# SCOTTISHPOWER RENEWABLES (WODS) LIMITED
# ANNUAL REPORT AND ACCOUNTS
# for the year ended 31 December 2018

Registered No. SC374288

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CONTENTS

## SCOTTISHPOWER RENEWABLES (WODS) LIMITED
## STRATEGIC REPORT

The directors present an overview of ScottishPower Renewables (WODS) Limited's business structure, 2018 performance and strategic outlook including principal risks and uncertainties.

### STRATEGIC OUTLOOK

The principal activity of ScottishPower Renewables (WODS) Limited ("the company"), registered company number SC374288, is the operation of the West of Duddon Sands ("WODS") offshore wind farm located in the East Irish Sea. The company will continue with this activity for the foreseeable future.

The 389 megawatt ("MW") WODS project in the East Irish Sea is a 50/50 joint arrangement between the company and Orsted West of Duddon Sands (UK) Limited. Under the terms of the joint operations agreement the joint participants appointed Orsted Power (UK) Limited as the operator with responsibility for the planning, construction, operation and decommissioning of the wind farm. Availability in 2018 was in line with expectations.

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

The company is part of ScottishPower's Renewables business ("Renewables"). Renewables is responsible for the origination, development, construction and operation of renewable energy generation plants, predominantly onshore wind, with a large and growing presence in offshore wind, and the consideration of emerging renewable technologies and innovations such as battery storage. Renewables continues to engage with the UK Government on plans for future investments in renewable generation and the electricity system, including flexibility and energy storage.

### OPERATIONAL PERFORMANCE

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

| | Revenue* | | Operating profit* | | Capital investment** | |
|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| **Financial key performance indicators** | **£m** | £m | **£m** | £m | **£m** | £m |
| **ScottishPower Renewables (WODS) Limited** | **116.3** | 117.4 | **62.7** | 59.9 | **0.4** | 3.1 |

* Revenue and operating profit are presented on page 10.
** Capital investment as presented in Note 3 on page 22.

Revenue was £116.3 million (2017 £117.4 million), which is largely in line with the prior year.

Operating profit increased by £2.8 million primarily due to reduced procurement costs in 2018. This reflected the recognition of one-off costs in 2017 in relation to the offshore transmission asset.

Capital investment for the year amounted to £0.4 million (2017 £3.1 million).

| Non-financial key performance indicators | Notes | 2018 | 2017 |
|---|---|---|---|
| **Plant output (GWh)** | (a) | **756** | 820 |
| **Installed capacity (MW)** | (b) | **194** | 194 |
| **Availability** | (c) | **98%** | 98% |

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

(b) Installed capacity represents the total number of MW fully installed within the wind farm site related to the company. This includes all turbines erected irrespective of whether they are generating or not.

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

### LIQUIDITY AND CASH MANAGEMENT

*Cash and net debt*

Net cash flows from operating activities increased by £4.0 million to £83.5 million for the year (refer to cash flow statement on page 12). As detailed in the table below, net debt decreased by £34.6 million to £275.7 million. The movement comprised a decrease of £33.6 million in loans payable to Iberdrola group companies and an increase of £1.0 million in cash.

| Analysis of net debt | Notes | 2018 £m | 2017 £m |
|---|---|---|---|
| Cash | (a) | **3.4** | 2.4 |
| Loans payable to Iberdrola group companies | (b) | **(279.1)** | (312.7) |
| **Net debt** | | **(275.7)** | (310.3) |

(a) As detailed on the balance sheet (refer to page 9).
(b) Refer to Note 10 on page 28.

*Capital and debt structure*

The company is funded by a mixture of debt and equity. All equity is held by the company's immediate parent, SPRUKL. SPL grants all of the loan facilities to the company. Treasury services are provided by SPL. Further details of the treasury policy for ScottishPower and how it manages this is included in Note 6.

### HEALTH AND SAFETY

The company has a clear strategy to continue to improve health and safety performance using ScottishPower health and safety standards. A more extensive description of how ScottishPower addresses health and safety requirements can be found in the most recent Annual Report and Accounts of SPL.

### UK DECISION TO LEAVE THE EU (BREXIT)

The UK was originally scheduled to leave the 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). As at the date of signing these accounts this deal has not been approved by the UK Parliament; cross party discussions are taking place to reach a consensus on a revised deal to be presented to the UK Parliament for approval. The EU and the UK have now agreed a delay to Brexit until 31 October 2019 at the latest.

If the EU Withdrawal Agreement is not approved by the UK Parliament within the EU timelines the risk of a 'no-deal' Brexit exists. This would probably mean that the trade relationship between the UK and EU would revert to World Trade Organisation ("WTO") rules. The UK Government has published a series of technical papers covering some of the key areas of concern in the event of 'no-deal' scenario. Essentially these papers seek to minimise the impacts as much as possible, including by limiting the scale of the changes to existing arrangements. Nevertheless, WTO rules would mean that trade between the UK and EU which is currently frictionless, would become cross-border trade subject to customs checks and tariffs. In the event of a 'no-deal' scenario some economic disruption is expected in the UK and thus ScottishPower is preparing to mitigate any negative impacts arising from this outcome. A cross-party operational working group has been co-ordinating ScottishPower's preparations to mitigate the impact of a 'no-deal' Brexit. Some of the key risks considered are explained in the table overleaf.

**UK DECISION TO LEAVE THE EU (BREXIT)** *continued*

| BREXIT RISKS | |
|---|---|
| **RISK** | **RESPONSE** |
| Impacts arising from the UK decision to leave the EU or market reactions to events during the negotiation. These impacts could include movements in the value of Sterling and other financial instruments. In the longer term there could be positive or negative changes in the UK economy and in the political and regulatory environment in which the company operates. | In addition to monitoring ongoing developments related to Brexit, the treasury risk management policy is in place to hedge financial risks which are the most prevalent in the short term. Any longer term impact on the UK economy and its impact on the company 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. | Assessment of key equipment and components undertaken and additional orders placed in order to increase stock levels.<br><br>Additional storage requirements also assessed and actions taken to ensure there is sufficient storage. |
| Foreign exchange rate exposure and additional tariffs if WTO rules apply. | Exchange rate hedged on existing orders and contracts.<br><br>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 | Legal review of all critical contracts to determine potential exposure and mitigation specific to each contract. |
| 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. | Recent announcements by the UK Government confirmed EU nationals in the UK will be part of an EU settlement scheme.<br><br>Workplace audit underway to assess impact and support staff affected through the process.<br><br>Contingency arrangements being set up for offshore workers. |
| 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. | All intercompany contracts reviewed to update contractual clauses.<br><br>High risk suppliers identified and where appropriate discussions commenced to amend contractual terms. |

Even in the event of an agreement being concluded, Brexit may have both risks and opportunities for ScottishPower and therefore the company. Until the terms of exit and the nature 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 where there could be issues 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 for the short/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 Brexit deal becomes clearer.

**PRINCIPAL RISKS AND UNCERTAINTIES**

ScottishPower's strategy, which is adopted by the company, is to conduct business in a manner benefiting customers through balancing cost and risk while delivering shareholder value and protecting ScottishPower's performance and reputation by prudently managing the risks inherent in the business. To maintain this strategic direction ScottishPower develops and implements risk management policies and procedures, and promotes a robust control environment at all levels of the organisation. Further details of the risk management practices can be found in Note 6.

**PRINCIPAL RISKS AND UNCERTAINTIES** *continued*

The principal risks and uncertainties of ScottishPower (other than those specific to Brexit already discussed) and so those of the company, that may impact current and future operational and financial performance and the management of these risks are described below:

| SCOTTISHPOWER | |
|---|---|
| **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 aim to ensure not only continuing legal compliance but also drive towards best practice in all levels of its health and safety operations. |
| Breach in cyber security and unwanted infiltration of the ScottishPower IT infrastructure by internal and external parties. | Implementation of a cyber-risk policy which provides the framework for mitigation. Proactive approach to identifying where ScottishPower is vulnerable and addressing these points through technical solutions. Educating company employees as to how behaviour can reduce this risk. Embedding cyber security in all projects where appropriate. |

The principal risk and uncertainty of the company that may impact the current and future operational and financial performance and the management of this risk is described below:

| RENEWABLES | |
|---|---|
| **RISK** | **RESPONSE** |
| 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. |

**ON BEHALF OF THE BOARD**

Heather Chalmers White

**Heather Chalmers White**
**Director**
**31 May 2019**

## SCOTTISHPOWER RENEWABLES (WODS) LIMITED
## DIRECTORS' REPORT

The directors present their report and audited Accounts for the year ended 31 December 2018.

