNANCE *continued*

#### Matters considered by the SP ACC during 2019

The issues that the SP ACC specifically addressed are detailed in its report which is published at: [www.scottishpower.com/pages/activities\\_report\\_of\\_the\\_audit\\_and\\_compliance\\_committee.aspx](http://www.scottishpower.com/pages/activities_report_of_the_audit_and_compliance_committee.aspx).

#### ScottishPower Management Committee ("SPMC")

The SPMC is a permanent internal body, without executive function, which was established by the Board to provide an informative and coordinating role for the activities of ScottishPower. In accordance with the corporate governance arrangements of the group and the separation of regulated activities, the SPMC does not exercise any executive function as a decision-making body. The SPMC meets weekly and receives regular information on the activities of ScottishPower in order to support the corporate functions and lines of business in understanding the local, legal, regulatory and market specifics in the UK and in order to assist the ScottishPower Chief Executive Officer ("CEO") in the performance of his duties. The SPMC comprises the following executives: the CEO; the directors of Control and Administration, Corporate Affairs, Human Resources, and UK Purchasing; the CEO of the regulated business division (Energy Networks); the CEO of the Renewables business division and the Global Managing Director of Renewables Offshore; the CEO of the Retail business division; and General Counsel and Secretary to the Board.

#### Boards of the Head of Business Sub-holding Companies

The boards of Scottish Power Energy Networks Holdings Limited ("SPENH"), ScottishPower Renewable Energy Limited ("SPREL") and Scottish Power Retail Holdings Limited ("SPRH") are responsible for the effective management of the regulated, Renewables and Liberalised business divisions respectively, in accordance with the strategy set by the Board. These boards meet regularly and review strategy, operational performance and risk issues on behalf of the respective businesses.

#### SPENH Board

The SPENH Board comprised the Chairman Armando Martínez Martínez and seven other directors as at 31 December 2019. The directors and their attendance at SPENH Board meetings held during the period under review (six meetings) are shown below:

Armando Martínez Martínez (Chairman, non-independent, non-executive director)	Attended all meetings
Frank Mitchell (Chief Executive Officer)	Attended all meetings
Antonio Espinosa de los Monteros (non-independent, non-executive director)	Attended all meetings
José Izaguirre Nazar (non-independent, non-executive director)	Attended all meetings
Scott Mathieson (non-independent, executive director)	Attended all meetings
Wendy Barnes (independent, non-executive director)	Attended all meetings
Alison McGregor (independent, non-executive director)	Attended all meetings
Professor Dame Lesley Anne Glover (independent, non-executive director)	Attended three meetings (appointed 3 July 2019)

The terms of reference of the SPENH Board are published at: [www.scottishpower.com/userfiles/file/SPENH-Terms%20of-Reference-Board-Directors-130603.pdf](http://www.scottishpower.com/userfiles/file/SPENH-Terms%20of-Reference-Board-Directors-130603.pdf)

The SPENH Audit and Compliance Committee ("SPENH ACC") undertakes the role and function of the SP ACC as they relate to the regulated Networks business division. The relationship between the SP ACC and the SPENH ACC is governed in accordance with their respective terms of reference. The SPENH ACC's terms of reference are published at: [www.spenergynetworks.co.uk/userfiles/file/Terms\\_of\\_Reference\\_of\\_the\\_Audit\\_and\\_Compliance\\_Committee.pdf](http://www.spenergynetworks.co.uk/userfiles/file/Terms_of_Reference_of_the_Audit_and_Compliance_Committee.pdf)

The SPENH ACC met five times during the year under review. The members of the SPENH ACC and their attendance record are shown below:

Wendy Barnes, Chairperson (external independent director)	Attended all meetings
Alison McGregor (external independent director)	Attended all meetings
José Izaguirre Nazar (internal non-independent director)	Attended all meetings

#### SPREL Board

The SPREL Board comprised the Chairman Xabier Viteri Solaun and six other directors as at 31 December 2019. The directors and their attendance at SPREL board meetings held during the period under review (five meetings) are shown below:

Xabier Viteri Solaun (Chairman, non-independent, non-executive director)	Attended all meetings
Lindsay McQuade (Chief Executive Officer)	Attended all meetings
Jonathan Cole (non-independent, executive director)	Attended all meetings
Javier García de Fuentes Churrua (non-independent, non-executive director)	Attended four meetings (resigned 2 December 2019)
Rafael de Icaza de la Sota (non-independent, non-executive director)	Attended four meetings (resigned 2 December 2019)
David Wark (non-independent, non-executive director)	Attended one meeting (appointed 2 December 2019)
Marion Shepherd Venman (non-independent, non-executive director)	Attended one meeting (appointed 2 December 2019)
Charles Langan (non-independent, non-executive director)	Attended one meeting (appointed 2 December 2019)
Lena Wilson (independent, non-executive director)	Attended all meetings

The terms of reference of the SPREL Board are published at: [www.scottishpower.com/userfiles/file/Renewables-ToRs-Board-Directors-130603.pdf](http://www.scottishpower.com/userfiles/file/Renewables-ToRs-Board-Directors-130603.pdf)

## Directors' Report *continued*

### CORPORATE GOVERNANCE *continued*

#### SPRH Board

The SPRH Board comprised the Chairman Aitor Moso Raigoso and four other directors as at 31 December 2019. The directors and their attendance at SPRH Board meetings held during the period under review (five meetings) are shown below:

Aitor Moso Raigoso (Chairman, non-independent, non-executive director)	Attended all meetings
Andrew Ward (Chief Executive Officer)	Attended one meeting (appointed 27 November 2019)
Colin McNeil (non-independent, executive director)	Attended two meetings (resigned 1 November 2019)
Neil Clitheroe (non-independent, executive director)	Attended two meetings (resigned 30 June 2019)
Valerie Sim (non-independent, executive director)	Attended three meetings (resigned 27 November 2019)
Óscar Fortis Pita (non-independent, non-executive director)	Attended one meeting (resigned 31 January 2019)
Heather Chalmers (non-independent, executive director)	Attended one meeting (resigned 31 January 2019)
Félix Rojo Sevillano (non-independent, non-executive director)	Attended four meetings (resigned 27 November 2019)
Gregorio Relaño Cobián (non-independent, non-executive director)	Attended three meetings (resigned 27 November 2019)
David Wark (non-independent, non-executive director)	Attended one meeting (appointed 27 November 2019)
Marion Shepherd Venman (non-independent, non-executive director)	Attended one meeting (appointed 27 November 2019)
David Gracia Fabre (non-independent, non-executive director)	Attended one meeting (appointed 27 November 2019)

The terms of reference of the SPRH Board are published at: [www.scottishpower.com/userfiles/file/SPGHL-Terms-of-Reference-Board-Directors-140224.pdf](http://www.scottishpower.com/userfiles/file/SPGHL-Terms-of-Reference-Board-Directors-140224.pdf).

#### Directors' indemnity

In terms of the company's Articles of Association, a qualifying indemnity provision is in force for the benefit of all the directors of the company and of associated companies 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 both the group and the parent company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union as at the date of approval of these Accounts and which are mandatory for the financial year ended 31 December 2019 ("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 group and parent company and of their profit or loss for that period. In preparing each of the group and parent company 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 group and parent 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 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 parent company's and group's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and the group and enable them to ensure that their 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 the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and Directors' Report that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of the financial statements differ from legislation in other jurisdictions.

#### Disclosure of information to auditor

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 re-appointed as the auditor of the company for the period ended 31 December 2019.

#### BY ORDER OF THE BOARD



Marion S Venman  
Secretary  
5 March 2020



# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SCOTTISH POWER LIMITED

## OPINION

We have audited the financial statements of Scottish Power Limited ("the company") for the year ended 31 December 2019 which comprises the consolidated and company balance sheets, consolidated income statement, consolidated statement of comprehensive income, consolidated and company statements of changes in equity, consolidated and company cash flow statements and related notes, including the accounting policies in Note 3.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements 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 group 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.

## THE IMPACT OF UNCERTAINTIES DUE TO THE UK EXITING THE EUROPEAN UNION ON OUR AUDIT

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as the valuation of retirement benefit obligations and the valuation of accrued ('unbilled') revenue and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

## GOING CONCERN

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the group or the company or to cease their operations, and as they have concluded that the group and the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

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 a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the group's business model, including the impact of Brexit, and analysed how those risks might affect the group and company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the company will continue in operation.

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

We have nothing to report in these respects.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SCOTTISH POWER LIMITED *continued*

### **DIRECTORS' RESPONSIBILITIES**

As explained more fully in their statement set out on page 30, 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 group and parent 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 group or the parent 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](http://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.



**Phillip Charles (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
319 St. Vincent Street  
Glasgow  
G2 5AS  
5 March 2020

SCOTTISH POWER LIMITED  
CONSOLIDATED BALANCE SHEET  
at 31 December 2019

	Notes	2019 £m	2018 £m
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Intangible assets		621.3	611.0
Goodwill	5	364.6	364.6
Other intangible assets	5	256.7	246.4
Property, plant and equipment		14,039.1	12,937.6
Property, plant and equipment in use	6	11,880.1	10,935.4
Property, plant and equipment in the course of construction	6	2,159.0	2,002.2
Right-of-use assets	7	413.5	–
Financial assets		60.0	96.0
Investments in joint ventures	8	7.8	6.9
Other investments	9	4.4	5.4
Derivative financial instruments	9	47.8	83.7
Trade and other receivables	10	92.2	72.4
<b>NON-CURRENT ASSETS</b>		<b>15,226.1</b>	<b>13,717.0</b>
<b>CURRENT ASSETS</b>			
Inventories	11	963.3	770.6
Trade and other receivables	10	1,093.2	974.7
Financial assets		74.6	150.7
Derivative financial instruments	9	74.6	150.7
Cash and short-term deposits	9	199.4	882.5
<b>CURRENT ASSETS</b>		<b>2,330.5</b>	<b>2,778.5</b>
<b>TOTAL ASSETS</b>		<b>17,556.6</b>	<b>16,495.5</b>

SCOTTISH POWER LIMITED  
CONSOLIDATED BALANCE SHEET *continued*  
at 31 December 2019

	Notes	2019 £m	2018 £m
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Of shareholders of the parent	12	6,527.5	6,362.2
Share capital	12, 13	1,779.1	1,779.1
Share premium	12	2,881.0	2,881.0
Hedge reserve	12	(166.1)	98.5
Other reserves	12	737.6	737.6
Retained earnings	12	1,295.9	866.0
Of non-controlling interests	14	866.3	1.0
<b>TOTAL EQUITY</b>		<b>7,393.8</b>	<b>6,363.2</b>
<b>NON-CURRENT LIABILITIES</b>			
Deferred income	15	1,266.6	1,213.0
Provisions		970.0	728.7
Provisions for retirement benefit obligations	16	651.7	512.7
Other provisions	17	318.3	216.0
Bank borrowings and other financial liabilities		4,437.9	3,341.3
Loans and other borrowings	18	4,423.1	3,337.7
Derivative financial instruments	9	14.8	3.6
Lease liabilities	7	420.4	–
Trade and other payables	19	6.9	35.3
Deferred tax liabilities	20	691.1	746.0
<b>NON-CURRENT LIABILITIES</b>		<b>7,792.9</b>	<b>6,064.3</b>
<b>CURRENT LIABILITIES</b>			
Provisions	17	346.7	344.9
Bank borrowings and other financial liabilities		435.9	2,222.3
Loans and other borrowings	18	165.1	2,122.9
Derivative financial instruments	9	270.8	99.4
Lease liabilities	7	30.6	–
Trade and other payables	19	1,525.6	1,460.2
Current tax liabilities		31.1	40.6
<b>CURRENT LIABILITIES</b>		<b>2,369.9</b>	<b>4,068.0</b>
<b>TOTAL LIABILITIES</b>		<b>10,162.8</b>	<b>10,132.3</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>17,556.6</b>	<b>16,495.5</b>

Authorised for issue by the Board and signed on its behalf on 5 March 2020.



Keith Anderson  
Director

The accompanying Notes 1 to 34 are an integral part of the consolidated balance sheet at 31 December 2019.

SCOTTISH POWER LIMITED  
CONSOLIDATED INCOME STATEMENT  
for the year ended 31 December 2019

	Notes	2019 £m	2018 £m
<b>CONTINUING OPERATIONS</b>			
Revenue	21	5,124.5	4,995.4
Procurements		(2,766.1)	(2,671.9)
<b>GROSS MARGIN</b>		<b>2,358.4</b>	<b>2,323.5</b>
<b>NET OPERATING EXPENSES</b>		<b>(674.6)</b>	<b>(625.5)</b>
Net personnel expenses	22	(228.7)	(233.4)
Staff costs	22	(383.4)	(391.2)
Capitalised staff costs	22	154.7	157.8
Net external services		(445.9)	(392.1)
External services		(493.7)	(478.1)
Other operating income		47.8	86.0
Taxes other than income tax	23	(201.8)	(187.3)
<b>GROSS OPERATING PROFIT</b>		<b>1,482.0</b>	<b>1,510.7</b>
Impairment losses on trade and other receivables		(70.5)	(59.5)
Depreciation and amortisation charge, allowances and provisions	24	(589.0)	(513.0)
<b>OPERATING PROFIT</b>		<b>822.5</b>	<b>938.2</b>
Result of companies accounted for using the equity method	8	0.9	1.3
Gains on disposal of non-current assets		1.2	1.4
Finance income	25	11.6	5.7
Finance costs	26	(207.2)	(183.1)
<b>PROFIT BEFORE TAX</b>		<b>629.0</b>	<b>763.5</b>
Income tax	27	(113.4)	(148.7)
<b>NET PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS</b>		<b>515.6</b>	<b>614.8</b>
<b>DISCONTINUED OPERATIONS</b>			
Profit from discontinued operation, net of tax	28	10.3	190.8
<b>NET PROFIT FOR THE YEAR</b>		<b>525.9</b>	<b>805.6</b>
Non-controlling interests	14	(3.2)	(0.3)
<b>NET PROFIT FOR THE YEAR ATTRIBUTABLE TO THE PARENT</b>		<b>522.7</b>	<b>805.3</b>

The accompanying Notes 1 to 34 are an integral part of the consolidated income statement for the year ended 31 December 2019.

**SCOTTISH POWER LIMITED**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
for the year ended 31 December 2019

	Note	2019 £m	2018 £m
<b>NET PROFIT FOR THE YEAR</b>		<b>525.9</b>	<b>805.6</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Items that may be subsequently reclassified to the income statement:</b>			
Cash flow hedges:			
Change in the value of cash flow hedges	12	(287.6)	13.9
Tax relating to cash flow hedges	12	52.1	(2.7)
		<b>(235.5)</b>	<b>11.2</b>
<b>Items that will not be reclassified to the income statement:</b>			
Actuarial losses on retirement benefits:			
Actuarial losses on retirement benefits	12	(252.7)	(48.2)
Tax relating to actuarial losses on retirement benefits	12	36.9	8.2
Cash flow hedges:			
Change in the value of cash flow hedges	12	(25.3)	1.6
Tax relating to cash flow hedges	12	4.5	(0.3)
		<b>(236.6)</b>	<b>(38.7)</b>
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>(472.1)</b>	<b>(27.5)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>53.8</b>	<b>778.1</b>
Total comprehensive income for the year attributable to equity holders of the parent		57.0	777.8
Total comprehensive income for the year attributable to non-controlling interests		(3.2)	0.3
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>53.8</b>	<b>778.1</b>
Continuing operations		46.7	586.7
Discontinued operations		10.3	191.1
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>		<b>57.0</b>	<b>777.8</b>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
for the year ended 31 December 2019

	Attributable to equity holders of the parent					Non-controlling interests £m	Total equity £m
	Share capital £m	Share premium £m	Hedge reserve £m	Other reserves £m	Retained earnings £m		
At 1 January 2018	1,779.1	2,881.0	86.0	743.3	496.7	5,986.1	0.9 5,987.0
Total comprehensive income for the year	-	-	12.5	-	765.3	777.8	0.3 778.1
Realisation of revaluation reserve	-	-	-	(5.7)	-	(5.7)	- (5.7)
Dividends	-	-	-	-	(396.0)	(396.0)	(0.2) (396.2)
At 1 January 2019	1,779.1	2,881.0	98.5	737.6	866.0	6,362.2	1.0 6,363.2
Adjustments due to IFRS 16 (refer to Note 281.1)	-	-	-	-	(1.9)	(1.9)	- (1.9)
Adjusted balance at 1 January 2019	1,779.1	2,881.0	98.5	737.6	864.1	6,360.3	1.0 6,361.3
Total comprehensive income for the year	-	-	(249.9)	-	306.9	57.0	(3.2) 53.8
Gain on partial disposal of subsidiary (refer to Note 14)	-	-	(14.7)	-	466.9	452.2	- 452.2
Movements in non-controlling interest (refer to Note 14)	-	-	-	-	-	- 868.5	- 868.5
Dividends	-	-	-	-	(342.0)	(342.0)	- (342.0)
<b>At 31 December 2019</b>	<b>1,779.1</b>	<b>2,881.0</b>	<b>(166.1)</b>	<b>737.6</b>	<b>1,295.9</b>	<b>6,527.5</b>	<b>866.3 7,393.8</b>

The accompanying Notes 1 to 34 are an integral part of the consolidated statement of comprehensive income and the consolidated statement of changes in equity for the year ended 31 December 2019.

**SCOTTISH POWER LIMITED**  
**CONSOLIDATED CASH FLOW STATEMENT**  
for the year ended 31 December 2019

	2019 £m	2018 £m
Cash flows from operating activities		
Profit before tax – continuing operations	629.0	763.5
Profit before tax – discontinued operations	12.7	186.3
<b>Total profit before tax</b>	<b>641.7</b>	<b>949.8</b>
Adjustments for:		
Depreciation, amortisation and impairment	581.4	557.9
Research and development expenditure credit	(0.8)	(2.7)
Change in provisions (including share scheme costs)	501.1	481.4
Result of companies accounted for using the equity method	(0.9)	(1.3)
Transfer of assets from customers	(41.5)	(39.2)
Finance income and costs	195.6	182.0
Net losses on disposal/write-off non-current assets	6.1	1.8
Gain on disposal of subsidiaries (pre-transaction costs)	–	(177.1)
Movement in retirement benefits	(125.2)	(107.6)
Net fair value gains on operating derivatives	(11.1)	(6.5)
Movement in deferred income	(0.3)	(0.1)
Movement in plant maintenance stocks	–	2.3
Changes in working capital:		
Change in trade and other receivables	(106.2)	(139.9)
Change in inventories	(657.0)	(818.1)
Change in trade and other payables	(29.4)	107.2
Provisions paid	(98.0)	(15.3)
Assets received from customers	93.4	65.3
Income taxes paid	(86.2)	(63.7)
<b>Net cash flows from operating activities (I)</b>	<b>862.7</b>	<b>976.2</b>
Cash flows from investing activities		
Interest received	3.0	2.6
Dividends received	0.2	0.2
Investments in intangible assets	(103.2)	(92.1)
Investments in property, plant and equipment (net of capital grants)	(1,340.5)	(1,149.1)
Investments in other non-current investments	(1.9)	(2.1)
Proceeds from disposal of property, plant and equipment	25.5	3.9
Proceeds received from disposal of subsidiaries	4.8	686.9
Decrease in amounts due from Iberdrola group companies – current loans receivable	–	29.0
<b>Net cash flows from investing activities (II)</b>	<b>(1,412.1)</b>	<b>(520.7)</b>
Cash flows from financing activities		
(Decrease)/increase in amounts due to Iberdrola group companies – current loans payable	(1,970.7)	906.2
Increase in amounts due to Iberdrola group companies – non-current loans payable	759.2	–
Cash inflows from borrowings (including loan with joint venture)	346.6	7.2
Share capital of subsidiary issued to non-controlling interest	173.1	–
Dividends paid to company's equity holders	(342.0)	(396.0)
Dividends paid to non-controlling interests	–	(0.2)
Proceeds from partial disposal of subsidiary	1,135.4	–
Transaction costs paid on partial disposal of subsidiary	(14.2)	–
Interest paid	(190.3)	(170.5)
Repayments of borrowing	(5.5)	–
Payments of lease liabilities	(25.4)	–
<b>Net cash flows from financing activities (III)</b>	<b>(133.8)</b>	<b>346.7</b>
<b>Net (decrease)/increase in cash and cash equivalents (I)+(II)+(III)</b>	<b>(683.2)</b>	<b>802.2</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>882.5</b>	<b>80.3</b>
<b>Cash and cash equivalents at end of year</b>	<b>199.3</b>	<b>882.5</b>
Cash and cash equivalents at end of year comprises:		
Consolidated balance sheet cash and short-term deposits	199.4	882.5
Bank overdraft	(0.1)	–
<b>Consolidated cash flow statement cash and cash equivalents</b>	<b>199.3</b>	<b>882.5</b>

The accompanying Notes 1 to 34 are an integral part of the consolidated cash flow statement for the year ended 31 December 2019.

# NOTES TO THE CONSOLIDATED ACCOUNTS

31 December 2019

## 1 GROUP ACTIVITIES

### A. COMPANY INFORMATION

ScottishPower's holding company is Scottish Power Limited (registered company number SC193794), a private company limited by shares. It is incorporated in Scotland and its registered address is 320 St. Vincent Street, Glasgow, Scotland, G2 5AD.

### B. GROUP INFORMATION

ScottishPower provides electricity transmission and distribution services in the UK and conducts renewable energy activities across the UK and Republic of Ireland. In addition, it supplies gas and electricity to homes and businesses principally across the UK, operates gas storage facilities and undertakes associated energy management activities in the UK. Until 31 December 2018, ScottishPower also operated a portfolio of Combined Cycle Gas Turbine ("CCGT") and hydro-electric power stations.

For management purposes, ScottishPower operated three principal business divisions during the year: Energy Networks, Renewables and Energy Retail and Wholesale.

#### Energy Networks

The transmission and distribution businesses within ScottishPower's authorised area in the south of Scotland and the distribution business of Manweb operating in Cheshire, Merseyside, North Shropshire and North Wales.

#### Renewables

The origination, development, construction and operation of renewable energy generation assets and the generation and sale of primarily electricity and Renewable Obligations Certificates ("ROCs") from those assets.

#### Energy Retail and Wholesale

The sale of electricity to market participants in the UK and the sale of electricity and gas to industrial and domestic customers, together with related billing and collection activities. Also, the management of the group's exposure to the UK wholesale electricity and gas markets for Energy Retail and Renewables and the optimisation of gas storage. Until 31 December 2018, the business division was also engaged in the generation of electricity from ScottishPower's own power stations and the purchase of external supplies of gas for the generation of electricity.

## 2 BASIS OF PREPARATION

### A. BASIS OF PREPARATION OF THE ACCOUNTS

The company is required by law to prepare accounts for the company and to deliver them to the Registrar of Companies. ScottishPower also chooses to prepare consolidated accounts for the Scottish Power Limited group. Both the group (being these consolidated Accounts) and the company's individual Accounts, have been prepared in accordance with International Financial Reporting Standards, 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 2019 (IFRSs as adopted by the EU). Both the group and company Accounts are prepared in accordance with the Accounting Policies set out in Note 3. Monetary amounts are presented in pounds Sterling and are rounded to the nearest hundred thousand unless otherwise indicated. The group and company accounts are prepared on the historical cost basis apart from certain financial assets and liabilities which are measured at fair value.

### B. ACCOUNTING STANDARDS

#### B1. IMPACT OF NEW IFRS

In preparing these Accounts, the group has applied all relevant International Accounting Standards ("IAS"), International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") (collectively referred to as IFRS) 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 2019.

For the year ended 31 December 2019, the group has applied the following amendments for the first time:

Standard	Notes
• IFRS 16 'Leases'	(a)
• IFRIC 23 'Uncertainty over Income Tax Treatments'	(b)
• Amendments to IFRS 9 'Financial Instruments: Prepayment Features with Negative Compensation'	(b)
• Amendments to IAS 28 'Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures'	(b)
• Annual Improvements to IFRS Standards 2015-2017 Cycle	(b)
• Amendments to IAS 19 'Employee Benefits: Plan Amendment, Curtailment or Settlement'	(b)

(a) Refer to Note 2B1.1 for further information.

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



## NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

### 2 BASIS OF PREPARATION *continued*

#### B. ACCOUNTING STANDARDS *continued*

##### B1. IMPACT OF NEW IFRS *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 group:

Standard	Notes	IASB effective date (for periods commencing on or after)	Planned date of application by the group
• Amendments to References to the Conceptual Framework in IFRS Standards	(c)	1 January 2020	1 January 2020
• Amendments to IFRS 3 'Business Combinations'	(c), (d)	1 January 2020	1 January 2020
• Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors': 'Definition of Material'	(c)	1 January 2020	1 January 2020
• Amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Recognition and Measurement', and IFRS 7 'Financial Instruments: Disclosures': 'Interest Rate Benchmark Reform'	(c)	1 January 2020	1 January 2020
• IFRS 17 'Insurance Contracts'	(c), (d)	1 January 2021	1 January 2021
• Amendments to IAS 1 'Presentation of Financial Statements': 'Classification of Liabilities as Current or Non-current'	(c), (d)	1 January 2022	To be decided
• IFRS 14 'Regulatory Deferral Accounts'	(c), (d), (e)	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), (d), (f)	Deferred indefinitely	To be decided

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

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

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

(f) The 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.

##### B1.1 EFFECT OF INITIAL APPLICATION OF IFRS 16

The group applied IFRS 16 'Leases' ("IFRS 16") with a date of initial application of 1 January 2019. The group applied IFRS 16 using the modified retrospective approach; under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17 'Leases' ("IAS 17") and IFRIC 4 'Determining Whether an Arrangement Contains a Lease' ("IFRIC 4"). The details of the resultant changes in the group's accounting policy for lease contracts are disclosed below.

Previously the group determined at contract inception whether an arrangement was, or contained, a lease under IFRIC 4. Under IFRS 16, the group assesses whether a contract is, or contains, a lease based on the definition of a lease, as explained in Note 3.F1. On transition to IFRS 16, the group reassessed all of its existing contracts to determine whether each contract is, or contains, a lease applying the requirements of IFRS 16.

##### Lessee

As a lessee, the group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the group. Under IFRS 16, the group recognises right-of-use assets and lease liabilities for leases i.e. these leases are on-balance sheet.

The group decided to apply the recognition exemption to certain short-term leases. For leases of all assets which were classified as operating under IAS 17, the group has recognised right-of-use assets and lease liabilities. On initial application of IFRS 16, lease liabilities have been measured at the present value of the remaining lease payments and discounted at the group's incremental borrowing rate as at 1 January 2019.

Right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet immediately before the date of initial application.

When applying IFRS 16 to certain leases previously classified as operating leases under IAS 17, the group used the practical expedient to adjust the right-of-use asset at the date of initial application by the amount of any provision for onerous leases recognised in the balance sheet immediately before the date of initial application (in line with the requirements of IAS 37 'Provisions, contingent liabilities and contingent assets') as an alternative to an impairment review. This resulted in a reduction in provisions of £2.0 million, a reduction in the right-of-use assets of £3.9 million and a reduction to retained earnings of £1.9 million.

On transition to IFRS 16, the group recognised £407.8 million of right-of-use assets and £441.3 million of lease liabilities. The difference primarily relates to lease incentives (refer to Note 19(c)). When measuring lease liabilities, the group discounted lease payments using its incremental borrowing rate at 1 January 2019. The discount rates used to calculate the below pertaining to Sterling was in the range of 1.12% to 4.94%.

## NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

### 2 BASIS OF PREPARATION *continued*

#### B. ACCOUNTING STANDARDS *continued*

##### B1. IMPACT OF NEW IFRS *continued*

##### B1.1 EFFECT OF INITIAL APPLICATION OF IFRS 16 *continued*

	1 January 2019 £m
Operating lease commitment at 31 December 2018 (discounted using interest rate at lease commencement) (as disclosed in Note 7(c))	363.9
Operating lease commitment at 31 December 2018 (discounted using the incremental borrowing rate at 1 January 2019)	345.6
Lease agreements newly in scope at 1 January 2019	95.7
<b>Lease liabilities recognised at 1 January 2019</b>	<b>441.3</b>

#### Lessor

For leases in which the group acts as a lessor, the group is not required to make any adjustments on transition to IFRS 16 except for sub-leases. The group accounted for its leases in accordance with IFRS 16 from the date of initial application. Under IFRS 16, the group is required to assess the classification of its sub-leases ongoing at the date of initial application with reference to the right-of-use asset arising from the head lease, not the underlying asset. On transition, and following reassessment, the group will continue to classify all sub-lease contracts previously classified as an operating lease under IAS 17 as operating leases under IFRS 16.

#### C. ENERGY COMPANIES OBLIGATION

The ECO scheme 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 multi-annual 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.

On 3 December 2018, the UK Government approved the 'ECO 3' obligation which runs from December 2018 until 31 March 2022. ECO 3 focuses on low income and vulnerable households, helping to meet the UK Government's fuel poverty commitments.

ScottishPower considers that the appropriate accounting treatment is prescribed by IAS 37 as this obligation complies with the three features to be considered for a provision (present obligation, probable outflow 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, indicated that the expenditure should be recognised as the assigned measures are being implemented, regardless of the rate at which energy is supplied to the domestic customers. The external auditor has determined that this is the only accounting treatment which is acceptable.

Based on the FRC staff paper and the opinion of the external auditor, ScottishPower has recorded the expense in its financial statements as the measures were actually implemented during the year. This accounting treatment involves recording a £14.3 million (2018 £16.6 million) reduction 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.

#### D. BASIS OF CONSOLIDATION

The consolidated Accounts incorporate the Accounts of the company and its subsidiaries to 31 December each year.

Subsidiaries are those entities which ScottishPower has the right to control, generally where a shareholding confers more than half of the voting rights.

On acquisition, the assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. The cost of an acquisition is measured at the fair value of any assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the fair value of the net assets acquired is in excess of the cost of acquisition, the group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed, and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of the net assets acquired over the cost of acquisition, then the gain is recognised in profit or loss.

