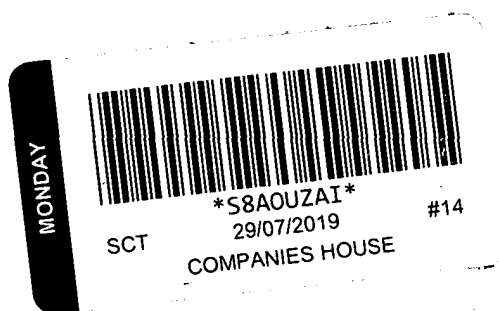


**SCOTTISH POWER RETAIL HOLDINGS LIMITED (FORMERLY SCOTTISH  
POWER GENERATION HOLDINGS LIMITED)  
ANNUAL REPORT AND ACCOUNTS  
for the year ended 31 December 2018**

Registered No. SC389556



**COMPANIES HOUSE  
EDINBURGH**

**29 JUL 2019**

**FRONT DESK**

**SCOTTISH POWER RETAIL HOLDINGS LIMITED (FORMERLY SCOTTISH POWER GENERATION  
HOLDINGS LIMITED)  
ANNUAL REPORT AND ACCOUNTS  
for the year ended 31 December 2018**

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# SCOTTISH POWER RETAIL HOLDINGS LIMITED (FORMERLY SCOTTISH POWER GENERATION HOLDINGS LIMITED)

## STRATEGIC REPORT

The directors present an overview of the business structure, 2018 performance, strategic objectives and plans of Scottish Power Retail Holdings Limited (formerly Scottish Power Generation Holdings Limited).

### ACTIVITIES AND REVIEW

The principal activity of Scottish Power Retail Holdings Limited (formerly Scottish Power Generation Holdings Limited), ("the company"), is that of a holding company for the Scottish Power Limited group's Energy Retail and Energy Wholesale business functions. The company will continue with this activity for the foreseeable future.

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

On 16 October 2018, the company agreed to sell its investment in ScottishPower Generation Limited and its subsidiary SMW Limited (collectively "Generation") to Drax Smart Generation HoldCo Limited which included the sale of four Combined Cycle Gas Turbine power stations, as well as pumped storage and hydro assets. The sale completed on 31 December 2018 for a consideration of £689.0 million.

### 2018 PERFORMANCE

The company's net loss for the year was £256.5 million (2017 profit of £39.9 million) and it received dividends of £103.0 million (2017 £40.0 million) from its subsidiaries. The company recognised a loss on disposal of its investment in Generation of £358.5 million in the year (refer to Note 3 for further details).

### LIQUIDITY AND CASH MANAGEMENT

#### Cash and net debt

Net cash flows from operating activities increased by £59.2 million to £99.2 million for the year, as detailed on page 11. As detailed in the table below, net funds increased by £678.9 million to £674.9 million.

		2018	2017
Analysis of net debt	Notes	£m	£m
Cash and short-term deposits	(a)	687.0	-
Group loans payable	(b)	(12.1)	(4.0)
<b>Net funds/(debt)</b>		<b>674.9</b>	<b>(4.0)</b>

(a) As detailed on the balance sheet on page 8.

(b) Loans with Iberdrola and other related Iberdrola group companies as detailed in Note 9.

#### Capital and debt structure

The company is funded by a combination of debt and equity. All equity is held by the company's immediate parent undertaking, SPUK. Treasury services are provided by SPL. Further details of the treasury policy for ScottishPower and how it manages this is included in Note 5.

### 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, and therefore the company, 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 European Union ("EU") on 29 March 2019. Following intensive negotiations on the subjects of a separation payment, mutual recognition of citizens' rights and avoiding a hard border between Northern Ireland and the Republic of Ireland, two key documents were approved by the EU Council on 25 November 2018: the EU Withdrawal Agreement (a legally binding document setting out the terms of the UK's exit from the EU, including citizens' rights and the Irish 'backstop'); and the Political Declaration (setting out the basis for a future negotiation of the future UK-EU relationship after Brexit, including UK-EU trade and security). 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.

**SCOTTISH POWER RETAIL HOLDINGS LIMITED (FORMERLY SCOTTISH POWER GENERATION HOLDINGS LIMITED)**  
**STRATEGIC REPORT *continued***

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

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 below.

<b>SCOTTISHPOWER - BREXIT RISKS</b>	
<b>RISK</b>	<b>RESPONSE</b>
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 ScottishPower, and therefore the company, operates.	In addition to monitoring ongoing developments related to Brexit the treasury risk management policy is in place to hedge financial risks which are the most prevalent in the short term. Any longer term impact on the UK economy and its impact on the group and 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.
Contractual risk for existing trading contracts (Energy Wholesale and Retail) including master trading agreements and broker and exchange contracts.	Risk based assessment of all contracts although some are UK only contracts and are therefore unaffected and the majority of brokers and exchanges are UK-based.
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. 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. Variation in market views on this last factor is likely to manifest itself in movements (up or down) in the value of Sterling and inflation, which is likely to have impacts on most ScottishPower businesses, except to the extent that these can be hedged.