### 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 4:

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

### RESULTS AND DIVIDEND

The net profit for the year was £44.2 million (2017 £43.2 million). A dividend of £35.0 million was paid during the year (2017 £19.5 million).

### INNOVATION

ScottishPower believes that innovation plays a fundamental role in the success of the business. Innovation efforts span across internal culture, systems and academic and supply chain partnerships with the aim of identifying future value. All innovation areas are developed as part of Iberdrola's global open and decentralised innovation model.

ScottishPower's main innovation themes during the past year have delivered projects such as improving operational efficiencies using data analytics, increasing productivity through asset optimisation and delivering improved customer experience through digitisation. Detailed information in relation to ScottishPower's wider innovation activities can be found in the Iberdrola Innovation Report. The most recent report can be accessed via the 'Sustainability' section of www.iberdrola.com.

### ENVIRONMENTAL MANAGEMENT AND REGULATION

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

### MODERN SLAVERY STATEMENT

ScottishPower is committed to human and labour rights and to eliminating modern slavery that could in any way be connected to its business. ScottishPower welcomed the introduction of the Modern Slavery Act 2015. ScottishPower published its most recent Modern Slavery Statement in May 2018 which was approved by the Board of Directors of Scottish Power Limited and signed by Keith Anderson, Chief Executive Officer.

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

### DIRECTORS

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

Keith Anderson (resigned 2 May 2018)
Jonathan Cole
Roy Scott
Victor Rey Romero (appointed 5 September 2018)

Roy Scott resigned on 31 January 2019. Heather Chalmers White was appointed on 15 February 2019.

### 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 the financial statements 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 2018 ("IFRSs as adopted by the EU") and applicable law.

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

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

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

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.

***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 auditor of the company for the year ended 31 December 2018.

**ON BEHALF OF THE BOARD**

Heather Chalmers White

**Heather Chalmers White**
**Director**
**31 May 2019**

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

**Opinion**
We have audited the financial statements of ScottishPower Renewables (WODS) Limited ("the company") for the year ended 31 December 2018 which comprise the Balance Sheet, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Cash Flow Statement, and related notes, including the accounting policies in Note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- *have been prepared in accordance with the requirements of the Companies Act 2006.*

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

**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 recoverability of trade receivables, property, plant and equipment 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 company'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 standardized firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict 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 company or to cease its operations, and as they have concluded that 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 its 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 company's business model, including the impact of Brexit, and analysed how those risks might affect the 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 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:

## INDEPENDENT AUDITOR'S REPORT
## TO THE MEMBER OF SCOTTISHPOWER RENEWABLES (WODS) LIMITED *continued*

**Strategic report and directors' report *continued***

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

**Matters on which we are required to report by exception**
Under the Companies Act 2006, we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

**Directors' responsibilities**
As explained more fully in their statement set out on page 6, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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

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

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

**Andrew Williamson (Senior Statutory Auditor)**
**for and on behalf of KPMG LLP, Statutory Auditor**
*Chartered Accountants*
319 St. Vincent Street
Glasgow
G2 5AS
31 May 2019

**SCOTTISHPOWER RENEWABLES (WODS) LIMITED**
**BALANCE SHEET**
**at 31 December 2018**

| | Notes | 2018 £m | 2017 £m |
|---|---|---|---|
| **ASSETS** | | | |
| **NON-CURRENT ASSETS** | | | |
| **Property, plant and equipment** | | **527.8** | 554.5 |
| Property, plant and equipment in use | 3 | 527.8 | 554.5 |
| **Financial assets** | | **-** | - |
| Investment in jointly controlled entity | 4 | - | - |
| **NON-CURRENT ASSETS** | | **527.8** | 554.5 |
| **CURRENT ASSETS** | | | |
| **Trade and other receivables** | 5 | **62.8** | 65.3 |
| **Cash** | 6 | **3.4** | 2.4 |
| **CURRENT ASSETS** | | **66.2** | 67.7 |
| **TOTAL ASSETS** | | **594.0** | 622.2 |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| **EQUITY** | | | |
| **Of shareholders of the parent** | | **215.9** | 206.8 |
| Share capital | 7, 8 | 160.0 | 160.0 |
| Retained earnings | 8 | 55.9 | 46.8 |
| **TOTAL EQUITY** | | **215.9** | 206.8 |
| | | | |
| **NON-CURRENT LIABILITIES** | | | |
| **Provisions** | 9 | **43.4** | 42.8 |
| **Bank borrowings and other financial liabilities** | | **200.0** | 200.0 |
| Loans and other borrowings | 10 | 200.0 | 200.0 |
| **Deferred tax liabilities** | 11 | **42.3** | 38.9 |
| **NON-CURRENT LIABILITIES** | | **285.7** | 281.7 |
| **CURRENT LIABILITIES** | | | |
| **Provisions** | 9 | **0.2** | 2.5 |
| **Bank borrowings and other financial liabilities** | | **79.1** | 112.7 |
| Loans and other borrowings | 10 | 79.1 | 112.7 |
| **Trade and other payables** | 12 | **6.0** | 13.7 |
| **Current tax liabilities** | | **7.1** | 4.8 |
| **CURRENT LIABILITIES** | | **92.4** | 133.7 |
| **TOTAL LIABILITIES** | | **378.1** | 415.4 |
| **TOTAL EQUITY AND LIABILITIES** | | **594.0** | 622.2 |

Approved by the Board on and signed on its behalf on 31 May 2019.

Heather Chalmers White

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

The accompanying Notes 1 to 23 are an integral part of the balance sheet as at 31 December 2018.

**SCOTTISHPOWER RENEWABLES (WODS) LIMITED**
**INCOME STATEMENT**
**for the year ended 31 December 2018**

| | Notes | 2018 £m | 2017 £m |
|---|---|---|---|
| Revenue | 13 | 116.3 | 117.4 |
| Procurements | | (10.2) | (14.1) |
| **GROSS MARGIN** | | **106.1** | 103.3 |
| **Net external expenses** | | **(16.2)** | (17.0) |
| External services | | (16.9) | (17.8) |
| Other operating income | | 0.7 | 0.8 |
| **Taxes other than income tax** | 15 | **(0.1)** | (0.1) |
| **GROSS OPERATING PROFIT** | | **89.8** | 86.2 |
| Depreciation and amortisation charge, allowances and provisions | 16 | (27.1) | (26.3) |
| **OPERATING PROFIT** | | **62.7** | 59.9 |
| Finance costs | 17 | (8.2) | (7.6) |
| **PROFIT BEFORE TAX** | | **54.5** | 52.3 |
| Income tax | 18 | (10.3) | (9.1) |
| **NET PROFIT FOR THE YEAR** | | **44.2** | 43.2 |

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

All results relate to continuing operations.

The accompanying Notes 1 to 23 are an integral part of the income statement for the year ended 31 December 2018.

## SCOTTISHPOWER RENEWABLES (WODS) LIMITED
## STATEMENT OF COMPREHENSIVE INCOME
## for the year ended 31 December 2018

| | Note | 2018 £m | 2017 £m |
|---|---|---|---|
| **NET PROFIT FOR THE YEAR** | | **44.2** | 43.2 |
| **OTHER COMPREHENSIVE INCOME** | | | |
| **Items that will not be reclassified to the income statement:** | | | |
| Change in the value of cash flow hedges | 8 | - | 0.4 |
| Tax relating to cash flow hedges | 8 | - | (0.1) |
| | | - | 0.3 |
| **OTHER COMPREHENSIVE INCOME FOR THE YEAR** | | - | 0.3 |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **44.2** | 43.5 |

Total comprehensive income for both years is wholly attributable to the equity holder of ScottishPower Renewables (WODS) Limited.