The interest of non-controlling shareholders is initially stated at the non-controlling party's proportion of the fair values of the assets and liabilities recognised. Changes in ScottishPower's ownership interest in a subsidiary that does not result in ScottishPower losing control, are treated as equity transactions.

In accordance with the exemption permitted by IFRS 1 'First-time Adoption of International Financial Reporting Standards', business combinations accounted for prior to the group's date of transition to IFRS on 1 April 2004 have not been restated to comply with IFRS 3 'Business Combinations'.

The results of subsidiaries acquired or disposed of during the year are included in the income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

For the consolidated group, intra-group transfers of subsidiaries within the Iberdrola group, but outwith the Scottish Power Limited group, are deemed to be business combinations under common control. These transactions are accounted for using the pooling of interests method. The results for the subsidiaries transferred are included in the income statement from the effective date of acquisition. The net assets incorporated at the date of acquisition reflect the book value of each of the subsidiaries included in the Iberdrola consolidated financial statements, the highest entity that has common control for which consolidated IFRS financial statements are prepared.

## NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

### 3 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES

In determining and applying accounting policies, judgement is often required in respect of items which have a significant effect on the reported amounts of assets, liabilities, income and expenses recognised in the financial statements, other than those involving estimates; the group has no such judgements. At 31 December 2019, assumptions made about the future and other major sources of estimation uncertainty which have significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities in the next financial year are detailed below:

- Retirement benefit obligation – Note 3K and Note 16(e);
- Accrued 'unbilled' revenue – Note 21(b);
- Impairment losses on Energy Retail trade receivables – Note 3H1.2(c) and Note 9(e); and
- Decommissioning costs – Note 3L and Note 17.

The principal accounting policies applied in preparing the group's consolidated Accounts and, where applicable, the company's Accounts, are set out below. 'The company' refers to Scottish Power Limited.

- A. REVENUE
- B. PROCUREMENTS
- C. GOODWILL
- D. OTHER INTANGIBLE ASSETS
- E. PROPERTY, PLANT AND EQUIPMENT
- F. LEASED ASSETS
- G. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS (EXCLUDING GOODWILL)
- H. FINANCIAL INSTRUMENTS
- I. INVENTORIES (EXCLUDING ROCs)
- J. ROCs
- K. RETIREMENT BENEFITS
- L. DECOMMISSIONING COSTS
- M. FOREIGN CURRENCIES
- N. TAXATION
- O. INVESTMENTS
- P. CASH AND CASH EQUIVALENTS
- Q. DISCONTINUED OPERATIONS

#### A. REVENUE

Information about the group's accounting policies and estimates in relation to contracts with customers is provided in Note 21.

#### B. PROCUREMENTS

Procurements principally comprises the cost of electricity and gas purchased during the year in relation to energy supply (and until 31 December 2018, for thermal generation) and related direct costs and services.

#### C. GOODWILL

Goodwill represents the excess of the fair value of the purchase consideration over ScottishPower's share of the fair value of the identifiable assets and liabilities of an acquired subsidiary or business at the date of acquisition.

Goodwill is recognised as an asset and reviewed for impairment at least annually and whenever there is an indication of impairment. Any impairment is recognised in the income statement in the period in which it is identified.

On disposal (or partial disposal) of a subsidiary, associate, jointly controlled entity or business, the proportionate amount of allocated goodwill is included in the determination of the profit or loss on disposal.

When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of the expected future cash flows of the relevant Cash Generating Unit ("CGU"), or disposal value if higher. The discount rate applied is based on ScottishPower's weighted average cost of capital with appropriate adjustments for the risks associated with the CGU. Estimates of cash flows involve a significant degree of judgement and are consistent with management's plans and forecasts. Refer to Note 5(b) for further details on the impairment testing performed on goodwill.

#### D. OTHER INTANGIBLE ASSETS

For the group, 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 are expected to 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 costs is over periods of up to eight years.

Information about the group's accounting policies and estimates in relation to the customer contract costs is provided in Note 21(d).

## NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

### 3 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

#### E. PROPERTY, PLANT AND EQUIPMENT

The group's property, plant and equipment is stated at cost and is generally depreciated on a straight-line basis over the estimated operational lives of the assets. Property, plant and equipment includes capitalised employee costs, interest, lease depreciation and other directly attributable costs. Borrowing costs directly attributable to the acquisition, construction or production of major qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. Reviews 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 group are as set out below:

	Years
Hydro-electric plants	4-105
Combined Cycle Gas Turbines	2-40
Wind power plants	24-40
Gas storage facilities	10-35
Transmission facilities	40
Distribution facilities	24-40
Meters and measuring devices	2-23
Other facilities and other items of property, plant and equipment	2-50

#### F. LEASED ASSETS

The group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately at Note 3F2 if they are different from those under IFRS 16 and the impact of the change in policy disclosed in Note 2B1.1.

##### F1. POLICY APPLICABLE FROM 1 JANUARY 2019

A contract is, or contains a lease if, at its inception, the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the group uses the definition of a lease in IFRS 16.

An identified asset will be specified explicitly or implicitly in the contract, and will be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified.

A contract conveys the right to control the use of an identified asset if the customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use and the customer has the right to direct the use of the asset. The customer has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. Where this is predetermined, the customer has the right to direct the use of the asset if either the customer has the right to operate the asset or the customer designed the asset in a way that predetermines how and for what purposes it will be used.

The group has elected not to separate non-lease components and account for the lease and non-lease components in a contract as a single lease component.

##### F1.1 LESSEE

As a lessee, the group recognises a right-of-use asset at the lease commencement date measured initially at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated on a straight-line basis from the commencement date over the shorter of the useful life of the underlying asset or the lease term. The right-of-use asset is reduced by any impairment losses and adjusted for certain remeasurements of the lease liability. The group presents right-of-use assets within Non-current assets in the balance sheet and the depreciation charge is recorded within Depreciation, amortisation and provisions in the income statement.

The lease liability recognised at the lease commencement date is measured initially at the present value of the lease payments that are not paid at the commencement date. As the rates implicit in the leases cannot be readily determined, the liabilities are discounted using the group's incremental borrowing rate. Therefore, the lease liability is measured at amortised cost using the effective interest rate method. Lease payments included in the measurement of the lease liability comprise fixed payments (including in-substance fixed payments); variable lease payments that depend on an index or a rate initially measured using the index or rate as at the commencement date; lease payments in an optional renewal period if the group is reasonably certain to exercise an extension option; and penalties for early termination of a lease unless that group is reasonably certain not to terminate early.

The lease liability is remeasured when there is a change in the future lease payments arising from a change in the index or rate or if the group changes its assessment of whether it will exercise a purchase, extension or termination option. This change in the lease liability will result in a corresponding adjustment to the carrying amount of the right-of-use asset, or in profit or loss if the carrying amount of the right-of-use asset is zero.

The group presents lease liabilities separately in the balance sheet; the discount on the liabilities unwinds over the term of the lease and is charged to Finance costs in the income statement.

## NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

### 3 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

#### F. LEASED ASSETS *continued*

##### F1. POLICY APPLICABLE FROM 1 JANUARY 2019 *continued*

###### F1.1 LESSEE *continued*

The group has elected not to recognise right-of-use assets and lease liabilities for certain short-term leases that have a lease term of twelve months or less and leases of intangible assets. The group recognises any lease payments associated with such leases as an expense on a straight-line basis over the lease term.

###### F1.2 LESSOR

When the group acts as a lessor, it determines at lease inception whether each lease is a finance or operating lease. The group classifies leases as finance leases whenever the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset to the lessee. All other leases are classified as operating leases.

When the group is an intermediate lessor, it accounts for its interest in the head lease and the sub-lease separately; classifying the sub-lease with reference to the right-of-use asset arising from the head lease, not the underlying asset. If a head lease is a short-term lease to which the group applies the exemption described above, then it classifies the sub-lease as an operating lease.

The group recognises operating leases payments received as income on a straight-line basis over the lease term as part of Other operating income.

##### F2. POLICY APPLICABLE BEFORE 1 JANUARY 2019

For contracts entered into before 1 January 2019, the group determined whether the arrangement was, or contained a lease, based on an assessment of the substance of the arrangement at inception date and whether:

- fulfilment of the arrangement was dependent on the use of a specific asset(s); and
- the arrangement conveyed a right to use the asset(s) even if that right was not explicitly specified in the arrangement.

For arrangements entered into prior to 1 April 2004, the date of inception was deemed to be 1 April 2004 in accordance with the transitional requirements of IFRIC 4.

The accounting policies applicable by the group as a lessor in the comparative period were in line with the lessor policy for leases entered into from 1 January 2019 as noted in Note 3F1.2. However, when the group was an intermediate lessor, sub-leases were classified with reference to the underlying asset.

Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

#### G. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS (EXCLUDING GOODWILL)

At each balance sheet date, the group 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 (the greater of its value-in-use and its fair value less costs to sell) 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 group estimates the recoverable amount of the CGU to which the asset belongs.

#### H. FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The accounting policies below are applicable to both the group's consolidated Accounts and the company's individual Accounts.

##### H1. FINANCIAL ASSETS

###### H1.1 RECOGNITION AND INITIAL MEASUREMENT

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). This categorisation determines whether and where any restatement for fair value is recognised.

Trade receivables are initially recognised when they originate. All other financial assets are initially recognised when the group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price determined under IFRS 15 'Revenue from contracts with customers' ("IFRS 15"). Other investments are valued at fair value at the balance sheet date except where it is not possible to obtain a fair value for unquoted investments in which case they are valued at cost and assessed for impairment.

###### H1.2 CLASSIFICATION AND SUBSEQUENT MEASUREMENT

###### (a) Classification

Financial assets are not reclassified subsequent to their initial recognition unless the group changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model. These are expected to be infrequent and no other reclassifications are permitted.

The group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. The business model of the group does not depend on the intentions of management for an individual instrument. Therefore, it is not an instrument-by-instrument classification approach and should be determined from a higher level of aggregation.

## NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

### 3 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

#### H FINANCIAL INSTRUMENTS *continued*

##### H1. FINANCIAL ASSETS *continued*

##### H1.2 CLASSIFICATION AND SUBSEQUENT MEASUREMENT *continued*

###### (a) Classification *continued*

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment is referred to as the 'SPPI' test.

A financial asset is measured at FVOCI if it meets both of the following conditions:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI test) on the principal amount outstanding.

Trade receivables that do not contain a significant financing component and for which the group has applied the simplified Expected Credit Loss ("ECL") model are measured at the transaction price determined under IFRS 15 (refer to Note 21). All other financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL.

###### (b) Subsequent measurement and gains and losses

Financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment losses are recognised in the income statement. Any gain or loss on derecognition is recognised in the group income statement.

Financial assets at FVTPL (other than derivatives designated as hedging instruments but including contingent consideration) are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in the income statement.

Equity instruments are classified as FVTPL. The group's financial assets held at FVTPL therefore include Other investments.

###### (i) Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the group's balance sheet) when:

- The rights to receive cash flows from the asset have expired; or
- The group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the group has transferred substantially all the risks and rewards of the asset, or (b) the group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the group has retained.

###### (c) Impairment of financial assets

Disclosures relating to impairment of financial assets are provided in Note 9. The group recognises an allowance for ECLs for all debt instruments not held at FVTPL. The group has adopted the simplified ECL model for its trade receivables and the general ECL model for all other financial assets measured at amortised cost.

In applying the simplified model, loss allowances for trade receivables are always measured at an amount equal to lifetime ECL. The group has segmented its trade receivables between those relating to Energy Retail customer debt area and those within the rest of the group. For each grouping, ScottishPower has established a provision matrix that is based on its historical credit loss experience, adjusted for, where possible, forward-looking factors specific to the debtors and the economic environment.

ECLs for all other financial assets are recognised using the general model. The general model works as follows:

- For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next twelve months (a twelve month ECL).
- For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

# NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

## 3 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

### H FINANCIAL INSTRUMENTS *continued*

#### H1. FINANCIAL ASSETS *continued*

##### H1.2 CLASSIFICATION AND SUBSEQUENT MEASUREMENT *continued*

###### (c) Impairment of financial assets *continued*

As an exception to the general model, if the credit risk of a financial instrument is low at the reporting date, management can measure impairment using twelve month ECL and so it does not have to assess whether a significant increase in credit risk has occurred. In order for this operational simplification to apply, the financial instrument has to meet the following requirements:

- it has a low risk of default;
- the borrower is considered, in the short-term, to have a strong capacity to meet its obligations; and
- the lender expects, in the longer term, that adverse changes in economic and business conditions might, but will not necessarily, reduce the ability of the borrower to fulfil its obligations.

All of the group's other financial assets have low credit risk at both the beginning and end of the reporting period.

The group considers these assets to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The group considers this to be BBB- or higher per rating agency Standard & Poor's.

For retail debt, the group does not assume that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. Debts for gas and electricity customers on secure payment plans (e.g. Direct Debit), can have debts in excess of 30 days which would not be considered overdue. Direct Debit payments are based on an annual cycle therefore customers can be in either a debt or credit position at certain points in the year. The group considers a financial asset to be in default when:

- internal or external information indicates that the group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the group; or
- the financial asset is more than 90 days past due.

###### (i) Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. Twelve month ECLs are the portion of ECLs that result from default events that are possible within the twelve months after the reporting date (or a shorter period if the expected life of the instrument is less than twelve months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the group is exposed to credit risk.

Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

###### (ii) Credit-impaired financial assets

At each reporting date, the group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

###### (iii) Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

## H2. FINANCIAL LIABILITIES

### H2.1 RECOGNITION AND INITIAL MEASUREMENT

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

### H2.2 CLASSIFICATION AND MEASUREMENT

Financial liabilities are classified as measured at FVTPL or amortised cost.

A financial liability is classified as FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in the income statement.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in the income statement. Any gain or loss on derecognition is also recognised in the income statement. This is the category most relevant to the group as it includes, interest-bearing loans and borrowings and trade and other payables.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest method is included as Finance costs in the income statement. This subsequent measurement technique does not apply where the loan or borrowing is a hedged item in an effective fair value hedging relationship (refer to Note 3H3.3).

#### (a) Derecognition

The group derecognises a financial liability when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

## NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

### 3 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

#### H FINANCIAL INSTRUMENTS *continued*

#### H3 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

##### H3.1 DERIVATIVE FINANCIAL INSTRUMENTS

The group uses derivative financial instruments, such as forward foreign currency contracts, interest rate swaps and forward commodity contracts, to hedge its foreign currency risks, interest rate risks and commodity price risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The gain or loss on remeasurement to fair value is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

At the inception of a hedge relationship, the group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The hedge documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the group actually hedges and the quantity of the hedging instrument that the group actually uses to hedge that quantity of hedged item.

Hedge accounting is applied when certain conditions required by IFRS 9 are met. The accounting for cash flow hedges and fair value hedges are discussed at Note 3H3.2 and 3H3.3.

##### H3.2 CASH FLOW HEDGES

The group designates only the spot element of treasury related forward foreign currency contracts (hedging the value of currency denominated intercompany loans) as a hedging instrument. The forward element is recognised in Other comprehensive income and accumulated in a separate component of the hedge reserve under the cost of hedging reserve.

For all other forward contracts, the group designates all of the forward contract (spot and forward element) as the hedging instrument.

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

The group discontinues 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.

##### H3.3 FAIR VALUE HEDGES

The gain or loss from remeasuring the hedging instrument at fair value is recognised directly in the income statement in the same location as the gain or loss from remeasuring the hedged item. The gain or loss on the hedged item adjusts the carrying amount of the hedged item (when the item would otherwise have been measured at amortised cost) and is recognised in the income statement. The group starts amortisation of any such adjustments to the carrying value of the hedged item when the hedging relationship ends.

On the discontinuance of hedge accounting, any adjustment made to the carrying amount of the hedged item as a consequence of the fair value hedge relationship, is recognised in the income statement over the remaining life of the hedged item.

##### H3.4 VALUATION OF FINANCIAL INSTRUMENTS

In those circumstances where IFRS 9 requires financial instruments to be recognised in the balance sheet at fair value, the group'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 are designed to ensure the validity and accuracy of the model assumptions and inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, the details of which are described in Note 9.



## NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

### 3 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

#### H FINANCIAL INSTRUMENTS *continued*

##### H3 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING *continued*

##### H3.5 OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL INSTRUMENTS

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

#### I. INVENTORIES (EXCLUDING ROCs)

Inventories are valued at the lower of cost and net realisable value. Cost includes all directly attributable costs incurred in bringing the inventories to their present location and condition.

#### J. ROCs

The group participates in the Renewables Obligation ("RO") scheme administered by Ofgem. As there are no specific rules under IFRS dealing with the treatment of ROCs, the group classifies ROCs as inventories as they are consumed in the production process. ROCs are recognised at their acquisition cost and are charged to the income statement as the obligations arise. Internally generated ROCs are awarded by Ofgem and are recognised at their relevant buyout price and estimated recycle price at the balance sheet date.

The group recognises liabilities in respect of its obligations to deliver ROCs at the value at which the ROCs were initially recorded on the balance sheet. Any estimated shortfall in the liability is calculated based on the relevant buyout price and estimated recycle price at the balance sheet date.

#### K. RETIREMENT BENEFITS

The group provides pensions through two defined benefit schemes and one defined contribution retirement benefit scheme in the UK.

The cost of providing benefits under the defined benefit schemes is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Remeasurements of the net defined benefit liability are recognised, directly in retained earnings, in the period in which they occur and are shown in the statement of comprehensive income. The current service cost element of the pension charge is recognised within Staff costs in the income statement. Net interest on the net defined benefit liability or asset is included within Finance costs and Finance income, respectively, in the income statement. The retirement benefits asset and liability recognised in the balance sheet represent the net surpluses and deficits respectively in ScottishPower's defined benefit pension schemes.

Payments to the defined contribution scheme are charged as an expense as they fall due.

The expense and balance sheet items relating to the group's accounting for pension schemes under IAS 19 are based on actuarial valuations.

Inherent in these valuations are key assumptions, including discount rates, earnings increases, increases in pension payments and mortality. These actuarial assumptions are reviewed annually in line with the requirements of IAS 19. The assumptions adopted are based on prior experience, market conditions and the advice of actuaries and other specialists within the Iberdrola group.

Sensitivity disclosures relating to the group's retirement benefit obligations are set out in Note 16.

#### L. DECOMMISSIONING COSTS

Provision is made on a discounted basis for the estimated decommissioning costs of certain non-current assets. Capitalised decommissioning costs are depreciated over the useful lives of the related assets. The unwinding of the discount is included within Finance costs. The future estimated costs are based on the value of the costs at the balance sheet date, uplifted for inflation to the end of the useful economic life of the underlying asset and discounted.

Decommissioning costs are subject to a degree of estimation uncertainty as the costs of decommissioning are estimated at the balance sheet date and actual decommissioning will take place in the future. There is also uncertainty over the timing of when the actual decommissioning costs will be incurred. The key sources of estimation uncertainty relate to the estimated value of the costs at the balance sheet date and the discount rate. Sensitivity disclosures are set out in Note 17.

#### M. FOREIGN CURRENCIES

Group and company transactions in foreign currencies are translated at the spot rate at the date of the transaction. At the year end, monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date, with exchange gains and losses recognised in the income statement.

#### N. TAXATION

The group's and the company's assets and liabilities for current tax are 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 to 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 within equity and is shown in the statement of comprehensive income.

# NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

## 3 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

### O. INVESTMENTS

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

### P. CASH AND CASH EQUIVALENTS

Cash and short-term deposits in the balance sheet comprise cash on hand and term deposits which are readily convertible into a known amount of cash without significant risk of changes in value and which have a maturity of less than 90 days at the date of acquisition. In the cash flow statement, cash and cash equivalents include bank overdrafts repayable on demand the next business day.

### Q. DISCONTINUED OPERATIONS

A discontinued operation is a component of the group's business, the operations and cash flows of which can be clearly distinguished from the rest of the group and which represents a separate major line of business or geographical area of operations; is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale. When an operation is classified as a discontinued operation, the comparative consolidated income statement and consolidated statement of comprehensive income are restated as if the operation had been discontinued from the start of the comparative year.

Refer to Note 28 for details of the group's discontinued operations.

## 4 GROUP INFORMATION

### (a) Subsidiaries and joint ventures

The table below sets out details of the subsidiaries and joint ventures of the group and the company as at 31 December. These are all included in the consolidated Accounts of ScottishPower. All entities are indirect holdings unless specified. ScottishPower owned shares are all ordinary shares.

Name	Principal activities	Registered office and country of incorporation (Note (b))	2019	2018
<b>Energy Networks</b>				
<b>Subsidiaries</b>				
Scottish Power Energy Networks Holdings Limited	Holding company	(A)	100%	100%
SP Distribution plc	Ownership and operation of distribution network within the ScottishPower area	(A)	100%	100%
SP Manweb plc	Ownership and operation of distribution network within the Mersey and North Wales area	(B)	100%	100%
SP Network Connections Limited	Design and construction of utility connections	(B)	100%	100%
SP Power Systems Limited	Provision of asset management services	(A)	100%	100%
SP Transmission plc	Ownership and operation of transmission network within the ScottishPower area	(A)	100%	100%
Manweb Services Limited	Operation of a private electricity distribution network	(B)	100%	100%
<b>Joint ventures</b>				
NGET/SPT Upgrades Limited	Construction and operation of offshore HVDC West Coast transmission link	(C)	50% (i), (ii)	50%
<b>Renewables</b>				
<b>Subsidiaries</b>				
ScottishPower Renewable Energy Limited	Holding company	(A)	100%	100%
Coldham Windfarm Limited	Operation of an onshore wind farm	(B)	80%	80%
Douglas West Extension Limited	Development of an onshore wind farm	(A)	72% (iii)	–
East Anglia One Limited	Construction and operation of an offshore wind farm	(D)	60% (iv)	100%
East Anglia One North Limited	Development of an offshore wind farm	(D)	100%	100%
East Anglia Three Limited	Development of an offshore wind farm	(D)	100%	100%
East Anglia Two Limited	Development of an offshore wind farm	(D)	100%	100%
ScottishPower Renewables (UK) Limited	Development, construction and operation of onshore wind farms	(E)	100%	100%
ScottishPower Renewables (WODS) Limited	Operation of an offshore wind farm	(A)	100%	100%
ScottishPower Renewables (UK Assets) Limited	Dormant	(A)	100% (v)	100%
<b>Joint ventures</b>				
CeltPower Limited	Operation of an onshore wind farm	(B)	50% (i)	50%
East Anglia Offshore Wind Limited	Commercial operation of offshore meteorological masts	(D)	50% (i)	50%
Morecambe Wind Limited	Provision of operational services	(F)	50% (i)	50%

# NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

## 4 GROUP INFORMATION *continued*

### (a) Subsidiaries and joint ventures *continued*

		Registered office and country of incorporation (Note (ix))	Equity interest	
Name	Principal activities		2019	2018
<b>Energy Retail and Wholesale</b>				
<b>Subsidiaries</b>				
Scottish Power Retail Holdings Limited (formerly Scottish Power Generation Holdings Limited)	Holding company	(A)	100%	100%
ScottishPower (DCL) Limited	Holding company	(B)	100%	100%
ScottishPower Energy Management Limited	Wholesale energy management company engaged in purchase and sale of electricity and gas	(A)	100%	100%
ScottishPower Energy Management (Agency) Limited	Agent for energy management activity of ScottishPower Energy Management Limited and Scottish Power UK plc	(A)	100%	100%
ScottishPower Generation Limited	Electricity generation	(A)	– (vi)	–
ScottishPower (SCPL) Limited	Holding company	(B)	100%	100%
SMW Limited	Wastewater treatment	(A)	– (vi)	–
SP Gas Transportation Cockenzie Limited	Holder of Gas Transporter Licence	(A)	100%	100%
SP Gas Transportation Hatfield Limited	Holder of Gas Transporter Licence	(A)	100%	100%
ScottishPower Energy Retail Limited	Supply of electricity and gas to domestic and business customers	(A)	100%	100%
SP Dataserve Limited	Data collection, data aggregation, meter operation and revenue protection	(A)	100%	100%
SP Smart Meter Assets Limited	Provider of smart meter assets and services	(A)	100%	100%
ScottishPower Generation (Assets) Limited	Asset owning company	(A)	100% (vii)	100%
<b>Other</b>				
<b>Subsidiaries</b>				
ScottishPower Investments Limited	Holding company	(A)	100%	100%
Scottish Power UK plc	Holding company	(A)	100% (viii)	100%
<b>Dormant subsidiaries in liquidation</b>				
SP Gas Limited	In liquidation	(G)	100%	100%

(i) All joint ventures are accounted for using the equity method.

(ii) NGET/SPT Upgrades Limited has a non-conterminous year end date of 31 March. This is a contractual obligation as agreed in the joint operating agreement.

(iii) On 20 May 2019, ScottishPower Renewables (UK) Limited ("SPRUKL") acquired 72% of the share capital of Douglas West Extension Limited.

(iv) On 30 August 2019, SPRUKL sold 40% of the share capital of EA1L to Bilbao Offshore Holding Limited (refer to Note 14 for further details).

(v) ScottishPower Renewables (UK Assets) Limited was incorporated on 5 February 2018 and is a direct subsidiary of ScottishPower Renewable Energy Limited.

(vi) On 31 December 2018, the group sold its entire interest in the issued share capital of ScottishPower Generation Limited (refer to Note 28). ScottishPower Generation Limited has a wholly owned subsidiary, SMW Limited. Subsequent to the sale, ScottishPower Generation Limited was renamed Drax Generation Enterprise Limited and the registered address of both companies moved to 13 Queen's Road Aberdeen, AB15 4YL, Scotland.

(vii) ScottishPower Generation (Assets) Limited was incorporated on 15 March 2018 and is a direct subsidiary of Scottish Power Retail Holdings Limited.

(viii) The investment in this company is a direct holding of Scottish Power Limited.

(ix) The registered offices of the subsidiaries and joint ventures are as listed below, along with their countries of incorporation. Where a company's registered office is in England, it is registered in England and Wales.

(A) 320 St. Vincent Street, Glasgow, G2 5AD, Scotland

(B) 3 Prenton Way, Prenton, CH43 3ET, England

(C) 1–3 Strand, London, WC2N 5EH, England

(D) 3rd Floor, 1 Tudor Street, London, EC4Y 0AH, England

(E) The Soloist, 1 Lanyon Place, Belfast, BT1 3LP, Northern Ireland

(F) 5 Howick Place, London, SW1P 1WG, England

(G) Johnston Carmichael, 227 West George Street, Glasgow, G2 2ND, Scotland

For those entities incorporated in Scotland, Northern Ireland and England and Wales, the principal place of business is considered to be the United Kingdom; for all other entities, the country of incorporation is the principal place of business.

### (b) Significant judgements and assumptions used to determine the scope of the consolidation

The consolidated financial statements combine the financial statements of Scottish Power Limited and its subsidiaries. A subsidiary is an entity over which the company has control. The company has control over another entity when it has power over the relevant activities of the investee, for example through voting rights; exposure, or rights to, variable returns from its involvement with the investee; and the ability to affect those returns through its power over the investee.

No significant judgements have been made in applying these principles during the year.

# NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

## 4 GROUP INFORMATION *continued*

### (c) Significant restrictions

As is typical for a group of its size and scope, there are restrictions on the ability of ScottishPower to obtain distributions of capital, access the assets or repay the liabilities of members of its group due to the statutory, regulatory and contractual requirements of its subsidiaries and due to the protective rights of non-controlling interests. After consideration of these factors, the resulting significant restrictions have been identified:

#### SP Distribution plc

SP Distribution plc is a regulated DNO whose activities are governed by a licence granted by Ofgem. For such licenced entities the main drivers facilitating distributions including dividends are holding an investment grade credit rating and complying with several other licence conditions. The total value of distributable reserves is restricted by the requirement to comply with several licence conditions including holding an investment grade credit rating. In addition, standard condition 26 of the distribution licence conditions restricts the disposal of property, plant and equipment. ScottishPower has policies and procedures in place to adhere to the licence conditions and restrictions arising from these.

Value restricted	2019 £m	2018 £m
Distributable reserves	626.5	610.9
Property, plant and equipment	2,920.9	2,829.8

#### SP Manweb plc

SP Manweb plc is a regulated DNO whose activities are governed by a licence granted by Ofgem. For such licenced entities the main drivers facilitating distributions including dividends are holding an investment grade credit rating and complying with several other licence conditions. The total value of distributable reserves is restricted by the requirement to comply with several licence conditions including holding an investment grade credit rating. In addition, standard condition 26 of the distribution licence conditions restricts the disposal of property, plant and equipment. ScottishPower has policies and procedures in place to adhere to the licence conditions and restrictions arising from these.

Value restricted	2019 £m	2018 £m
Distributable reserves	718.9	672.8
Property, plant and equipment	3,009.0	2,878.4

#### SP Transmission plc

SP Transmission plc is a regulated electricity transmission entity whose activities are governed by a licence granted by Ofgem. For such licenced entities the main drivers facilitating distributions including dividends are holding an investment grade credit rating and complying with several other licence conditions. The total value of distributable reserves is restricted by the requirement to comply with several licence conditions including holding an investment grade credit rating. In addition, standard condition B3 of the transmission licence conditions restricts the disposal of property, plant and equipment. ScottishPower has policies and procedures in place to adhere to the licence conditions and restrictions arising from these.