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 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 5.

**SCOTTISH POWER RETAIL HOLDINGS LIMITED (FORMERLY SCOTTISH POWER GENERATION HOLDINGS LIMITED)**  
**STRATEGIC REPORT *continued***

**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:

<b>SCOTTISHPOWER GLOBAL</b>	
<b>RISK</b>	<b>RESPONSE</b>
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:

<b>RISK</b>	<b>RESPONSE</b>
The potential for impairment in the value of investments.	Periodic review of operational financial performance of the company's subsidiaries.

**ON BEHALF OF THE BOARD**



**Valerie Sim**  
**Director**  
**20 June 2019**

# **SCOTTISH POWER RETAIL HOLDINGS LIMITED (FORMERLY SCOTTISH POWER GENERATION HOLDINGS 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 Companies Act 2006 to be included in the Directors' Report, within the Strategic Report, found on pages 1 to 3:

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

### **RESULTS AND DIVIDEND**

The net loss for the year amounted to £256.5 million (2017 profit of £39.9 million). A dividend of £103.0 million was paid during the year (2017 £40.0 million).

### **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's website at;  
[www.scottishpower.com/pages/scottishpowers\\_modern\\_slavery\\_statement.aspx](http://www.scottishpower.com/pages/scottishpowers_modern_slavery_statement.aspx).

### **DIRECTORS**

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

Aitor Moso Raigoso  
Neil Clitheroe  
Heather Chalmers White  
Óscar Fortis Pita  
Félix Rojo Sevillano  
Gregorio Relano Cobian

Heather Chalmers White and Óscar Fortis Pita both resigned as directors on 31 January 2019.  
Valerie Sim was appointed on 1 February 2019.

### **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 the 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.

**SCOTTISH POWER RETAIL HOLDINGS LIMITED (FORMERLY SCOTTISH POWER GENERATION HOLDINGS LIMITED)**  
**DIRECTORS' REPORT *continued***

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND ACCOUNTS *continued***

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 their financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and 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 the auditor of the company for the year ended 31 December 2018.

**ON BEHALF OF THE BOARD**



Valerie Sim  
Director  
20 June 2019

## **INDEPENDENT AUDITOR'S REPORT**

### **TO THE MEMBER OF SCOTTISH POWER RETAIL HOLDINGS LIMITED (FORMERLY SCOTTISH POWER GENERATION HOLDINGS LIMITED)**

#### **Opinion**

We have audited the financial statements of Scottish Power Retail Holdings Limited ("the company") for the year ended 31 December 2018 which comprises the Balance Sheet, Income Statement and Statement of Comprehensive Income, Statement of Changes in Equity, Cash Flow Statement, and related notes, including the accounting policies in Note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU); 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.

#### **The impact of uncertainties due to the UK exiting the European Union on our audit**

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as the recoverability of other receivables and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depends 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 standardised 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 the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

#### **Going concern**

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease 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 their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the 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 group or the company will continue in operation.



## **INDEPENDENT AUDITOR'S REPORT**

### **TO THE MEMBER OF SCOTTISH POWER RETAIL HOLDINGS LIMITED (FORMERLY SCOTTISH POWER GENERATION HOLDINGS LIMITED) *continued***

#### **Strategic report and directors' report**

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

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

#### **Matters on which we are required to report by exception**

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

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

We have nothing to report in these respects.

#### **Directors' responsibilities**

As explained more fully in their statement set out on page 4 and 5, 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](http://www.frc.org.uk/auditorsresponsibilities).

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

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



**Philip Charles (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*

319 St. Vincent Street  
Glasgow  
G2 5AS

*26* June 2019

**SCOTTISH POWER RETAIL HOLDINGS LIMITED (FORMERLY SCOTTISH POWER GENERATION HOLDINGS LIMITED)**  
**BALANCE SHEET**  
**at 31 December 2018**

	Notes	2018 £m	2017 £m
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Investments in subsidiaries	3	142.1	769.0
<b>NON-CURRENT ASSETS</b>		<b>142.1</b>	<b>769.0</b>
<b>CURRENT ASSETS</b>			
Other receivables	4	2.3	-
Cash and short-term deposits	5	687.0	-
<b>CURRENT ASSETS</b>		<b>689.3</b>	<b>-</b>
<b>TOTAL ASSETS</b>		<b>831.4</b>	<b>769.0</b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Of shareholders of the parent		817.6	764.9
Share capital	6, 7	759.5	759.5
Other reserves	7	412.2	-
Retained (losses)/earnings	7	(354.1)	5.4
<b>TOTAL EQUITY</b>		<b>817.6</b>	<b>764.9</b>
<b>CURRENT LIABILITIES</b>			
Provisions	8	1.4	-
Loans and other borrowings	9	12.1	4.0
Trade and other payables	10	0.3	0.1
<b>CURRENT LIABILITIES</b>		<b>13.8</b>	<b>4.1</b>
<b>TOTAL LIABILITIES</b>		<b>13.8</b>	<b>4.1</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>831.4</b>	<b>769.0</b>

Approved by the Board and signed on its behalf on 20 June 2019.