## STATEMENT OF CHANGES IN EQUITY
## for the year ended 31 December 2018

| | Ordinary share capital £m | Hedge reserve £m | Retained earnings £m | Total £m |
|---|---|---|---|---|
| At 1 January 2017 | - | (0.3) | 23.1 | 22.8 |
| Total comprehensive income for the year | - | 0.3 | 43.2 | 43.5 |
| Share capital issued | 160.0 | - | - | 160.0 |
| Dividends | - | - | (19.5) | (19.5) |
| At 1 January 2018 | 160.0 | - | 46.8 | 206.8 |
| Adjustments due to IFRS 9 (refer to Note 1B1.2) | - | - | (0.1) | (0.1) |
| Adjusted balance at 1 January 2018 | 160.0 | - | 46.7 | 206.7 |
| Total comprehensive income for the year | - | - | 44.2 | 44.2 |
| Dividends | - | - | (35.0) | (35.0) |
| **At 31 December 2018** | **160.0** | **-** | **55.9** | **215.9** |

The accompanying Notes 1 to 23 are an integral part of the statement of comprehensive income and the statement of changes in equity for the year ended 31 December 2018.

## SCOTTISHPOWER RENEWABLES (WODS) LIMITED
## CASH FLOW STATEMENT
## for the year ended 31 December 2018

| | 2018 | 2017 |
|---|---|---|
| | **£m** | £m |
| **Cash flows from operating activities** | | |
| Profit before tax | 54.5 | 52.3 |
| Adjustments for: | | |
| Depreciation | 27.1 | 26.3 |
| Change in provisions | (1.6) | 2.5 |
| Finance costs | 8.2 | 7.6 |
| Changes in working capital: | | |
| Change in trade and other receivables | 2.3 | (10.2) |
| Change in trade payables | (1.7) | (0.4) |
| Provisions paid | (0.7) | - |
| Income taxes (paid)/received | (4.6) | 1.4 |
| **Net cash flows from operating activities (i)** | **83.5** | 79.5 |
| **Cash flows from investing activities** | | |
| Investments in property, plant and equipment | (1.0) | (2.4) |
| **Net cash flows from investing activities (ii)** | **(1.0)** | (2.4) |
| **Cash flows from financing activities** | | |
| Decrease in amounts due to Iberdrola group companies - current loans payable | (33.6) | (414.4) |
| Increase in amounts due to Iberdrola group companies - non-current loans payable | - | 200.0 |
| Share capital issued | - | 160.0 |
| Dividends paid to company's equity holder | (35.0) | (19.5) |
| Interest paid | (12.9) | (7.6) |
| **Net cash flows from financing activities (iii)** | **(81.5)** | (81.5) |
| **Net increase/(decrease) in cash and cash equivalents (i)+(ii)+(iii)** | 1.0 | (4.4) |
| **Cash and cash equivalents at beginning of year** | 2.4 | 6.8 |
| **Cash and cash equivalents at end of year** | **3.4** | 2.4 |

| | | |
|---|---|---|
| Cash and cash equivalents at end of year comprises: | | |
| Cash | 3.4 | 2.4 |
| **Cash flow statement cash and cash equivalents** | **3.4** | 2.4 |

The accompanying Notes 1 to 23 are an integral part of the cash flow statement for the year ended 31 December 2018.

## 1 BASIS OF PREPARATION

### A. COMPANY INFORMATION

ScottishPower Renewables (WODS) Limited, registered company number SC374288, is a private company limited by shares, incorporated in Scotland and its registered address is 320 St. Vincent Street, Glasgow, G2 5AD.

### B. BASIS OF PREPARATION OF THE ACCOUNTS

The company is required by law to prepare accounts and to deliver them to the Registrar of Companies. The Accounts have been prepared in accordance with International 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 2018 (IFRS as adopted by the EU). The Accounts are prepared in accordance with the Accounting Policies set out in Note 2. Monetary amounts are presented in pounds Sterling and are rounded to the nearest hundred thousand unless otherwise indicated.

The Accounts contain information about ScottishPower Renewables (WODS) Limited as an individual company and do not contain consolidated financial information as an investor in a joint venture. The company is exempt under Section 400 of the Companies Act 2006 from the requirements to prepare consolidated Accounts as it and its joint venture are included by full consolidation in the consolidated Accounts of its ultimate parent, Iberdrola, S.A., a company incorporated in Spain.

### B1. EFFECT OF INITIAL APPLICATION OF IFRS 15 and IFRS 9

This is the first set of the company's annual financial statements in which IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments' have been applied. The nature and effect of the changes as a result of the implementation of these standards are described below.

### B1.1 EFFECT OF INITIAL APPLICATION OF IFRS 15

The company has applied IFRS 15 for the first time using the cumulative effect method i.e. by recognising the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 18 'Revenue' and the IFRS 15 disclosure requirements have not been applied to comparative information.

The application of IFRS 15 has not had a significant impact on the company's revenue recognition and therefore there is nothing to disclose in relation to the impact on the opening balances at 1 January 2018 and the balances at and results for the year ended 31 December 2018.

### B1.2 EFFECT OF INITIAL APPLICATION OF IFRS 9

IFRS 9 'Financial Instruments' replaces IAS 39 'Financial Instruments: Recognition and Measurement' for annual periods beginning on or after 1 January 2018, bringing together all aspects of the accounting for financial instruments.

The company has applied IFRS 9 retrospectively, with the initial application date of 1 January 2018. In line with consequential amendments to IFRS 7 'Financial Instruments: Disclosures', the company has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the company's previous accounting policy under IAS 39.

**1 BASIS OF PREPARATION** *continued*
**B BASIS OF PREPARATION OF THE ACCOUNTS** *continued*
**B1. EFFECT OF INITIAL APPLICATION OF IFRS 15 and IFRS 9** *continued*
**B1.2 EFFECT OF INITIAL APPLICATION OF IFRS 9** *continued*

The table below illustrates the impact of the initial application of IFRS 9 on the opening balances at 1 January 2018.

| | Adjustments due to IFRS 9 £m |
|---|---|
| **Retained earnings** | |
| Recognition of Expected Credit Losses ("ECLs") under IFRS 9 | (0.1) |
| Related tax | - |
| **Impact at 1 January 2018** | **(0.1)** |

***(a) Classification and measurement of financial assets and financial liabilities***

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. As stated above, with the exception of hedge accounting, the company has applied the classification and measurement requirements retrospectively, with initial application on 1 January 2018, thus the figures for comparative periods have not been restated.

**Financial assets**

The company has classified its financial assets as being held at amortised cost (refer to Note 2F.1.1 for further details).

The following table and the accompanying notes explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the company's financial assets at 1 January 2018. The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements.

| Financial asset | Original classification under IAS 39 | New classification under IFRS 9 | Notes | Original carrying value under IAS 39 £m | New carrying value under IFRS 9 £m |
|---|---|---|---|---|---|
| Receivables | Loans and receivables | Amortised cost | (i), (ii) | 61.4 | 61.3 |
| Cash | Loans and receivables | Amortised cost | (iii) | 2.4 | 2.4 |
| **Total financial assets** | | | | 63.8 | 63.7 |

(i) Receivables represent amounts due from Iberdrola group companies. Refer to Notes 5 and 6(a).
(ii) Balances that were classified as Loans and receivables under IAS 39 are now classified at amortised cost. An increase of £0.1 million for the allowance for impairment over these balances was recognised in the opening retained earnings at 1 January 2018 on transition to IFRS 9 (refer to footnote (b) overleaf).
(iii) Whilst this balance is also subject to the impairment requirements of IFRS 9, the identified impairment loss was less than £0.1 million.

The classification and measurement requirements of IFRS 9 did not have a significant impact on the company. Financial assets continue to be valued at amortised cost.

**Financial liabilities**

The classification of the company's financial liabilities has not undergone any changes with respect to the application of IFRS 9. Consequently the application of IFRS 9 has not had a significant effect on the company's accounting policies related to financial liabilities. For an explanation of how the company classifies and measures financial liabilities and accounts for the related gains and losses under IFRS 9, refer to Note 2F1.2.

**1 BASIS OF PREPARATION** *continued*

**B BASIS OF PREPARATION OF THE ACCOUNTS** *continued*

**B1. EFFECT OF INITIAL APPLICATION OF IFRS 15 and IFRS 9** *continued*

**B1.2 EFFECT OF INITIAL APPLICATION IFRS 9** *continued*

***(b) Impairment of financial assets***

The application of IFRS 9 has changed the company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a new ECL approach. This new impairment model applies to financial assets measured at amortised cost. Under IFRS 9, credit losses are recognised earlier than under IAS 39 (refer to Note 2F1.1).