Value restricted	2019 £m	2018 £m
Distributable reserves	777.0	707.9
Property, plant and equipment	2,923.7	2,819.1

## 5 INTANGIBLE ASSETS

### (a) Movements in intangible assets

Year ended 31 December 2018	Notes	Goodwill (Note (b)) £m	Other intangible assets				Total £m	Total £m
			Computer software (Notes (i), (iii)) £m	Licences £m	Customer Contract Costs (Note (iii)) £m	Other £m		
Cost:								
At 1 January 2018		364.6	437.9	9.5	80.2	1.1	528.7	893.3
Additions	(iv)	—	33.5	—	53.2	5.4	92.1	92.1
Disposals		—	(8.5)	—	—	—	(8.5)	(8.5)
Disposal of subsidiaries	(v)	—	(10.6)	—	—	—	(10.6)	(10.6)
At 31 December 2018		364.6	452.3	9.5	133.4	6.5	601.7	966.3
Amortisation:								
At 1 January 2018		—	273.4	3.6	30.1	1.0	308.1	308.1
Amortisation for the year		—	38.5	0.3	25.5	0.9	65.2	65.2
Disposals		—	(7.9)	—	—	—	(7.9)	(7.9)
Disposal of subsidiaries	(v)	—	(10.1)	—	—	—	(10.1)	(10.1)
At 31 December 2018		—	293.9	3.9	55.6	1.9	355.3	355.3
Net book value:								
At 31 December 2018		364.6	158.4	5.6	77.8	4.6	246.4	611.0
At 1 January 2018		364.6	164.5	5.9	50.1	0.1	220.6	585.2

# NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

## 5 INTANGIBLE ASSETS *continued*

### (a) Movements in intangible assets *continued*

Year ended 31 December 2019	Note	Goodwill (Note (b)) £m	Other intangible assets				Total £m	Total £m
			Computer software (Notes (i), (ii)) £m	Licences £m	Customer Contract Costs (Note (iii)) £m	Other £m		
<b>Cost:</b>								
At 1 January 2019		364.6	452.3	9.5	133.4	6.5	601.7	966.3
Additions	(iv)	–	30.5	–	72.7	–	103.2	103.2
Disposals		–	(22.5)	–	(37.4)	(1.1)	(61.0)	(61.0)
<b>At 31 December 2019</b>		<b>364.6</b>	<b>460.3</b>	<b>9.5</b>	<b>168.7</b>	<b>5.4</b>	<b>643.9</b>	<b>1,008.5</b>
<b>Amortisation:</b>								
At 1 January 2019		–	293.9	3.9	55.6	1.9	355.3	355.3
Amortisation for the year		–	51.3	0.4	39.4	1.8	92.9	92.9
Disposals		–	(22.5)	–	(37.4)	(1.1)	(61.0)	(61.0)
<b>At 31 December 2019</b>		<b>–</b>	<b>322.7</b>	<b>4.3</b>	<b>57.6</b>	<b>2.6</b>	<b>387.2</b>	<b>387.2</b>
<b>Net book value:</b>								
At 31 December 2019		364.6	137.6	5.2	111.1	2.8	256.7	621.3
At 1 January 2019		364.6	158.4	5.6	77.8	4.6	246.4	611.0

(i) The cost of fully amortised computer software still in use at 31 December 2019 was £83.9 million (2018 £89.7 million).

(ii) Included in the net book value of computer software is £25.1 million (2018 £36.2 million) relating to the customer relationship management system which has three years of remaining amortisation and £42.3 million (2018 £50.5 million) relating to system upgrades for smart metering which has three years of remaining amortisation.

(iii) Refer to Note 21(d) for details on customer contract costs.

(iv) Included within additions is £0.5 million (2018 £1.6 million) from internal development.

(v) On 31 December 2018, the group disposed of its subsidiaries ScottishPower Generation Limited and SMW Limited (refer to Note 28).

(vi) The cost of intangible assets under development at 31 December 2019 was £nil (2018 £55.5 million).

### (b) Impairment test for goodwill

The carrying amount of goodwill for the Renewables business at 31 December 2019 was £364.6 million (2018 £364.6 million).

The recoverable amount for the Renewables business has been determined based on a value-in-use calculation. The calculation uses cash flow projections which reflect past experience and which are based upon a management approved business plan ending in 2029. Cash flows beyond that period reflect asset estimated useful lives as well as management's forward view of prices and the business strategic objectives. It is considered appropriate to assess the cash flows over a period longer than five years as this better reflects the long-term nature of energy market operations and governance, and of wind farm development lead times.

The value-in-use calculation is based on anticipated generation output over the expected lives of individual wind farm projects.

Cash inflows for all projects are based on anticipated generation output. The output is valued at forward power prices based on: observable market information where available; assumed continuing government support through ROCs, CfDs and other mechanisms; and on internal model assumptions. Cash outflows are based on planned operating and capital expenditure.

The main assumptions and basis for determining values assigned to the key assumptions are detailed below:

#### Main assumptions used for value-in-use calculations

Discount rate (pre-tax): onshore 5.35%; and offshore 5.97%

Forward price of power

Energy output

#### Basis for determining values assigned to key assumptions

Discount rate is determined on the basis of market data and the divisional cost of capital

Market quotes/management future expectations

Theoretical maximum output less adjustments based on historical data (wind variability, outages and availability)

The value-in-use calculation of the Renewables business exceeds the carrying value.

The ScottishPower group has also performed several sensitivity analyses of the impairment test result in relation to the key assumptions to which the value-in-use calculation is most sensitive, these tests included:

- a 100 basis point increase in the discount rate;
- a 10% decline in the power price per kilowatt hour (only applicable to production for which no long-term sales agreements have been entered into); and
- a 5% decline in energy output.

After applying each sensitivity, there was significant headroom between the value-in-use calculations and the underlying book value of the assets.

# NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

## 6 PROPERTY, PLANT AND EQUIPMENT

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

	Notes	Total operating plant (Note (b)) £m	Other items of property, plant and equipment in use (Note (i)) £m	Plant in progress £m	Other items of property, plant and equipment in progress (Note (i)) £m	Total £m
<b>Year ended 31 December 2018</b>						
<b>Cost:</b>						
At 1 January 2018		15,482.1	318.9	1,453.0	23.1	17,277.1
Additions		47.0	21.5	960.5	29.6	1,058.6
Transfers from inventories		–	–	25.8	14.5	40.3
Transfers from in progress to plant in use		476.4	0.1	(440.6)	(35.9)	–
Disposals		(117.1)	(5.1)	–	(1.8)	(124.0)
Disposal of subsidiaries	(ii)	(1,168.3)	(60.9)	(20.7)	(4.4)	(1,254.3)
Impairment	(iii)	(1.6)	–	–	(0.9)	(2.5)
<b>At 31 December 2018</b>		<b>14,718.5</b>	<b>274.5</b>	<b>1,978.0</b>	<b>24.2</b>	<b>16,995.2</b>
<b>Depreciation:</b>						
At 1 January 2018		4,271.6	83.3	–	–	4,354.9
Charge for the year		471.7	15.4	–	–	487.1
Disposals		(112.1)	(5.0)	–	–	(117.1)
Disposal of subsidiaries	(ii)	(668.7)	(1.7)	–	–	(670.4)
Impairment	(iii)	3.1	–	–	–	3.1
<b>At 31 December 2018</b>		<b>3,965.6</b>	<b>92.0</b>	<b>–</b>	<b>–</b>	<b>4,057.6</b>
<b>Net book value:</b>						
<b>At 31 December 2018</b>		<b>10,752.9</b>	<b>182.5</b>	<b>1,978.0</b>	<b>24.2</b>	<b>12,937.6</b>
<b>At 1 January 2018</b>		<b>11,210.5</b>	<b>235.6</b>	<b>1,453.0</b>	<b>23.1</b>	<b>12,922.2</b>
The net book value of property, plant and equipment at 31 December 2018 is analysed as follows:						
Property, plant and equipment in use		10,752.9	182.5	–	–	10,935.4
Property, plant and equipment in the course of construction		–	–	1,978.0	24.2	2,002.2
		<b>10,752.9</b>	<b>182.5</b>	<b>1,978.0</b>	<b>24.2</b>	<b>12,937.6</b>

	Note	Total operating plant (Note (b)) £m	Other items of property, plant and equipment in use (Note (i)) £m	Plant in progress £m	Other items of property, plant and equipment in progress £m	Total £m
<b>Year ended 31 December 2019</b>						
<b>Cost:</b>						
At 1 January 2019		14,718.5	274.5	1,978.0	24.2	16,995.2
Additions (Note (iv))		185.9	22.4	1,328.8	20.6	1,557.7
Transfers from inventories		–	–	20.9	19.1	40.0
Transfers from in progress to plant in use		1,226.6	0.8	(1,185.6)	(41.8)	–
Disposals		(23.1)	(40.8)	(3.7)	(1.3)	(68.9)
Impairment	(iii)	–	–	–	(0.2)	(0.2)
<b>At 31 December 2019</b>		<b>16,107.9</b>	<b>256.9</b>	<b>2,138.4</b>	<b>20.6</b>	<b>18,523.8</b>
<b>Depreciation:</b>						
At 1 January 2019		3,965.6	92.0	–	–	4,057.6
Charge for the year		449.9	16.7	–	–	466.6
Disposals		(20.4)	(19.1)	–	–	(39.5)
<b>At 31 December 2019</b>		<b>4,395.1</b>	<b>89.6</b>	<b>–</b>	<b>–</b>	<b>4,484.7</b>
<b>Net book value:</b>						
<b>At 31 December 2019</b>		<b>11,712.8</b>	<b>167.3</b>	<b>2,138.4</b>	<b>20.6</b>	<b>14,039.1</b>
<b>At 1 January 2019</b>		<b>10,752.9</b>	<b>182.5</b>	<b>1,978.0</b>	<b>24.2</b>	<b>12,937.6</b>
The net book value of property, plant and equipment at 31 December 2019 is analysed as follows:						
Property, plant and equipment in use		11,712.8	167.3	–	–	11,880.1
Property, plant and equipment in the course of construction		–	–	2,138.4	20.6	2,159.0
		<b>11,712.8</b>	<b>167.3</b>	<b>2,138.4</b>	<b>20.6</b>	<b>14,039.1</b>

# NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

## 6 PROPERTY, PLANT AND EQUIPMENT *continued*

(b) The movements in total operating plant are analysed as follows:

Year ended 31 December 2018	Hydro-electric plants (Note (ii)) £m	CCGTs (Note (iii)) £m	Wind power plants £m	Gas storage facilities £m	Transmission facilities £m	Distribution facilities £m	Meters and measuring devices £m	Other facilities (Note (vi)) £m	Total operating plant £m
<b>Cost:</b>									
At 1 January 2018	157.2	938.5	3,782.6	35.9	2,886.5	6,993.5	384.2	303.7	15,482.1
Additions (Notes (vi) and (vii))	—	—	(19.3)	—	—	3.6	51.5	11.2	47.0
Transfers from in progress to plant in use	3.3	15.8	47.0	—	101.8	271.0	35.8	1.7	476.4
Disposals	—	(19.8)	(1.6)	(0.4)	(0.5)	(77.5)	(12.9)	(4.4)	(117.1)
Disposal of subsidiaries	(160.5)	(927.8)	—	—	—	—	—	(80.0)	(1,168.3)
Impairment	—	—	(1.6)	—	—	—	—	—	(1.6)
Reclassification	—	(6.7)	—	—	—	—	—	6.7	—
<b>At 31 December 2018</b>	<b>—</b>	<b>—</b>	<b>3,807.1</b>	<b>35.5</b>	<b>2,987.8</b>	<b>7,190.6</b>	<b>458.6</b>	<b>238.9</b>	<b>14,718.5</b>
<b>Depreciation:</b>									
At 1 January 2018	91.8	511.2	913.3	14.8	503.0	1,891.1	223.8	122.6	4,271.6
Charge for the year	5.2	37.1	125.9	0.9	74.1	185.8	25.7	17.0	471.7
Disposals	—	(19.8)	(0.4)	(0.1)	(0.5)	(74.6)	(12.4)	(4.3)	(112.1)
Disposal of subsidiaries	(97.0)	(522.1)	—	—	—	—	—	(49.6)	(668.7)
Impairment	—	0.3	(0.4)	3.2	—	—	—	—	3.1
Reclassification	—	(6.7)	—	—	—	—	—	6.7	—
<b>At 31 December 2018</b>	<b>—</b>	<b>—</b>	<b>1,038.4</b>	<b>18.8</b>	<b>576.6</b>	<b>2,002.3</b>	<b>237.1</b>	<b>92.4</b>	<b>3,965.6</b>
<b>Net book value:</b>									
At 31 December 2018	—	—	2,768.7	16.7	2,411.2	5,188.3	221.5	146.5	10,752.9
At 1 January 2018	65.4	427.3	2,869.3	21.1	2,383.5	5,102.4	160.4	181.1	11,210.5

Year ended 31 December 2019	Wind power plants £m	Gas storage facilities £m	Transmission facilities £m	Distribution facilities £m	Meters and measuring devices £m	Other facilities (Note (vi)) £m	Total operating plant £m
<b>Cost:</b>							
At 1 January 2019	3,807.1	35.5	2,987.8	7,190.6	458.6	238.9	14,718.5
Additions (Note (vii))	78.6	0.1	25.4	1.7	54.0	26.1	185.9
Transfers from in progress to plant in use	644.5	—	145.0	413.9	20.4	2.8	1,226.6
Disposals	(0.3)	—	—	(3.7)	(15.8)	(3.3)	(23.1)
<b>At 31 December 2019</b>	<b>4,529.9</b>	<b>35.6</b>	<b>3,158.2</b>	<b>7,602.5</b>	<b>517.2</b>	<b>264.5</b>	<b>16,107.9</b>
<b>Depreciation:</b>							
At 1 January 2019	1,038.4	18.8	576.6	2,002.3	237.1	92.4	3,965.6
Charge for the year	128.3	0.6	77.4	194.1	34.3	15.2	449.9
Disposals	(0.2)	—	—	(5.9)	(11.0)	(3.3)	(20.4)
<b>At 31 December 2019</b>	<b>1,166.5</b>	<b>19.4</b>	<b>654.0</b>	<b>2,190.5</b>	<b>260.4</b>	<b>104.3</b>	<b>4,395.1</b>
<b>Net book value:</b>							
At 31 December 2019	3,363.4	16.2	2,504.2	5,412.0	256.8	160.2	11,712.8
At 1 January 2019	2,768.7	16.7	2,411.2	5,188.3	221.5	146.5	10,752.9

- (i) Other items of property, plant and equipment in use comprises land and buildings, IT equipment and other assets. Included within this category is £6.2 million (2018 £27.0 million) relating to non-operational sites which are not classified as held for sale in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'. Similar non-operational sites of £nil (2018 £3.7 million) were included within plant in progress.
- (ii) On 31 December 2018, the group disposed of its subsidiaries ScottishPower Generation Limited and SMW Limited (refer to Note 28).
- (iii) The impairment charge of £0.2 million made during the year ended 31 December 2019 comprised the write off of other assets. The impairment charge of £5.6 million made during the year ended 31 December 2018 comprised write offs of gas storage assets of £3.2 million, operational wind power plant assets of £1.2 million and other assets of £1.2 million.
- (iv) Additions to plant in progress includes £1.8 million (2018 £nil) in respect of wind power plant considered as asset acquisitions as part of the group's acquisition of Douglas West Extension Limited.
- (v) The Other facilities category of operating plant largely comprises smart meter infrastructure assets, Energy Networks communications facilities and until 31 December 2018, water treatment facilities (refer to Note 28).
- (vi) The reduction of £19.3 million in the wind power plant assets in 2018 resulted from a reassessment of future estimated decommissioning costs.
- (vii) Interest on the funding attributable to major capital projects was capitalised during the year at a rate of 1.8% (2018 1.9%).
- (viii) The cost of fully depreciated property, plant and equipment still in use at 31 December 2019 was £463.7 million (2018 £468.1 million).
- (ix) Included within Other operating income in the income statement for the year ended 31 December 2019 is £0.8 million (2018 £1.2 million) relating to compensation receivable from third parties for items of property, plant and equipment that were impaired, lost or given up.
- (x) Included within the cost of property, plant and equipment at 31 December 2019 are assets in use not subject to depreciation, being land and cushion gas, of £58.5 million (2018 £79.9 million).
- (xi) Included in Transmission facilities, Other items of property, plant and equipment in use and Plant in progress are assets with a carrying value of £1.5 million, £0.4 million and £0.1 million respectively which the group leases to third parties via operating leases.

## NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

### 6 PROPERTY, PLANT AND EQUIPMENT *continued*

#### (c) Capital commitments

	2020 £m	2021 £m	2022 £m	2019			Total £m
				2023 £m	2024 £m	2025 and thereafter	
Contracted but not provided	565.5	55.5	3.8	0.1	0.2	—	625.1

	2019 £m	2020 £m	2021 £m	2018			Total £m
				2022 £m	2023 £m	2024 and thereafter	
Contracted but not provided	1,023.8	212.4	1.5	0.1	0.1	—	1,237.9

#### (d) Research and development expenditure

The amount of research and development expenditure recognised as an expense during the year was £3.8 million (2018 £3.8 million).

### 7 LEASING

#### (a) Lessee

The group leases many assets including buildings, vehicles and land. Information about leases for which the group is a lessee is presented below.

#### (i) Nature of leases

##### Land

The group holds agreements to lease land and for the assignment of rights to use land, primarily for operational assets, mainly wind farms, with typical lease terms running up to 50 years. Certain agreements contain the right to extend the terms by up to 50 years and can be terminated with appropriate notice, generally up to twelve months.

##### Building

The group leases buildings primarily for its office space, operational depots and retail space (which is sub-let). The leases typically have terms of up to 99 years. Certain leases have options to extend the term by up to 25 years at the end of the term and certain leases have options to terminate subject to a notice period of up to six months typically.

The lease for the head office building has a 25 year term ending in 2041 at which point the group has the right to extend the lease to 2046 (and to 2051 at 2046). It is not deemed reasonably certain that these options will be taken. However, should these extension options be taken, the estimated increase in the lease liability would be £24.2 million and a further £14.6 million respectively.

The group sub-leases some of its properties under operating leases (refer to Note 7(b)). Certain of these properties are totally or partially vacant. Where the unavoidable costs of meeting the obligations under these contracts exceed the economic benefits expected to be received under it, the right-of-use asset has been appropriately impaired.

##### Vehicle

The group lease vehicles with lease terms of between two and twelve years, primarily being pool vehicles to mobilise its operational staff and other specialist vehicles. Certain agreements can be terminated without notice.

##### Other equipment

The group leases operating plant and office equipment, with lease terms of up to 42 years. Certain agreements have rights to extend or terminate the lease. Certain plant leases are considered short-term and the group has elected not to recognise right-of-use assets and lease liabilities for these leases.

##### Variable lease payments

Some land leases, particularly those on which wind farms have been built, contain variable lease payments that are based on the output from the wind farm. Also certain building leases contain variable lease payments that are based on the building services supplied. These payment terms are common for both of these types of leases. The fixed annual payments for the year were £36.7 million compared to variable payments made of £9.7 million. Despite the future planned growth of the Renewables business, the group expects the relative proportions of fixed and variable lease payments to remain broadly consistent in future years.

##### Extension options

Some leases in particular of land and buildings, contain extension options exercisable by the group at the end of the non-cancellable contract period or an agreed point before that date. Where practicable, the group seeks to include extension options in leases to provide operational flexibility. The extension options held are exercisable only by the group and not by the lessors. At lease commencement, the group will assess whether it is reasonably certain to exercise the extension options and reassesses this if there is a significant event or change in circumstances within its control.

##### Other information

The group has not committed to any leases that have not yet commenced. The group has no contracts containing residual value guarantee, no leases subject to significant restrictions or covenants and no sale and leaseback transactions.



# NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

## 7 LEASING *continued*

### (a) Lessee *continued*

#### (ii) Right-of-use assets

	Note	Land £m	Buildings £m	Vehicles £m	Other equipment £m	Total £m
On transition to IFRS 16 at 1 January 2019		301.8	94.1	11.5	0.4	407.8
Additions		7.8	4.4	13.7	2.2	28.1
Depreciation charge for the year		(13.1)	(7.4)	(6.7)	(0.7)	(27.9)
Adjustments for changes in liabilities	(a)	2.0	2.9	1.2	(0.1)	6.0
Disposals		–	–	(0.1)	–	(0.1)
Impairment		(0.4)	–	–	–	(0.4)
<b>At 31 December 2019</b>		<b>298.1</b>	<b>94.0</b>	<b>19.6</b>	<b>1.8</b>	<b>413.5</b>

(a) Adjustments for changes in liabilities are movements in the right-of-use asset resulting from remeasurement of the associated lease liability to reflect changes to the lease payments due to any reassessment or lease modifications.

(b) There are no right-of-use assets measured at revalued amounts.

#### (iii) Lease liabilities

The following table sets out a maturity analysis of non-derivative lease liabilities, showing the undiscounted payments to be made after the reporting date.

	2019 £m
Less than one year	37.9
One to five years	123.3
More than five years	521.1
<b>Total undiscounted lease liabilities at 31 December</b>	<b>682.3</b>
Finance cost	(231.3)
<b>Total discounted lease liabilities</b>	<b>451.0</b>

#### Analysis of total lease liabilities

Non-current	420.4
Current	30.6
<b>Total</b>	<b>451.0</b>

Details of the group's risk management strategy for liquidity risks inherent in the group's lease liability are described at Note 9.

#### (iv) Amounts recognised in income statement

	2019 £m
Interest on lease liabilities	(16.7)
Variable lease payments not included in the measurement of lease liabilities	(9.7)
Income from sub-leasing right-of-use assets	1.1
Expenses relating to short-term leases*	(6.3)

\* This charge relates to leases for plant and equipment. Future commitments relating to the portfolio of short-term leases are expected to be similar to the expense charged in the year.

#### (v) Amounts recognised in the cash flow statement

	2019 £m
Total cash outflow for leases	(52.2)

Included in this amount is £25.4 million relating to payments of lease liabilities.

## NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

### 7 LEASING *continued*

#### (b) Lessor

The group have contracts to lease land and buildings which have been classified as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets. These leases have terms of between 2 and 26 years, running to between 2020 and 2029. The lessor retains no significant rights in relation to the underlying assets.

Lease income recognised by the group during 2019 was £3.4 million. No income relating to variable lease payments that do not depend on an index or rate have been recognised.

The following table sets out a maturity analysis of lease receivables, showing the undiscounted payments to be received after the reporting date:

	2019 £m
Less than one year	2.4
One to two years	1.9
Two to three years	0.2
Three to four years	0.2
Four to five years	0.2
More than five years	0.9
<b>Total undiscounted lease payments</b>	<b>5.8</b>

Details of the group's risk management strategy for addressing and reducing the risks associated with the retained rights in the underlying assets are described in Note 9.

#### (c) Operating lease disclosures under IAS 17

(i) Operating lease payments	2018 £m
Minimum lease payments under operating leases recognised as an expense in the year	25.9
Contingent based operating lease rents recognised as an expense in the year	7.9
	<b>33.8</b>

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

The contingent based operating lease rents primarily relate to certain contracts for land leases where ScottishPower has installed wind turbines. The expense recognised represents the invoiced amounts under these contracts.

(ii) Operating lease commitments	2018 £m
The future minimum discounted lease payments under non-cancellable operating leases are as follows:	
Within one year	25.7
Between one and five years	85.2
More than five years	253.0
	<b>363.9</b>

ScottishPower 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	2018 £m
The future minimum discounted lease payments receivable under non-cancellable operating leases are as follows:	
Within one year	3.1
Between one and five years	2.7
More than five years	0.8
	<b>6.6</b>

ScottishPower leases various property, plant and equipment as a lessor under non-cancellable operating lease arrangements. The leases have varying terms, escalation clauses and renewal rights.

Total sublease rentals recognised as income in the year ended 31 December 2018 amounted to £0.6 million.

### 8 INVESTMENTS IN JOINT VENTURES

#### (a) Movements in investments in joint ventures are analysed as follows:

	Shares £m
At 1 January 2018	5.6
Share of result for year	1.3
At 1 January 2019	6.9
Share of result for year	0.9
<b>At 31 December 2019</b>	<b>7.8</b>

(i) Investments in joint ventures are accounted for using the equity method. Details of the joint ventures are set out in Note 4.

(ii) No quoted market prices exist for investments in joint ventures.

(iii) No significant restrictions exist (e.g. resulting from borrowing arrangements, regulatory requirements or contractual arrangements between investors with joint control of or significant influence over a joint venture) that impact upon the ability of joint ventures to transfer funds to ScottishPower in the form of cash dividends, or to repay loans or advances made by ScottishPower (2018 none).

# NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

## 8 INVESTMENTS IN JOINT VENTURES *continued*

### (b) Interest in joint ventures

	2019 £m	2018 £m
Aggregate carrying amount of individually immaterial equity accounted interests	7.8	6.9
Aggregate profit from continuing operations attributable to the group	0.9	1.3
Aggregate total comprehensive income attributable to the group	0.9	1.3

ScottishPower has no interests in associates.

### (c) Commitments

ScottishPower has commitments not recognised as at 31 December 2019 relating to its interests in joint ventures of £nil (2018 £25.9 million).

## 9 FINANCIAL INSTRUMENTS

### (a) Carrying value of financial instruments

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

		2019		2018		
	Classification	Notes	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
<b>Financial assets</b>						
Other investments	FVTPL		4.4	4.4	5.4	5.4
Derivative financial instruments	Fair value hedging instrument	(i)	122.4	122.4	234.4	234.4
Non-current receivables	Amortised cost	(ii)	83.2	83.2	55.9	55.9
Current receivables	Amortised cost	(ii)	1,026.0	1,026.0	929.4	929.4
Contingent consideration	FVTPL	(iii)	26.8	26.8	—	—
Cash	Amortised cost	(iv)	100.1	100.1	195.7	195.7
Short-term deposits	Amortised cost	(v)	99.3	99.3	686.8	686.8
<b>Financial liabilities</b>						
Loans and other borrowings	Amortised cost	(vi)	(4,588.2)	(5,275.8)	(5,460.6)	(6,101.9)
Derivative financial instruments	Fair value hedging instrument	(i)	(285.6)	(285.6)	(103.0)	(103.0)
Payables	Amortised cost	(ii)	(1,318.9)	(1,318.9)	(1,254.3)	(1,254.3)

The carrying amount of these financial instruments is calculated as set out in Note 3H. With the exception of Loans and other borrowings, the carrying value of financial instruments is a reasonable approximation of fair value. The fair value of Loans and other borrowings is calculated as set out in footnote (vi) below.

- (i) Further detail on Derivative financial instruments is disclosed in Note 9(c).
- (ii) Balances outwith the scope of IFRS 7 and IFRS 9 have been excluded, namely Prepayments, Other tax receivables, Payments received on account and Other taxes and social security. The contingent consideration of £26.8 million has also been excluded as it is disclosed separately in the table above.
- (iii) The contingent consideration arose on the sale of 40% of the share capital of EA1L to Bilbao Offshore Holding Limited (refer to Note 9(e) A11 and Note 14).
- (iv) As a general rule, cash deposited with banks earns interest at rates similar to market rates on daily deposits.
- (v) Short-term deposits mature within a period of 90 days and earn market rates.
- (vi) The fair value of listed debt is calculated using the most recently traded price to the year end date and the fair value of all other loans and borrowings is calculated using a discounted cash flow.

### (b) Measurement of financial instruments

ScottishPower holds certain financial instruments which are measured in the balance sheet at fair value as detailed in Note 9(a) above. The group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

In both the current and prior year, all Other investments held by ScottishPower are classified as Level 1 and all Derivative financial instruments held by ScottishPower are classified as Level 2. The contingent consideration held by ScottishPower is classified as Level 2.

Included in Level 2 liabilities of £285.6 million (2018 £103.0 million) are inseparable third-party credit enhancements. These have been reflected in the fair value measurement of the liability.

Level 2 commodity derivatives are fair valued by comparing and discounting the difference between the expected contractual cash flows for the relevant commodities and the quoted prices for those commodities in an active market.

Level 2 foreign exchange derivatives comprise cross currency swaps and forward foreign exchange contracts. Cross currency swaps and forward foreign exchange contracts are fair valued using forward exchange rates that are quoted in an active market.

Level 2 contingent consideration was fair valued using a Monte Carlo simulation method, which is a risk and probability based model. The main risks inherent in the model are the potential adverse impacts from delay and weather resulting in overspend.

The group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred. There were no transfers in the current or prior year.

# NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

## 9 FINANCIAL INSTRUMENTS *continued*

### (c) Analysis of derivative financial instruments – carrying value

	Note	2019				2018			
		Assets		Liabilities		Assets		Liabilities	
		Current £m	Non- current £m	Current £m	Non- current £m	Current £m	Non- current £m	Current £m	Non- current £m
<b>Hedging derivatives:</b>									
<b>Exchange rate hedges:</b>									
Fair value hedge – Currency swap		1.0	45.3	–	–	1.0	51.0	–	–
Cash flow hedge – Foreign exchange rate		0.3	0.8	(4.7)	(0.6)	3.7	1.5	(0.6)	–
Commodity hedge – Cash flow hedge		62.2	7.2	(267.2)	(19.7)	112.4	37.3	(68.3)	(8.6)
<b>Non-hedging derivatives:</b>									
Exchange rate derivatives – Foreign exchange rate		–	–	–	–	0.5	–	–	–
Commodity derivatives		192.0	–	(179.8)	–	326.7	0.4	(324.1)	(1.5)
<b>Total gross derivatives</b>		<b>255.5</b>	<b>53.3</b>	<b>(451.7)</b>	<b>(20.3)</b>	<b>444.3</b>	<b>90.2</b>	<b>(393.0)</b>	<b>(10.1)</b>
Impact of netting	(i)	(180.9)	(5.5)	180.9	5.5	(293.6)	(6.5)	293.6	6.5
<b>Total net derivatives on balance sheet</b>		<b>74.6</b>	<b>47.8</b>	<b>(270.8)</b>	<b>(14.8)</b>	<b>150.7</b>	<b>83.7</b>	<b>(99.4)</b>	<b>(3.6)</b>

(i) Certain derivative financial instruments are presented net on the balance sheet. A reconciliation between the gross and net position is provided in Note 9(d).

### (d) Offsetting of financial assets and financial liabilities

The group is eligible to present financial assets and financial liabilities net on the balance sheet as described in Note 3H3.5. The following table provides information on the impact of offsetting on the balance sheet as well as the financial impact of the netting of certain instruments in the event of default or similar agreements.