Valerie Sim  
Director

The accompanying Notes 1 to 17 are an integral part of the balance sheet as at 31 December 2018.

**SCOTTISH POWER RETAIL HOLDINGS LIMITED (FORMERLY SCOTTISH POWER GENERATION HOLDINGS LIMITED)**  
**INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME**  
**for the year ended 31 December 2018**

	Notes	2018 £m	2017 £m
External services		(0.5)	(0.1)
<b>OPERATING LOSS</b>		<b>(0.5)</b>	<b>(0.1)</b>
Loss on disposal of subsidiaries		(358.5)	-
Dividends received		103.0	40.0
Finance costs	11	(0.5)	-
<b>(LOSS)/PROFIT BEFORE TAX</b>		<b>(256.5)</b>	<b>39.9</b>
Income tax	12	-	-
<b>NET (LOSS)/PROFIT FOR THE YEAR</b>		<b>(256.5)</b>	<b>39.9</b>

Net loss for the current year and net profit in the prior year is wholly attributable to the equity holder of Scottish Power Retail Holdings Limited.

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

All results relate to continuing operations.

The accompanying Notes 1 to 17 are an integral part of the income statement and statement of comprehensive income for the year ended 31 December 2018.

**SCOTTISH POWER RETAIL HOLDINGS LIMITED (FORMERLY SCOTTISH POWER GENERATION HOLDINGS LIMITED)**  
**STATEMENT OF CHANGES IN EQUITY**  
**for the year ended 31 December 2018**

	Note	Share capital £m	Other reserves £m	Retained earnings/ (losses) £m	Total equity £m
At 1 January 2017		759.5	-	5.5	765.0
Total comprehensive income for the year		-	-	39.9	39.9
Dividends		-	-	(40.0)	(40.0)
At 1 January 2018		759.5	-	5.4	764.9
Total comprehensive income for the year		-	-	(256.5)	(256.5)
Capital contribution	7	-	412.2	-	412.2
Dividends		-	-	(103.0)	(103.0)
<b>At 31 December 2018</b>		<b>759.5</b>	<b>412.2</b>	<b>(354.1)</b>	<b>817.6</b>

The accompanying Notes 1 to 17 are an integral part of the statement of changes in equity for the year ended 31 December 2018.

**SCOTTISH POWER RETAIL HOLDINGS LIMITED (FORMERLY SCOTTISH POWER GENERATION HOLDINGS LIMITED)**  
**CASH FLOW STATEMENT**  
**for the year ended 31 December 2018**

	2018 £m	2017 £m
<b>Cash flows from operating activities</b>		
(Loss)/profit before tax	(256.5)	39.9
Adjustments for:		
Change in provisions	1.4	-
Finance costs	0.5	-
Shareholding income	(103.0)	(40.0)
Loss on disposal of subsidiaries (pre-transaction costs)	353.7	-
Change in trade payables	0.1	0.1
Dividends received	103.0	40.0
<b>Net cash flows from operating activities (i)</b>	<b>99.2</b>	<b>40.0</b>
<b>Cash flows from investing activities</b>		
Acquisition of subsidiary	(3.8)	-
Net proceeds received from disposal of subsidiaries	686.9	-
<b>Net cash flows from investing activities (ii)</b>	<b>683.1</b>	<b>-</b>
<b>Cash flows from financing activities</b>		
Increase in amounts due to Iberdrola group companies - current loans payable	8.1	0.1
Dividends paid to company's equity holder	(103.0)	(40.0)
Interest paid	(0.3)	(0.1)
<b>Net cash flows from financing activities (iii)</b>	<b>(95.2)</b>	<b>(40.0)</b>
<b>Net increase in cash and cash equivalents (i)+(ii)+(iii)</b>	<b>687.1</b>	<b>-</b>
Loss allowance on cash	(0.1)	-
<b>Cash and cash equivalents at beginning of year</b>	<b>-</b>	<b>-</b>
<b>Cash and cash equivalents at end of year</b>	<b>687.0</b>	<b>-</b>
Cash and cash equivalents at end of year comprises:		
Cash	687.0	-
<b>Cash flow statement cash and cash equivalents</b>	<b>687.0</b>	<b>-</b>

The accompanying Notes 1 to 17 are an integral part of the cash flow statement for the year ended 31 December 2018.