The company applies the general model approach for calculation of ECLs on financial assets measured at amortised cost other than for trade receivables where the simplified model approach is applied:

Brief explanations of each model are set out below:

(i) **General Model:** 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.

(ii) **Simplified Model:** The loss allowance is measured at an amount equal to a lifetime ECL. The company has adopted the practical expedient whereby it calculates the ECL on trade receivables using a provision matrix based on its historical credit loss experience and where possible readily available forecast information.

Additional information about how the company measures the allowance for impairment is described in Note 6. The company has adopted the impairment requirements retrospectively, with initial application on 1 January 2018, thus opting not to restate the figures for comparative periods.

The company has determined that the application of IFRS 9's impairment requirements at 1 January 2018 results in an additional allowance for impairment as follows:

| | £m |
|---|---|
| **Loss allowance at 31 December 2017 under IAS 39 (trade and other receivables)** | - |
| Additional impairment recognised at 1 January 2018 on: | |
| Receivables as at 31 December 2017 | 0.1 |
| **Loss allowance at 1 January 2018 under IFRS 9** | **0.1** |

**C. ACCOUNTING STANDARDS**

**C1. IMPACT OF NEW IFRS**

In preparing these Accounts, the company 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 2018.

For the year ended 31 December 2018, the company has applied the following amendments for the first time:

| Standard | Notes |
|---|---|
| • Annual Improvements to IFRS Standards 2014 –2016 Cycle | (a), (b) |
| • IFRS 15 'Revenue from Contracts with Customers' (including 'Amendments to IFRS 15: Effective date of IFRS 15' and 'Clarifications to IFRS 15 Revenue from Contracts with Customers') | (c) |
| • IFRS 9 'Financial Instruments' | (d) |
| • Amendments to IAS 40 'Investment Property: Transfers of Investment Property' | (a) |
| • Amendments to IFRS 2 'Share-based Payments: Clarification and Measurement of Share-based Payment Transactions' | (a) |
| • Amendments to IFRS 4 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' | (a) |
| • IFRIC 22 'Foreign Currency Transactions and Advance Consideration' | (a) |

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

(b) This pronouncement includes amendments to three standards. The amendments to IFRS 1 'First-time Adoption of International Financial Reporting Standards' and IAS 28 'Investments in Associates and Joint Ventures' have been applied by the company effective 1 January 2018. The amendments to IFRS 12 'Disclosure of Interests in Other Entities' were applied by the company effective 1 January 2017.

(c) Refer to Note 1B1.1 for further information.

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

**1 BASIS OF PREPARATION** *continued*

**C. ACCOUNTING STANDARDS** *continued*

**C1. 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 company:

| Standard | Notes | IASB effective date (for periods commencing on or after) | Planned date of application by the company |
|---|---|---|---|
| • IFRS 16 'Leases' | (e) | 1 January 2019 | 1 January 2019 |
| • IFRIC 23 'Uncertainty over Income Tax Treatments' | (f) | 1 January 2019 | 1 January 2019 |
| • Amendments to IFRS 9 'Financial Instruments: Prepayment Features with Negative Compensation' | (f) | 1 January 2019 | 1 January 2019 |
| • Amendments to IAS 28 'Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures' | (f) | 1 January 2019 | 1 January 2019 |
| • Annual Improvements to IFRS Standards 2015-2017 Cycle | (f) | 1 January 2019 | 1 January 2019 |
| • Amendments to IAS 19 'Employee Benefits: Plan Amendment, Curtailment or Settlement' | (f) | 1 January 2019 | 1 January 2019 |
| • Amendments to References to the Conceptual Framework in IFRS Standards | (f), (g) | 1 January 2020 | 1 January 2020 |
| • Amendments to IFRS 3 'Business Combinations' | (f), (g) | 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' | (f), (g) | 1 January 2020 | 1 January 2020 |
| • IFRS 17 'Insurance Contracts' | (f), (g) | 1 January 2021 | 1 January 2021 |
| • IFRS 14 'Regulatory Deferral Accounts' | (f), (g), (h) | 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' | (f), (g), (i) | Deferred indefinitely | To be decided |

(e) Details of the impact of implementing IFRS 16 'Leases' is described at Note 1C2 below.

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

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

(h) 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.

(i) 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.

**C2. IMPACT OF FUTURE IMPLEMENTATION OF IFRS 16**

IFRS 16 'Leases' is effective for the company as from 1 January 2019. The impact of implementing this standard is detailed below. The impact of this standard will have no effect on the recorded cash flows.

From the lessors' perspective, IFRS 16 does not introduce any significant change. From the lessees' perspective, IFRS 16 removes the current classification of operating and finance leases and requires, for any lease agreements, that the lessee recognises the present value of the lease on the balance sheet as a right-of-use asset and a liability.

The company has carried out analysis in order to assess whether an agreement is, or contains, a lease at its inception considering the requirements of IFRS 16. In this analysis, in line with the Iberdrola group, the company has concluded that the assignment of land use does not constitute a lease when the landowner has the right to operate any kind of economic activity on the land in order to continue obtaining more than insignificant economic benefits as a result of that use.

**1 BASIS OF PREPARATION** *continued*

**C. ACCOUNTING STANDARDS** *continued*

**C2. IMPACT OF FUTURE IMPLEMENTATION OF IFRS 16** *continued*

Within its ordinary business activities, the company enters into agreements whereby it obtains the right to use land owned by third parties to carry out activities such as the construction, operation and maintenance of renewable energy generation facilities, as well as for the purposes of electricity transmission and distribution. Clauses within these contracts allow the landowner to access the land and continue carrying out economic activities, provided that they do not interfere with the operation of the activities carried out by the company. In line with the Iberdrola group, the company has concluded that such contracts grant shared use of the land to both the owner and the company, thus the company does not have the right to control the use of the underlying asset. Therefore, such agreements do not contain a lease in accordance with IFRS 16.

The company will transition to IFRS 16 applying the modified retrospective method which does not require comparative periods to be restated but recognises the effect of the initial application of IFRS 16 on the date it is implemented i.e. 1 January 2019. Therefore, for lease agreements in which the company is the lessee, the lease liability will be measured at the present value of the remaining lease payments, applying an appropriate discount rate as at the date of initial application. Generally, right-of-use assets will be measured as the same amount as the corresponding liabilities; both these assets and liabilities will be recognised on the balance sheet.

The right-of-use assets will be depreciated and the charge recorded within Depreciation and amortisation charge, allowances and provisions in the consolidated income statement; similarly the discount on the liabilities will unwind over the term of the lease and be charged to Finance costs in the income statement. The expense in the year relating to minimum lease payments under operating leases will no longer be recognised in the consolidated income statement; a charge of £0.8 million was recognised in 2018 (refer to Note 3(c)).

Based on the scope exemptions available under IFRS 16, in line with the Iberdrola group, the company has opted not to apply it to lease agreements for intangible assets and short-term leases i.e. leases with a term of twelve months or less (which will continue being accounted for as now under IAS 17 'Leases').

A contract may include multiple lease components, not all of which would qualify as a lease under IFRS 16. In line with the Iberdrola group, the company has opted to not separate multiple components for accounting purposes but will recognise them as a single component, except for certain agreements for which the separation may have a significant impact on the financial statements.

As at 1 January 2019, IFRS 16 will give rise to an increase in current and non-current liabilities totalling an estimated £0.9 million relating to land leases.

The total liability noted above is presented on a discounted net present value basis. As at the date of initial application, the range of discount rates used to calculate the above pertaining to Sterling were in the range of between 4.91% and 4.93%.

In comparing the future minimum lease payments under non-cancellable operating leases under the scope of IAS 17 as at 31 December 2018 (refer to Note 3(c)) to the lease liabilities to be recognised as at 1 January 2019 under IFRS 16 (see above), the main reconciling items relate to scope changes between the two standards; specifically leases relating to wind farms and the application of different discount rate assumptions.

Under IAS 17, the majority of lease agreements for land on which wind generation facilities are located, are designated as operating leases. On the initial application of IFRS 16, in line with the Iberdrola group, the company has concluded that the majority of these agreements do not contain a lease in accordance with the criteria of IFRS 16 previously described. This interpretation of the application of IFRS 16 is based on international practice in the scope of the initial application of the IFRS 16. However, the accounting treatment of agreements permitting the shared use of the underlying asset under IFRS 16 is subject to revision based on future interpretations. The company will follow future discussions on the matter in order to confirm the reasonableness of the accounting treatment adopted.