	2019					
	Gross amounts of recognised financial assets/(liabilities) £m	Gross amounts of recognised financial (liabilities)/assets offset in the balance sheet £m	Net amounts of financial assets/(liabilities) presented on the balance sheet £m	Related amounts not offset in balance sheet		
				Financial instruments (Note (ii)) £m	Cash collateral (held)/posted (Notes (ii) and (iii)) £m	Net amount £m
<b>Financial assets</b>						
Receivables	1,253.8	(144.6)	1,109.2	(10.1)	(80.2)	1,018.9
Derivative financial instruments	308.8	(186.4)	122.4	(30.6)	(44.8)	47.0
<b>Financial liabilities</b>						
Payables	(1,463.5)	144.6	(1,318.9)	10.1	80.2	(1,228.6)
Derivative financial instruments	(472.0)	186.4	(285.6)	30.6	–	(255.0)
	2018					
	Gross amounts of recognised financial assets/(liabilities) £m	Gross amounts of recognised financial (liabilities)/assets offset in the balance sheet £m	Net amounts of financial assets/(liabilities) presented on the balance sheet £m	Related amounts not offset in balance sheet		
				Financial instruments (Note (ii)) £m	Cash collateral (held)/posted (Notes (ii) and (iii)) £m	Net amount £m
<b>Financial assets</b>						
Receivables	1,328.2	(342.9)	985.3	(34.6)	(22.8)	927.9
Derivative financial instruments	534.5	(300.1)	234.4	(48.2)	(48.2)	138.0
<b>Financial liabilities</b>						
Payables	(1,597.2)	342.9	(1,254.3)	34.6	22.8	(1,196.9)
Derivative financial instruments	(403.1)	300.1	(103.0)	48.2	–	(54.8)

- (i) Certain contracts for derivatives, receivables and payables in relation to the purchase of gas do not currently meet the offsetting criteria within IAS 32 'Financial Instruments: Presentation' ('IAS 32'), however in the event of default would be required to be offset per the requirements of the contract. The above balances show the effect on the group if these contracts were also offset. Due to the nature of certain contracts, it is not possible to split accurately the effect of offsetting these balances across the derivatives, receivables and payables categories. For presentational purposes the impact has been allocated to derivatives, receivables and payables as appropriate.
- (ii) ScottishPower enters into standard netting agreements with its commodity trading counterparties in order to mitigate the credit risk exposure of the group. In addition, ScottishPower utilises collateral support agreements with derivative counterparties to manage its credit exposure. All collateral is settled in cash. These forms of collateral include margining for trading with exchanges, cash collateral used for bilateral and brokering trading as well as letters of credit. At 31 December 2019, the value of letters of credit held amounted to £15.0 million (2018 £7.0 million) and letters of credit posted amounted to £201.3 million (2018 £192.4 million).
- (iii) At 31 December 2019 the group held cash collateral of £9.4 million (2018 £7.7 million) in respect of receivables, of which £7.9 million (2018 £7.1 million) can be offset against financial assets. At 31 December 2019 the group also posted cash collateral of £97.4 million (2018 £36.6 million) in respect of payables, of which £88.1 million (2018 £29.9 million) can be offset against financial liabilities.

## NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

### 9 FINANCIAL INSTRUMENTS *continued*

#### (e) Financial risk management

ScottishPower's principal financial liabilities, other than derivatives, comprise loans and borrowings and trade and other payables. The main purpose of these financial liabilities is to finance ScottishPower's operations. ScottishPower has trade and other receivables, and cash and short-term deposits that arise directly from its operations. ScottishPower also holds other investments and enters into derivative contracts.

The group has exposure to the following risks arising from the above financial instruments:

##### A. CREDIT RISK

##### B. ENERGY MARKET RISK

##### C. TREASURY RISK (COMPRISING BOTH LIQUIDITY AND MARKET RISK)

ScottishPower's senior management oversee the management of these risks. Further details of the policies in place to manage exposure to the key risks are detailed below.

During the year under review, the ScottishPower governance structure was supported by group risk policies adopted by the ScottishPower Board together with relevant risk guidelines that were approved by the ScottishPower Board. The risk limits and indicators within the guidelines were subsequently approved by the Boards of the group's businesses. ScottishPower's business risk assessment teams and the independent group risk management function support the ScottishPower Board in the execution of due diligence and risk management. In addition, the Boards of the group's businesses are responsible for ensuring that their respective business risks are adequately assessed, monitored, mitigated and managed. The UK Risk Director reports on risks for ScottishPower to the ScottishPower Audit and Compliance Committee and such reports are then presented to the ScottishPower Board. ScottishPower's internal audit function also objectively and independently supervises the effectiveness of the group's internal control system, which is made up of a set of risk management and control mechanisms and systems. This is achieved through regular and adhoc audits, the results of which are reported to the Audit and Compliance Committee.

The governance structure, described above, ensured that the risk management policies established for each business to identify, assess, monitor, report, manage and mitigate each of the various types of risk involved in its business were adequately designed and implemented and that an effective and efficient system of internal controls was maintained. The businesses adhered to their specific business risk limits and guidelines which were approved by the ScottishPower Board.

The position on risk and strategy for risk management were contained in the Risk Policy for Iberdrola's businesses in the UK (i.e. ScottishPower). The ScottishPower Board adopted these policies and they were implemented through a rigid risk governance structure, whereby responsibilities were vested with groups, committees and individuals on a global as well as a business level. Generally, the risk management policy and control environment ensures that transactions undertaken and instruments used fall into the types of transactions approved by the ScottishPower Board and are properly validated within the appropriate levels of authority. Transactions include instruments such as physically settled instruments, financially-settled instruments, other contractual obligations, regulatory requirements and other obligations. The types of instruments which can be used are approved for each business. Subject to the limit requirements discussed above, no transaction was executed unless it was an approved instrument. Authorised personnel were permitted to engage only in those activities specified in the business operational policies and procedures.

A clear reporting structure was implemented within ScottishPower. It ensures that the portfolios are monitored on a timely basis and sufficient information is made available to management to enable quick response of the business to the dynamic characteristics of its market environment. Those reports include daily position, mark-to-market, Value at Risk ("VaR") reports as well as periodical fundamentals reports, credit watch, credit exposure, accounting and insurance reports.

##### A. CREDIT RISK

Credit risk is the risk that a counterparty will not meet its contractual obligations under a financial instrument or customer contract, leading to a financial loss. The group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

The carrying amount of financial assets and contracts represent the maximum credit exposure to the group.

##### A1 CREDIT RISK MANAGEMENT

ScottishPower is exposed to both settlement risk (defined as the risk of a counterparty failing to pay for energy and/or services which have been delivered), as well as replacement risk (defined as the risk of incurring additional costs in order to replace a sale or purchase contract following a counterparty default).

Aggregate portfolio risk is monitored and reported by a Credit VaR Monte-Carlo based simulation model to quantify the total credit risk within the existing portfolio.

Further details on the credit risk management strategy adopted for significant types of financial asset are set out below.

- Exposure to credit risk in the supply of electricity and gas arises from the potential customer defaulting on their invoiced payables. The financial strength and credit-worthiness of business customers is assessed prior to commencing, and for the duration of, their contract of supply. Both domestic and business customers' credit worthiness is reviewed from a variety of internal and external information sources. Internal sources include customer payment history over the duration of the contract, and previous contracts. External information includes customer credit checks.
- Credit risk in respect of other customers is mitigated by contracting with multiple counterparties and limiting exposure to individual counterparties to clearly defined limits based upon the risk of counterparty default.
- Credit risk associated with energy-related derivatives is considered to be with counterparties in related energy industries, financial institutions operating in energy markets or fellow Iberdrola group companies. At the counterparty level ScottishPower employs specific eligibility criteria in determining appropriate limits for each prospective counterparty and supplements this with netting and collateral agreements including margining, guarantees, letters of credit and cash deposits where appropriate.
- Credit risk from balances with banks and financial institutions is managed by the group's treasury department in accordance with Iberdrola's cash investment procedure. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty by Corporate Risk Management.

# NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

## 9 FINANCIAL INSTRUMENTS *continued*

### (e) Financial risk management *continued*

#### A. CREDIT RISK *continued*

##### A1 CREDIT RISK MANAGEMENT *continued*

In both the current and prior year, ScottishPower evaluated the concentration of risk with respect to financial assets as low, with no material concentration of credit risk in ScottishPower arising from one particular counterparty.

##### A2 EXPECTED CREDIT LOSS ASSESSMENT

For trade receivables the group applies the simplified model for calculation of ECLs. For all other financial assets measured at amortised cost the group applies the general approach for calculation of ECLs.

Given the varying risk characteristics of the population of trade receivables this balance has been segmented for disclosure purposes into Energy Retail trade receivables and other trade receivables.

##### A3 ENERGY RETAIL TRADE RECEIVABLES

The group applies the IFRS 9 simplified model to measure ECLs, which uses a lifetime expected loss allowance, for all Energy Retail trade receivables.

The group has adopted the practical expedient whereby it calculates the ECL on Energy Retail's trade receivables using a provision matrix. The provision rates are based upon the customer's payment plan, historical credit loss experience and where possible, adjusted for available forecast information. To establish levels of ECLs the recoverability of equivalent balances from the previous three years has been reviewed.

For large business customers the provision is based upon external credit scoring. The Energy Retail Credit Risk team and the Corporate Risk team also remain vigilant in tracking any liquidity issues on existing customers to identify any pre-emptive actions required. Pre-emptive actions include putting collateral or letters of credit arrangements in place. These receivables are included in the non-aged balances of the table below.

Set out below are the details of the credit risk exposure on Energy Retail's trade receivables:

	Current £m	More than 90 days past due £m	More than 180 days past due £m	More than 12 months past due £m	Non-aged balances Note (a) £m	Unbilled Note (b) £m	Total £m
<b>As at 31 December 2019</b>							
Weighted average expected loss rate (%)	7.5%	26.6%	36.8%	35.7%	1.5%	12.6%	16.5%
Gross carrying value: Trade Receivables	196.1	74.3	115.9	129.0	231.5	93.4	840.2
Loss allowance	(14.8)	(19.8)	(42.6)	(46.1)	(3.4)	(11.8)	(138.5)
Net carrying value	181.3	54.5	73.3	82.9	228.1	81.6	701.7
<b>As at 31 December 2018</b>							
Weighted average expected loss rate (%)	6.6%	26.6%	37.5%	40.0%	2.5%	5.8%	16.5%
Gross carrying value: Trade Receivables	140.8	64.4	109.2	106.9	158.4	171.5	751.2
Loss allowance	(9.3)	(17.1)	(40.9)	(42.8)	(4.0)	(10.0)	(124.1)
Net carrying value	131.5	47.3	68.3	64.1	154.4	161.5	627.1

(a) As at 31 December 2019 there is £1.6 million (2018 £1.2 million) that is neither past due nor impaired and £nil million (2018 £0.2 million) that is past due but not impaired.

(b) The gross carrying value includes unbilled receivables of £93.4 million (2018 £171.5 million) which is reflective of gross unbilled receivables of £582.0 million (2018 £616.4 million) less customer credit balances of £470.6 million (2018 £434.9 million) and a £18.0 million (2018 £10.0 million) provision in relation to energy volumes which have still to reach final settlement. The loss allowance in relation to unbilled receivables is £11.8 million (2018 £10.0 million). Further information on unbilled receivables, including sensitivity, is detailed in Note 21.

With the exception of large business customers, management considers that where customers are final and have not paid their bills within the last 18 months, collectability is not deemed to be reasonably assured and therefore amounts billed to these customers are written off as uncollectable.

##### A3.1 SENSITIVITY ANALYSIS ON ENERGY RETAIL'S LOSS ALLOWANCE – BILLED RECEIVABLES

Included within the gross carrying amount of trade receivables, within the credit risk exposure table above, £746.8 million (2018 £579.7 million) relates to billed receivables. The loss allowance in relation to billed receivables is £126.7 million (2018 £114.1 million).

In relation to billed receivables the actual level of receivables collected may differ from the estimated levels of recovery, which could impact operating profit positively or negatively. At 31 December, the loss allowance for billed receivables of £126.7 million (2018 £114.1 million) was supported by a projection based on a 36 month cash collection performance. Based on the weighted average loss rates in the table above a 5% increase in the overall expected loss rate would result in an increase to the loss allowance of £37.3 million (2018 £29.0 million). A 5% decrease would result in a decrease to the loss allowance of £37.3 million (2018 £29.0 million).

# NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

## 9 FINANCIAL INSTRUMENTS *continued*

### (e) Financial risk management *continued*

#### A CREDIT RISK *continued*

##### A4 OTHER TRADE RECEIVABLES

The group uses the simplified model to measure ECLs for all other trade receivables. The provision rates represent a lifetime ECL and are based on the Iberdrola group's historical loss experience and default rates.

The table below illustrates the ECL on other trade receivables:

	0-6 months £m	Greater than 6 months £m	Total £m
<b>As at 31 December 2019</b>			
Weighted average expected loss rate (%)	0.5%	37.8%	2.0%
Gross carrying value	310.5	13.5	324.0
Loss allowance	(1.4)	(5.1)	(6.5)
<b>Net carrying value</b>	<b>309.1</b>	<b>8.4</b>	<b>317.5</b>
<b>As at 31 December 2018</b>			
Weighted average expected loss rate (%)	0.7%	31.1%	1.8%
Gross carrying value	286.8	10.3	297.1
Loss allowance	(2.1)	(3.2)	(5.3)
<b>Net carrying value</b>	<b>284.7</b>	<b>7.1</b>	<b>291.8</b>

Other trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group.

Refer to the table on page 62 reconciling the movement in the opening to the closing loss allowance.

##### A5 SECURITY FOR TRADE RECEIVABLES

For some trade receivables the group may obtain security in the form of guarantees, or letters of credit which can be called upon if the counterparty is in default under the terms of the agreement (refer to Note 9(d)). The group does not otherwise require collateral in respect of trade and other receivables.

##### A6 OTHER RECEIVABLES (EXCLUDING CONTINGENT CONSIDERATION) £81.4 MILLION (2018 £55.9 MILLION)

For other receivables the general ECL model is used. The loss allowance is measured at an amount equal to twelve month ECL. However, if the credit risk on that financial instrument has increased significantly since initial recognition, the loss allowance is measured at an amount equal to the lifetime ECL.

The group allocates each exposure to a credit risk grade (probability of default grade) based on data that is determined to be predictive of the risk of loss (including but not limited to external ratings, and available press information about customers) and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. Where external ratings are not available the Iberdrola Credit Risk department provide the risk ratings. These ratings reflect historical data, current conditions and the group's view of economic conditions over the expected lives of the receivables. The loss allowance recognised on balance sheet is £2.5 million (2018 £2.6 million). The decrease from the prior year is due to a £0.1 million reversal in the provision arising from receipt of income for other receivables which have been previously written off.

##### A7 RECEIVABLES DUE FROM IBERDROLA GROUP COMPANIES AND JOINTLY CONTROLLED ENTITIES £8.6 MILLION (2018 £10.5 MILLION)

The loss allowance recognised on the balance sheet in both the current and prior year is less than £0.1 million as is the movement in the ECL in the year.

##### A8 CASH AND SHORT-TERM DEPOSITS £199.4 MILLION (£882.5 MILLION)

The group held cash and short-term deposits of £199.4 million (2018 £882.5 million). The cash and short-term deposits are held with banks, financial institutions and Iberdrola group companies, which are rated BBB- to AAA, based on Standard & Poor's ratings.

Impairment on cash and short-term deposits has been measured on a three month expected loss basis and reflects the short maturities of the exposures. The group considers that its cash and short-term deposits have low credit risk based on the external credit ratings of the counterparties.

The loss allowance recognised on the balance sheet in both the current and prior year is less than £0.1 million.

##### A9 GUARANTEES

The group's policy is to provide financial guarantees only for subsidiaries' liabilities.

# NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

## 9 FINANCIAL INSTRUMENTS *continued*

### (e) Financial risk management *continued*

#### A CREDIT RISK *continued*

##### A10 RECONCILIATION OF OPENING TO CLOSING LOSS ALLOWANCE

The closing loss allowances for all financial assets measured at amortised cost, as at 31 December 2019 reconciles to the opening loss allowances as follows:

	Note	Trade receivables £m	Other receivables £m	Total £m
Balance as at 1 January 2018		126.8	3.0	129.8
Increase/(decrease) in loss allowance recognised in the income statement	(a)	62.5	(0.4)	62.1
Utilisation of provision		(59.9)	–	(59.9)
Balance as at 1 January 2019		129.4	2.6	132.0
Increase/(decrease) in loss allowance recognised in the income statement	(a)	75.0	–	75.0
Utilisation of provision		(59.4)	–	(59.4)
Reversal of provision		–	(0.1)	(0.1)
<b>At 31 December 2019</b>		<b>145.0</b>	<b>2.5</b>	<b>147.5</b>

(a) Impairment losses on trade and other receivables per the consolidated income statement of £70.5 million (2018 £59.5 million) also includes £4.6 million (2018 £2.6 million) of associated credit balances and £0.1 million (2018 £nil) of additional bad debt write offs.

The overall increase in the loss allowance of £15.5 million from prior year is directly related to the rise in gross carrying value of trade and other receivables offset by the receipt of income for receivables which were previously fully provided for.

##### A11 CONTINGENT CONSIDERATION

As part of the share purchase agreement in relation to the sale of a minority stake in EA1L a contingent consideration was agreed. Payment of this consideration is principally based on savings made on the project's forecasted spend which was agreed as part of the share purchase agreement.

The contingent consideration was fair valued using a Monte-Carlo simulation model which is a risk and probability based model. The main risks inherent in the model are the potential adverse impacts from delay and weather resulting in overspend. As at the transaction date the fair value of the contingent consideration was estimated to be £26.1 million (refer to Note 14).

As at 31 December 2019 the fair value of the contingent consideration was estimated to be £26.8 million reflecting the ongoing mitigation of possible risks as the project moves forward towards completion.

The contingent consideration is due for the final measurement and payment when the EA1 wind farm becomes fully operational which is expected to be during 2020.

#### B ENERGY MARKET RISK

Throughout 2019 and the prior year ScottishPower was exposed to market risk associated with fluctuations in the market price of electricity and generation fuel compounded by volumetric risk caused by unplanned changes in the load and output of the portfolio of generation assets.

##### B1 ENERGY MARKET RISK MANAGEMENT

The risk management policies are implemented at the business level with the oversight of the businesses' Boards, management teams and the independent risk management function. ScottishPower uses a number of risk measurement procedures and techniques to ensure that risk is kept within pre-approved limits. The key measures are stop loss limits and volume exposure by tenor limits. All valuation models are reviewed and approved by the independent group Risk Management function on an ongoing basis, including changes to assumptions and model inputs. Changes that could have had significant impact on the Accounts required additional review and approval by the appropriate Boards.

During both the current and prior year the Risk Management function employed additional techniques such as VaR, to assist in measuring risk within the volume exposure by tenor limits. VaR is a key measure of the potential financial loss on a price exposure position over a defined period to a given level of confidence. VaR computations for ScottishPower's energy commodity portfolios were based on a historical simulation technique, which utilised historical energy market forward price curve changes to estimate the potential unfavourable impact of price changes in the portfolio positions. The quantification of market risk using VaR provided a consistent measure of risk and sensitivity across ScottishPower's continually changing portfolio, however, VaR was not necessarily indicative of actual results that may occur. Future changes in markets inconsistent with historical data or assumptions used could cause variation in actual results to exceed predicted ranges. ScottishPower's VaR computations for its energy commodity portfolio utilised several key assumptions, including a 99% confidence level for the resultant price changes and a holding period of five business days. VaR, while sensitive to changes in portfolio volume, does not account for commodity volume risk. Commodity volume risk is defined as the possibility that a change in the supply of, or demand for, the commodity will create an unexpected imbalance and change the requirements for the commodity.

The application of the VaR methodology evolved to include the total forecasted volumes for the generation assets and retail contracts to provide a more accurate measure of the risk associated with the volume exposure by tenor limits. ScottishPower's VaR measures are shown in the table below.

	2019 £m	2018 £m
VaR	29.3	20.3
Average VaR over prior year	33.9	21.9
Maximum VaR over prior year	43.0	33.6
Minimum VaR over prior year	26.8	11.8



# NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

## 9 FINANCIAL INSTRUMENTS *continued*

### (e) Financial risk management *continued*

#### B ENERGY MARKET RISK *continued*

##### B2 HEDGING OF ENERGY MARKET RISK

Hedging activities associated with energy market risk are undertaken within the energy management function. The strategy of the business is to mitigate the economic risks associated with electricity generation, purchase of fuel and supply of electricity and natural gas to end users in both the wholesale and retail markets. From a reporting perspective the objective is to report earnings results that are consistent with its operational strategies and hence recognise the earnings effect of financial and non-financial derivative transactions executed to hedge economic business risks in the same period in which the hedged operational activity impacts earnings. The aim is to minimise earnings volatility, which would otherwise be present as a result of fair valuing all derivative contracts under IFRS 9. To achieve this objective, where effectiveness documentation and reporting requirements are met, cash flow hedge accounting is applied by designation of a series of derivative trades and deferring in equity the fair value changes of open derivative positions until the period in which the forecast transactions occur.

Cash flow hedging strategies are developed for each of the electricity, natural gas, and carbon allowances portfolios to hedge the variability in cash flows associated with changes in the market price of each commodity. Forward (fixed price/fixed volume) contracts are designated as hedging instruments for the electricity, gas, and carbon hedges.

##### B3 COMMODITY CASH FLOW HEDGES

Certain commodity derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement and are included in gross margin.

For an analysis of the split of the carrying value of hedging and non-hedging commodity derivatives refer to Note 9(c).

The amounts relating to commodity derivatives designated as hedging instruments during the year are detailed in the table below:

	Notes	2019 Hedging derivatives £m	2018 Hedging derivatives £m
Notional amount		1,491.5	1,844.4
Carrying amount – asset	(a)	69.4	149.7
Carrying amount – liability	(a)	(286.9)	(76.9)
Changes in the value of the hedging instrument recognised in OCI	(b)	290.3	(17.8)
Hedge ineffectiveness income recognised in the income statement	(c)	–	2.2
Amount reclassified from cash flow hedge reserve to income statement	(c), (d)	246.6	(135.6)

(a) The carrying amount of derivative assets and liabilities are recorded within Derivative financial instruments on the balance sheet.

(b) This is consistent with the change in the fair value of the hedging instrument used to calculate ineffectiveness.

(c) The hedge ineffectiveness income of £2.2 million recognised through the income statement in 2018 was included within Procurements.

(d) The amount reclassified from the cash flow hedge reserve to the income statement of £246.6 million (2018 (£135.6) million) is recorded within Gross margin.

The amounts at the reporting date relating to commodity items designated as hedged items were as follows:

Line item in the Accounts in which the hedged item is/will be included	Change in fair value used for calculating hedge ineffectiveness		Cash flow hedge reserve balance	
	2019 £m	2018 £m	2019 £m	2018 £m
Gross margin	(290.3)	17.8	(223.3)	67.5

The assessment of effectiveness of all hedging relationships currently in place is carried out on a monthly basis as part of the financial reporting cycle. Prospective assessment is carried out at inception of the hedge and on an ongoing basis to verify that the hedge remains effective.

The group determines that the economic relationship between the hedging instrument (the commodity derivative) and the hedged item (the commodity purchases) will virtually always achieve 100% effectiveness.

Ineffectiveness will arise if the trade has been cancelled, in which case there would be no future transaction. In such circumstances, the trade and the hedge would be eliminated from the accounts. Ineffectiveness will also arise if the group receive notification that the business have been unable to obtain a reliable price forecast from market sources or if there is a change to the Group Risk Management Strategy.

##### B3.1 SENSITIVITY ANALYSIS ON COMMODITY PRICES

The sensitivity on the consolidated results to changes in the market prices of the main commodities are as follows:

Commodity	Variation in price	2019		2018	
		Impact on profit before taxes £m	Impact on equity before taxes £m	Impact on profit before taxes £m	Impact on equity before taxes £m
Gas	+5%	–	10.9	+5%	0.1
	-5%	–	(10.9)	-5%	(0.1)
Electricity	+5%	–	21.5	+5%	–
	-5%	–	(21.5)	-5%	–

# NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

## 9 FINANCIAL INSTRUMENTS *continued*

### (e) Financial risk management *continued*

#### C TREASURY RISK

Treasury risk is comprised of liquidity risk and market risk. ScottishPower's cash management and short-term financing activity is integrated with Iberdrola's. ScottishPower's financing structure is determined by its position in the wider Iberdrola group. The group produces short-term rolling cash flow requirements and, if necessary, any required funding is obtained via the group credit facilities already in place. The company holds investment grade ratings with Moody's Investor Services (Baa1), Standard & Poor's rating services (BBB+) and Fitch Ratings (BBB+).

#### C1 TREASURY LIQUIDITY RISK MANAGEMENT

ScottishPower's liquidity position and short-term financing activities are integrated and aligned with Iberdrola's. Liquidity risk, the risk that ScottishPower will have insufficient funds to meet its liabilities, is managed by Iberdrola group Treasury, who are responsible for arranging banking facilities on behalf of ScottishPower. For the purposes of ScottishPower, Iberdrola is the principal counterparty for the loan balances due to and from the subsidiaries of ScottishPower Limited.

The tables below summarise the maturity profile of ScottishPower's financial liabilities as at 31 December based on contractual undiscounted payments.

#### C1.1 FINANCIAL LIABILITIES (EXCLUDING COMMODITY DERIVATIVES)

	2019						Total £m
	2020 £m	2021 £m	2022 £m	2023 £m	2024 £m	2025 and thereafter £m	
<b>Cash outflows</b>							
Derivative financial instruments (excluding commodity derivatives)*	131.7	8.2	—	—	—	—	139.9
Loans and other borrowings	354.0	677.1	666.2	578.7	464.4	3,105.3	5,845.7
Payables**	1,238.6	4.3	2.6	—	—	—	1,245.5
	1,724.3	689.6	668.8	578.7	464.4	3,105.3	7,231.1

	2018						Total £m
	2019 £m	2020 £m	2021 £m	2022 £m	2023 £m	2024 and thereafter £m	
<b>Cash outflows</b>							
Derivative financial instruments (excluding commodity derivatives)*	9.1	0.1	—	—	—	—	9.2
Loans and other borrowings	2,298.0	177.5	468.2	649.8	371.7	2,761.5	6,726.7
Payables**	1,171.6	3.3	2.4	1.7	—	—	1,179.0
	3,478.7	180.9	470.6	651.5	371.7	2,761.5	7,914.9

\* The above liquidity analysis is stated after the impact of counterparty netting (refer to Note 9(d)).

\*\* Contractual cash flows exclude accrued interest as these cash flows are included within Loans and other borrowings.

The interest payments on variable interest rate loans and bond issues in the table above reflect market forward interest rates at the reporting date and these amounts may change as market interest rates change.

The future cash flows on derivative instruments (including commodity derivatives below) may be different from the amounts in the table as interest rates and exchange rates or the relevant conditions underlying the calculation change. Except for these financial liabilities, it is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

#### C1.2 COMMODITY DERIVATIVES

ScottishPower believes the liquidity risk associated with commodity derivatives needs to be considered in conjunction with the profile of payments in relation to all derivative contracts rather than only those in a liability position. It should be noted that cash flows associated with future energy sales and commodity contracts which are not IFRS 9 financial instruments are not included in this analysis, which is prepared in accordance with IFRS 7 'Financial Instruments: Disclosures' ('IFRS 7').

	2019						Total £m
	2020 £m	2021 £m	2022 £m	2023 £m	2024 £m	2025 and thereafter £m	
<b>Net cash outflows/(inflows)</b>	680.4	141.5	19.5	(6.3)	(8.7)	(34.7)	791.7

	2018						Total £m
	2019 £m	2020 £m	2021 £m	2022 £m	2023 £m	2024 and thereafter £m	
<b>Net cash outflows</b>	891.0	265.4	50.6	2.3	—	—	1,209.3

Details of ScottishPower's contractual commitments are given in Note 31.

#### C2 TREASURY MARKET RISK MANAGEMENT

Market risk is the risk of loss that results from changes in market rates (interest rates and foreign currency). Within the Treasury function ScottishPower utilises a number of financial instruments to manage interest rate and foreign currency exposures.

# NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

## 9 FINANCIAL INSTRUMENTS *continued*

### (e) Financial risk management *continued*

#### C TREASURY RISK *continued*

##### C2.1 INTEREST RATE RISK

In order to adequately manage and limit this risk, the Iberdrola group annually determines the desired structure of the debt between fixed and floating interest rates, taking into account the indexing of income either interest rate or price index. ScottishPower Treasury then take actions over the course of the year to work towards these desired Iberdrola group ratios. Actions to be carried out over the course of a year may include obtaining new sources of financing (at a fixed, floating or indexed rate) and/or utilising interest rate derivatives. The table below shows the debt structure of ScottishPower after taking hedging derivatives into account.

##### (i) Interest rate analysis of debt

	2019 £m	2018 £m
Fixed rate	3,240.8	2,892.8
Variable rate	1,347.4	2,567.8
	4,588.2	5,460.6

The group's borrowings are held at amortised cost. The reference interest rates for the floating rate borrowings are London Inter-Bank Offer Rate ("LIBOR"), Euro Bank Offered Rate ("EURIBOR"), Bank of England Base Rate ("Base") and Retail Prices Index ("RPI").

The variable rate debt consists of a £92.2 million (2018 £101.7 million) Japanese Yen ("JPY") loan, £300.8 million (2018 £293.3 million) inflation linked bonds, £860.4 million (2018 £2,055.5 million) LIBOR debt, £45.8 million (2018 £67.7 million) EURIBOR debt and a £48.2 million (2018 £49.6 million) loan linked to Base.

##### (ii) Sensitivity analysis on interest rate changes

The table below illustrates the impact on the annual interest rate charge considering various rate changes. The analysis assumes all other factors remain constant.