**SCOTTISH POWER RETAIL HOLDINGS LIMITED (FORMERLY SCOTTISH POWER GENERATION HOLDINGS LIMITED)**  
**NOTES TO ACCOUNTS**  
**31 December 2018**

**1 BASIS OF PREPARATION**

**A COMPANY INFORMATION**

Scottish Power Retail Holdings Limited (formerly Scottish Power Generation Holdings Limited), ("the company"), registered company number SC389556, 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 for the company 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 which are mandatory for the financial year ended 31 December 2018 (IFRSs 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 Scottish Power Retail Holdings Limited as an individual company and do not contain consolidated financial information as the parent of subsidiary companies or joint ventures. The company is exempt under Section 400 of the Companies Act 2006 from the requirements to prepare consolidated Accounts as it and its subsidiary undertakings and joint venture are included by full consolidation in the consolidated Accounts of its ultimate parent, Iberdrola, S.A., (refer to Note 15(d)).

**B1 EFFECT OF INITIAL APPLICATION OF IFRS 9**

This is the first set of the company's annual financial statements in which IFRS 9 'Financial Instruments' has been applied. The nature and effect of the changes as a result of the implementation of this standard is described below.

IFRS 9 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.

**(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.

**Financial assets**

As at 1 January 2018 the company held no financial assets within the scope of IFRS 9. Investments in subsidiaries continue to be carried at cost less impairment.

**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 related gains and losses under IFRS 9, refer to Note 2A1.2.

**SCOTTISH POWER RETAIL HOLDINGS LIMITED (FORMERLY SCOTTISH POWER GENERATION HOLDINGS LIMITED)**

**NOTES TO ACCOUNTS *continued***

**31 December 2018**

**1 BASIS OF PREPARATION *continued***

**C ACCOUNTING STANDARDS**

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:

<b>Standard</b>	<b>Note</b>
• 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')	(a)
• IFRS 9 'Financial Instruments'	(c)
• 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 181 for further information.

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:

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

**SCOTTISH POWER RETAIL HOLDINGS LIMITED (FORMERLY SCOTTISH POWER GENERATION HOLDINGS LIMITED)**

**NOTES TO ACCOUNTS *continued***

**31 December 2018**

**1 BASIS OF PREPARATION *continued***

**C ACCOUNTING STANDARDS *continued***

		IASB effective date (for periods commencing on or after)	Planned date of application by the company
Standard continued	Notes		
• IFRS 14 'Regulatory Deferral Accounts'	(e), (f), (g)	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'	(e), (f), (h)	Deferred indefinitely	To be decided
<hr/>			
(d) IFRS 16 'Leases' is effective for the company as from 1 January 2019. The company has carried out analysis in order to assess whether its agreements are, or contain, a lease at their inception considering the requirements of IFRS 16. The future application of this standard is not expected to have a material impact on the company's accounting policies, financial position or performance.			
(e) The future application of this pronouncement is not expected to have a material impact on the company's accounting policies, financial position or performance.			
(f) This pronouncement has not yet been endorsed by the EU.			
(g) 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.			
(h) 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.			

**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, there are 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 FINANCIAL INSTRUMENTS**

**B TAXATION**

**C INVESTMENTS**

**D CASH AND CASH EQUIVALENTS**

**E DEBT FACTORING**

**A 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.

**A1 ACCOUNTING POLICIES UNDER IFRS 9**

**A1.1 FINANCIAL ASSETS**

**(a) Recognition and initial measurement**

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

**(b) Classification and subsequent measurement**

**(i) Classification**

The company's financial assets are measured at amortised cost. 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.



**SCOTTISH POWER RETAIL HOLDINGS LIMITED (FORMERLY SCOTTISH POWER GENERATION HOLDINGS LIMITED)**

**NOTES TO ACCOUNTS *continued***

**31 December 2018**

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

**A FINANCIAL INSTRUMENTS *continued***

**A1 ACCOUNTING POLICIES UNDER IFRS 9 *continued***

**A1.1 FINANCIAL ASSETS *continued***

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

**(i) Classification *continued***

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 categorised at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income and impairment losses are recognised in the income statement. Any gain or loss on derecognition is recognised in the company income statement.

**(iii) Impairment of financial assets**

Disclosures relating to impairment of financial assets are provided in Note 5. The company has adopted the general ECL model for all financial assets measured at amortised cost.

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).

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 financial assets 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.

***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.

**SCOTTISH POWER RETAIL HOLDINGS LIMITED (FORMERLY SCOTTISH POWER GENERATION HOLDINGS LIMITED)**

**NOTES TO ACCOUNTS *continued***

**31 December 2018**

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

**A FINANCIAL INSTRUMENTS *continued***

**A1 ACCOUNTING POLICIES UNDER IFRS 9 *continued***

**A1.1 FINANCIAL ASSETS *continued***

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

**(iii) Impairment of financial assets *continued***

***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.

**A1.2 FINANCIAL LIABILITIES**

**(a) Recognition and initial measurement**

The company's financial liabilities are loans and other borrowings and other payables which are classified as measured at amortised cost.