**2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES**

In determining and applying accounting policies, judgement is often required in respect of items where the choice of specific policy to be followed could materially affect the reported amounts of revenues, expenses, assets and liabilities of the company, should it later be determined that a different choice would be more appropriate. The company has no such policies. At 31 December 2018, the company had no items which have significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities in the next financial year.

The principal accounting policies applied in preparing the company's Accounts are set out below:

A. **REVENUE**
B. **PROCUREMENTS**
C. **PROPERTY, PLANT AND EQUIPMENT**
D. **IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT**
E. **LEASED ASSETS**
F. **FINANCIAL INSTRUMENTS**
G. **FOREIGN CURRENCIES**
H. **TAXATION**
I. **DECOMMISSIONING COSTS**
J. **CASH AND CASH EQUIVALENTS**

**A. REVENUE**

The company has applied IFRS 15 for the first time from 1 January 2018. Information about the company's accounting policies and estimates in relation to contracts with customers is provided in Note 13. The effect of the initial application of IFRS 15 is disclosed in Note 1B1.1.

**B. PROCUREMENTS**

Procurements principally comprise the cost of electricity purchased during the year in relation to energy generation and related direct costs and services.

**C. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment is stated at cost and is generally depreciated on a straight-line basis over the estimated operational lives of the assets. Property, plant and equipment includes, where appropriate, capitalised employee costs and interest and other directly attributable costs. Reviews of the estimated remaining lives and residual values of property, plant and equipment are undertaken annually. Residual values are assessed based on prices prevailing at each balance sheet date.

The main depreciation periods used by the company are as set out below.

| | Years |
|---|---|
| Wind farms | 24 |
| Distribution facilities | 35 - 40 |

**D. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT**

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

**E. LEASED ASSETS**

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date; whether fulfilment of the arrangement is dependent on the use of a specific asset(s) or the arrangement conveys a right to use the asset(s), even if that right is not explicitly specified in the arrangement.

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

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

**2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES** *continued*

**F. 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.

**F1. ACCOUNTING POLICIES UNDER IFRS 9**

**F1.1 FINANCIAL ASSETS**

***(a) Recognition and initial measurement***

The company's financial assets are classified, at initial recognition, as subsequently measured at amortised cost.

Trade receivables without a significant financing component and for which the company has applied the simplified ECL model are measured at the transaction price determined under IFRS 15 (refer to Note 13).

***(b) Classification and subsequent measurement***

*(i) Classification*

Financial assets are not reclassified subsequent to their initial recognition unless the company 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 company'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 company 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.

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.

*(ii) Subsequent measurement and gains and losses*

Financial assets at amortised cost assets 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 company income statement.

The company's financial assets measured at amortised cost include trade receivables and receivables due from Iberdrola group companies.

*Derecognition*

A financial asset (or, where applicable, a part of a financial asset) is primarily derecognised (i.e. removed from the company's balance sheet) when the rights to receive cash flows from the asset have expired.

*(iii) Impairment of financial assets*

Disclosures relating to impairment of financial assets are provided in Note 6.

The company has adopted the simplified ECL model for its trade receivables and the general ECL model for all other financial assets measured at amortised cost (i.e. cash). In applying the simplified model, loss allowances for trade receivables are always measured at an amount equal to lifetime ECL.

ECLs on cash 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).

**2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES** *continued*
**F FINANCIAL INSTRUMENTS** *continued*
**F1 ACCOUNTING POLICIES UNDER IFRS 9** *continued*
**F1.1 FINANCIAL ASSETS** *continued*
***(b) Classification and subsequent measurement*** *continued*
*(iii) 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 company's cash balances have low credit risk at both the beginning and end of the reporting period. The company considers these assets to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The company considers this to be BBB- or higher per rating agency Standard & Poor's.

The company considers a financial asset to be in default when:

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

*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 company 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 company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

*Credit-impaired financial assets*
At each reporting date, the company 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.

*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.

**F1.2 FINANCIAL LIABILITIES**
***(a) Recognition and initial measurement***
The company's financial liabilities include trade and other payables and loans and borrowings. All financial liabilities are recognised initially at fair value and in the case of loans and borrowings net of directly attributable transaction costs.

***(b) Classification and subsequent measurement***
Financial liabilities are classified as measured at amortised cost using the effective interest method. Interest expense is recognised in the income statement. Any gain or loss on derecognition is also recognised in the income statement.

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.

**2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES** *continued*

**F FINANCIAL INSTRUMENTS** *continued*

**F1 ACCOUNTING POLICIES UNDER IFRS 9** *continued*

**F1.2 FINANCIAL LIABILITIES** *continued*

***(b) Classification and subsequent measurement*** *continued*

The company 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.

**F2. ACCOUNTING POLICIES UNDER IAS 39**

As detailed in Note 1B1.2 on application of IFRS 9, the company has elected not to restate comparative information. The accounting policies for the company under IAS 39 have therefore been presented below.

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

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

(c) All interest bearing loans and borrowings are initially recognised at fair value, net of directly attributable transaction costs. Interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

**G. FOREIGN CURRENICIES**

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.

**H. TAXATION**

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 with in equity and is shown in the statement of comprehensive income.

**I. DECOMMISSIONING COSTS**

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

**J. 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. In the cash flow statement, cash and cash equivalents exclude term deposits which have a maturity of more than 90 days at the date of acquisition and include bank overdrafts repayable on demand the next business day.

## 3 PROPERTY, PLANT AND EQUIPMENT

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

| Year ended 31 December 2017 | Wind power plants £m | Distribution facilities £m | Total £m |
|---|---|---|---|
| Cost: | | | |
| At 1 January 2017 | 637.5 | 0.5 | 638.0 |
| Additions | 3.1 | - | 3.1 |
| Transfers (Note (i)) | 6.4 | - | 6.4 |
| At 31 December 2017 | 647.0 | 0.5 | 647.5 |
| Depreciation: | | | |
| At 1 January 2017 | 66.7 | - | 66.7 |
| Depreciation for the year | 26.3 | - | 26.3 |
| At 31 December 2017 | 93.0 | - | 93.0 |
| Net book value: | | | |
| At 31 December 2017 | 554.0 | 0.5 | 554.5 |
| At 1 January 2017 | 570.8 | 0.5 | 571.3 |

| **Year ended 31 December 2018** | Wind power plants £m | Distribution facilities £m | Total £m |
|---|---|---|---|
| **Cost:** | | | |
| At 1 January 2018 | 647.0 | 0.5 | 647.5 |
| Additions | 0.4 | - | 0.4 |
| **At 31 December 2018** | **647.4** | **0.5** | **647.9** |
| **Depreciation:** | | | |
| At 1 January 2018 | 93.0 | - | 93.0 |
| Depreciation for the year | 27.0 | 0.1 | 27.1 |
| **At 31 December 2018** | **120.0** | **0.1** | **120.1** |
| **Net book value:** | | | |
| **At 31 December 2018** | **527.4** | **0.4** | **527.8** |
| At 1 January 2018 | 554.0 | 0.5 | 554.5 |

(i) Following a review in the prior year, £6.4 million relating to wind power plant additions for previous years was transferred from prepayments.
(ii) The net book value of property, plant and equipment at both 31 December 2018 and 2017 relates to property, plant and equipment in use.

### (b) Capital commitments

| | **2018 £m** | 2017 £m |
|---|---|---|
| Contracted but not provided | - | 7.6 |

### (c) Operating lease arrangements

| **(i) Operating lease payments** | **2018 £m** | 2017 £m |
|---|---|---|
| Minimum lease payments under operating leases recognised as an expense in the year | **0.8** | 0.8 |
| Contingent based operating lease rents recognised as an expense in the year | **0.4** | 0.3 |
| | **1.2** | 1.1 |

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

### (c) Operating lease arrangements *continued*

| (ii) Operating lease commitments | 2018 £m | 2017 £m |
|---|---|---|
| Within one year | **0.8** | 0.8 |
| Between one and five years | **3.0** | 3.1 |
| More than five years | **8.1** | 10.7 |
| | **11.9** | 14.6 |

### 4 INVESTMENT

| Jointly controlled entity | Principal activity | Country of incorporation | Equity interest in ordinary shares 2018 | Equity interest in ordinary shares 2017 |
|---|---|---|---|---|
| Morecambe Wind Limited | Provision of operational services | England and Wales | **50%** | 50% |

(a) The value of the investment in Morecambe Wind Limited is £3 (2017 £3).
(b) The registered office of the joint venture is 5 Howick Place, London, SW1P 1WG, England.
(c) The company directly owns 50% of the ordinary shares.

