SP SMART METER ASSETS LIMITED
ANNUAL REPORT AND ACCOUNTS
for the year ended 31 December 2018

Registered No. SC554085

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SP SMART METER ASSETS LIMITED
STRATEGIC REPORT

The directors present an overview of SP Smart Meter Assets Limited's business structure, 2018 performance and strategic outlook including principal risks and uncertainties.

STRATEGIC OUTLOOK
The principal activity of SP Smart Meter Assets Limited ("the company"), registered company number SC554085, is the provision of smart meter assets. The company will continue with this activity for the foreseeable future.

The company was incorporated on 9 January 2017.

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 Retail Holdings Limited ("SPRH") (formerly known as Scottish Power Generation Holdings Limited). Scottish Power Limited ("SPL") is the holding company of the Scottish Power Limited group ("ScottishPower"), of which the company is a member.

UK energy suppliers have been mandated by the UK Government to offer a smart meter to all domestic and small business customers by 2020 in one of the biggest infrastructure programmes ever undertaken. The company finances the purchase and installation of smart meter assets under an agreement with ScottishPower Energy Retail Limited ("SPERL"), a fellow Iberdrola group company, and will continue to support SPERL's smart meter rollout obligations. The company charges for meter provision on a monthly basis to SPERL as the installing supplier and all other suppliers following a customer's decision to switch supplier.

The impact of Brexit on the company is considered on pages 2 and 3 of the Strategic Report.

OPERATIONAL PERFORMANCE
The table below provides key information relating to the company's financial performance during the period.

	Revenue*		Operating profit*		Capital investment**	
	2018	2017***	**2018**	2017***	**2018**	2017***
Financial key performance indicators	**£m**	£m	**£m**	£m	**£m**	£m
SP Smart Meter Assets Limited	**33.2**	12.1	**16.1**	6.3	**78.4**	124.7

* Revenue and operating profit as presented on page 10.
** Capital investment as presented in Notes 3 and 4 on pages 18 and 19.
*** Period from incorporation to 31 December 2017.

Revenue increased by £21.1 million reflecting an increase in the number of installed meters.

Operating profit increased by £9.8 million to £16.1 million primarily due to the increase in revenue, offset by an increase in depreciation in relation to an increase in the number of installed meters.

Capital investment decreased by £46.3 million to £78.4 million, largely due to the transfer of certain smart meter assets from a fellow Iberdrola group company in 2017 (refer to Note 4(a) for further details).

LIQUIDITY AND CASH MANAGEMENT
Cash and net debt
Net cash flows from operating activities for the year increased by £26.7 million to £41.7 million (refer to cash flow statement on page 11). Net debt (comprising group loans payable) increased by £42.0 million to £141.4 million.

Capital and debt structure
The company is principally funded by debt. All equity is held by the company's immediate parent company, SPRH. Treasury services are provided by SPL. Further details of the treasury policy for ScottishPower, and therefore the company, and how it manages this is included in Note 11.

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. 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 below.

SCOTTISHPOWER - 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 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 ScottishPower and 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 prior to the UK leaving the EU. Additional storage requirements also assessed and actions taken to ensure there is sufficient storage.
Contractual risk for existing non-trading contracts including the risk of contract re-openers, clauses such as force majeure/material adverse change clauses and jurisdiction.	Legal review of all critical contracts to determine potential exposure and mitigation specific to each contract.
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.

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

Many of the risks described on the previous page 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 11.

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.

PRINCIPAL RISKS AND UNCERTAINTIES *continued*
The principal risk and uncertainty relating to the company that may impact current and future operational and financial performance and the management of this risk is described below.

RISK	RESPONSE
Impairment of smart meters	Pursuing meter rental agreements with energy suppliers, monitoring energy suppliers' licence obligations and periodic financial review of the performance of the company.

ON BEHALF OF THE BOARD

Nicola M. Connelly

Nicola Connelly
Director
17 September 2019

SP SMART METER ASSETS LIMITED
DIRECTORS' REPORT

The directors present their report and audited Accounts for the year to 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 Director's 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 period was £11.7 million (2017 £4.8 million). No dividend was paid during the period (2017 £nil).

ENVIRONMENTAL REGULATION

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

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 June 2019 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:

Graeme Brown
Heather Chalmers White

Heather Chalmers White resigned as a director on 31 January 2019. Nicola Connelly was appointed as a director on 29 May 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 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 their financial statements comply with the Companies Act 2006.

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

Nicola Connelly
Director
17 **September 2019**

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF SP SMART METER ASSETS LIMITED

OPINION

We have audited the financial statements of SP Smart Meter Assets 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 profit 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 valuation of 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 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 company will continue in operation.

Strategic report and directors' report

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

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

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, 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 pages 5 and 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 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.