**(b) Classification and subsequent measurement**

The company's financial liabilities are subsequently measured at amortised cost using the effective interest method. 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.

**A2 ACCOUNTING POLICIES UNDER IAS 39**

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

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

**B TAXATION**

The company's liability for current tax is calculated using the tax rates that have been enacted or substantively enacted at the balance sheet date.

**C INVESTMENTS**

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

**D 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.

**E DEBT FACTORING**

On occasion, the company will sell certain of its receivables (at a discount) in exchange for rights to cash collected from those receivables. Where this transfers the contractual rights to receive the cash flows of the receivable, the financial asset will be derecognised when substantially all of the risks and rewards of the receivable have been transferred.

**SCOTTISH POWER RETAIL HOLDINGS LIMITED (FORMERLY SCOTTISH POWER GENERATION HOLDINGS LIMITED)**

**NOTES TO ACCOUNTS *continued***

**31 December 2018**

**3 INVESTMENTS**

**(a) Movements in investments**

	Notes	Investments in subsidiaries £m
At 1 January 2017 and 1 January 2018		769.0
Additions	(i)	412.2
Disposals	(ii)	(1,042.9)
Transfers	(iii)	3.8
<b>At 31 December 2018</b>		<b>142.1</b>

- (i) On 28 June 2018, Scottish Power Limited ("SPL") approved a loan waiver totalling £412.2 million with the company's subsidiary ScottishPower Generation Limited. This has been treated as a capital contribution and the company therefore recognised this as an additional investment in ScottishPower Generation Limited of £412.2 million.
- (ii) On 31 December 2018, the company sold its entire interest in the issued share capital of ScottishPower Generation Limited (including the capital contribution of £412.2 million) to Drax Smart Generation HoldCo Limited ("Drax") for a consideration of £689.0 million.
- (iii) Prior to its sale to Drax, as noted above, ScottishPower Generation Limited transferred its investment in ScottishPower (SCPL) Limited to the company for £3.8 million.

**(b) Subsidiaries and joint ventures**

The subsidiaries and joint venture of the company as at 31 December 2018 are set out below. Entities are direct holdings unless specified.

Name	Principal activities	Registered office and country of incorporation (see Note (i))	Equity interest in ordinary shares	
			2018	2017
<b>Subsidiaries</b>				
ScottishPower (DCL) Limited	Holding company	(A)	100%	100%
ScottishPower Energy Management Limited	Wholesale energy management company engaged in purchase and sale of electricity and gas	(B)	100%	100%
ScottishPower Energy Management (Agency) Limited	Agent for energy management activity of ScottishPower Energy Management Limited and Scottish Power UK plc	(B)	100%	100%
ScottishPower Generation Limited	Electricity generation	(B)	-	(ii) 100%
ScottishPower (SCPL) Limited	Holding company	(A)	100%	100%
SMW Limited	Wastewater treatment	(B)	-	(ii) 100%
SP Gas Transportation Cockenzie Limited	Holder of Gas Transporter Licence	(B)	100%	100%
SP Gas Transportation Hatfield Limited	Holder of Gas Transporter Licence	(B)	100%	100%
ScottishPower Energy Retail Limited	Supply of electricity and gas to domestic and business customers	(B)	100%	100%
SP Dataserve Limited	Data collection, data aggregation, meter operation and revenue protection	(B)	100%	100%
SP Smart Meter Assets Limited	Provider of smart meter assets and services	(B)	100%	100%
ScottishPower Generation (Assets) Limited	Asset owning company	(B)	100%	(iii) -

**SCOTTISH POWER RETAIL HOLDINGS LIMITED (FORMERLY SCOTTISH POWER GENERATION HOLDINGS LIMITED)**

**NOTES TO ACCOUNTS *continued***

**31 December 2018**

**3 INVESTMENTS *continued***

**(b) Subsidiaries and joint ventures *continued***

Name	Principal activities	Registered office and country of incorporation (see Note (i))	Equity interest in ordinary shares	
			2018	2017
<b>Joint venture</b>				
ScotAsh Limited	Sales of ash and ash-related cementitious products	(C)	-	(iv) -
<b>Dormant subsidiaries now dissolved</b>				
Manweb Energy Consultants Limited	Dissolved	(D)	-	(v) 100%

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

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

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

(C) Portland House, Bickenhall Lane, Solihull, Birmingham, B37 7BQ, England

(D) Johnston Carmichael, 107-111 Fleet Street, London, EC4A 2AB, England

(ii) On 31 December 2018, the company sold its entire interest in the issued share capital of ScottishPower Generation Limited (now Drax Generation Enterprise Limited). ScottishPower Generation Limited has a wholly owned subsidiary, SMW Limited.

(iii) ScottishPower Generation (Assets) Limited was incorporated on 15 March 2018.

(iv) On 19 July 2017, the company sold its 50% interest in the share capital of ScotAsh Limited.

(v) This company was dissolved during the year ended 31 December 2018.