### 5 TRADE AND OTHER RECEIVABLES

| | 2018 £m | 2017 £m |
|---|---|---|
| **Current receivables:** | | |
| Receivables due from Iberdrola group companies - trade | **57.8** | 61.4 |
| Prepayments due from jointly controlled entities | **0.9** | 0.9 |
| Trade receivables (including accrued income) | **1.3** | - |
| Prepayments | **2.3** | 2.5 |
| Other tax receivables | **0.5** | 0.5 |
| | **62.8** | 65.3 |

(a) Information about the company's exposure to credit and market risks, and impairment losses for trade receivable are included in Note 6.
(b) Trade and other receivables includes £59.1 million of IFRS 15 receivables (refer to Note 13(c)).

### 6 FINANCIAL INSTRUMENTS

The effect of initially applying IFRS 9 on the company's Accounts is detailed in Note 1B1.2. Due to the transition method chosen, comparative information has not been presented to reflect the new requirements.

**(a) Carrying value of financial instruments**

The table below sets out the carrying amount and fair value of the company's financial instruments that are within the scope of IFRS 9.

| | Notes | 2018 Carrying amount £m | 2018 Fair value £m | 2018 Classification under IFRS 9 | 2017 Carrying amount £m | 2017 Fair value £m | 2017 Classification under IAS 39 £m |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Receivables | (i) | **59.1** | **59.1** | **Amortised cost** | 61.4 | 61.4 | Loans and Receivables |
| Cash | (ii) | **3.4** | **3.4** | **Amortised cost** | 2.4 | 2.4 | Loans and Receivables |
| **Financial liabilities** | | | | | | | |
| Loans and other borrowings | (iii) | **(279.1)** | **(301.9)** | **Amortised cost** | (312.7) | (346.2) | Loans and Receivables |
| Payables | | **(6.0)** | **(6.0)** | **Amortised cost** | (13.7) | (13.7) | Loans and Receivables |

The carrying amount of these financial instruments is calculated as set out in Note 2F. 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 (iii) below.

(i) Balances outwith the scope of IFRS 7 and IFRS 9 have been excluded, namely prepayments and other tax receivables.
(ii) As a general rule, cash deposited with banks earns interest at rates similar to market rates on daily deposits.
(iii) The fair value of Loans and borrowings is calculated using a discounted cash flow.

**6 FINANCIAL INSTRUMENTS** *continued*

**(b) Financial risk management**

The company's principal financial liabilities comprise loans and borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the company's operations. The company has trade and other receivables, and cash.

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

i. Credit risk; and
ii. Treasury risk (comprising both liquidity and market risk)

An extensive description of this risk management framework of ScottishPower, and therefore the company, can be found in the most recent Annual Report and Accounts of SPL.

***(i) 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 company is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions.

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

***Credit risk management***

The company 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).

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

- 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 BBB+ (in line with Standard & Poor's external credit ratings).
- Credit risk from balances with banks and financial institutions is managed by the ScottishPower'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.

At 31 December 2018 and 2017, the company evaluated the concentration of risk with respect to financial assets as low.

***Trade receivables £1.3 million (2017 £nil)***

The company uses the simplified model approach to measure ECLs for all trade receivables. The provision rates represent a lifetime ECL and are based on the Iberdrola group's historical loss experience and default rates. The movement and closing balance for the ECL as at 31 December 2018 was less than £0.1 million.

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 company.

***Receivables due from Iberdrola group companies and jointly controlled entities £57.8 million (2017 £61.4 million)***

On initial application of IFRS 9, the group recognised an impairment allowance as at 1 January 2018 of £0.1 million. The movement in the ECL in the year to 31 December 2018 was less than £0.1 million.

***Cash***

The company held cash of £3.4 million at 31 December 2018 (2017 £2.4 million). The cash balance is held with banks and financial institution counterparties, which are rated BBB- to AAA, based on Standard & Poor's ratings.

The impairment on cash has been measured on a twelve month expected loss basis and reflects the short maturities of the exposures. The company considers that its cash balance has low credit risk based on the external credit ratings of the counterparties.

On initial application of IFRS 9, the company recognised an impairment allowance as at 1 January 2018 of less than £0.1 million. The loss allowance in the year to 31 December 2018 is also less than £0.1 million.

**6 FINANCIAL INSTRUMENTS** *continued*
**(b) Financial risk management** *continued*
***(i) Credit risk*** *continued*

***Reconciliation of opening to closing loss allowance***
The closing loss allowances for all financial assets measured at amortised cost, as at 31 December 2018 reconciles to the opening loss allowances as follows:

| | £m |
|---|---|
| Balance at 31 December 2017 under IAS 39 (trade receivables) | - |
| Adjustment on initial application of IFRS 9 | (0.1) |
| **Balance at 1 January 2018 and 31 December 2018 under IFRS 9** | **(0.1)** |

The ECL has not changed since 1 January 2018 due to the relatively stable cash and trade receivables balances.

***(ii) Treasury risk***
Treasury risk for the company represents liquidity risk. ScottishPower's cash management and short-term financing activity, and therefore that of the company, is integrated with Iberdrola's. The company produces short-term rolling cash-flow requirements and if necessary any required funding is obtained via the group credit facilities already in place.

***Treasury liquidity risk management***
Liquidity risk, the risk that the company will have insufficient funds to meet its liabilities, is ultimately managed by Iberdrola group Treasury, who are responsible for arranging banking facilities on behalf of ScottishPower, and therefore the company. ScottishPower Limited is the principal counterparty for the loan balances due by the company.

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

| | **2018** | | | | | | |
|---|---|---|---|---|---|---|---|
| **Cash outflows** | **2019 £m** | **2020 £m** | **2021 £m** | **2022 £m** | **2023 £m** | **2024 and thereafter £m** | **Total £m** |
| Loans and other borrowings | 86.5 | 6.1 | 6.1 | 6.1 | 6.1 | 224.4 | **335.3** |
| Payables* | 4.5 | - | - | - | - | - | **4.5** |
| | **91.0** | **6.1** | **6.1** | **6.1** | **6.1** | **224.4** | **339.8** |

| | 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| **Cash outflows** | 2018 £m | 2019 £m | 2020 £m | 2021 £m | 2022 £m | 2023 and thereafter £m | Total £m |
| Loans and other borrowings | 125.6 | 6.1 | 6.1 | 6.1 | 6.1 | 230.5 | 380.5 |
| Payables* | 6.8 | - | - | - | - | - | 6.8 |
| | 132.4 | 6.1 | 6.1 | 6.1 | 6.1 | 230.5 | 387.3 |

* Contractual cash flows exclude accrued interest as these cash flows are included in loans and other borrowings.

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

Except for these financial liabilities, it is not expected that the cash flows included in the maturity analysis above could occur significantly earlier, or at significantly different amounts.

***Treasury market risk management***
Market risk is the risk of loss that results from changes in market rates (i.e. interest rates). Within the Treasury function ScottishPower, and therefore the company, utilises a number of financial instruments to manage interest rate exposures.

**6 FINANCIAL INSTRUMENTS** *continued*

**(b) Financial risk management** *continued*

***(ii) Treasury risk** continued*

***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 rate, 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 the company.

***Interest rate analysis of debt***

| | **2018** **£m** | 2017 £m |
|---|---|---|
| Fixed rate | **200.0** | 200.0 |
| Variable rate | **79.1** | 112.7 |
| | **279.1** | 312.7 |

The company's borrowings are held at amortised cost. The reference interest rates for the floating rate borrowings is the Bank of England Base Rate.