Debt Category	Interest Rate	Change In rate	Impact on interest rate charge in 2019 £m	Impact on interest rate charge in 2018 £m
JPY Debt	(a)	+0.25%	0.1	0.1
		+0.50%	0.3	0.3
		-0.25%	(0.1)	(0.1)
		-0.50%	(0.3)	(0.3)
Inflation linked bonds	RPI	+0.25%	0.8	0.7
		+0.50%	1.5	1.5
		-0.25%	(0.8)	(0.7)
		-0.50%	(1.5)	(1.5)
LIBOR/EURIBOR debt (excluding JPY debt)	LIBOR/EURIBOR	+0.25%	2.3	5.3
		+0.50%	4.5	10.6
		-0.25%	(2.3)	(5.3)
		-0.50%	(4.5)	(10.6)
Short-term variable rate debt	Base	+0.25%	0.1	0.1
		+0.50%	0.2	0.2
		-0.25%	(0.1)	(0.1)
		-0.50%	(0.2)	(0.2)

(a) The interest on the JPY debt is fixed, however this is changed to variable by a cross currency swap. Interest is based on the Sterling LIBOR curve.

##### C2.2 FOREIGN CURRENCY RISK

The group is exposed to transactional foreign currency risk to the extent that there is a mismatch between the currencies in which purchases and borrowings are denominated. The currencies in which these transactions are primarily denominated are Euro, US dollars and Japanese Yen. ScottishPower board policy stipulates that there should be no significant exposure to foreign currency balances and therefore Treasury will hedge all foreign currency payments and contracts which have a (cumulative) value greater than a sterling equivalent of a quarter of a million pounds.

##### (i) Hedging of foreign currency risk

The group uses a combination of foreign currency swaps and foreign currency forwards to hedge its exposure to foreign currency risk. Under the group's policy, the critical terms of the forwards and options must align with the hedged items.

For Treasury related items (hedging the value of currency denominated intercompany loans) the group only designates the spot component of foreign currency forwards in hedge relationships. The spot component is determined with reference to relevant spot market exchange rates. The differential between the contracted forward rate and the spot market exchange rate is defined as the forward points.

The changes in the forward element of the foreign currency forwards that relate to hedged items are deferred in the costs of hedging reserve.

The group also enters into foreign currency forwards in relation to commodity and asset purchases and other small items of general expenditure. For such items the group designates the entire value of the foreign currency forward in the hedge relationship.

Some foreign currency forwards do not satisfy the requirements for hedge accounting (economic hedges) under IFRS 9. These foreign currency forwards are subject to the same risk management policies as all other derivative contracts. However, they are accounted for as held for trading with gains (losses) recognised in the income statement.

# NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

## 9 FINANCIAL INSTRUMENTS *continued*

### (e) Financial risk management *continued*

#### C TREASURY RISK *continued*

#### C2 TREASURY MARKET RISK MANAGEMENT *continued*

##### (i) Hedging of foreign currency risk *continued*

The table below illustrates the timing of the notional amount of the hedging instrument and the average forward price of the hedging instrument.

As at 31 December 2019	Notional amount of hedging instrument (maturity profile) £million					Total
	1 year	2 years	3 years	4 years	5 years+	
USD	20.5	9.1	–	–	51.4	81.0
EUR	113.3	8.7	–	–	–	122.0
DKK	1.7	2.0	–	–	–	3.7
	135.5	19.8	–	–	51.4	206.7

As at 31 December 2019	Average forward price (exchange rate)				
	1 year	2 years	3 years	4 years	5 years+
USD (GBP:USD)	1.33	1.44	–	–	1.59
EUR (GBP:EUR)	1.13	1.07	–	–	–
DKK (GBP:DKK)	8.63	8.72	–	–	–

Further details on the group's foreign currency cash flow hedges and fair value hedges are set out below and on the following page.

##### (ii) Foreign exchange rate cash flow hedges

Hedging of commodity purchases: Where commodities are priced in a currency other than sterling, the foreign exchange risk may be hedged using forward foreign exchange contracts. These are designated as cash flow hedges where they comply with the requirements of IFRS 9.

Hedging of asset purchases: ScottishPower is subject to cash flow risk resulting from the purchase of various assets which are denominated in foreign currencies. The risk being hedged relates to the fluctuation in the functional currency terms of value of these foreign currency denominated purchases. ScottishPower enters into forward foreign exchange rate contracts to hedge those risks.

Hedging the value of foreign currency denominated intercompany loans: ScottishPower has provided funding to or received funding from other Iberdrola companies denominated in currencies other than Sterling. The value of ScottishPower's assets or liabilities in relation to this funding is subject to foreign exchange risk. As a result, the group enters into foreign exchange rate contracts and has designated those within a cash flow hedging relationship where they meet required hedging criteria.

For an analysis of the split of the carrying value of forward foreign exchange contracts please refer to Note 9(c).

The amounts relating to foreign exchange rate derivatives designated as cash flow hedges during the year are detailed in the table below.

	Notes	2019 Hedging derivatives £m	2018 Hedging derivatives £m
Notional amount		155.3	256.5
Carrying amount – asset	(a)	1.1	5.2
Carrying amount – liability	(a)	(5.3)	(0.6)
Changes in the value of the hedging instrument recognised in OCI	(b)	6.3	(1.6)
Hedge ineffectiveness income/(cost) recognised in the income statement	(c)	0.1	(0.3)
Amount reclassified from cash flow hedge reserve to income statement	(d)	0.2	1.6
Amount reclassified from cash flow hedge reserve to balance sheet	(e)	(18.4)	(1.7)

(a) The carrying amount of derivative assets and liabilities are recorded within Derivative financial instruments on the balance sheet.

(b) This is consistent with the change in the fair value of the hedging instrument used to calculate ineffectiveness for hedging of asset purchases and hedging of commodity purchases.

(c) The hedge ineffectiveness income/(cost) recognised through the income statement is £0.1 million (2018 (£0.3) million), £0.2 million is included within Finance income and £(0.1) million is included within Finance costs (2018 £(0.3) million).

(d) The amount reclassified from the cash flow hedge reserve to the income statement is recorded within External services £0.1 million (2018 (£0.2) million), Gross margin £nil (2018 £0.2 million) and Finance costs £0.1 million (2018 £1.6 million).

(e) The amount reclassified from the cash flow hedge to balance sheet is included within Intangibles £0.1 million (2018 £nil) and Property, plant and equipment in the course of construction £18.3 million (2018 £1.7 million).

The amounts at the reporting date relating to foreign exchange items designated as hedged items were as follows:

Line item in the Accounts in which the hedged item is/will be included	Note	Change in fair value used for calculating hedge ineffectiveness		Cash flow hedge reserve balance	
		2019 £m	2018 £m	2019 £m	2018 £m
Property, plant and equipment in the course of construction		(5.2)	0.6	27.3	52.3
Property, plant and equipment in use		(0.2)	0.1	(0.1)	0.2
External services		(0.9)	0.9	1.3	1.9
		(6.3)	1.6	28.5	54.4
Less non-controlling interest share of cash flow hedge reserve	(a)	–	–	8.0	–
Less impact of partial disposal of subsidiary	(a)	–	–	(18.2)	–
Total		(6.3)	1.6	18.3	54.4

(a) Refer to Note 12(e).

## NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

### 9 FINANCIAL INSTRUMENTS *continued*

#### (e) Financial risk management *continued*

##### C TREASURY RISK *continued*

##### C2 TREASURY MARKET RISK MANAGEMENT *continued*

##### C2.2 FOREIGN CURRENCY RISK *continued*

##### (ii) Foreign exchange rate cash flow hedges *continued*

ScottishPower determines that the economic relationship between the hedging instrument (the foreign exchange rate forward contract) and the hedged item (the commodity purchases/asset purchase) will virtually always achieve 100% effectiveness. This is because the group compares movements in the fair value of the expected highly probable forecast foreign currency cash flows, with movements in the fair value of the expected changes in cash flows from the hedging instrument. Forecast future foreign currency cash flows are largely based upon contractual obligations.

Ineffectiveness will arise if the trade has been cancelled, in which case there would be no future transaction. Ineffectiveness will also arise if ScottishPower receive notification that the business has been unable to obtain a reliable price forecast from market sources or if there is a change to the group Risk Management Strategy.

##### (iii) Fair value hedges

Hedging the value of cross currency debt: ScottishPower has issued debt instruments denominated in JPY. The value of ScottishPower's liability with respect to those instruments is subject to foreign exchange risk and interest rate risk. As a result, the group has entered into cross-currency swaps and has designated these within a fair value hedging relationship where they meet the required hedging criteria to mitigate this risk. The carrying value of the associated 10 billion JPY loan is £92.2 million (2018 £101.7 million).

	Notes	As at 31 December 2019	As at 31 December 2018
Notional amount (£m)		51.4	51.4
Carrying amount – asset (£m)	(a)	46.3	52.0
Change in fair value of the hedging instrument used in calculating hedge ineffectiveness (£m)		4.4	(2.5)
Change in fair value of hedged item used to calculate ineffectiveness (£m)	(b)	(4.4)	2.5
Hedge ratio		1:1	1:1
Average hedge rate for the year (£:JPY)		1:194.55	1:194.55

(a) The carrying value of the fair value currency swap is included within Derivative financial instruments on the balance sheet.

(b) In both the current and prior year the change in value of hedged items used to calculate hedge ineffectiveness is included within Loans and other borrowings.

##### (iv) Hedge assessment on foreign currency derivatives

Hedge assessment on foreign currency derivatives is done prospectively to verify that the forecast transactions are still highly probable of occurring (for cash flow hedges) as well as retrospectively, to assess the effectiveness in the period under review. Prospective assessment is performed using sensitivity analysis and critical terms matching.

##### (v) Sensitivity analysis on foreign currency cash flows

No sensitivity analysis has been performed in relation to changes in foreign exchange rates as almost all foreign currency purchases and all foreign currency loans are hedged. Therefore, there is immaterial financial exposure. Any movement in the value of the hedged item would be compensated for by movement in the value of the hedging instrument.

Foreign currency cash balances held are so small any movement in foreign exchange rates would result in an insignificant movement in the income statement in both the current and prior year (less than £0.1m before tax).

### 10 TRADE AND OTHER RECEIVABLES

	Notes	2019 £m	2018 £m
<b>Current receivables:</b>			
Receivables due from Iberdrola group companies – trade		5.0	4.4
Receivables due from Iberdrola group companies – interest		–	0.1
Receivables due from jointly controlled entities – trade		1.0	3.2
Receivables due from jointly controlled entities – other		0.8	2.8
Trade receivables (including accrued income)	(a)	1,019.2	918.9
Prepayments		21.8	27.0
Other tax receivables		18.6	18.3
Other receivables	(b)	26.8	–
	(c)	1,093.2	974.7
<b>Non-current receivables:</b>			
Receivables due from jointly controlled entities – trade		1.8	–
Prepayments		9.0	16.5
Other receivables	(d)	81.4	55.9
		92.2	72.4

(a) Certain trade receivables and payables are presented net on the balance sheet when the offsetting criteria under IAS 32 are met (refer to Note 3H3.5). A reconciliation between the gross and net position is provided in Note 9(d).

(b) This balance represents the contingent consideration on the sale of 40% of the share capital of EA1L (refer to Notes 9(e) A11 and 14).

(c) Trade and other receivables includes £851.0 million (2018 £746.0 million) of IFRS 15 receivables (refer to Note 21(c)).

(d) This balance represents other receivables recognised as part of a contractual renegotiation.

(e) Information about the group's exposure to credit and market risks, and impairment losses for trade and other receivables are included in Note 9(e).

# NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

## 11 INVENTORIES

	Notes	2019 £m	2018 £m
Fuel stocks		8.8	15.4
ROCs		241.2	223.4
Other inventories	(a)	713.3	531.8
	(b)	963.3	770.6

(a) Other inventories primarily comprise a transmission asset which will be sold to an offshore transmission operator once it has been completed.

(b) Inventories with a value of £452.5 million (2018 £457.9 million) were recognised as an expense during the year.

## 12 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF SCOTTISH POWER LIMITED

	Share capital £m	Share premium (Note (a)) £m	Hedge reserve (Note (b)) £m	Other reserves (Note (c)) £m	Retained earnings (Note (d)) £m	Total £m
At 1 January 2018	1,779.1	2,881.0	86.0	743.3	496.7	5,986.1
Profit for the year attributable to the equity holders of Scottish Power Limited	-	-	-	-	805.3	805.3
Changes in the value of cash flow hedges	-	-	15.5	-	-	15.5
Actuarial losses on retirement benefits	-	-	-	-	(48.2)	(48.2)
Tax on items relating to cash flow hedges	-	-	(3.0)	-	-	(3.0)
Tax on items relating to actuarial losses on retirement benefits	-	-	-	-	8.2	8.2
Realisation of revaluation reserve	-	-	-	(5.7)	-	(5.7)
Dividends	-	-	-	-	(396.0)	(396.0)
At 1 January 2019	1,779.1	2,881.0	98.5	737.6	866.0	6,362.2
Adjustment due to IFRS 16	-	-	-	-	(1.9)	(1.9)
Adjusted balance at 1 January 2019	1,779.1	2,881.0	98.5	737.6	864.1	6,360.3
Profit for the year attributable to the equity holders of Scottish Power Limited	-	-	-	-	522.7	522.7
Changes in the value of cash flow hedges	-	-	(304.9)	-	-	(304.9)
Actuarial losses on retirement benefits	-	-	-	-	(252.7)	(252.7)
Tax on items relating to cash flow hedges	-	-	55.0	-	-	55.0
Tax on items relating to actuarial losses on retirement benefits	-	-	-	-	36.9	36.9
Gain on partial disposal of subsidiary (refer to Note 14)	-	-	(18.2)	-	466.9	448.7
Tax on gain on partial disposal of subsidiary (refer to Note 14)	-	-	3.5	-	-	3.5
Dividends	-	-	-	-	(342.0)	(342.0)
At 31 December 2019	1,779.1	2,881.0	(166.1)	737.6	1,295.9	6,527.5

(a) The share premium account represents consideration received for shares issued in excess of their nominal amount.

(b) 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.

(c) Other reserves at 31 December 2019 comprises a merger reserve of £406.5 million (2018 £406.5 million), and a capital redemption reserve of £331.1 million (2018 £331.1 million). The merger reserve comprises the difference arising on the accounting for the company's acquisition of subsidiary entities following a previous group restructure. The capital redemption reserve represents the cumulative nominal value of shares repurchased and cancelled by the company.

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

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

	Cost of hedging reserve £m	Commodity hedges £m	Foreign exchange rate hedges £m	Gross value of hedges £m	Tax effect £m	Total £m
<b>Analysis of cash flow hedge reserve</b>						
At 1 January 2018	-	54.8	51.6	106.4	(20.4)	86.0
Effective cash flow hedges recognised	-	150.5	4.2	154.7	(29.5)	125.2
De-designated cash flow hedges	-	(2.2)	0.3	(1.9)	0.4	(1.5)
Removed from equity and recognised in income statement	-	(135.6)	-	(135.6)	25.8	(109.8)
Removed from equity and recognised in carrying amount of hedged items	-	-	(1.7)	(1.7)	0.3	(1.4)
Cost of hedging reserve – change in fair value	(1.6)	-	-	(1.6)	0.3	(1.3)
Cost of hedging reserve – reclassified to income statement	1.6	-	-	1.6	(0.3)	1.3
At 1 January 2019	-	67.5	54.4	121.9	(23.4)	98.5
Effective cash flow hedges recognised	-	(537.4)	(7.5)	(544.9)	95.4	(449.5)
De-designated cash flow hedges	-	-	(0.1)	(0.1)	-	(0.1)
Removed from equity and recognised in income statement	-	246.6	0.1	246.7	(43.2)	203.5
Removed from equity and recognised in carrying amount of hedged items	-	-	(18.4)	(18.4)	3.2	(15.2)
Cost of hedging reserve – change in fair value	3.7	-	-	3.7	(0.6)	3.1
Cost of hedging reserve – reclassified to Income Statement	0.1	-	-	0.1	-	0.1
Gain on partial disposal of subsidiary (refer to Note 14)	-	-	(18.2)	(18.2)	3.5	(14.7)
Non-controlling interests share of cash flow hedges	-	-	8.0	8.0	(1.6)	6.4
Change in tax rate	-	-	-	-	1.8	1.8
At 31 December 2019	3.8	(223.3)	18.3	(201.2)	35.1	(166.1)

# NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

## 12 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF SCOTTISH POWER LIMITED *continued*

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

	2019 £m	2018 £m
Less than 1 year	(159.2)	62.4
1-2 years	(10.3)	33.2
2-3 years	0.3	3.0
3-4 years	0.1	(0.1)
4-5 years	(0.1)	–
Over 5 years	3.1	–
	<b>(166.1)</b>	<b>98.5</b>

## 13 SHARE CAPITAL

	2019 £m	2018 £m
<b>Allotted, called up and fully paid shares:</b>		
2,746,197,793 ordinary shares of 42p each (2018 2,746,197,793)	<b>1,153.4</b>	<b>1,153.4</b>
4,330,935,176,274 ordinary shares of 42/2907p each (2018 4,330,935,176,274)	<b>625.7</b>	<b>625.7</b>
	<b>1,779.1</b>	<b>1,779.1</b>

(a) Holders of these ordinary shares are entitled to dividends as declared from time to time; amounts on the capitalisation of profits and reserves; and notice and attendance at general meetings of the company, with every member entitled to one vote on a show of hands and on a poll one vote for every share held.

## 14 NON-CONTROLLING INTERESTS

	Notes	East Anglia One Limited £m	Other £m	Total £m
At 1 January 2018		–	0.9	0.9
Net profit for the year		–	0.3	0.3
Dividends		–	(0.2)	(0.2)
At 1 January 2019		–	1.0	1.0
Acquisition	(a)	–	0.3	0.3
Net profit for the year		3.0	0.2	3.2
Partial disposal of subsidiary	(b)	151.2	–	151.2
Share capital issued	(c)	717.0	–	717.0
Changes in the values of cash flow hedges		(6.4)	–	(6.4)
<b>At 31 December 2019</b>		<b>864.8</b>	<b>1.5</b>	<b>866.3</b>

(a) On 20 May 2019, the group acquired 72% of the share capital of Douglas West Extension Limited.

(b) On 30 August 2019, the group sold 40% of the total share capital and loan notes of EA1L to Bilbao Offshore Holding Limited ("BOHL") for a total consideration of £1,161.5 million.

The total consideration was made up as follows:

	£m
Cash consideration received for share capital	591.5
Cash consideration received for outstanding loan notes	543.9
Contingent consideration at the transaction date	26.1
<b>Total consideration</b>	<b>1,161.5</b>

The above transaction had no impact on the consolidated results of the ScottishPower group as it consisted of the sale of a minority interest, with ScottishPower retaining control over EA1L (refer to Note 2D). The impact on the consolidated statement of changes in equity is an increase in net equity attributable to minority interest of £151.2 million, an increase in retained earnings amounting to £466.9 million (including transaction costs of £14.2 million) and a decrease in the cash flow hedge reserve of £14.7 million. Further detail in relation to the contingent consideration can be found in Note 9(e) A11.

(c) Immediately following completion of the transaction noted at (b) above, EA1L issued a total of 13,597,222,204,500 ordinary shares of £0.0001 to its immediate parent SPRUKL and BOHL in exchange for the repayment and cancellation of the outstanding loan notes for a total value of £1,359.7 million. In subsequent months, a further 4,328,000,000,000 ordinary shares of £0.0001 were issued to EA1L's immediate parent companies SPRUKL and BOHL for a total consideration of £432.8 million. BOHL purchased 40% of the total share capital issued on these dates thus maintaining its 40% ownership share of EA1L.

# NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

## 14 NON-CONTROLLING INTERESTS *continued*

(d) The following table summarises financial information relating to EA1L for the year ending 31 December 2019, before any intra-group eliminations. None of the group's other subsidiaries that have a non-controlling interest are considered to be material to the group.

	2019 £m	2018 £m
Non-current assets	1,494.5	710.5
Current assets	739.0	531.1
Non-current liabilities	(86.4)	(12.1)
Current liabilities	(325.5)	(1,190.8)
<b>Net assets</b>	<b>1,821.6</b>	<b>38.7</b>
Net assets attributable to non-controlling interest	728.6	–
Revenue	18.3	–
Net profit/(loss) for the year	1.6	(0.4)
Other comprehensive income	(17.6)	–
<b>Total comprehensive income</b>	<b>(16.0)</b>	<b>(0.4)</b>
Profit allocated to non-controlling interest	0.6	–
Other comprehensive income allocated to non-controlling interest	(7.0)	–
Cash flows from operating activities	(195.0)	(313.6)
Cash flows from investing activities	(565.5)	(273.4)
Cash flows from financing activities	777.5	587.0
<b>Net increase in cash and cash equivalents</b>	<b>17.0</b>	<b>–</b>

## 15 DEFERRED INCOME

Year ended 31 December 2018	Note	At 1 January 2018 £m	Receivable during year £m	Released to income statement £m	Disposal of subsidiaries (Note (a)) £m	At 31 December 2018 £m
Capital grants		0.4	0.1	(0.1)	(0.4)	–
Transfer of assets from customers	(b)	1,183.2	68.9	(39.1)	–	1,213.0
Emissions allowances allocated		–	0.1	(0.1)	–	–
<b>Total deferred income</b>		<b>1,183.6</b>	<b>69.1</b>	<b>(39.3)</b>	<b>(0.4)</b>	<b>1,213.0</b>

Year ended 31 December 2019	Note	At 1 January 2019 £m	Receivable during year £m	Released to income statement £m	At 31 December 2019 £m
Transfer of assets from customers	(b)	1,213.0	95.1	(41.5)	1,266.6
Emissions allowances allocated		–	0.3	(0.3)	–
<b>Total deferred income</b>		<b>1,213.0</b>	<b>95.4</b>	<b>(41.8)</b>	<b>1,266.6</b>

(a) On 31 December 2018, the group disposed of its subsidiaries ScottishPower Generation Limited and SMW Limited (refer to Note 28).

(b) Transfer of assets from customers is an IFRS 15 contract liability (refer to Note 21(c)).

## 16 RETIREMENT BENEFIT OBLIGATIONS

### (a) Analysis of balance

The amounts recognised in the balance sheet in respect of retirement benefit obligations are detailed below:

	2019 £m	2018 £m
Non-current liabilities	651.7	512.7

### (b) Group pension arrangements

ScottishPower operates the following pension schemes for staff:

Scheme	Scottish Power Pension Scheme ("SPPS")	Manweb Group of Electricity Supply Pension Scheme ("Manweb")	Stakeholder Pension Plan
Type of benefit	Final salary	Final salary	Defined contribution
New entrants	No*	No	Yes
Funded separately from group assets	Yes	Yes	Yes
Administration method	Trustee board	Trustee board	Insurance contract
Member contributions	5% of salary	5.5% of salary	5% of salary
How group contributions are determined	Agreement of Trustee and group following actuarial valuation (last valuation: 31 March 2018)	Agreement of Trustee and group following actuarial valuation (last valuation: 31 March 2018)	Defined
Current actual group contributions	51% of salary	47.9% of salary	Service-related, 6% to 14% of salary
Special contributions during year ended 31 December 2019	£53.7 million	£41.9 million	None
Special contributions planned for year ending 31 December 2020	£77.5 million	£21.4 million	None
Pension charge	Based on advice of independent qualified actuary	Based on advice of independent qualified actuary	Equal to actual group contributions in the year

\* A number of members of the Stakeholder Pension Plan were entitled to defined benefits for future service upon achieving ten years of membership. The company has withdrawn this option and therefore there is no benefit accrual for Stakeholder members.



# NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

## 16 RETIREMENT BENEFIT OBLIGATIONS *continued*

### (b) Group pension arrangements *continued*

The age profile of the two final salary schemes is expected to rise over time, due to the reduction in new entrants. This will in turn result in increasing service costs for these two schemes due to the actuarial valuation method used (the projected unit method). The group believes that the projected unit method continues to be appropriate at present, and provides a reasonable basis for assessing the group's final salary pension costs.

#### Group pension scheme governance

As described in the table on the previous page, the group operates two defined benefit pension schemes. Active members continue to accrue benefits in the schemes, which are based on final pensionable salary. The two schemes are closed to new entrants. The schemes provide benefits which are based on final pensionable salary.

On 31 December 2018, the group completed the sale of ScottishPower Generation Limited and SMW Limited to Drax Smart Generation HoldCo Limited ("Drax"). From this date, Drax have taken responsibility for 109 active members of SPPS who were part of the Generation business that has been transferred. It was agreed that as soon as reasonably practicable, Drax would establish or nominate a suitable pension scheme capable of accepting a bulk transfer of liabilities for these active members. The transferring Generation subsidiaries participated in SPPS on a temporary basis during 2019 whilst Drax finalised their pension arrangements for these active members. It was assumed that the liabilities for these active members and an associated share of assets on a share of fund basis were transferred on 31 December 2018. It was subsequently agreed that the active members would continue to participate in SPPS until 31 December 2019 and were offered a 'with consent' transfer to the Drax pension scheme. 80 active members agreed to transfer their benefits accrued to 31 December 2019 to the Drax pension scheme. Those active members not transferring remain in SPPS and became deferred members when Drax ceased participation in SPPS on 31 December 2019. As not all members transferred their benefits to the Drax scheme as was previously assumed, this has resulted in a net true-up loss of £0.9 million recognised in 2019 (measured at 12 July 2019, the deadline for members to respond to the offer). SPPS ceased to be a multi-employer scheme on 31 December 2019.

On cessation of participation in SPPS on 31 December 2019, a debt under section 75 of the Pensions Act 1995 would have become payable by the transferring Generation subsidiaries. However, a Flexible Appointment Arrangement ("FAA") was agreed with the SPPS Trustee which, when legally ratified, will cause the liabilities to be apportioned to the principal employer, SPUK. In line with the agreed FAA, a payment of £50.0 million will also be paid to the SPPS scheme in April 2020 and will be recorded as a contribution in 2020.

The schemes are approved by HMRC and subject to standard UK pensions and tax law. The defined benefit schemes are subject to the scheme funding requirements as set out in section 224 of the Pensions Act 2004. In accordance with the scheme funding requirements, an actuarial funding valuation is carried out at least triennially to determine the appropriate level of ongoing contributions for both future service and a recovery plan in respect of any deficit at the valuation date. These actuarial valuations will be based on assumptions agreed between the Trustees and the group. The assumptions used to calculate liabilities (or technical provisions) in a triennial funding valuation may differ from those used in IAS 19 accounting. The Trustees are required to set assumptions prudently, whereas IAS 19 assumptions are set with regard to the group's best estimates. Additionally, the discount rate used to value technical provisions in a triennial valuation will take into account the scheme investment strategy, rather than being based on the yield on AA corporate bonds as required under IAS 19. The most recent completed actuarial valuation was as at the effective date of 31 March 2018.

In accordance with UK trust and pensions law, the defined benefit pension schemes are governed by their respective Board of Trustees. Although the group meets the financial cost of running the schemes, the Trustees are responsible for the management and governance of the schemes and have a duty to act in the best interests of the members.

The strategic management of the assets is the responsibility of the Trustees acting on expert advice. The Trustees take advice from the schemes' actuaries and investment advisers with a view to investing the schemes' assets in a manner that is appropriate to the nature and duration of the expected future retirement and death benefits payable from the schemes. In consultation with the group, the Trustees have set out a target investment strategy for the schemes of 41% matching and 59% growth assets. In terms of the matching portfolio, the schemes utilise a Liability Driven Investment ("LDI") strategy. The aim of the LDI portfolio is to invest in a range of assets (mostly bonds) which broadly match the expected future benefit payments from the schemes.

In addition, the Trustee of SPPS and the Trustee of Manweb have implemented longevity swaps in December 2014 and July 2016 respectively. For further details, please see the Mortality risk section that follows.

The UK left the EU on 31 January 2020. A transition period applies until 31 December 2020 while the EU and the UK negotiate additional arrangements. The current rules for trade, travel and business for the UK and EU will continue to apply during the transition period. New rules will take effect from 1 January 2021. The Trustees will continue to monitor how decisions impact on the schemes from an investment and legal perspective based on expert advice.

#### Risk management

The defined benefit schemes expose the group to actuarial risks and details of the specific risks and how they are managed are described below:

**Investment (market) risk:** there is a risk relating to changes in the value of the portfolio due to movements in the market value of the assets. To the extent that there is a mismatch between the investment strategy and the overall level and profile of the liabilities this can lead to volatility in the funding level and as the portfolio matures there is a risk of not being able to reinvest assets at the assumed rates. The Trustees utilise an LDI strategy which aims to invest 41% of the assets in matching LDIs such as bonds, which broadly match the nature and profile of the future expected benefit payments from the scheme. The Trustees have further diversified the market risk in the growth portfolio across multiple asset types, such as equities, property, diversified growth funds, infrastructure, private and mezzanine debt and multi-asset credit. Through diversification, the specific risk associated with individual investments is mostly mitigated and expected volatility of returns is reduced. In addition, the Trustees review the investment strategy on a regular basis to ensure that it remains appropriate and in particular in response to legislative changes, a material change in the schemes' funding levels or changes in the attitude to risk of the Trustees or group.

**Mortality risk:** the assumptions adopted by the group make allowance for future improvements in life expectancy. There is a risk that life expectancy improves faster than assumed and that benefits are paid for longer than expected, thereby increasing the cost of the schemes. The group and the Trustees regularly review the actual scheme mortality experience to minimise the risk of using an inappropriate assumption. In general, the Trustees will also use prudent assumptions when deriving the triennial actuarial valuation basis used for funding requirements and this will help to manage the risk.

In December 2014, the Trustee of SPPS implemented a longevity swap in respect of the current pensioners. The swap removes the previously unhedged longevity risk for the current pensioners (who constitute approximately 50% of the total liability of the scheme) and their contingent spouses by hedging the risk of members covered by the contract living longer than expected. The swap is an insurance contract between SPPS and the counterparty insurer. Counterparty risk is mitigated by both SPPS and the counterparty posting collateral to the other party on a daily basis to account for market movements in the value of the derivatives held.