Andrew Williamson

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

23 September 2019

SP SMART METER ASSETS LIMITED
BALANCE SHEET
at 31 December 2018

	Notes	2018 £m	2017 £m
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	3	**0.2**	0.2
Property, plant and equipment		**182.3**	119.6
Property, plant and equipment in use	4	170.0	101.3
Property, plant and equipment in the course of construction	4	12.3	18.3
NON-CURRENT ASSETS		**182.5**	119.8
CURRENT ASSETS			
Trade and other receivables	5	**6.4**	7.5
Current tax asset		**0.7**	1.2
CURRENT ASSETS		**7.1**	8.7
TOTAL ASSETS		**189.6**	128.5
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the parent		**16.5**	4.8
Share capital	6, 7	-	-
Retained earnings	7	16.5	4.8
TOTAL EQUITY		**16.5**	4.8
NON-CURRENT LIABILITIES			
Deferred tax liabilities	8	**5.0**	2.0
NON-CURRENT LIABILITIES		**5.0**	2.0
CURRENT LIABILITIES			
Bank borrowings and other financial liabilities		**141.4**	99.4
Loans and other borrowings	9	141.4	99.4
Trade and other payables	10	**26.7**	22.3
CURRENT LIABILITIES		**168.1**	121.7
TOTAL LIABILITIES		**173.1**	123.7
TOTAL EQUITY AND LIABILITIES		**189.6**	128.5

Approved by the Board and signed on its behalf on 17 September 2019.

Nicola M. Connelly

Nicola Connelly
Director

The accompanying Notes 1 to 19 are an integral part of the balance sheet at 31 December 2018.

SP SMART METER ASSETS LIMITED
INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2018

	Notes	2018 £m	Period from incorporation to 31 December 2017 £m
Revenue	12	33.2	12.1
GROSS MARGIN		**33.2**	12.1
NET OPERATING EXPENSES		**(1.2)**	(0.9)
Net external expenses		**(1.2)**	(0.9)
External services		(1.5)	(0.9)
Other operating income		0.3	-
GROSS OPERATING PROFIT		**32.0**	11.2
Impairment losses on trade and other receivables		(0.2)	-
Depreciation and amortisation charge, allowances and provisions	13	(15.7)	(4.9)
OPERATING PROFIT		**16.1**	6.3
Finance costs	14	(2.1)	(0.7)
PROFIT BEFORE TAX		**14.0**	5.6
Income tax	15	(2.3)	(0.8)
NET PROFIT FOR THE PERIOD		**11.7**	4.8

Net profit for the current and prior period is wholly attributable to the equity holder of SP Smart Meter Assets Limited.

Net profit for the current and prior period comprises total comprehensive income.

All results relate to continuing operations.

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

	Share capital £m	Retained earnings £m	Total equity £m
At incorporation	-	-	-
Share capital issued (refer to Note 7)	-	-	-
Total comprehensive income for the period	-	4.8	4.8
At 1 January 2018	-	4.8	4.8
Total comprehensive income for the year	-	11.7	11.7
At 31 December 2018	-	**16.5**	**16.5**

The accompanying Notes 1 to 19 are an integral part of the income statement and statement of other comprehensive income for the year ended 31 December 2018.

SP SMART METER ASSETS LIMITED
CASH FLOW STATEMENT
for the year ended 31 December 2018

	2018 £m	Period from incorporation to 31 December 2017 £m
Cash flows from operating activities		
Profit before tax	**14.0**	5.6
Adjustments for:		
Depreciation and amortisation	**15.1**	4.9
Finance costs	**2.1**	0.7
Write-off of non-current assets	**0.6**	-
Changes in working capital:		
Change in trade and other receivables	**(0.1)**	(4.4)
Change in trade payables	**8.8**	8.2
Income taxes received	**1.2**	-
Net cash flows from operating activities (i)	**41.7**	15.0
Cash flows from investing activities		
Investments in intangible assets	**(0.1)**	(0.2)
Investments in property, plant and equipment	**(82.9)**	(58.6)
Transfers from SPERL	**-**	(55.6)
Net cash flows from investing activities (ii)	**(83.0)**	(114.4)
Cash flows from financing activities		
Increase in amounts due to Iberdrola group companies - current loans payable	**42.0**	99.4
Interest paid	**(0.7)**	-
Net cash flows from financing activities (iii)	**41.3**	99.4
Net increase in cash and cash equivalents (i)+(ii)+(iii)	**-**	-
Cash and cash equivalents at beginning of period	**-**	-
Cash and cash equivalents at end of period	**-**	-

The accompanying Notes 1 to 19 are an integral part of the cash flow statement for the year ended 31 December 2018.

1 BASIS OF PREPARATION

A COMPANY INFORMATION

SP Smart Meter Assets Limited ("the company"), registered company number SC554085, is a private company limited by shares, incorporated in Scotland and its registered office 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 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.

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 is 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 the results for the year ended 31 December 2018.

B1.2 EFFECT OF INITIAL APPLICATION OF IFRS 9

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.

As a result of the initial application of IFRS 9, the company has applied the consequential amendments to IAS 1 'Presentation of Financial Statements', which requires impairment of financial assets to be presented in a separate line item in the income statement. Previously, the company's approach was to include the impairment of trade and other receivables within Depreciation and amortisation charge, allowances and provisions. This change had no impact on the company income statement for the period ended 31 December 2017.