***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** | **Change in rate** | **Impact on interest rate charge 2018 £m** | Impact on interest rate charge 2017 £m |
|---|---|---|---|
| Short-term variable rate debt | **+0.25%** | 0.2 | 0.3 |
| | **+0.50%** | 0.4 | 0.6 |
| | **-0.25%** | (0.2) | (0.3) |
| | **-0.50%** | (0.4) | (0.6) |

**7 SHARE CAPITAL**

| | **2018** **£m** | 2017 £m |
|---|---|---|
| **Allotted, called up and fully paid shares:** | | |
| 160,000,001 ordinary shares of £1 each (2017 160,000,001 ordinary shares) | **160.0** | 160.0 |

(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.

## 8 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDER OF SCOTTISHPOWER RENEWABLES (WODS) LIMITED

| | Share capital (Note (a)) £m | Hedge reserve (Note (b)) £m | Retained earnings (Note (c)) £m | Total £m |
|---|---|---|---|---|
| At 1 January 2017 | - | (0.3) | 23.1 | 22.8 |
| Profit for the year attributable to equity holder of ScottishPower Renewables (WODS) Limited | - | - | 43.2 | 43.2 |
| Share capital issued | 160.0 | - | - | 160.0 |
| Changes in the value of cash flow hedges | - | 0.4 | - | 0.4 |
| Tax relating to cash flow hedges | - | (0.1) | - | (0.1) |
| Dividends | - | - | (19.5) | (19.5) |
| At 1 January 2018 | 160.0 | - | 46.8 | 206.8 |
| Adjustments due to IFRS 9 | - | - | (0.1) | (0.1) |
| Adjusted balance at 1 January 2018 | 160.0 | - | 46.7 | 206.7 |
| Profit for the year attributable to equity holder of ScottishPower Renewables (WODS) Limited | - | - | 44.2 | 44.2 |
| Dividends | - | - | (35.0) | (35.0) |
| **At 31 December 2018** | **160.0** | **-** | **55.9** | **215.9** |

(a) On 11 December 2017 the company issued 160,000,000 ordinary shares of £1 each to its immediate parent, SPRUKL, for a total consideration of £160.0 million.

(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) Retained earnings comprises the cumulative balance of profits and losses recognised in the financial statements as adjusted for transactions with shareholders.

(d) The changes in the hedge reserve arising from valuation adjustments to hedging derivatives is set out below:

| **Cash flow hedges** | Foreign exchange rate hedges £m | Tax effect £m | Total £m |
|---|---|---|---|
| At 1 January 2017 | (0.4) | 0.1 | (0.3) |
| Removed from equity and recognised in carrying amount of hedged items | 0.4 | (0.1) | 0.3 |
| **At 1 January 2018 and 31 December 2018** | - | - | - |

## 9 PROVISIONS

| Year ended 31 December 2017 | Notes | At 1 January 2017 £m | New provisions £m | Unwinding of discount £m | At 31 December 2017 £m |
|---|---|---|---|---|---|
| Decommissioning and environmental | (a) | 40.8 | 1.3 | 0.7 | 42.8 |
| Offshore transmission asset | (b) | - | 2.5 | - | 2.5 |
| | | 40.8 | 3.8 | 0.7 | 45.3 |

| **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 | **At 31 December 2018 £m** |
|---|---|---|---|---|---|---|---|
| Decommissioning and environmental | (a) | 42.8 | (0.1) | 0.7 | - | - | **43.4** |
| Offshore transmission asset | (b) | 2.5 | 0.2 | - | (0.7) | (1.8) | **0.2** |
| | | 45.3 | 0.1 | 0.7 | (0.7) | (1.8) | **43.6** |

(a) The provision for decommissioning is the discounted future estimated costs of decommissioning the wind farm at the end of its operational life. The decommissioning of the wind farm is expected to begin in 2038. The reduction of £0.1 million in the provision in 2018 (2017 1.3 million increase) resulted from a reassessment of future estimated costs.

(b) The new provision of £0.2 million (2017 £2.5 million) relates to costs to complete the offshore transmission asset which was sold in 2015. This is expected to be utilised in the coming year.

## 9 PROVISIONS *continued*

| Analysis of total provisions | 2018 £m | 2017 £m |
|---|---|---|
| Non-current | **43.4** | 42.8 |
| Current | **0.2** | 2.5 |
| | **43.6** | 45.3 |

## 10 LOANS AND OTHER BORROWINGS

### (a) Analysis of loans and other borrowings by instrument and maturity

| Instrument | Interest rate | Maturity | 2018 £m | 2017 £m |
|---|---|---|---|---|
| Loans with Iberdrola group companies | Base* + 1% | On demand | **79.1** | 112.7 |
| Loans with Iberdrola group companies | 3.05% fixed | 20 December 2027 | **200.0** | 200.0 |
| | | | **279.1** | 312.7 |

*Base – Bank of England Base Rate

| Analysis of total loans and other borrowings | 2018 £m | 2017 £m |
|---|---|---|
| Non-current | **200.0** | 200.0 |
| Current | **79.1** | 112.7 |
| | **279.1** | 312.7 |

### (b) Borrowing facilities

The company has no undrawn committed borrowing facilities at 31 December 2018 (2017 £nil).

### (c) Reconciliation of movements of liabilities to cash flows arising from financing activities

| | Liabilities | | | |
|---|---|---|---|---|
| | Loans and other borrowings (Current) £m | Loans and other borrowings (Non-current) £m | Interest payable (Current) £m | Total £m |
| At 1 January 2017 | 527.1 | - | 7.6 | 534.7 |
| (Decrease)/increase in amounts due to Iberdrola group companies | (414.4) | 200.0 | - | (214.4) |
| Interest paid | - | - | (7.6) | (7.6) |
| Total movements from financing cashflows | (414.4) | 200.0 | (7.6) | (222.0) |
| Other movements | - | - | 6.9 | 6.9 |
| Total liability-related movements | - | - | 6.9 | 6.9 |
| At 31 December 2017 | 112.7 | 200.0 | 6.9 | 319.6 |

| | **Liabilities** | | | |
|---|---|---|---|---|
| | **Loans and other borrowings (Current) £m** | **Loans and other borrowings (Non-current) £m** | **Interest payable (Current) £m** | **Total £m** |
| **At 1 January 2018** | **112.7** | **200.0** | **6.9** | **319.6** |
| Decrease in amounts due to Iberdrola group companies | (33.6) | - | - | (33.6) |
| Interest paid | - | - | (12.9) | (12.9) |
| **Total movements from financing cash flows** | **(33.6)** | **-** | **(12.9)** | **(46.5)** |
| Other movements | - | - | 7.5 | 7.5 |
| **Total liability-related movements** | **-** | **-** | **7.5** | **7.5** |
| **At 31 December 2018** | **79.1** | **200.0** | **1.5** | **280.6** |

## SCOTTISHPOWER RENEWABLES (WODS) LIMITED
## NOTES TO ACCOUNTS *continued*
## 31 December 2018

### 11 DEFERRED TAX

| | Property, plant and equipment £m | Derivative financial instruments £m | Total £m |
|---|---|---|---|
| At 1 January 2017 | 33.6 | (0.1) | 33.5 |
| Charge to the income statement | 5.3 | - | 5.3 |
| Recorded in the statement of comprehensive income | - | 0.1 | 0.1 |
| At 1 January 2018 | 38.9 | - | 38.9 |
| Charge to the income statement | 3.4 | - | 3.4 |
| **At 31 December 2018** | **42.3** | - | **42.3** |

(a) At 31 December 2018 the company had unutilised capital losses of £4.6 million (2017 £4.6 million). No deferred tax asset has been recognised in the accounts due to the unpredictability of suitable future profit streams against which these losses may be utilised.

(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.

### 12 TRADE AND OTHER PAYABLES

| | **2018 £m** | 2017 £m |
|---|---|---|
| **Current trade and other payables:** | | |
| Payables due to Iberdrola group companies - trade | - | 1.0 |
| Payables due to Iberdrola group companies - interest | **1.5** | 6.9 |
| Payables due to jointly controlled entities - trade | **1.1** | 1.1 |
| Trade payables | **3.4** | 4.1 |
| Capital payables and accruals | - | 0.6 |
| | **6.0** | 13.7 |

### 13 REVENUE
#### (a) Disaggregation of revenue

| | **Total £m** |
|---|---|
| Supply of electricity | 30.9 |
| Supply of Renewable Obligation Certificates ("ROCs") | 83.3 |
| Other | 2.1 |
| | **116.3** |

All revenue arises from operations within the UK. Revenue from the supply of ROCs is recognised at a point in time, all other revenue is recognised over time.