In July 2016, the Trustee of Manweb also implemented a longevity swap in respect of the current pensioners. The swap removes the previously unhedged longevity risk for the current pensioners (who constitute approximately 45% of the total liability of the scheme) and their contingent spouses by hedging the risk of members covered by the contract living longer than expected. The swap is an insurance contract between Manweb and the counterparty insurer. Counterparty risk is mitigated by both Manweb and the counterparty posting collateral to the other party on a daily basis to account for market movements in the value of the derivatives held.

**Currency risk:** The Trustees have appointed Blackrock to manage the currency hedging mandates for SPPS and Manweb. Through the use of currency forwards, approximately 75% of the currency exposure inherent in the overseas equity, euro-denominated infrastructure and private debt instruments and US-denominated mezzanine and private debt instruments is hedged.

**Interest rate risk:** a fall in the yield on government bonds increases both the liabilities and assets of the schemes. To the extent that the assets do not fully match the nature and duration of the liabilities, this could lead to a worsening in the funding position of the schemes. The Trustees currently target 41% of the schemes' investments in LDI which include matching assets such as fixed interest bonds. The interest rate hedging strategy adopted within the LDI portfolio provides partial protection against the impact of changes in yields. Around 75% of the interest rate risk is currently hedged on a technical provisions basis. Under the de-risking framework agreed between the group and the Trustees, the level of interest rate hedging will be increased when market conditions are deemed favourable. As the level of hedging increases, funding level volatility will be further reduced.

# NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

## 16 RETIREMENT BENEFIT OBLIGATIONS *continued*

### (b) Group pension arrangements *continued*

**Inflation rate risk:** the majority of the schemes' liabilities increase in line with inflation, subject to relevant caps and collars. To the extent that inflation is higher than expected, this will increase the liabilities of the schemes. The schemes' target investment strategy is to invest 41% of the portfolio in LDI investments which will include bonds which are also linked to inflation. The inflation hedging strategy adopted within the LDI portfolio provides partial protection against the impact of changes in inflation. Around 75% of the inflation rate risk is currently hedged on a technical provisions basis. Under the de-risking framework agreed between the group and the Trustees, the level of inflation rate hedging will be increased when market conditions are deemed favourable. As the level of hedging increases, funding level volatility will be further reduced.

Each of the pension schemes is invested in an appropriately diversified range of assets. The broad proportion of each asset class in which the schemes aim to be invested are as follows, however it is important to note that this may vary from time to time as markets change and as cash may be held for strategic reasons.

	2019	2018
Equities	16%	16%
Infrastructure	3%	3%
Liability driven investment	41%	40%
Property	7%	6%
Mezzanine debt	12%	6%
Diversified growth funds	11%	16%
Multi-asset credit	10%	13%
<b>Total</b>	<b>100%</b>	<b>100%</b>

**Additional pension arrangement:** ScottishPower also operates an Unfunded Unapproved Retirement Benefit Scheme ("UURBS") for former senior executives' benefit promises in excess of limits set by the UK taxation authorities. The UURBS has no invested assets, and the group has provided £5.5 million as at 31 December 2019 (2018 £5.3 million) for the benefit promises which will ultimately be paid by the group.

In addition to the defined benefit schemes described above, the group also operates a defined contribution scheme which is open to new entrants. This scheme is a contract based arrangement to which both the group and the employee contribute.

### (c) Pensions – defined contribution scheme

The charge for the year ended 31 December 2019 in respect of the Stakeholder Pension Plan is £12.4 million (2018 £11.2 million).

### (d) Pensions – defined benefit schemes

ScottishPower operates defined benefit pension schemes as described earlier in this note. Formal actuarial valuations were carried out as described earlier and updated to 31 December 2019 by a qualified independent actuary. The major assumptions applied by the actuary are given in Note 16(e) overleaf.

#### (i) Analysis of net liability relating to pension:

	2019 £m	2018 £m
Present value of funded obligations	(5,171.3)	(4,915.9)
Fair value of scheme assets	4,525.1	4,408.5
<b>Net liability of funded plans</b>	<b>(646.2)</b>	<b>(507.4)</b>
Present value of unfunded obligations	(5.5)	(5.3)
<b>Net liability</b>	<b>(651.7)</b>	<b>(512.7)</b>

#### Amounts in the balance sheet:

Non-current liabilities	(651.7)	(512.7)
<b>Net liability</b>	<b>(651.7)</b>	<b>(512.7)</b>

#### (ii) The amounts recognised are as follows:

	2019 £m	2018 £m
Current service cost	50.7	58.1
Past service cost	(11.9)	(9.7)
GMP equalisation*	–	2.9
Disposal of subsidiaries (net true-up)	0.9	(4.8)
Net interest cost on defined benefit obligation/scheme assets	11.5	12.1
Administration expenses	3.8	3.1
<b>Total income statement charge</b>	<b>55.0</b>	<b>61.7</b>
<b>Actual return on scheme assets</b>	<b>248.5</b>	<b>(179.8)</b>
<b>Net actuarial losses recognised in the statement of comprehensive income</b>	<b>(252.7)</b>	<b>(48.2)</b>

\* On 26 October 2018, a landmark pensions case was handed down by the High Court, which has confirmed that pension schemes are required to equalise Guaranteed Minimum Pensions ("GMP"). The cost of equalising GMPs was estimated to be £2.9 million and this was recognised as a past service cost via the income statement in 2018. There are no changes in the expected GMP and no further charge required in 2019.

# NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

## 16 RETIREMENT BENEFIT OBLIGATIONS *continued*

### (d) Pensions – defined benefit schemes *continued*

(iii) Changes in the present value of the defined benefit obligations are as follows:

	2019 £m	2018 £m
Defined benefit obligation at beginning of year	(4,921.2)	(5,483.7)
Current service cost	(50.7)	(58.1)
Interest on obligation	(133.6)	(136.5)
Scheme members' contributions	(5.9)	(6.7)
Past service costs**	(16.2)	9.7
Past service costs – Pension Increase exchange***	28.1	–
GMP equalisation	–	(2.9)
Actuarial gains/(losses):		
Actuarial gains arising from changes in demographic assumptions	68.2	40.2
Actuarial (losses)/gains arising from changes in financial assumptions	(459.1)	144.1
Actuarial gains arising from changes of the scheme experience different to that assumed	11.8	71.7
Disposal of subsidiaries	(15.9)	57.3
Benefits paid	317.7	443.7
<b>Defined benefit obligation at end of year</b>	<b>(5,176.8)</b>	<b>(4,921.2)</b>
Analysis of defined benefit obligation		
Plans that are wholly or partly funded	(5,171.3)	(4,915.9)
Plans that are wholly unfunded	(5.5)	(5.3)
<b>Total</b>	<b>(5,176.8)</b>	<b>(4,921.2)</b>

\*\* The past service costs of £16.2 million comprises new provisions of £17.9 million for expected restructuring costs in 2020 and a true-up of £(1.7) million in relation to the prior year provisions for restructuring costs.

\*\*\* A bulk pension increase exchange ("PIE") exercise was completed during 2019 for the pensioner members of SPPS. Overall, the net impact of the PIE exercise was a past service credit of £(28.1) million.

The defined benefit obligations for SPPS are 30% (2018 29%) in respect of active scheme participants, 17% (2018 15%) in respect of deferred scheme participants and 53% (2018 56%) in respect of retirees. The weighted average duration of the defined benefit obligation as at 31 December 2019 is 21 years. The defined benefit obligations for Manweb are 29% (2018 29%) in respect of active scheme participants, 10% (2018 9%) in respect of deferred scheme participants and 61% (2018 62%) in respect of retirees. The weighted average duration of the defined benefit obligation as at 31 December 2019 is 18 years.

The following table provides expected future cash flow projections for both pension schemes based on current member data. These cash flows reflect expected benefit payment amounts based on the underlying demographic assumptions adopted at 31 December 2019. Cashflows are expected to peak in 2034 for Manweb and 2035 for SPPS with benefits payments extending to approximately 2080 for Manweb and 2090 for SPPS.

Year	SPPS £m	Manweb £m
2020	115.7	43.3
2021	116.3	44.6
2022	121.4	45.2
2023	122.8	46.1
2024	130.2	47.4

(iv) Changes in the fair value of scheme assets are as follows:

	2019 £m	2018 £m
Fair value of scheme assets at beginning of year	4,408.5	4,918.9
Interest income on scheme assets	122.1	124.4
Return on assets in excess of interest income	126.4	(304.2)
Employer contributions	168.7	162.0
Scheme members' contributions	5.9	6.7
Administration expenses	(3.8)	(3.1)
Disposal of subsidiaries	15.0	(52.5)
Benefits paid	(317.7)	(443.7)
<b>Fair value of scheme assets at end of year</b>	<b>4,525.1</b>	<b>4,408.5</b>

### (e) Actuarial assumptions

(i) The assumptions used by the actuary for the pensions arrangements, for all schemes, were as follows and are expressed as weighted averages:

	2019	2018
Rate of increase in salaries****	3.1%	3.8% p.a.
Rate of increase in deferred pensions	3.1%	3.3% p.a.
Rate of increase to pensions in payment	3.0%	3.2% p.a.
Discount rate	2.1%	2.8% p.a.
Inflation assumption	3.1%	3.3% p.a.

\*\*\*\* For FLSP members, the 2019 salary assumption is 3.3% p.a. (In 2018 a separate promotional salary scale was applied).

On 4 September 2019, the UK Government announced that it would consult on the UK Statistics Authority's proposals to align RPI with CPIH by 2030. Given the uncertainty over what will happen to RPI and the timescales for possible implementation, the group has decided to retain the existing approaches to setting up RPI and CPI assumptions for 2019. However, this will be reviewed following completion of the consultation.

(ii) The weighted average life expectancy for mortality used to determine the benefit obligations were as follows:

Member age 63 (current life expectancy)	2019	2018
Male	24.4	24.5
Female	25.5	25.7
<b>Member age 45 (life expectancy at age 63)</b>		
Male	25.8	25.8
Female	27.1	27.3

# NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

## 16 RETIREMENT BENEFIT OBLIGATIONS *continued*

### (e) Actuarial assumptions *continued*

(iii) The post-retirement mortality assumptions are as follows:

#### Post-retirement mortality assumptions

Base tables – 90% S2PMA/100% S2PFA (ill health members have a +6 year age rating) (2018 same)

Allowance for future improvements – CMI 2018 with a 7.5 smoothing parameter and a 1.25% long-term improvement rate (2018 CMI 2017 with a 7.5 smoothing parameter and a 1.25% improvement rate).

(iv) The sensitivity analysis below has been calculated by varying the critical actuarial assumption whilst keeping all other assumptions constant. Liabilities are calculated using the same method and membership data as that used to derive the defined benefit obligation. As well as impacting on salary growth, a change in inflation also impacts on other inflation linked assumptions such as increases to deferred pensions and pensions in payment. This sensitivity applies to the defined benefit obligation only and not to the net defined benefit pension liability in its entirety, the measurement of which is driven by a number of factors including, in addition to the assumptions below, the fair value of scheme assets. There has been no change to the method year on year to assess the sensitivity of the results to changes in the critical actuarial assumptions.

Sensitivity analysis of critical actuarial assumptions	Increase/(decrease) in defined benefit obligation	
	2019 £m	2018 £m
Rate of increase in inflation		
Increase by 0.1%	87.5	86.7
Decrease by 0.1%	(85.3)	(84.4)
Discount rate		
Increase by 0.25%	(227.8)	(215.8)
Decrease by 0.25%	244.6	231.5
Assumed life expectancy		
Increase mortality by one additional year	199.7	195.0

(v) Allowance for cash commutation:

Within SPPS, members are assumed to commute 25% of their benefits for a tax-free cash sum. It has been assumed that Manweb members do not commute any additional amounts above the tax free cash lump sum benefit to which they are already entitled.

(vi) The following table provides information on the composition and fair value of plan assets of the SPPS and Manweb pension schemes. SPPS and Manweb investment strategies are similar and there is no significant difference in risk profiles due to either geography or industry type.

SPPS Scheme	2019					2018				
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Plan asset allocation %	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Plan asset allocation %
Equities	567.8	–	–	567.8	16.6%	584.7	–	–	584.7	17.6%
Infrastructure	–	–	118.9	118.9	3.5%	–	–	118.2	118.2	3.6%
Liability driven instrument	997.4	75.9	–	1,073.3	31.4%	857.0	85.1	–	942.1	28.4%
Property	–	–	191.9	191.9	5.6%	0.5	–	238.6	239.1	7.2%
Cash	243.1	–	–	243.1	7.1%	140.0	–	–	140.0	4.2%
Mezzanine/private debt	–	(0.2)	372.6	372.4	10.9%	–	–	232.5	232.5	7.0%
Diversified growth funds	364.9	(0.8)	–	364.1	10.6%	536.1	–	–	536.1	16.1%
Multi-asset credit	25.3	455.9	9.3	490.5	14.3%	17.4	498.2	12.4	528.0	15.9%
Fair value of scheme assets	2,198.5	530.8	692.7	3,422.0	100.0%	2,135.7	583.3	601.7	3,320.7	100.0%

Manweb Scheme	2019					2018				
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Plan asset allocation %	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Plan asset allocation %
Equities	167.3	–	–	167.3	15.2%	165.3	–	–	165.3	15.2%
Infrastructure	–	–	35.7	35.7	3.2%	–	–	35.5	35.5	3.2%
Liability driven instrument	435.9	–	–	435.9	39.5%	391.2	34.9	–	426.1	39.2%
Property	–	–	44.2	44.2	4.0%	0.1	–	11.6	11.7	1.1%
Cash	88.8	–	–	88.8	8.1%	67.1	–	–	67.1	6.2%
Mezzanine/private debt	–	0.1	115.7	115.8	10.5%	–	–	57.5	57.5	5.3%
Diversified growth funds	179.1	(0.4)	–	178.7	16.2%	228.2	–	–	228.2	21.0%
Multi-asset credit	0.9	35.5	0.3	36.7	3.3%	(1.9)	96.1	2.2	96.4	8.8%
Fair value of scheme assets	872.0	35.2	195.9	1,103.1	100.0%	850.0	131.0	106.8	1,087.8	100.0%
<b>Total</b>				<b>4,525.1</b>					<b>4,408.5</b>	

(vii) The scheme assets do not include any of the group's own financial instruments, nor any property occupied by, or other assets used by, the group. No scheme held ScottishPower or Iberdrola shares in 2019 or 2018.

The group uses the value of the variation collateral posted as the fair value of the longevity swaps for SPPS and Manweb. The amount of collateral posted is calculated and agreed between the insurer and schemes' custodian. The valuation takes into consideration current market conditions at the balance sheet date. This allows for the difference between the present value of cash flows allowing for the schemes actual mortality experience since the inception of the swaps and current expectations of future longevity experience and the present value of cash flows using the longevity assumptions agreed at the inception of the swaps. Hence, changes in the schemes' actual mortality experience, assumed future mortality experience and financial conditions will all affect the value of the swaps. Where mortality experience has been heavier than that assumed under the swaps, the contracts have less inherent value to the schemes and are therefore out-of-the-money.

# NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

## 16 RETIREMENT BENEFIT OBLIGATIONS *continued*

### (e) Actuarial assumptions *continued*

That is, the variation collateral calculation allows for the actual emerging mortality experience of the schemes. The weighting applied to the actual experience of the schemes is referred to as the credibility factor and increases on a monthly basis from 0% to 100% over the five years either from the effective date of the swap or from the date of the most recent Mortality Basis Review ("MBR"). During 2019, the SPPS swap reached a position whereby 100% credibility was applied, hence placing more weight on the recent heavier scheme mortality experience. In the absence of an MBR, the credibility factor to be applied to the Manweb scheme mortality experience is expected to reach 100% in 2021. Less material movements in collateral balances would be expected once the credibility factors reached 100%. However, an MBR may be called by the Trustees of the schemes or the insurer in 2020, leading to a review of the demographic assumptions underlying the swaps. This could result in a rebalancing of the collateral levels and could therefore lead to a material adjustment to the carrying amount of the swaps in the next financial year. Additionally, following an MBR, there could be more significant collateral movements as the credibility factors are increased again to 100% over five years, thereby increasing potential for a consequential material adjustment to the carrying amount. As at 31 December 2019, the value of the variation collateral for SPPS was £(394.4) million (2018 £(218.2) million) and the value for Manweb was £(86.0) million (2018 £(28.3) million) and these have been allowed for as a reduction to the cash value.

Under the rules of each scheme, the Trustees cannot unilaterally wind-up the schemes and the group would be able to assume gradual settlement of the liabilities over time until all members have left. Having then triggered a wind-up, any remaining surplus would revert to the group. Furthermore, the power to amend the rules of each scheme lies with the group and the Trustees cannot unilaterally improve benefits under the schemes. Therefore, the group has an unconditional right to a refund under IFRIC 14 'IAS 19 – The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' and thus there is no requirement to restrict any IAS 19 surplus, should it arise, nor to recognise any additional liabilities in respect of minimum funding requirements.

### (f) Future contributions

ScottishPower expects to contribute £156.5 million (including £50.0 million as per the agreed FAA) to the pension schemes in the year ending 31 December 2020, based on the agreement with scheme Trustees following the valuation at March 2018. Based on the valuation at 31 March 2018, similar levels of contributions are expected in future years.

## 17 OTHER PROVISIONS

Year ended 31 December 2018	Notes	At 1 January 2018 £m	New provisions £m	Unwinding of discount £m	Utilised during year £m	Released during year £m	Disposal of subsidiaries (Note (a)) £m	At 31 December 2018 £m
Reorganisation and restructuring	(b)	4.5	7.2	–	(7.0)	–	–	4.7
Decommissioning	(c)	231.0	(19.3)	3.3	(3.1)	–	(12.4)	199.5
Renewables obligation	(d)	325.0	431.7	–	(435.9)	–	–	320.8
Onerous contracts	(e)	7.7	–	0.2	(1.4)	(1.3)	–	5.2
Insurance	(f)	3.8	1.4	–	–	(0.9)	–	4.3
Share scheme costs	(g)	9.7	5.6	–	(5.2)	(0.2)	–	9.9
Other	(h)	20.7	40.3	–	(14.6)	(2.4)	(27.5)	16.5
		602.4	466.9	3.5	(467.2)	(4.8)	(39.9)	560.9

Year ended 31 December 2019	Notes	Adjustments due to IFRS 16 (Note (i)) £m	Adjusted balance at 1 January 2019 £m	New provisions £m	Unwinding of discount £m	Transfers £m	Utilised during year £m	Released during year £m	At 31 December 2019 £m
Reorganisation and restructuring	(b)	–	4.7	4.4	–	–	(3.2)	(0.7)	5.2
Decommissioning	(c)	1.4	200.9	113.1	3.2	–	(2.1)	(3.2)	311.9
Renewables obligation	(d)	–	320.8	422.4	–	–	(428.4)	–	314.8
Onerous contracts	(e)	(3.4)	1.8	–	–	–	(0.4)	–	1.4
Insurance	(f)	–	4.3	3.2	–	–	(0.3)	(2.3)	4.9
Share scheme costs	(g)	–	9.9	8.1	–	–	(3.2)	(0.2)	14.6
Capacity market	(j)	–	–	63.7	–	19.8	(83.5)	–	–
Other	(h)	–	16.5	13.6	–	–	(7.3)	(10.6)	12.2
		(2.0)	558.9	628.5	3.2	19.8	(528.4)	(17.0)	665.0

### Analysis of total provisions

	2019 £m	2018 £m
Non-current	318.3	216.0
Current	346.7	344.9
	665.0	560.9

- (a) On 31 December 2018, the group disposed of its subsidiaries ScottishPower Generation Limited and SMW Limited (refer to Note 28).
- (b) The new provision for reorganisation and restructuring largely relates to an Energy Retail restructuring programme launched during 2019. The 2018 provision relates to group wide restructuring programmes launched during 2017 and 2018 which was fully utilised during 2019. The remaining provision at 31 December 2019 is expected to be utilised in 2020.
- (c) The provision for decommissioning costs is the discounted future estimated costs of decommissioning certain non-current assets and includes £259.8 million (2018 £177.7 million) in relation to Renewables onshore and offshore decommissioning provisions. The reduction of £19.3 million in the provision in 2018 resulted from a reassessment of future estimated costs. The decommissioning is expected to occur over the period between 2020 and 2067. Had the estimated value of the costs at the balance sheet date been 10.0% higher or lower, this would have resulted in the decommissioning provision being £31.2 million higher and lower respectively. Had the discount rate been 0.25% higher or lower, this would have resulted in the decommissioning provision being £19.8 million higher and lower respectively.
- (d) The provision for renewables obligation principally represents the value of ROCs for 2019 expected to be delivered in 2020 and 2021.
- (e) The provision for onerous contracts relates to various property contracts. The majority of the provision was utilised to adjust the associated right-of-use assets in accordance with the transition provisions of IFRS 16. Refer to Note 2B1.1.
- (f) The provision for insurance principally represents the value of claims reserves. The claims are expected to be settled between 2020 and 2022.
- (g) The provision for share scheme costs represents the accumulated liability of the group for the expected costs to satisfy options granted under the 2014 Sharesave scheme and the expected costs of providing matching shares under the 2010 Share Incentive Plan. These costs are expected to be settled between 2020 and 2022.
- (h) The Other category at 31 December 2018 comprised included a provision in respect of an ongoing legal dispute regarding the alleged use of unlicensed software. No amount was disclosed on the grounds it may be seriously prejudicial. The dispute was settled during 2019. The remaining provision comprised a contractual dispute of £5.0 million, which was also settled during 2019, and other provisions which were not individually sufficiently material to warrant separate disclosure. The balance at 31 December 2019 principally relates to a £2.1 million provision for interest on VAT and a provision for costs associated with the early termination of an IT contract, both which are expected to be settled in 2020. The remaining provisions are not individually sufficiently material to warrant separate disclosure.
- (i) Refer to Note 2B1.1.
- (j) The provision relates to unpaid UK capacity market payments during the suspension of the 2018/19 UK capacity market. The provision was fully utilised during 2019.

# NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

## 18 LOANS AND OTHER BORROWINGS

### (a) Analysis by instrument and maturity

	Notes	Interest rate*	Maturity	2019 £m	2018 £m
Bank overdraft		Base + 1%	On demand	0.1	–
Loans with Iberdrola group companies		Base + 1%	On demand	45.1	44.5
Loans with Iberdrola group companies	(i)	LIBOR + 0.45%	On demand	55.4	83.9
Loans with Iberdrola group companies	(i)	LIBOR + 0.555%	On demand	–	983.4
Loans with Iberdrola group companies	(i)	LIBOR + 0.3943%	On demand	0.2	–
Loans with external counterparty		Base + 1%	On demand	–	2.1
Loans with Iberdrola group companies	(i), (ii)	LIBOR + 0.4188%	21 January 2019	–	440.0
Loans with Iberdrola group companies	(iii)	LIBOR + 0.533%	1 August 2019	–	500.0
Collateral		LIBOR	17 June 2020	44.8	48.2
Loan with joint venture		Base + 1%	11 December 2020	3.0	3.0
£300 million medium-term note	(iv)	5.9%	22 February 2021	299.2	298.6
Loans with Iberdrola group companies	(v)	EURIBOR + 1.025%	28 March 2022	45.8	67.7
Loans with Iberdrola group companies	(iii)	3.697%	1 August 2022	500.0	500.0
£250 million euro-sterling bond	(vi), (vii)	6.75%	29 May 2023	249.4	249.3
£175 million inflation linked bond	(iv), (viii)	3.494% x RPI	13 October 2024	300.8	293.3
Loans with Iberdrola group companies	(iii)	4.106%	1 August 2025	500.0	500.0
£350 million euro-sterling bond	(vi), (viii), (ix)	5.875%	17 July 2026	348.1	347.8
£350 million euro-sterling bond	(vi), (vii), (ix)	4.875%	20 September 2027	347.5	347.1
Loans with Iberdrola group companies	(xi)	LIBOR + 0.78%	20 December 2027	760.0	–
10 billion JPY loan	(xii)	4.6%	27 July 2029	92.2	101.7
£350 million euro-sterling bond	(vi), (vii), (xiii)	2.000%	13 November 2031	346.6	–
Loans with Iberdrola group companies	(iii)	4.454%	1 August 2029	500.0	500.0
£50 million medium-term note	(iv)	5.75%	9 December 2039	50.0	50.0
£100 million medium-term note	(iv)	6.375%	31 May 2041	100.0	100.0
				<b>4,588.2</b>	<b>5,460.6</b>

\* Base - Bank of England Base Rate; LIBOR - London Inter-Bank Offer Rate; EURIBOR - Euro Bank Offered Rate; RPI - Retail Price Index; JPY - Japanese Yen.

### Analysis of total loans and other borrowings

	Note	2019 £m	2018 £m
Non-current		4,423.1	3,337.7
Current	(xiv)	165.1	2,122.9
		<b>4,588.2</b>	<b>5,460.6</b>

- (i) These loans have the interest rates reset at pre-determined dates, this includes the ability to adjust the margin rate as deemed appropriate by both parties.
- (ii) During 2014 the group entered into an inter-group credit facility agreement with Iberdrola Financiación S.A.U. and following a renewal, it is due to expire in February 2025. As at 31 December 2019 the group has £750 million (2018 £310.0 million) of undrawn committed borrowing facilities under this inter-group agreement.
- (iii) These loans can be redeemed at any time by ScottishPower, totally or partially, at market value (calculated as a present value of future cash flows discounted at the current internal rate of return, defined as market swap rate plus applicable credit spread at valuation date) giving five business days' notice to the lender. The lender may declare these credit facility agreements to have matured early in the event the lender's shareholding in ScottishPower reduces to the extent that ScottishPower no longer belongs to the Iberdrola group.
- (iv) The company and Scottish Power UK plc ("SPUK") have an established joint US\$7 billion euro medium-term note programme. The company has not issued under the programme. SPUK has in issue various notes in Sterling which can be redeemed by SPUK with 30 to 90 days' notice in case of unfavourable and unavoidable changes in the UK tax laws impacting on the note payments.
- (v) The EURIBOR loan with Iberdrola that is due to mature in March 2022 has a schedule of repayments which commenced in 2014. The repayment of £18.2 million due in 2020 (2018 £19.2 million due in 2019) is classified as current in the above analysis.
- (vi) These bonds contain a "Loss of licences" covenant that will require repayment of the outstanding amount should ScottishPower lose all of their electricity licences (distribution, transmission and supply licences).
- (vii) The £250 million euro-sterling bond due in 2023 can be redeemed at any time by ScottishPower at the higher of principal amount or redemption price (as determined by HSBC Bank plc) giving 30 to 45 days' notice to the lender.
- (viii) The group has external debt that contain loan covenants. A future breach of covenants may require the group to repay the loans earlier than indicated in the above table. Under the agreements, the covenants are monitored on a regular basis by the group Treasury department and regularly reported to management to ensure compliance with the agreements.
- (ix) The £350 million euro-sterling bond will be redeemed at its principal amount in July 2026 unless previously redeemed or purchased and cancelled. The bond can be redeemed at any time by ScottishPower at a higher redemption price (as determined by a financial advisor appointed by ScottishPower and Guarantor) giving 30 to 60 days' notice.
- (x) The £350 million euro-sterling bond will be redeemed at its principal amount in September 2027 unless previously redeemed or purchased and cancelled. The bond can be redeemed at any time by ScottishPower at a higher redemption price (as determined by a financial advisor appointed by ScottishPower and Guarantor) giving 30 to 60 days' notice.
- (xi) This loan has the interest rates reset at pre-determined dates.
- (xii) The interest rate quoted above on the 10 billion JPY loan is fixed. This is changed to a variable rate by a cross currency swap.
- (xiii) The £350 million euro-sterling bond will be redeemed at its principal amount in November 2031 unless previously redeemed or purchased and cancelled. The bond can be redeemed at any time by ScottishPower at a higher redemption price (as determined by a financial advisor appointed by ScottishPower and Guarantor) giving 30 to 60 days' notice.
- (xiv) Current borrowings comprise loans with Iberdrola group companies repayable on demand or within the next year, the short-term element of the EURIBOR 2022 loan with Iberdrola (refer to footnote (v) above) and collateral together with finance costs due to be amortised within one year, the short-term element of fair value hedge adjustments and the adjustments on discontinued fair value hedges due to be amortised within one year, which totalled £(1.7) million (2018 £(1.4) million).

# NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

## 18 LOANS AND OTHER BORROWINGS *continued*

### (b) Reconciliation of movements of liabilities to cash flows arising from financing activities

	Note	Liabilities				Total £m
		Lease liabilities £m	Loans and other borrowings (Current) £m	Loans and other borrowings (Non-current) £m	Interest payable (Current) (Note 11) £m	
Balance as at 1 January 2018		–	688.2	3,836.4	73.0	4,597.6
Increase in amounts due to Iberdrola group companies		–	906.2	–	–	906.2
Cash inflows from borrowings		–	7.2	–	–	7.2
Interest paid		–	–	–	(170.5)	(170.5)
<b>Total movements from financing cash flows</b>		–	913.4	–	(170.5)	742.9
Other movements	(ii)	–	521.3	(498.7)	172.8	195.4
<b>Total liability-related other movements</b>		–	521.3	(498.7)	172.8	195.4
<b>Balance as at 31 December 2018</b>		–	2,122.9	3,337.7	75.3	5,535.9

	Note	Liabilities				Total £m
		Lease liabilities £m	Loans and other borrowings (Current) £m	Loans and other borrowings (Non-current) £m	Interest payable (Current) (Note 11) £m	
Adjusted balance as at 1 January 2019		441.3*	2,122.9	3,337.7	75.3	5,977.2
(Decrease)/increase in amounts due to Iberdrola group companies		–	(1,970.7)	759.2	–	(1,211.5)
(Repayments of)/cash inflows from borrowings		–	(5.5)	346.6	–	341.1
Payments of lease liabilities		(25.4)	–	–	–	(25.4)
Interest paid		(11.3)	–	–	(179.0)	(190.3)
<b>Total movements from financing cash flows</b>		(36.7)	(1,976.2)	1,105.8	(179.0)	(1,086.1)
Other movements	(ii)	46.4	18.4	(20.4)	177.0	221.4
<b>Total liability-related other movements</b>		46.4	18.4	(20.4)	177.0	221.4
<b>Balance as at 31 December 2019</b>		451.0	165.1	4,423.1	73.3	5,112.5

\* On transition to IFRS 16, the group recognised £441.3 million of lease liabilities (refer to Note 2B1.1).