**4 OTHER RECEIVABLES**

	2018 £m	2017 £m
<b>Current receivables:</b>		
Deferred consideration	2.3	-

**5 FINANCIAL INSTRUMENTS**

The effect of initially applying IFRS 9 on the company's Accounts is detailed in Note 1B1. 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 within the scope of IFRS 9.

		2018			2017		
		Carrying amount	Fair value	Classification under	Carrying amount	Fair value	Classification under
	Notes	£m	£m	IFRS 9	£m	£m	IAS 9
<b>Financial assets</b>							
Receivables		2.3	2.3	Amortised cost	-	-	Loans and receivables
Cash	(i)	0.3	0.3	Amortised cost	-	-	Loans and receivables
Short-term deposits	(ii)	686.7	686.7	Amortised cost	-	-	Loans and receivables
<b>Financial liabilities</b>							
Loans and other borrowings	(iii)	(12.1)	(12.1)	Amortised cost	(4.0)	(4.0)	Loans and receivables
Payables	(iii)	(0.3)	(0.3)	Amortised cost	(0.1)	(0.1)	Loans and receivables

The carrying amount of these financial instruments is calculated as set out in Note 2A1. The carrying value of financial instruments is a reasonable approximation of fair value.

(i) As a general rule, cash deposited with banks earns interest at rates similar to market rates on daily deposits.

(ii) Short-term deposits mature within a period of less than three months and earn market rates.

(iii) The undiscounted contractual cash flows associated with the above financial liabilities are equivalent in value and are payable in less than one year.

**SCOTTISH POWER RETAIL HOLDINGS LIMITED (FORMERLY SCOTTISH POWER GENERATION HOLDINGS LIMITED)**

**NOTES TO ACCOUNTS *continued***

**31 December 2018**

**5 FINANCIAL INSTRUMENTS *continued***

**(b) Financial risk management**

The company's financial liabilities comprise loans and borrowings and trade and other payables. The company also has other receivables and cash and short-term deposits that arise directly from its operations. The company has exposure to the following risks arising from the above financial instruments:

- i. Credit risk; and
- ii. Treasury risk (i.e. liquidity 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 counterparty will not meet its contractual obligations under a financial instrument, leading to a financial loss. The company is exposed to credit risk from its other receivables and its deposits with banks and financial institutions. The carrying amount of financial assets represent the maximum credit exposure to the company.

***Credit risk management***

Credit risk from balances with banks and financial institutions is managed by 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.

***Other receivables £2.3 million (2017 £nil)***

The company uses the general model to measure ECL's for other receivables. The provision rates represent a twelve month ECL. However, if the credit risk on that financial instrument has increased significantly since initial recognition, the loss allowance is measured at an amount equal to the lifetime ECL. The ECL calculated on the £2.3 million other receivables was less than £0.1 million.

***Cash and short-term deposits***

The company held cash and short-term deposits of £687.0 million (2017 £nil) at 31 December 2018. The cash and short-term deposits are held with banks and financial institution counterparties, which are rated BBB- to AAA, based on Standard & Poor's ratings. Impairment on cash and short-term deposits has been measured on a three month expected loss basis and reflects the short maturities of the exposures. The company considers that its cash and short-term deposits have low credit risk based on the external credit ratings of the counterparties. The ECL recognised in 2018 is £0.1 million and is recorded in finance costs.

***Reconciliation of opening to closing loss allowance***

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

	Cash and short-term deposits £m	Total £m
Balance as at 31 December 2017 under IAS 39	-	-
Adjustment on initial application of IFRS 9	-	-
Balance as at 1 January 2018 under IFRS 9	-	-
Increase in loss allowance recognised in the income statement	0.1	0.1
<b>At 31 December 2018</b>	<b>0.1</b>	<b>0.1</b>

**(ii) Treasury risk**

Treasury risk comprises liquidity risk and market 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.

**SCOTTISH POWER RETAIL HOLDINGS LIMITED (FORMERLY SCOTTISH POWER GENERATION HOLDINGS LIMITED)**

**NOTES TO ACCOUNTS *continued***

**31 December 2018**

**5 FINANCIAL INSTRUMENTS *continued***

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

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

***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.

The company's cash flows associated with financial liabilities are all due in less than one year. It is not expected that these cash flows could occur significantly later, or at significantly different amounts.

***Treasury market risk management***

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

***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.

All of the company's loans are classified as variable debt and are held at amortised cost. The reference interest rate for the company's floating rate borrowings of £12.1 million (2017 £4.0 million) is Bank of England Base Rate ("Base").

***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.

	Interest rate	Change in rate	Impact on interest rate charges in 2018 £m	Impact on interest rate charges in 2017 £m
<b>Loans payable</b>				
Short-term variable rate debt	Base	+0.50%	0.1	-
		-0.50%	(0.1)	-

**6 SHARE CAPITAL**

	2018 £m	2017 £m
<b>Allotted, called up and fully paid shares:</b>		
759,515,505 ordinary shares of £1 each (2017 759,515,505)	759.5	759.5

- (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.