#### (b) Accounting policy
The company recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services.

(i) Supply of electricity
The supply of electricity is a performance obligation satisfied over time as the customer simultaneously receives and consumes the benefits of the company's performance obligations at the same time as it supplies electricity. Volume is used to measure progress towards complete satisfaction of the performance obligation as this represents the transfer of electricity to the customer. Revenue is therefore recognised based on the number of units supplied at the unit rate specified in the contract. Units are based on energy volumes that can be sold on the wholesale market and are recorded on wind farm meters and industry-wide trading and settlement systems. Invoices are typically raised monthly in arrears and settled within the same month.

(ii) Supply of ROCs
The supply of ROCs is a performance obligation satisfied at a point in time. Revenue is recognised at the point the customer obtains control of the ROC, which is when the associated electricity is generated, at the unit rate specified in the contract. Invoices are raised annually and typically settled within a month.

**13 REVENUE** *continued*

**(b) Accounting policy**

(iii) Other

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 company 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**

| | Note | **2018 £m** | 2017 £m |
|---|---|---|---|
| Receivables | (i) | **59.1** | 61.4 |

(i) Included within Trade and other receivables (refer to Note 5).

(ii) No impairment losses were recognised during the year on receivables and contract assets arising from the company's contracts with customers.

**14 EMPLOYEE INFORMATION**

The company has no employees (2017 none). Details of directors' remuneration are set out in Note 21(c).

**15 TAXES OTHER THAN INCOME TAX**

| | **2018 £m** | 2017 £m |
|---|---|---|
| Property taxes | **0.1** | 0.1 |

**16 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS**

| | **2018 £m** | 2017 £m |
|---|---|---|
| Property, plant and equipment depreciation charge | **27.1** | 26.3 |

**17 FINANCE COSTS**

| | **2018 £m** | 2017 £m |
|---|---|---|
| Interest on amounts due to Iberdrola group companies | **7.5** | 6.9 |
| Unwinding of discount on provisions | **0.7** | 0.7 |
| | **8.2** | 7.6 |

**18 INCOME TAX**

| | **2018 £m** | 2017 £m |
|---|---|---|
| Current tax: | | |
| UK Corporation tax | **7.1** | 4.8 |
| Adjustments in respect of prior years | **(0.2)** | (1.0) |
| **Current tax charge for the year** | **6.9** | 3.8 |
| Deferred tax: | | |
| Origination and reversal of temporary differences | **3.9** | 5.9 |
| Adjustments in respect of prior years | **(0.1)** | 0.1 |
| Impact of tax rate change | **(0.4)** | (0.7) |
| **Deferred tax for the year** | **3.4** | 5.3 |
| **Income tax charge for the year** | **10.3** | 9.1 |

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

**18 INCOME TAX** *continued*

| | 2018 | 2017 |
|---|---|---|
| | £m | £m |
| Corporation tax at 19% (2017 19.25%) | 10.4 | 10.1 |
| Adjustments in respect of prior periods | (0.3) | (0.9) |
| Impact of tax rate change | (0.4) | (0.7) |
| Non-deductible expenses and other permanent differences | 0.6 | 0.6 |
| **Income tax charge for the year** | 10.3 | 9.1 |

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.

**19 DIVIDENDS**

| | 2018 | 2017 | 2018 | 2017 |
|---|---|---|---|---|
| | pence per ordinary share | pence per ordinary share | £m | £m |
| Interim dividend paid | 21.9 | 12.2 | 35.0 | 19.5 |

**20 CONTINGENT LIABILITIES**

As part of the exercise to achieve legal separation of the businesses of Scottish Power UK plc ("SPUK") pursuant to the provision of the Utilities Act 2000, the company and other subsidiary companies of SPUK provided guarantees to external lenders of SPUK for debt existing in that company at 1 October 2001. The value of debt guaranteed by these companies, which was still outstanding at 31 December 2018 was £1,044.7 million (2017 £1,034.7 million).

**21 RELATED PARTY TRANSACTIONS**

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

| | 2018 | | | |
|---|---|---|---|---|
| | UK parent (SPL) £m | Immediate parent (SPRUKL) £m | Other Iberdrola group companies £m | Jointly controlled entities £m |
| **Types of transaction** | | | | |
| Sales and rendering of services | - | - | 114.2 | 1.8 |
| Purchases and receipt of services | - | (1.1) | (0.6) | (11.9) |
| Interest costs | (7.5) | - | - | - |
| Dividends paid | - | (35.0) | - | - |
| **ECLs recognised in respect of** | | | | |
| Trade and other receivables | - | - | - | - |
| **Balances outstanding** | | | | |
| Trade and other receivables | - | - | 57.8 | 0.9 |
| Loans payable | (279.1) | - | - | - |
| Trade and other payables | - | - | - | (1.1) |
| Interest payable | (1.5) | - | - | - |
| **ECLs on** | | | | |
| Trade and other receivables | - | - | (0.1) | - |

## 21 RELATED PARTY TRANSACTIONS *continued*

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

| | 2017 | | | |
|---|---|---|---|---|
| | UK parent (SPL) £m | Immediate parent (SPRUKL) £m | Other Iberdrola group companies £m | Jointly controlled entities £m |
| **Types of transaction** | | | | |
| Sales and rendering of services | - | - | 116.1 | 0.9 |
| Purchases and receipt of services | - | (0.3) | (1.7) | (11.6) |
| Interest costs | (6.9) | - | - | - |
| Dividends paid | - | (19.5) | - | - |
| **Balances outstanding** | | | | |
| Trade and other receivables | - | - | 61.4 | 0.9 |
| Loans payable | (312.7) | - | - | - |
| Trade and other payables | - | (0.3) | (0.7) | (1.1) |
| Interest payable | (6.9) | - | - | - |

(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 (2017 all) of the key management personnel are remunerated for their work for the Renewables business, it has not been possible to apportion the remuneration specifically in respect of services to this company. All six key management personnel (2017 four) were remunerated by other companies within the Renewables business.

| | **2018 £000** | 2017 £000 |
|---|---|---|
| Short-term employee benefits | **1,175** | 1,224 |
| Post-employment benefits | **238** | 129 |
| Share-based payments | **778** | 761 |
| | **2,191** | 2,114 |

### (c) Directors' remuneration

The total remuneration of the directors that provided qualifying services to the company are shown below. As these directors are remunerated for their work for the Renewables business, it has not been possible to apportion the remuneration specifically in respect of services to this company. All four directors (2017 three) were remunerated by other companies within the Renewables business.

| **Executive directors** | **2018 £000** | 2017 £000 |
|---|---|---|
| Aggregate remuneration in respect of qualifying services | **1,109** | 1,232 |
| Aggregate contributions payable to a defined contribution pension scheme | **27** | 26 |
| Number of directors who exercised share options | **2** | 2 |
| Number of directors who received shares under a long-term incentive scheme | **3** | 3 |
| Number of directors accruing retirement benefits under a defined benefit scheme | **1** | 1 |
| Number of directors accruing retirement benefits under a defined contribution scheme | **1** | 1 |

| **Highest paid director** | Note | **2018 £000** | 2017 £000 |
|---|---|---|---|
| Aggregate remuneration in respect of qualifying services | | **507** | 707 |
| Accrued pension benefit | (i) | **96** | 77 |

(i) The accrued pension benefit for the highest paid director represents the value accrued as at the year end.
(ii) The highest paid director received shares under a long-term incentive scheme during both years.
(iii) The highest paid director exercised share options during both years.

**21 RELATED PARTY TRANSACTIONS** *continued*

**(d) Ultimate parent company**

The immediate parent company is SPRUKL. The registered office of SPRUKL is The Soloist, 1 Lanyon Place, Belfast, BT1 3LP.

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

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

In addition to the parent undertakings disclosed above, the company's other related undertaking is disclosed in Note 4.

**22 AUDITOR REMUNERATION**

| | **2018** | 2017 |
|---|---|---|
| | **£000** | £000 |
| Audit of the company's annual Accounts | **13** | 14 |

(a) KPMG LLP were re-appointed auditor of the company during 2018.

**23 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 4.

The company has recorded a profit after tax in both the current year and previous financial year and the company's balance sheet shows that it has net current liabilities of £26.2 million and net assets of £215.9 million at its most recent balance sheet date.

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

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