(i) External interest payable of £38.8 million (2018 £38.0 million) and internal interest payable of £34.5 million (2018 £37.3 million) are included within Trade and other payables (refer to Note 19).

(ii) Other movements include non-cash movements, including accrued interest expense and the acquisition of lease liabilities.

## 19 TRADE AND OTHER PAYABLES

	Notes	2019 £m	2018 £m
<b>Current trade and other payables:</b>			
Payables due to Iberdrola group companies – trade		6.8	9.9
Payables due to Iberdrola group companies – capital		225.9	1.8
Payables due to Iberdrola group companies – interest		34.5	37.3
Payables due to jointly controlled entities – trade		0.8	5.4
Trade payables	(a)	535.1	619.1
Other taxes and social security		65.9	62.0
Payments received on account		147.7	151.3
Capital payables and accruals		321.3	429.2
Other payables		187.6	144.2
	(b)	1,525.6	1,460.2
<b>Non-current other payables:</b>			
Payments received on account	(c)	–	27.9
Other payables		6.9	7.4
		6.9	35.3

(a) Certain trade payables and receivables are presented net on the balance sheet when offsetting criteria under IAS 32 are met (refer to Note 3H3.5). A reconciliation between the gross and net position is provided at Note 9(d).

(b) Trade and other payables includes £258.0 million (2018 £217.0 million) of IFRS 15 contract liabilities (refer to Note 21(c)).

(c) The balance in the prior year related to lease incentives which on transition to IFRS 16 have been offset against the associated right-of-use assets. Refer to Note 2B1.1.

# NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

## 20 DEFERRED TAX

Deferred tax provided in the Accounts is as follows:

	Note	Property, plant and equipment £m	Derivative financial instruments £m	Retirement benefits £m	Other temporary differences £m	Total £m
At 1 January 2018		819.9	22.0	(99.3)	4.1	746.7
Charge/(credit) to income statement		34.0	(0.1)	19.1	(5.2)	47.8
Disposal of subsidiaries	(a)	(44.2)	–	–	0.9	(43.3)
Recorded in the statement of comprehensive income		–	3.0	(8.2)	–	(5.2)
At 1 January 2019		809.7	24.9	(88.4)	(0.2)	746.0
Charge/(credit) to income statement		34.7	(0.6)	14.2	(10.0)	38.3
Acquisition of subsidiary	(b)	0.3	–	–	–	0.3
Recorded in the statement of comprehensive income		–	(56.6)	(36.9)	–	(93.5)
At 31 December 2019		844.7	(32.3)	(111.1)	(10.2)	691.1

- (a) On 31 December 2018, the group disposed of its subsidiaries ScottishPower Generation Limited and SMW Limited (refer to Note 28).
- (b) On 20 May 2019, the group acquired 72% of the share capital of Douglas West Extension Limited.
- (c) At 31 December 2019, the group had unutilised capital losses of £475.2 million (2018 £487.0 million); no deferred tax asset has been recognised due to the unpredictability of suitable future profit streams against which these losses may be utilised. Following the submission of tax computations to HMRC during 2019, additional unutilised capital losses of £15.0 million were identified. Capital losses of £26.8 million (2018 nil) will be utilised against a capital gain and therefore a deferred tax asset of £4.7 million (2018 nil) has been recognised in 2019.
- (d) 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.

## 21 REVENUE FROM CONTINUING OPERATIONS

### (a) Disaggregation of revenue

	Note	2019			Total £m
		Energy Networks £m	Renewables £m	Energy Retail and Wholesale £m	
Segment revenue		1,246.8	638.3	3,962.3	5,847.4
Inter-segment revenue	(i)	(141.6)	(570.8)	(10.5)	(722.9)
External revenue		1,105.2	67.5	3,951.8	5,124.5
Electricity distribution		667.0	–	–	667.0
Electricity transmission		396.7	–	–	396.7
Transfers of assets from customers		41.5	–	–	41.5
Supply of electricity		–	–	2,796.5	2,796.5
Supply of gas		–	–	1,062.6	1,062.6
Other		–	67.5	92.7	160.2
		1,105.2	67.5	3,951.8	5,124.5

	Note	2018			Total £m
		Energy Networks £m	Renewables £m	Energy Retail and Wholesale £m	
Segment revenue		1,167.4	542.0	3,919.9	5,629.3
Inter-segment revenue	(i)	(143.2)	(484.1)	(6.6)	(633.9)
External revenue		1,024.2	57.9	3,913.3	4,995.4
Electricity distribution		616.8	–	–	616.8
Electricity transmission		368.3	–	–	368.3
Transfers of assets from customers		39.1	–	–	39.1
Supply of electricity		–	–	2,780.1	2,780.1
Supply of gas		–	–	1,077.9	1,077.9
Other		–	57.9	55.3	113.2
		1,024.2	57.9	3,913.3	4,995.4

- (i) Energy Networks inter-segment revenue is predominantly subject to regulation and is based on published tariffs set by Ofgem. Renewables inter-segment revenue primarily consists of the sale of electricity and ROCs from wind farms. Energy Retail and Wholesale inter-segment revenue largely consists of the supply of electricity and gas.

All revenue is recognised over time and arises from operations within the UK and Republic of Ireland. Revenue arising outside the UK is not deemed material enough to warrant separate disclosure.

### (b) Accounting policies and estimation uncertainties

The group recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the group expects to be entitled in exchange for those goods and services.



## NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

### 21 REVENUE FROM CONTINUING OPERATIONS *continued*

#### (b) Accounting policies and estimation uncertainties *continued*

##### (i) Electricity distribution

The group provides a service of making its distribution network available to customers. This performance obligation is satisfied over time as the customer simultaneously receives and consumes the benefits of the group's performance as it makes the distribution network available. The group has a right to consideration in an amount that corresponds directly with the value to the customer of the group's performance to date. Revenue is therefore recognised in the amount to which the group has a right to invoice based on the amount of allowed revenue for the year set by the price control. Due to the nature of the electricity settlements industry process, revenue includes unbilled income recognised as a receivable relating to units transferred over the network but not yet invoiced at the end of the year. Invoices are raised a month in arrears and are typically settled within a month.

##### (ii) Electricity transmission

The group provides a service of making its transmission network available to the Great Britain system operator. This performance obligation is satisfied over time as the customer simultaneously receives and consumes the benefits of the group's performance as it makes the transmission network available. The customer benefits from the group's service (of making the transmission network available) evenly throughout the year and therefore time is used to measure progress towards complete satisfaction of the performance obligation. Revenue is recognised on a straight-line basis throughout the year based on the amount of allowed revenue for the year set by the price control. Invoices are typically raised and settled on a monthly basis and therefore there are no related IFRS 15 receivables, contract assets or contract liabilities at the end of the year.

##### (iii) Transfers of assets from customers

Pursuant to the applicable industry regulations, the group occasionally receives contributions from its customers for the construction of grid connection facilities, or is assigned assets that must be used to connect those customers to a network. Both the cash and the fair value of the facilities received are credited to Deferred income in the balance sheet (this is a contract liability). Revenue is subsequently recognised in line with the period over which the facilities are depreciated.

##### (iv) Supply of electricity and gas

The group's performance obligations are the supply of gas and/or electricity to customers. These performance obligations are both satisfied over time as the customer simultaneously receives and consumes the benefits of the group's performance as it supplies gas and electricity. The group has a right to consideration in an amount that corresponds directly with the value to the customer of the group's performance to date. Revenue is therefore recognised in the amount to which the group has a right to invoice based on the volume of units supplied during the year and the tariff agreed with the customer.

The nature of the energy industry in the UK, in which the group operates, is such that revenue recognition is subject to a degree of estimation. Revenue includes an estimate of the units supplied to customers between the date of their last meter reading and the year end. This estimate is based on external data supplied by the electricity and gas market settlement process and internal data relating to energy purchases where settlement data is not yet available. Where volumes are yet to reach final settlement, a provision is made against unbilled revenue recognised in respect of those volumes. The provision is determined by considering the current unbilled position, historical trends and any other known factors. The value assigned to these estimated volumes is based on a weighted average price per unit derived from the billing systems. The estimated value of energy delivered to customers is included within billed revenue (where an estimated reading is included within an issued invoice) and unbilled revenue (where no invoice has been invoiced). For further details on billed revenue refer to Note 9(e) A3.

Gross unbilled revenue included within the balance sheet at 31 December 2019 amounts to £582.0 million (2018 £616.4 million). This is before applying customer credit balances of £470.6 million (2018 £434.9 million), an £11.8 million (2018 £10.0 million) provision in respect of ECLs and an £18.0 million (2018 £10.0 million) provision in relation to energy volumes which have still to reach final settlement. This results in a net unbilled position of £81.6 million (2018 £161.5 million) which relates primarily to energy delivered in the final months of the year. For further details on ECLs, refer to Note 9(e) A3.

Had actual consumption been 3% higher or lower than the estimate of units supplied (the average variance based on recent historical analysis), this would have resulted in revenue recognised for unbilled amounts being £26.2 million higher or lower respectively. The value assigned to this volume sensitivity is based on a weighted average price per unit derived from the billing systems. Approximately 95% of unbilled revenue relates to the most recent quarter where there is a higher level of estimation uncertainty.

Invoices are generally raised on a monthly or quarterly basis which customers typically settle on a monthly or quarterly basis respectively, with the exception of prepayment customers who pay in advance. Billed and unbilled revenue is recorded in receivables. Amounts in contract liabilities consist of direct debit customer payments that are in excess of the associated units of energy delivered and final customer credits.

##### (v) Other revenue

Other revenues are recognised based on the consideration specified in a contract with a customer, to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur in the future. The group recognises revenue either at a specific point in time or over a period of time based on when control is transferred to the customer based on the performance obligations in the contract.

#### (c) Contract balances from continuing and discontinued operations

	Notes	31 December 2019 £m	31 December 2018 £m	1 January 2018 £m
Receivables	(i), (ii)	851.0	746.0	744.4
Contract liabilities	(iii), (iv)	(1,524.6)	(1,430.0)	(1,440.0)

(i) Included within Trade and other receivables (refer to Note 10).

(ii) £73.7 million (2018 £65.3 million) of impairment losses were recognised during the year on receivables arising from the group's contracts with customers.

(iii) £1,266.6 million (2018 £1,213.0 million) of contract liabilities relates to the transfer of assets from customers which is recorded within Deferred income (refer to Note 15). The remainder is included with Trade and other payables (refer to Note 19).

(iv) The amount of contract liabilities recognised as income in the year is £89.3 million (2018 £125.4 million). The remaining movement in contract liabilities relates to new liabilities recognised in the year.

## NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

### 21 REVENUE FROM CONTINUING OPERATION *continued*

#### (d) Contract costs from continuing and discontinued operations

The group capitalises the incremental costs of obtaining certain customer contracts, principally sales commissions, if they are expected to be recovered. These are recorded as a separate asset class within Intangible assets and amortised on a systematic basis according to the average expected life of contracts with customer that are associated with such costs. The amortisation period is between two and four years.

The group has elected to apply the amortisation period to a portfolio of contracts with similar characteristics as the group expects that the effect on the financial statements is not materially different from applying it to the individual contracts.

During the year £72.7 million (2018 £53.2 million) of incremental costs of obtaining a contract (customer contract costs) were capitalised and the amortisation charge was £39.4 million (2018 £25.5 million). Refer to Note 5(a).

### 22 EMPLOYEE INFORMATION FOR CONTINUING OPERATIONS

#### (a) Staff costs

	Note	2019 £m	2018 £m
Wages and salaries		279.9	276.5
Social security costs		29.5	29.8
Pension and other costs	(i)	74.0	84.9
<b>Total staff costs</b>		<b>383.4</b>	<b>391.2</b>
Less: capitalised staff costs		(154.7)	(157.8)
<b>Charged to the income statement</b>		<b>228.7</b>	<b>233.4</b>

(i) Pension and other costs includes costs of £19.9 million (2018 a credit of £2.5 million) for group wide restructuring programmes, offset by a £28.1 million credit following a Pension increase exchange programme during 2019.

#### (b) Employee numbers

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

	2019	2018
Energy Networks	3,029	2,993
Renewables	432	377
Energy Retail and Wholesale	1,667	1,791
Corporate	488	517
<b>Total</b>	<b>5,616</b>	<b>5,678</b>

### 23 TAXES OTHER THAN INCOME TAX ON CONTINUING OPERATIONS

	Note	2019 £m	2018 £m
Property taxes		120.1	114.3
Other taxes	(a)	81.7	73.0
		<b>201.8</b>	<b>187.3</b>

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

### 24 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS ON CONTINUING OPERATIONS

	2019 £m	2018 £m
Property, plant and equipment depreciation charge	466.6	441.2
Intangible asset amortisation charge	92.9	64.7
Right-of-use asset depreciation charge	27.9	–
Charges and provisions, allowances and impairment of assets	8.2	7.1
	<b>595.6</b>	<b>513.0</b>
Capitalised right-of-use asset depreciation	(6.6)	–
	<b>589.0</b>	<b>513.0</b>

### 25 FINANCE INCOME FROM CONTINUING OPERATIONS

	2019 £m	2018 £m
Interest on bank and other deposits	1.5	0.9
Interest receivable from Iberdrola group companies	1.4	0.4
Dividends received	0.2	0.2
Foreign exchange gains	7.2	3.2
Fair value and other gains on financing derivatives	0.6	1.0
Fair value movement on contingent consideration	0.7	–
	<b>11.6</b>	<b>5.7</b>

## NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

### 26 FINANCE COSTS FROM CONTINUING OPERATIONS

Note	2019 £m	2018 £m
Interest on bank loans and overdrafts	0.4	0.3
Interest on amounts due to Iberdrola group companies	83.1	75.6
Interest on amounts due to jointly controlled entities	0.1	–
Interest on other borrowings	102.5	104.1
Net impairment of financial investments/debt instruments	0.7	–
Unwinding of discount on provisions	3.2	3.3
Interest on lease liabilities	16.7	–
Foreign exchange losses	6.5	2.6
Net interest on retirement benefit obligations	11.5	12.1
Fair value and other losses on financing derivatives	1.2	2.1
Interest on VAT	2.1	–
	<b>228.0</b>	<b>200.1</b>
Capitalised interest (a)	<b>(20.8)</b>	<b>(17.0)</b>
	<b>207.2</b>	<b>183.1</b>

(a) The tax relief on the capitalised interest for the year ended 31 December 2019 was £3.9 million (2018 £2.5 million).

### 27 INCOME TAX ON CONTINUING OPERATIONS

	2019 £m	2018 £m
Current tax:		
UK Corporation Tax charge on profits for the year	75.3	96.3
Adjustments in respect of prior years	(0.2)	(6.5)
<b>Current tax for the year</b>	<b>75.1</b>	<b>89.8</b>
Deferred tax:		
Origination and reversal of temporary differences	47.8	58.7
Adjustments in respect of prior years	1.6	5.9
Impact of tax rate change	(11.1)	(5.7)
<b>Deferred tax for the year</b>	<b>38.3</b>	<b>58.9</b>
<b>Income tax expense for the year</b>	<b>113.4</b>	<b>148.7</b>

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

	2019 £m	2018 £m
Corporation Tax at 19% (2018 19%)	119.5	145.1
Adjustments in respect of prior years	1.4	(0.6)
Impact of tax rate change	(11.1)	(5.7)
Non-deductible expenses and other permanent differences	3.6	9.9
<b>Income tax expense for the year</b>	<b>113.4</b>	<b>148.7</b>

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

Comparison of UK Corporation Tax charge and payments	2019 £m	2018 £m
UK Corporation Tax charge on profits for the year from continuing and discontinued operations	77.7	103.5
UK Corporation Tax in the cash flow statement from continuing and discontinued operations	86.2	63.7

The amount of Corporation Tax paid in the year, shown in the cash flow statement, and the amount of the Corporation Tax charge for the year are not the same. The main reason for this is the timing of payments. UK Corporation Tax is due in four instalments: two in the year to which the instalment relates, and two in the following year. In addition, the amount in the cash flow statement also includes any refunds received or payments made relating to Corporation Tax liabilities of prior years.

### 28 DISCONTINUED OPERATIONS

On 16 October 2018, the group agreed to sell ScottishPower Generation Limited and its wholly owned subsidiary, SMW Limited to Drax Smart Generation HoldCo Limited which includes the sale of four CCGT power stations as well as pumped storage, hydro assets and water treatment facilities. The sale completed on 31 December 2018.

All intra-group transactions have been fully eliminated in the consolidated financial results. The group has elected to attribute the elimination of transactions between the continuing operations and the discontinued operation before the disposal in a way that reflects the continuance of these transactions subsequent to the disposal, because the group believes this is useful to the users of the financial statements.

# NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

## 28 DISCONTINUED OPERATIONS *continued*

### (a) Results from discontinued operations

	2019 £m	2018 £m
Revenue	12.6	524.7
Procurements	–	(406.5)
<b>GROSS MARGIN</b>	<b>12.6</b>	<b>118.2</b>
<b>NET OPERATING EXPENSES</b>	<b>0.1</b>	<b>(25.9)</b>
<b>Net personnel expenses</b>	<b>(0.2)</b>	<b>(19.4)</b>
Staff costs	(0.2)	(20.8)
Capitalised staff costs	–	1.4
<b>Net external expenses</b>	<b>0.3</b>	<b>(6.5)</b>
External services	(1.7)	(30.2)
Other operating income	2.0	23.7
<b>Taxes other than income tax</b>	<b>–</b>	<b>(10.3)</b>
<b>GROSS OPERATING PROFIT</b>	<b>12.7</b>	<b>82.0</b>
Impairment credit on trade and other receivables	–	0.2
Depreciation and amortisation charge, allowance and provisions	–	(47.1)
<b>OPERATING PROFIT</b>	<b>12.7</b>	<b>35.1</b>
Gain on sale of discontinued operations	–	155.8
Income tax on gain on sale of discontinued operations – net of transaction costs	–	–
Finance income	–	0.4
Finance costs	–	(5.0)
<b>PROFIT BEFORE TAX</b>	<b>12.7</b>	<b>186.3</b>
Income tax	(2.4)	4.5
<b>PROFIT FROM DISCONTINUED OPERATIONS, NET OF TAX</b>	<b>10.3</b>	<b>190.8</b>

(i) The profit from the discontinued operations is attributable entirely to the owners of the company.

### (b) Cash flows from discontinued operations

	2019 £m	2018 £m
Net cash flows from operating activities	(1.0)	53.0
Net cash flows from investing activities	4.8	705.8
Net cash flows from financing activities	–	(71.9)
<b>Net cash flows for the year</b>	<b>3.8</b>	<b>686.9</b>

### (c) Effect of disposal on the financial position of the group

	Notes to the Accounts	Total £m
<b>Book value of assets and liabilities at 31 December 2018</b>		
Intangible assets	5	0.5
Property, plant and equipment	6	583.9
Inventories		27.3
Trade and other receivables		62.3
Deferred tax liabilities	20	(43.3)
Trade and other payables (including current tax liabilities)		(59.2)
Deferred income	15	(0.4)
Provisions	17	(39.9)
Retirement benefit obligations	16	(4.8)
Loans and other borrowings		(8.6)
<b>Book value of assets and liabilities disposed</b>		<b>517.8</b>
<b>Total consideration (including deferred consideration of £2.3 million)</b>		<b>689.2</b>
<b>Gain on disposal</b>		<b>171.4</b>
Realisation of revaluation reserve		5.7
Less transaction costs		(21.3)
<b>Gain on sale of discontinued operations</b>		<b>155.8</b>
The analysis of cash flow in respect of the above disposal is detailed below:		
Cash consideration (excluding deferred consideration)		£m
Net cash and cash equivalents disposed		686.9
<b>Net proceeds from disposal of subsidiaries</b>		<b>686.9</b>

# NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

## 29 DIVIDENDS

	2019 pence per ordinary share	2018 pence per ordinary share	2019 £m	2018 £m
Interim dividend paid	8.07	9.35	342.0	396.0

Dividends are paid on an apportioned and pro-rata basis according to the amounts paid up on the shares during the period in which the dividend is paid. Dividend per share as disclosed above represents the dividend payable on ordinary shares of 42p each. Dividend per ordinary share of 42/2907p each amounted to 0.0028p per share (2018 0.0032p per share).

## 30 CONTINGENT ASSET AND CONTINGENT LIABILITIES

### Legal proceedings

ScottishPower's businesses are parties to various other legal claims, actions and complaints, certain of which may involve material amounts. ScottishPower is unable to predict with certainty whether or not it will ultimately be successful in these legal proceedings or, if not, what the impact might be. ScottishPower currently believes that disposition of these matters will not have a materially adverse effect on the consolidated Accounts.

## 31 FINANCIAL COMMITMENTS

### Contractual commitments

ScottishPower manages its energy resource requirements by integrating long-term firm, short-term and spot market purchases with its own generating resources to manage volume and price volatility and maximise value across the energy value chain. As part of its energy resource portfolio ScottishPower is committed under long-term purchase contracts summarised in the tables below.

	2019						
	2020 £m	2021 £m	2022 £m	2023 £m	2024 £m	2025 and thereafter £m	Total £m
Long-term energy purchase contract commitments	1,651.0	297.2	30.8	3.1	–	–	1,982.1
Other contractual commitments	188.6	47.8	37.7	15.6	10.8	46.3	346.8

	2018						
	2019 £m	2020 £m	2021 £m	2022 £m	2023 £m	2024 and thereafter £m	Total £m
Long-term energy purchase contract commitments	3,854.8	717.4	111.0	3.4	–	–	4,686.6
Other contractual commitments	334.2	78.0	17.0	10.1	9.2	59.8	508.3

## 32 RELATED PARTY TRANSACTIONS

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

	2019				2018			
	Ultimate parent (Iberdrola, S.A.) £m	Immediate parent (SPW Investments Limited) £m	Other Iberdrola group companies £m	Jointly controlled entities £m	Ultimate parent (Iberdrola, S.A.) £m	Immediate parent (SPW Investments Limited) £m	Other Iberdrola group companies £m	Jointly controlled entities £m
<b>Types of transaction</b>								
Sales and rendering of services	0.1	–	29.1	1.3	0.2	0.3	70.8	3.6
Purchases and receipt of services	(45.9)	–	(63.1)	(12.6)	(45.4)	–	(120.0)	(12.6)
Interest income	0.4	–	1.0	–	0.4	–	–	–
Interest costs (excluding ECLs)	(1.0)	(7.3)	(74.8)	(0.1)	(1.0)	(7.5)	(71.2)	–
Net gains/(losses) on foreign exchange	3.3	–	0.1	–	(1.1)	–	–	0.3
Dividends paid	–	(342.0)	–	–	–	(396.0)	–	–
<b>Balances outstanding</b>								
Trade and other receivables	–	–	5.0	3.6	–	0.3	4.1	6.0
Interest receivable	–	–	–	–	0.1	–	–	–
Derivative financial assets	–	–	0.2	–	–	–	0.7	–
Loans payable	(101.2)	(0.2)	(2,305.1)	(3.0)	(151.6)	(983.4)	(2,484.5)	(3.0)
Trade and other payables	–	–	(6.8)	(0.8)	–	–	(9.9)	(5.4)
Capital payables	–	–	(225.9)	–	–	–	(1.8)	–
Interest payable	(0.4)	(7.3)	(26.8)	–	(0.3)	(7.5)	(29.5)	–
Derivative financial liabilities	–	–	(1.6)	–	–	–	(1.6)	–

(i) The ECL in respect of balances with Iberdrola group companies is less than £0.1 million (2018 less than £0.1 million).

(ii) The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received in relation to inter-group transactions.

# NOTES TO THE CONSOLIDATED ACCOUNTS *continued*

31 December 2019

## 32 RELATED PARTY TRANSACTIONS *continued*

### (b) Remuneration of key management personnel

The remuneration of the key management personnel of ScottishPower is set out below. The remuneration of all 16 (2018 14) key management personnel who served during the year is included within staff costs at Note 22(a).

	2019 £m	2018 £m
Short-term employee benefits	4.4	4.2
Post-employment benefits	1.8	0.8
Termination benefits	1.2	0.3
Share-based payments	2.6	2.4
	10.0	7.7

### (c) Directors' remuneration

The remuneration of the directors who provided qualifying services to ScottishPower is set out below. All of the directors were remunerated by ScottishPower during both years. Three of the directors (2018 three) were remunerated directly by the company.

	2019 £000	2018 £000
Aggregate remuneration in respect of qualifying services	1,874	1,471
Number of directors who exercised share options	1	1
Number of directors who received shares under a long-term incentive scheme	1	1
Number of directors accruing retirement benefits under a defined benefit scheme	1	1
<b>Highest paid director</b>	<b>2019 £000</b>	<b>2018 £000</b>
Aggregate remuneration	1,270	876
Accrued pension benefit	160	96

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

### (d) Ultimate and immediate parent company

The immediate parent company is SPW Investments Limited. The registered office of SPW Investments Limited is 320 St. Vincent Street, Glasgow, Scotland, G2 5AD.

The directors regard Iberdrola, S.A. as the ultimate parent company, which is also the parent company of the only group in which the results of the company are consolidated. Copies of the consolidated Accounts of Iberdrola, S.A. may be obtained from the registered office of the company at Iberdrola, S.A., Torre Iberdrola, Plaza Euskadi 5, 48009, Bilbao, Spain.

In addition to the company's parent undertakings disclosed above, the group's other related undertakings are disclosed in Note 4.

## 33 AUDITOR REMUNERATION

	2019 £m	2018 £m
Audit of the company and consolidated annual Accounts	0.1	0.1
Audit of the company's subsidiaries pursuant to legislation	1.2	0.9
Audit fees	1.3	1.0
Audit-related assurance services	0.2	0.2
<b>Total</b>	<b>1.5</b>	<b>1.2</b>

- (a) For the year ended 31 December 2019, all fees paid to the group's auditors of £1.5 million (2018 £1.2 million) were charged to the income statement. £0.1 million of additional fees were also paid in respect of the 2018 audit in 2019.

## 34 GOING CONCERN

The group's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report on pages 1 to 25.

Notwithstanding net current liabilities of £39.4 million as at 31 December 2019, the Accounts have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons. The group participates in the Iberdrola group's centralised treasury arrangements and shares banking facilities with its parent companies and fellow subsidiaries. The directors have prepared cash flow forecasts for a period of 22 months from the date of approval of these Accounts which indicate that, taking account of reasonably possible downsides and including the availability of the undrawn committed inter-group credit facility of £750.0 million with Iberdrola Financiación S.A.U. (refer to Note 18), the group will have sufficient funds, to meet its liabilities as they fall due for that period.

Consequently, the directors are confident that the group will have sufficient funds to continue to meet its liabilities as they fall due for at least 22 months from the date of approval of the Accounts and therefore have prepared the Accounts on a going concern basis.

SCOTTISH POWER LIMITED  
COMPANY BALANCE SHEET  
at 31 December 2019

	Notes	2019 £m	2018 £m
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Investment in subsidiaries	35	7,375.0	6,015.3
Financial assets		5.2	5.8
Other investments	35	4.1	4.3
Derivative financial instruments	36	1.1	1.5
Trade and other receivables	37	898.7	898.2
Deferred tax asset	38	5.0	1.1
<b>NON-CURRENT ASSETS</b>		<b>8,283.9</b>	<b>6,920.4</b>
<b>CURRENT ASSETS</b>			
Trade and other receivables	37	1,207.7	3,379.1
Current tax assets		37.0	40.6
Financial assets		5.3	4.2
Derivative financial instruments	36	5.3	4.2
Cash and short-term deposits	36	125.5	142.9
<b>CURRENT ASSETS</b>		<b>1,375.5</b>	<b>3,566.8</b>
<b>TOTAL ASSETS</b>		<b>9,659.4</b>	<b>10,487.2</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Of shareholders of the parent		6,424.8	6,420.2
Share capital	39, 40	1,779.1	1,779.1
Share premium	40	2,881.0	2,881.0
Other reserve	40	331.1	331.1
Retained earnings – opening balance	40	1,429.0	1,275.2
Retained earnings – profit for the year	40	346.6	549.8
Retained earnings – other movements	40	(342.0)	(396.0)
Retained earnings – closing balance	40	1,433.6	1,429.0
<b>TOTAL EQUITY</b>		<b>6,424.8</b>	<b>6,420.2</b>
<b>NON-CURRENT LIABILITIES</b>			
Provisions	41	1.5	7.7
Bank borrowings and other financial liabilities		1,501.1	1,501.5
Loans and other borrowings	42	1,500.0	1,500.0
Derivative financial instruments	36	1.1	1.5
<b>NON-CURRENT LIABILITIES</b>		<b>1,502.6</b>	<b>1,509.2</b>
<b>CURRENT LIABILITIES</b>			
Provisions	41	15.2	2.2
Bank borrowings and other financial liabilities		1,659.8	2,509.9
Loans and other borrowings	42	1,654.5	2,506.1
Derivative financial instruments	36	5.3	3.8
Trade and other payables	43	57.0	45.7
<b>CURRENT LIABILITIES</b>		<b>1,732.0</b>	<b>2,557.8</b>
<b>TOTAL LIABILITIES</b>		<b>3,234.6</b>	<b>4,067.0</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>9,659.4</b>	<b>10,487.2</b>

Authorised for issue by the Board and signed on its behalf on 5 March 2020.



Keith Anderson  
Director

Notes 1 to 4 and the accompanying Notes 35 to 49 are an integral part of the company balance sheet at 31 December 2019.