**SCOTTISH POWER RETAIL HOLDINGS LIMITED (FORMERLY SCOTTISH POWER GENERATION HOLDINGS LIMITED)**

**NOTES TO ACCOUNTS *continued***

**31 December 2018**

**7 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDER OF SCOTTISHPOWER RETAIL HOLDINGS LIMITED**

	Share capital £m	Other reserves (Note (a)) £m	Retained earnings/ (losses) (Note (b)) £m	Total £m
At 1 January 2017	759.5	-	5.5	765.0
Profit for the year attributable to equity holder of Scottish Power Retail Holdings Limited	-	-	39.9	39.9
Dividends	-	-	(40.0)	(40.0)
At 1 January 2018	759.5	-	5.4	764.9
Loss for the year attributable to equity holder of Scottish Power Retail Holdings Limited	-	-	(256.5)	(256.5)
Capital contribution	-	412.2	-	412.2
Dividends	-	-	(103.0)	(103.0)
<b>At 31 December 2018</b>	<b>759.5</b>	<b>412.2</b>	<b>(354.1)</b>	<b>817.6</b>

- (a) Other reserves as at 31 December 2018 comprised a capital contribution reserve of £412.2 million (2017 nil). During the year, a capital contribution of £412.2 million was recognised following the waiver of an inter-company loan of £412.2 million by Scottish Power Limited, the company's UK holding company, to ScottishPower Generation Limited prior to its sale to Drax. The capital contribution reserve is a distributable reserve.
- (b) Retained earnings/(losses) comprise the cumulative balance of profits and losses recognised in the financial statements as adjusted for transactions with shareholders, principally dividends.

**8 OTHER PROVISIONS**

	1 January 2017 and at 1 January 2018 £m	New provisions £m	At 31 December 2018 £m
<b>Year ended 31 December 2018</b>			
Disposal transaction costs	-	1.4	1.4

- (a) The provision is classified as current and is expected to be utilised in the next financial year.

**9 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	12.1	4.0

\* Base – Bank of England Base Rate

**(b) Reconciliation of movements of liabilities to cash flows arising from financing activities**

	Liabilities		
	Loans and other borrowings (Current) £m	Interest payable (Current) £m	Total £m
At 1 January 2017	3.9	0.1	4.0
Increase in amounts due to Iberdrola group companies	0.1	-	0.1
Interest paid	-	(0.1)	(0.1)
Total movements from financing cashflows	0.1	(0.1)	-
At 31 December 2017	4.0	-	4.0

**SCOTTISH POWER RETAIL HOLDINGS LIMITED (FORMERLY SCOTTISH POWER GENERATION HOLDINGS LIMITED)**

**NOTES TO ACCOUNTS *continued***

**31 December 2018**

**9 LOANS AND OTHER BORROWINGS *continued***

**(b) Reconciliation of movements of liabilities to cash flows arising from financing activities *continued***

	Liabilities		Total £m
	Loans and other borrowings (Current) £m	Interest payable (Current) £m	
At 1 January 2018	4.0	-	4.0
Increase in amounts due to Iberdrola group companies	8.1	-	8.1
Interest paid	-	(0.3)	(0.3)
<b>Total movements from financing cash flows</b>	<b>8.1</b>	<b>(0.3)</b>	<b>7.8</b>
Other movements	-	0.4	0.4
<b>Total liability-related movements</b>	<b>-</b>	<b>0.4</b>	<b>0.4</b>
<b>At 31 December 2018</b>	<b>12.1</b>	<b>0.1</b>	<b>12.2</b>

**(c) Borrowing facilities**

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

**10 TRADE AND OTHER PAYABLES**

	2018 £m	2017 £m
<b>Current trade and other payables:</b>		
Payables due to Iberdrola group companies - interest	0.1	-
Other payables	0.2	0.1
	<b>0.3</b>	<b>0.1</b>

**11 FINANCE COSTS**

	2018 £m	2017 £m
Interest on amounts due to Iberdrola group companies	0.1	-
Other finance costs	0.3	-
Impairment of financial assets	0.1	-
	<b>0.5</b>	<b>-</b>

**12 INCOME TAX**

	2018 £m	2017 £m
<b>Current tax:</b>		
UK Corporation tax	-	-
<b>Income tax charge for the year</b>	<b>-</b>	<b>-</b>

The tax charge on (loss)/profit for the year varied from the standard rate of UK Corporation Tax applicable to the company as follows:

	2018 £m	2017 £m
Corporation tax at 19% (2017 19.25%)	(48.7)	7.7
Disposal of subsidiaries	68.3	-
Dividend income	(19.6)	(7.7)
<b>Income tax charge for the year</b>	<b>-</b>	<b>-</b>

Legislation has been enacted to reduce the rate of UK Corporation Tax to 17% on 1 April 2020.



**SCOTTISH POWER RETAIL HOLDINGS LIMITED (FORMERLY SCOTTISH POWER GENERATION HOLDINGS LIMITED)**

**NOTES TO ACCOUNTS *continued***

**31 December 2018**

**13 EMPLOYEE INFORMATION**

The company had no employees during the year (2017 nil). Details of directors' remuneration are set out in Note 15(c).

**14 DIVIDENDS**

	2018	2017	2018	2017
	£ per ordinary share	£ per ordinary share	£m	£m
Interim dividend paid	0.14	0.05	103.0	40.0

**15 RELATED PARTY TRANSACTIONS**

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

	2018				2017			
	UK parent (SPL) £m	Immediate parent (SPUK) £m	Other Iberdrola group companies £m	Subsidiaries £m	UK parent (SPL) £m	Immediate parent (SPUK) £m	Other Iberdrola group companies £m	Subsidiaries £m
<b>Types of transaction</b>								
Purchases and receipt of services	-	(0.4)	(0.1)	-	-	-	(0.1)	-
Finance costs	(0.1)	-	-	-	-	-	-	-
Dividends received	-	-	-	103.0	-	-	-	40.0
Dividends paid	-	(103.0)	-	-	-	(40.0)	-	-
<b>Balances outstanding</b>								
Loans payable	(12.1)	-	-	-	(4.0)	-	-	-
Interest payable	(0.1)	-	-	-	-	-	-	-

- (i) The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received in relation to the above related party transactions.
- (ii) There are no related party transactions in respect of ECLs.
- (iii) In addition to the transactions above, SPL approved a loan waiver totalling £412.2 million with the company's subsidiary ScottishPower Generation Limited. This has been treated as a capital contribution and the company therefore recognised this as an additional investment in ScottishPower Generation Limited of £412.2 million and a capital contribution in equity of £412.2 million (refer to Notes 3 and 7). This transaction occurred out with the normal course of business.

**(b) Remuneration of key management personnel**

The remuneration of the key management personnel of the company is set out overleaf. As all of the key management personnel are remunerated for their work for the SPRH group, it has not been possible to apportion the remuneration specifically in respect of services to this company. Of the seven (2017 eight) key management personnel, none (2017 one) were remunerated directly by the company. The remaining key management personnel were remunerated by other ScottishPower group companies in both years.

	2018	2017
	£000	£000
Short-term employee benefits	1,282	1,086
Post-employment benefits	106	157
Share-based payments	663	683
	2,051	1,926

**(c) Directors' remuneration**

The remuneration of the directors that provided qualifying services to the company are shown below. As these directors are remunerated for their work for the SPRH group, it has not been possible to apportion the remuneration specifically in respect of services to this company. Of the six directors (2017 seven), none (2017 one) were remunerated directly by the company. The remaining directors were remunerated by other ScottishPower group companies in both years.

**SCOTTISH POWER RETAIL HOLDINGS LIMITED (FORMERLY SCOTTISH POWER GENERATION HOLDINGS LIMITED)**  
**NOTES TO ACCOUNTS *continued***  
**31 December 2018**

**15 RELATED PARTY TRANSACTIONS *continued***

**(c) Directors' remuneration *continued***

	2018 £000	2017 £000
<b>Executive directors</b>		
Aggregate remuneration in respect of qualifying services	1,020	1,030
Number of directors who exercised share options	2	2
Number of directors who received shares under a long-term incentive scheme	2	2
Number of directors accruing retirement benefits under a defined benefit scheme	2	2
<b>Highest paid director</b>	2018 £000	2017 £000
Aggregate remuneration	683	602
Accrued pension benefits	99	92

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

(ii) The highest paid director exercised share options during both years.

**(d) Ultimate parent company and immediate parent company**

The immediate parent company is SPUK. The registered office of SPUK is 320 St. Vincent Street, Glasgow, G2 5AD.

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

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

In addition to the parent undertakings disclosed above, the company's other related undertakings are disclosed in Note 3.

**16 AUDITOR REMUNERATION**

	2018 £000	2017 £000
Audit of the company's annual Accounts	7	7

**17 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 3.

The company has recorded a loss after tax in the current year and a profit in the previous financial year and the company's balance sheet shows that it has net current assets of £675.5 million and net assets of £817.6 million at its most recent balance sheet date.

The company is ultimately owned by Iberdrola, S.A. and it participates in the Iberdrola group's centralised treasury arrangements and so shares banking facilities with its parent companies and fellow subsidiaries.

As a consequence, the company depends, in part, on the ability of the Iberdrola group to continue as a going concern. The directors have considered the company's funding relationship with Iberdrola to date and have considered available relevant information relating to Iberdrola's ability to continue as a going concern. In addition, the directors have no reason to believe that the Iberdrola group does not have the ability to and will not continue to fund the company, should it become necessary, to enable it to continue in operational existence.

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