SCOTTISH POWER LIMITED  
COMPANY STATEMENT OF CHANGES IN EQUITY  
for the year ended 31 December 2019

	Share capital £m	Share premium £m	Other reserve £m	Retained earnings £m	Total £m
At 1 January 2018	1,779.1	2,881.0	331.1	1,275.2	6,266.4
Net profit for the year	–	–	–	549.8	549.8
Dividends	–	–	–	(396.0)	(396.0)
At 1 January 2019	1,779.1	2,881.0	331.1	1,429.0	6,420.2
Net profit for the year	–	–	–	346.6	346.6
Dividends	–	–	–	(342.0)	(342.0)
At 31 December 2019	1,779.1	2,881.0	331.1	1,433.6	6,424.8

Notes 1 to 4 and the accompanying Notes 35 to 49 are an integral part of the company statement of changes in equity for the year ended 31 December 2019.



SCOTTISH POWER LIMITED  
**COMPANY CASH FLOW STATEMENT**  
for the year ended 31 December 2019

	2019 £m	2018 £m
Cash flow from operating activities		
Profit before tax	336.9	548.6
Adjustments for:		
Change in provisions (including share scheme costs)	7.9	5.4
Finance income and costs	22.0	11.1
Shareholding income	(365.0)	(563.2)
Changes in working capital:		
Change in trade and other receivables (including derivatives)	(0.2)	0.6
Change in trade and other payables	0.9	–
Provisions paid	(1.2)	(2.8)
Income taxes received/(paid)	9.4	(22.9)
Interest received	86.1	92.8
Dividends received	365.0	563.2
<b>Net cash flows from operating activities (i)</b>	<b>461.8</b>	<b>632.8</b>
Cash flows from investing activities		
Investments in non-current assets	(1,361.5)	(2.1)
Decrease/(increase) in amounts due from Iberdrola group companies – current loans receivable	2,163.4	(854.0)
<b>Net cash flows from investing activities (ii)</b>	<b>801.9</b>	<b>(856.1)</b>
Cash flows from financing activities		
(Decrease)/increase in amounts due to Iberdrola group companies – current loans payable	(849.5)	813.6
Dividends paid to equity holders	(342.0)	(396.0)
Interest paid	(87.5)	(86.1)
Repayments of borrowings	(2.1)	–
<b>Net cash flow from financing activities (iii)</b>	<b>(1,281.1)</b>	<b>331.5</b>
<b>Net (decrease)/increase in cash and cash equivalents (i) + (ii) + (iii)</b>	<b>(174)</b>	<b>108.2</b>
Cash and cash equivalents at beginning of year	142.9	34.7
<b>Cash and cash equivalents at end of the year</b>	<b>125.5</b>	<b>142.9</b>
Cash and cash equivalents at end of year comprises:		
Cash and short-term deposits	125.5	142.9
<b>Company cash flow statement cash and cash equivalents</b>	<b>125.5</b>	<b>142.9</b>

Notes 1 to 4 and the accompanying Notes 35 to 49 are an integral part of the company cash flow statement for the year ended 31 December 2019.

# NOTES TO THE COMPANY ACCOUNTS

31 December 2019

## 35 INVESTMENTS

	Notes	Investment in subsidiaries £m	Other investments £m	Total £m
At 1 January 2018		5,603.1	4.6	5,607.7
Additions	(a)	412.2	2.1	414.3
Disposals		–	(2.4)	(2.4)
At 1 January 2019		6,015.3	4.3	6,019.6
Additions	(b)	1,359.7	1.8	1,361.5
Disposals		–	(2.0)	(2.0)
At 31 December 2019		7,375.0	4.1	7,379.1

- (a) On 28 June 2018, the company approved a loan waiver totalling £412.2 million with its then indirect subsidiary ScottishPower Generation Limited. This was treated as a capital contribution. The company therefore recognised this as an additional investment in the underlying SPUK company of £412.2 million and de-recognised loans receivable of £412.2 million.
- (b) Prior to the completion of the EA1L transaction, the company approved the transfer of its loan receivable from EA1L totalling £1,359.7 million to Scottish Power UK plc ("SPUK") in return for 2,719,444,440 ordinary shares of 50p each. The loan was subsequently transferred through the ownership chain to ScottishPower Renewables (UK) Limited, the immediate parent of EA1L.
- (c) The subsidiaries and jointly controlled entities are listed in Note 4.

## 36 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.

			2019		2018	
	Classification	Notes	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
<b>Financial assets</b>						
Derivative financial instruments	Fair value hedging instrument	(i)	6.4	6.4	5.7	5.7
Current receivables	Amortised cost		1,207.7	1,207.7	3,379.1	3,379.1
Non-current receivables	Amortised cost	(ii)	898.7	1,044.2	898.2	1,006.2
Other investments	FVTPL		4.1	4.1	4.3	4.3
Cash	Amortised cost	(iii)	26.3	26.3	142.9	142.9
Short-term deposits	Amortised cost	(iv)	99.2	99.2	–	–
<b>Financial liabilities</b>						
Derivative financial instruments	Fair value hedging instrument	(i)	(6.4)	(6.4)	(5.3)	(5.3)
Loans and other borrowings	Amortised cost	(ii)	(3,154.5)	(3,466.3)	(4,006.1)	(4,305.0)
Payables	Amortised cost		(57.0)	(57.0)	(45.7)	(45.7)

The carrying amount of these financial instruments is calculated as set out in Note 3H. With the exception of Non-current receivables and Loans and other borrowings, the carrying value of financial instruments is a reasonable approximation of fair value. The fair values of Non-current receivables and Loans and other borrowings are calculated as set out below in footnote (ii).

- (i) Further detail on Derivative financial instruments is disclosed in Note 36(b).
- (ii) The fair values of Non-current receivables and Loans and other borrowings are calculated using the most recently traded price to the year end date where available, or alternatively a discounted cash flow.
- (iii) As a general rule, cash deposited with banks earns interest at rates similar to market rates on daily deposits.
- (iv) Short-term deposits mature within a period of 90 days and earn market rates.

The company holds certain financial instruments which are measured in the balance sheet at fair value. The company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

In both the current and the prior year, all Other investments held by the company are classified as Level 1 and all Derivative financial instruments are classified as Level 2. Level 2 foreign exchange derivatives comprise forward foreign exchange contracts which are fair valued using forward exchange rates that are quoted in an active market. There were no transfers between levels of the fair value hierarchy in the current or prior year.

# NOTES TO THE COMPANY ACCOUNTS *continued*

31 December 2019

## 36 FINANCIAL INSTRUMENTS *continued*

### (b) Analysis of derivative financial instruments - carrying value

	Notes	2019				2018			
		Assets		Liabilities		Assets		Liabilities	
		Current £m	Non- current £m	Current £m	Non- current £m	Current £m	Non- current £m	Current £m	Non- current £m
<b>Non-hedging derivatives</b>									
Forward contracts with external parties	(i)	0.3	0.7	(5.0)	(0.6)	4.2	1.5	(0.6)	–
Forward contracts with Iberdrola group companies	(i)	5.0	0.6	(0.3)	(0.7)	0.6	–	(3.8)	(1.5)
<b>Total gross derivatives</b>		<b>5.3</b>	<b>1.3</b>	<b>(5.3)</b>	<b>(1.3)</b>	<b>4.8</b>	<b>1.5</b>	<b>(4.4)</b>	<b>(1.5)</b>
Impact of netting	(ii)	–	(0.2)	–	0.2	(0.6)	–	0.6	–
<b>Total net derivatives on the balance sheet</b>		<b>5.3</b>	<b>1.1</b>	<b>(5.3)</b>	<b>(1.1)</b>	<b>4.2</b>	<b>1.5</b>	<b>(3.8)</b>	<b>(1.5)</b>

(i) The company enters into forward contracts to hedge foreign currency risk on retranslation of inter-group loans and on foreign currency payables and receivables. In both the current and prior year, the majority of these contracts are matched with internal contracts entered into with Iberdrola group companies. The movements in the fair values of these contracts, therefore, have a minimal impact on the income statement.

(ii) Certain derivative financial instruments are presented net on the balance sheet. A reconciliation of the gross and net position is provided in Note 36(c) below.

### (c) Offsetting of financial assets and financial liabilities

The company is eligible to present financial assets and financial liabilities net on the balance sheet as described in Note 3H3.5. The following table provides information on the impact of offsetting on the company balance sheet.

	2019		
	Gross amounts of recognised financial assets/(liabilities) £m	Gross amounts of recognised financial (liabilities)/assets offset in the balance sheet £m	Net amounts of financial assets/(liabilities) presented in the balance sheet £m
<b>Financial assets</b>			
Derivative financial instruments	6.6	(0.2)	<b>6.4</b>
<b>Financial liabilities</b>			
Derivative financial instruments	(6.6)	0.2	<b>(6.4)</b>
	2018		
	Gross amounts of recognised financial assets/(liabilities) £m	Gross amounts of recognised financial (liabilities)/assets offset in the balance sheet £m	Net amounts of financial assets/(liabilities) presented in the balance sheet £m
<b>Financial assets</b>			
Derivative financial instruments	6.3	(0.6)	<b>5.7</b>
<b>Financial liabilities</b>			
Derivative financial instruments	(5.9)	0.6	<b>(5.3)</b>

### (d) Financial risk management

For details of the company's financial risk management processes (covering credit risk and treasury risk) refer to Note 9(e).

#### (i) Trade receivables – £0.8 million (2018 £0.2 million)

The ECL on trade receivables is calculated as described in Note 9(e) A4. The loss allowance on trade receivables recognised on balance sheet in both the current and prior year was less than £0.1 million.

#### (ii) Loans due from other Iberdrola group companies – £2,105.6 million (2018 £4,277.1 million)

The company provides funding in the form of interest bearing on demand loans and interest bearing long-term loans to other Iberdrola group companies. Credit risk from Iberdrola group companies is considered to be low as the company is part of the Iberdrola group's centralised treasury function and no Iberdrola group company has a credit rating lower than BB+ (in line with Standard & Poor's external credit ratings).

The ECL on loans due from other Iberdrola group companies is calculated using the general model and therefore a twelve month ECL is applied.

The exposure to credit risk of loans to other Iberdrola group companies (including interest) held at amortised cost by credit rating are set out in the table below:

Credit Rating	As at 31 December 2019			As at 31 December 2018		
	Gross Carrying Value £m	ECL £m	Amortised Cost £m	Gross Carrying Value £m	ECL £m	Amortised Cost £m
BBB- to AAA	1,633.2	(1.4)	1,631.8	1,650.5	(1.1)	1,649.4
BB- to BB+	474.1	(0.3)	473.8	2,633.0	(5.3)	2,627.7
	<b>2,107.3</b>	<b>(1.7)</b>	<b>2,105.6</b>	<b>4,283.5</b>	<b>(6.4)</b>	<b>4,277.1</b>

The reduction in the ECL in the year of £4.7 million is directly related to the reduction in the gross carrying value of loans receivable.

# NOTES TO THE COMPANY ACCOUNTS *continued*

31 December 2019

## 36 FINANCIAL INSTRUMENTS *continued*

### (d) Financial risk management *continued*

#### (iii) Cash and short-term deposits

The company held cash and short-term deposits of £125.5 million at 31 December 2019 (2018 £142.9 million). The cash and short-term deposits are held with banks and financial institution counterparties, which are rated BBB- to AAA, (in line with Standard & Poor's external credit ratings).

Impairment on cash and short-term deposits has been measured on a three month expected loss basis and reflects the short-term maturities of the exposures. The company considers that its cash and short-term deposits have low credit risk based on the external credit ratings of the counterparties. The loss allowance for cash and short-term deposits recognised on balance sheet was less than £0.1 million in both the current and prior year.

#### (iv) Hedging of foreign currency risk

All derivatives within the company are accounted for as held for trading (FVTPL) with gains and losses being recognised within Finance income and Finance costs in the income statement.

#### (v) Maturity profile of financial liabilities – liquidity analysis

The table below summarises the maturity profile of the company's financial liabilities as at 31 December based on contractual undiscounted cash flows.

	2019						Total £m
	2020 £m	2021 £m	2022 £m	2023 £m	2024 £m	2025 and thereafter £m	
<b>Cash outflows</b>							
Derivative financial instruments*	133.2	8.2	–	–	–	–	141.4
Loans and other borrowings	1,744.2	62.0	562.0	43.4	43.5	1,133.8	3,588.9
Payables**	1.3	–	–	–	–	–	1.3
	1,878.7	70.2	562.0	43.4	43.5	1,133.8	3,731.6
<b>2018</b>							
	2019 £m	2020 £m	2021 £m	2022 £m	2023 £m	2024 and thereafter £m	Total £m
<b>Cash outflows</b>							
Derivative financial instruments*	24.7	0.1	–	–	–	–	24.8
Loans and other borrowings	2,592.4	62.6	62.0	562.0	43.4	1,177.3	4,499.7
Payables**	0.4	–	–	–	–	–	0.4
	2,617.5	62.7	62.0	562.0	43.4	1,177.3	4,524.9

\* The above liquidity analysis is stated after the impact of counterparty netting (refer to Note 36(c)).

\*\* Contractual cash flows exclude accrued interest as these cash flows are included within Loans and borrowings.

#### (vi) Interest rate risk

Refer to Note 9(e) C2.1 for a description of how the company manages interest rate risk.

#### (vii) Sensitivity analysis on the interest rate changes

The table below illustrates the impact on the annual interest rate charge/(income) considering various rate changes. The analysis assumes all other factors remain constant.

		Interest rate	Change in rate	Impact on interest rate charges/ (income) in 2019 £m	Impact on interest rate charges/ (income) in 2018 £m
Loans payable	LIBOR debt	LIBOR	+ 0.25%	0.1	5.0
			+ 0.50%	0.3	10.0
			- 0.25%	(0.1)	(5.0)
			- 0.50%	(0.3)	(10.0)
Loans payable	Short-term variable rate debt	Base	+ 0.25%	4.0	1.2
			+ 0.50%	8.0	2.5
			- 0.25%	(4.0)	(1.2)
			- 0.50%	(8.0)	(2.5)
Loans receivable	Short-term variable rate debt	Base	+ 0.25%	(2.9)	(8.0)
			+ 0.50%	(5.9)	(16.0)
			- 0.25%	2.9	8.0
			- 0.50%	5.9	16.0

## NOTES TO THE COMPANY ACCOUNTS *continued*

31 December 2019

### 37 TRADE AND OTHER RECEIVABLES

	Notes	2019 £m	2018 £m
<b>Current receivables:</b>			
Receivables due from Iberdrola group companies – other		0.8	0.2
Receivables due from SP Manweb plc – loans	(a)	–	75.0
Receivables due from SP Transmission plc – loans	(a)	–	75.0
Receivables due from other Iberdrola group companies – loans	(b)	1,176.9	3,186.1
Receivables due from Iberdrola group companies – interest		30.0	42.8
		<b>1,207.7</b>	<b>3,379.1</b>
<b>Non-current receivables:</b>			
Receivables due from ScottishPower Renewables (UK) Limited – loans	(c)	699.0	698.6
Receivables due from ScottishPower Renewables (WODS) Limited – loans	(c)	199.7	199.6
		<b>898.7</b>	<b>898.2</b>

(a) Loans due from SP Manweb plc and SP Transmission plc were charged interest at 3.858% and were repaid on 29 January 2019.

(b) Current loans due from Iberdrola group companies are charged interest at 1% above the Bank of England base rate and are repayable on demand.

(c) Loans due from ScottishPower Renewables (UK) Limited and ScottishPower Renewables (WODS) Limited are charged interest at 3.05% and are repayable on 20 December 2027.

(d) Information about the company's exposure to credit and market risks and impairment losses for Trade and other receivables are included in Note 9(e).

### 38 DEFERRED TAX

A deferred tax asset is recognised in the Accounts as follows:

	Loans and Receivables £m
At 1 January 2018	1.0
Credit to income statement	0.1
As at 1 January 2019	1.1
Credit to income statement	3.9
<b>As at 31 December 2019</b>	<b>5.0</b>

(a) At 31 December 2019, the company had unutilised capital losses of £434.4 million (2018 £461.2 million); no deferred tax asset has been recognised due to the unpredictability of suitable future capital profits against which those losses may be utilised. Capital losses of £26.8 million (2018 nil) will be utilised against a capital gain in the consolidated Accounts and therefore a deferred tax asset of £4.7 million (2018 nil) has been recognised in the consolidated Accounts in 2019.

(b) 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.

### 39 SHARE CAPITAL

	2019 £m	2018 £m
<b>Allotted, called up and fully paid shares:</b>		
2,746,197,793 ordinary shares of 42p each (2018 2,746,197,793)	1,153.4	1,153.4
4,330,935,176,274 ordinary shares of 42/2907p each (2018 4,330,935,176,274)	625.7	625.7
	<b>1,779.1</b>	<b>1,779.1</b>

(a) Holders of these ordinary shares are entitled to dividends as declared from time to time; amounts on the capitalisation of profits and reserves; and notice and attendance at general meetings of the company, with every member entitled to one vote on a show of hands and on a poll one vote for every share held.

### 40 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF SCOTTISH POWER LIMITED

	Share capital £m	Share premium (Note (a)) £m	Other reserve (Note (b)) £m	Retained earnings (Note (c)) £m	Total £m
At 1 January 2018	1,779.1	2,881.0	331.1	1,275.2	6,266.4
Profit for the year attributable to equity holders of Scottish Power Limited	–	–	–	549.8	549.8
Dividends	–	–	–	(396.0)	(396.0)
At 1 January 2019	1,779.1	2,881.0	331.1	1,429.0	6,420.2
Profit for the year attributable to equity holders of Scottish Power Limited	–	–	–	346.6	346.6
Dividends	–	–	–	(342.0)	(342.0)
<b>At 31 December 2019</b>	<b>1,779.1</b>	<b>2,881.0</b>	<b>331.1</b>	<b>1,433.6</b>	<b>6,424.8</b>

(a) The share premium account represents consideration received for shares issued in excess of their nominal amount.

(b) The other reserve is a capital redemption reserve of £331.1 million at 31 December 2019 (2018 £331.1 million). This represents the cumulative nominal value of shares repurchased and cancelled by the company.

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

# NOTES TO THE COMPANY ACCOUNTS *continued*

31 December 2019

## 41 PROVISIONS

	Note	At 1 January 2018 £m	New Provision £m	Utilised in year £m	Released in year £m	At 31 December 2018 £m
<b>Year ended 31 December 2018</b>						
Provision for share scheme costs	(a)	9.7	5.6	(5.2)	(0.2)	9.9
<b>Year ended 31 December 2019</b>						
Provision for share scheme costs	(a)	9.9	8.1	(3.2)	(0.2)	14.6
Provision for interest on VAT	(b)	—	2.1	—	—	2.1
		9.9	10.2	(3.2)	(0.2)	16.7
<b>Analysis of total provisions</b>						
					2019 £m	2018 £m
Non-current					1.5	7.7
Current					15.2	2.2
					16.7	9.9

(a) The company accounted for three ScottishPower employee share schemes during 2019 and the prior year namely, the 2010 ScottishPower Share Incentive Plan ("2010 SIP"), the 2008 ScottishPower Share Incentive Plan ("2008 SIP") and the 2014 ScottishPower Sharesave Scheme ("2014 Sharesave").

The 2010 SIP is an HMRC-approved plan which allows employees to purchase Iberdrola shares monthly from pre-tax salary up to a maximum of £150 per month. For the first twelve months of the 2010 SIP, launched in March 2010, the company offered two free matching shares for each partnership share the employee purchased, up to a maximum of £150 worth of shares per month (£50 purchased by the employee, £100 matched by the company). Thereafter, the company matched shares on a one-for-one basis up to a maximum of £50 of matching shares per month. The employee can sell the shares once held for a minimum of three years and can receive further tax benefits if held for a minimum of five years.

The 2008 SIP operated from October 2008 to September 2009 and at 31 December 2019 there were assets held by this scheme yet to be distributed to scheme participants.

The 2014 Sharesave, launched in November 2014 is an HMRC-approved plan which allows employees to contribute up to £250 per month in a savings vehicle for a period of either three or five years. At the end of the savings period, the employee has the option to buy Iberdrola shares at the pre-determined price using the savings.

The provision for share scheme costs represents the accumulated liability of the company for the expected costs of satisfying the options under the 2014 Sharesave and the expected costs of providing matching shares under the 2010 SIP. These costs are expected to be settled between 2020 and 2022.

A charge of £8.1 million (2018 £5.6 million) has been recognised in the income statement by the company in respect of the share schemes for the year ended 31 December 2019. As these amounts are not material to the company's results, no further disclosures have been presented.

(b) The provision for interest on VAT is expected to be utilised in 2020.

## 42 LOANS AND OTHER BORROWINGS

### (a) Analysis by instrument and maturity

	Notes	Interest rate*	Maturity	2019 £m	2018 £m
Loans with Iberdrola group companies		Base + 1%	On demand	1,598.9	496.7
Loans with Iberdrola group companies	(i)	LIBOR + 0.555%	On demand	—	983.4
Loans with Iberdrola group companies	(i)	LIBOR + 0.45%	On demand	55.4	83.9
Loans with Iberdrola group companies	(i)	LIBOR + 0.3943%	On demand	0.2	—
Loans with external counterparty		Base +1%	On demand	—	2.1
Loans with Iberdrola group companies	(iii)	LIBOR + 0.4188%	21 January 2019	—	440.0
Loans with Iberdrola group companies	(iii)	LIBOR + 0.533%	1 August 2019	—	500.0
Loans with Iberdrola group companies	(iii)	3.697%	1 August 2022	500.0	500.0
Loans with Iberdrola group companies	(iii)	4.106%	1 August 2025	500.0	500.0
Loans with Iberdrola group companies	(iii)	4.454%	1 August 2029	500.0	500.0
				3,154.5	4,006.1

\* Base - Bank of England Base Rate; LIBOR - London Inter-Bank Offer Rate

(i) These loans have the interest rates reset at pre-determined dates, this includes the ability to adjust the margin rate as deemed appropriate by both parties.

(ii) During 2014 the company entered into an inter-group credit facility agreement with Iberdrola Financiación S.A.U., and following a renewal, it is due to expire in February 2025. As at 31 December 2019 the company had £750.0 million (2018 £310.0 million) of undrawn committed borrowing facilities under this inter-group agreement.

(iii) These loans can be redeemed at any time by the company, totally or partially, at market value (calculated as a present value of future cash flows discounted at the current internal rate of return, defined as market swap rate plus applicable credit spread at valuation date) giving five business days' notice to the lender. The lender may declare these credit facility agreements to have matured early in the event the lender's shareholding in the company reduces to the extent that the company no longer belongs to the Iberdrola group.

<b>Analysis of loans and other borrowings</b>					
				2019 £m	2018 £m
Non-current				1,500.0	1,500.0
Current				1,654.5	2,506.1
				3,154.5	4,006.1

## NOTES TO THE COMPANY ACCOUNTS *continued*

31 December 2019

### 42 LOANS AND OTHER BORROWINGS *continued*

#### (b) Reconciliation of movements of liabilities to cash flows arising from financing activities

	Note	Liabilities			Total £m
		Loans and other borrowings (Current) £m	Loans and other borrowings (Non-current) £m	Interest payable (Current) £m	
At 1 January 2018		1,192.6	2,000.0	44.5	3,237.1
Increase in amounts due to Iberdrola group companies		813.6	–	–	813.6
Interest paid		–	–	(86.1)	(86.1)
Total movements from financing cash flows		813.6	–	(86.1)	727.5
Other movements	(i)	499.9	(500.0)	86.9	86.8
Total liability-related other movements		499.9	(500.0)	86.9	86.8
At 31 December 2018		2,506.1	1,500.0	45.3	4,051.4
	Note	Liabilities			Total £m
		Loans and other borrowings (Current) £m	Loans and other borrowings (Non-current) £m	Interest payable (Current) £m	
At 1 January 2019		2,506.1	1,500.0	45.3	4,051.4
Decrease in amounts due to Iberdrola group companies		(849.5)	–	–	(849.5)
Repayments of borrowings		(2.1)	–	–	(2.1)
Interest paid		–	–	(87.5)	(87.5)
Total movements from financing cash flows		(851.6)	–	(87.5)	(939.1)
Other movements	(i)	–	–	97.9	97.9
Total liability-related other movements		–	–	97.9	97.9
At 31 December 2019		1,654.5	1,500.0	55.7	3,210.2

(i) Other movements comprise non-cash movements, including accrued interest expense.

### 43 TRADE AND OTHER PAYABLES

	2019 £m	2018 £m
Payables due to Iberdrola group companies – other	1.1	–
Payables due to Iberdrola group companies – interest	55.7	45.3
Other payables	0.2	0.4
	57.0	45.7

### 44 COMPANY INCOME STATEMENT

As permitted by Section 408 of the Companies Act 2006, the company has not presented its own income statement. The company's income statement was authorised for issue by the Board on 18 February 2019. The profit for the financial year per the Accounts of the company was £346.6 million (2018 £549.8 million). The total comprehensive income for both years comprises the net profit and is wholly attributable to the equity holders of Scottish Power Limited; therefore, no statement of comprehensive income has been disclosed.

### 45 EMPLOYEE INFORMATION

The company has no employees and it is not the sponsoring company of any of ScottishPower's retirement benefit schemes. Directors are remunerated by other Iberdrola group companies. Details of the directors' remuneration are set out in Note 32(c) to the group Accounts.

### 46 AUDITOR REMUNERATION

Auditor remuneration for the group is billed on a group basis and is not recharged to the company. Of the total group audit fee for the year ended 31 December 2019, £21,700 (2018 £19,400) related to the audit of the company Accounts. The total auditor's remuneration for ScottishPower is disclosed in Note 33 to the group Accounts.

### 47 DIVIDENDS

	2019 pence per ordinary share	2018 pence per ordinary share	2019 £m	2018 £m
Interim dividend paid	8.07	9.35	342.0	396.0

Dividends are paid on an apportioned and pro-rata basis according to the amounts paid up on the shares during the period in which the dividend is paid. Dividend per share, as disclosed above, represents the dividend payable on ordinary shares of 42p each. Dividend per ordinary share of 42/2907p each amounted to 0.0028p per share (2018 0.0032p per share).

# NOTES TO THE COMPANY ACCOUNTS *continued*

31 December 2019

## 48 RELATED PARTY TRANSACTIONS

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

Types of transaction	2019				2018			
	Ultimate parent (Iberdrola, S.A.) £m	Immediate parent (SPW Investments Limited) £m	Other Iberdrola group companies £m	Subsidiary companies £m	Ultimate parent (Iberdrola, S.A.) £m	Immediate parent (SPW Investments Limited) £m	Other Iberdrola group companies £m	Subsidiary companies £m
<b>Types of transaction</b>								
Rendering of services	-	-	-	0.7	-	-	-	1.0
Purchases and receipt of services	-	-	-	(1.3)	-	-	-	(1.3)
Net finance income/(costs) (excluding ECLs)	0.1	(7.3)	(67.4)	48.8	0.3	(7.5)	(71.2)	67.1
Net losses on foreign exchange	-	-	-	3.3	-	-	-	(1.1)
Net gains/(losses) on financing derivatives	-	-	-	9.2	-	-	-	(3.1)
Dividends received	-	-	-	365.0	-	-	-	563.2
Dividends paid	-	(342.0)	-	-	-	(396.0)	-	-
<b>ECLs recognised in respect of</b>								
Loans and other receivables	-	-	-	(4.7)	-	-	-	0.5
<b>Balances outstanding</b>								
Loans receivable	-	-	-	2,075.6	-	-	-	4,234.3
Trade receivables	-	-	-	0.8	-	-	-	0.2
Interest receivable	-	-	-	30.0	0.1	-	-	42.7
Derivative financial assets	-	-	-	5.6	-	-	-	0.6
Loans payable	(55.4)	(0.2)	(1,545.1)	(1,553.8)	(83.9)	(983.4)	(2,484.5)	(452.2)
Trade and other payables	-	-	-	(1.1)	-	-	-	-
Interest payable	(0.3)	(7.3)	(26.4)	(21.7)	(0.2)	(7.5)	(29.5)	(8.1)
Derivative financial liabilities	-	-	-	(1.0)	-	-	-	(5.3)
<b>ECLs on</b>								
Loans and other receivables	-	-	-	(1.7)	-	-	-	(6.4)

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

### (b) Remuneration of key management personnel

The remuneration of the key management personnel of the company is set out below. As all ten (2018 ten) of the key management personnel are remunerated for their work for the ScottishPower group, it has not been possible to apportion their remuneration specifically in respect of their services to this company. During the year, three (2018 three) of the key management personnel were remunerated by the company.

	2019 £m	2018 £m
Short-term employee benefits	1.7	1.4
Post-employment benefits	1.4	0.3
Share-based payments	0.8	0.6
	3.9	2.3

### (c) Directors' remuneration

Details of directors' remuneration are set out at Note 32(c) to the group Accounts.

### (d) Ultimate and immediate parent company

The immediate parent company is SPW Investments Limited. The registered office of SPW Investments Limited is 320 St. Vincent Street, Glasgow, Scotland, G2 5AD.

The directors regard Iberdrola, S.A. as the ultimate parent company, which is also the parent company of the largest group in which the results of the company are consolidated. Copies of the consolidated Accounts of Iberdrola, S.A. may be obtained from the registered office of the company at Iberdrola, S.A., Torre Iberdrola, Plaza Euskadi 5, 48009, Bilbao, Spain.

In addition to the company's parent undertakings disclosed above, the company's other related undertakings are disclosed in Note 4.

## 49 GOING CONCERN

The company's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report on pages 1 to 25.

Notwithstanding net current liabilities of £356.5 million as at 31 December 2019, the Accounts have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons. The company is ultimately owned by Iberdrola, S.A. and it participates in the Iberdrola group's centralised treasury arrangements and shares banking facilities with its parent companies and fellow subsidiaries. The directors have prepared cash flow forecasts for a period of 22 months from the date of approval of these Accounts which indicate that, taking account of reasonably possible downsides, the company will have sufficient funds, to meet its liabilities as they fall due for that period. In particular the directors also recognise the availability of the undrawn committed inter-group credit facility of £750.0 million with Iberdrola Financiación S.A.U. (refer to Note 42).

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 22 months from the date of approval of the Accounts and therefore have prepared the Accounts on a going concern basis.