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.

The impact of the initial application of IFRS 9 on the opening balance at 1 January 2018 was less than £0.1 million.

(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 and fair value through profit or loss. 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.

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

Financial assets

The company has classified its financial assets as being held at amortised cost. A description of this category of financial asset can be found in Note 2E1.1. 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.

Financial Asset	Original Classification under IAS 39	New Classification under IFRS9	Notes	Original carrying value under IAS 39 £m	New carrying value under IFRS 9 £m
Receivables	Loans and Receivables	Amortised cost	(i), (ii)	0.6	0.6

(i) Receivables consist of trade receivables. Refer to Notes 5 and 11(a).
(ii) Balances that were classified as Loans and receivables under IAS 39 are now classified at amortised cost. The impact on the opening retained earnings at 1 January 2018 on transition to IFRS 9 was less than £0.1 million.

The classification and measurement requirements did not have a significant impact on the company. Financial assets continue to be measured 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 related gains and losses under IFRS 9, refer to Note 2E1.2.

(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 Expected Credit Loss ("ECL") approach. Under IFRS 9, credit losses are recognised earlier than under IAS 39 (refer to Note 2E1.1).

The company applies the simplified approach for calculation of ECLs. Under the 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 11. The company has determined that the application of IFRS 9's impairment requirements at 1 January 2018 results in an additional allowance for impairment of less than £0.1 million.

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.

1 BASIS OF PREPARATION *continued*

C ACCOUNTING STANDARDS *continued*

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

Standard	Note
• 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.

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) 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.
(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.

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 INTANGIBLE ASSETS (COMPUTER SOFTWARE)
C PROPERTY, PLANT AND EQUIPMENT
D IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS
E FINANCIAL INSTRUMENTS
F TAXATION

A REVENUE
The company has applied IFRS 15 for the first time from 1 January 2018. Information about the company's accounting policies in relation to contracts with customers is provided in Note 12. The effect of the initial application of IFRS 15 is disclosed in Note 1B1.1.

B INTANGIBLE ASSETS (COMPUTER SOFTWARE)
The costs of acquired computer software are capitalised on the basis of the costs incurred to acquire and bring to use the specific software and are amortised on a straight-line basis over their operational lives. Costs directly associated with the development of computer software programmes that are expected to generate economic benefits over a period in excess of one year are capitalised and amortised, on a straight-line basis, over their estimated operational lives. Amortisation of computer software is over periods of up to four years.

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 capitalised 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 period used by the company are as set out below.

	Years
Meters and measuring devices	10

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

E 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.

E1 ACCOUNTING POLICIES UNDER IFRS 9
E1.1 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 are initially recognised when they originate. 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 12).

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*
E FINANCIAL INSTRUMENTS *continued*
E1 ACCOUNTING POLICIES UNDER IFRS 9 *continued*
E1.1 FINANCIAL ASSETS *continued*
(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 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 income statement.

The company's financial assets measured at amortised cost consist of trade receivables and trade 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 11.

The company has adopted the simplified ECL model for its trade receivables. In applying the simplified model, loss allowances for trade receivables are always measured at an amount equal to lifetime ECL. The company has established a provision matrix based on its historical credit loss experience and where possible readily available forecast information.

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.

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

E FINANCIAL INSTRUMENTS *continued*

E1 ACCOUNTING POLICIES UNDER IFRS 9 *continued*

E1.2 FINANCIAL LIABILITIES

(a) Recognition and initial measurement

The company's financial liabilities consist of 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 and payables, net of directly attributable transaction costs.

(b) Classification and subsequent measurement

Financial liabilities are classified as measured at amortised cost. Financial liabilities are subsequently 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.

Derecognition

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.

E2 ACCOUNTING POLICIES UNDER IAS 39

As detailed in Note 1B1.2 on the initial 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 and other 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.

F TAXATION

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

Deferred tax is the tax expected to be payable or recoverable on the difference between the carrying amounts of assets and liabilities in the balance sheet and the corresponding tax bases used in the computation of taxable profits (temporary differences), and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences, unused tax losses or credits can be utilised.

Deferred tax is calculated on a non-discounted basis at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised based on tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred tax is charged 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.

3 INTANGIBLE ASSETS

Period ended 31 December 2017	Computer software £m
Cost:	
At incorporation	-
Additions	0.2
At 31 December 2017	0.2
Amortisation:	
At incorporation	-
Amortisation for the period (Note (i))	-
At 31 December 2017	-
Net book value:	
At 31 December 2017	0.2
At incorporation	-

Year ended 31 December 2018	Computer software £m
Cost:	
At 1 January 2018	0.2
Additions	0.1
At 31 December 2018	**0.3**
Amortisation:	
At 1 January 2018	-
Amortisation for the year	0.1
At 31 December 2018	**0.1**
Net book value:	
At 31 December 2018	**0.2**
At 1 January 2018	0.2

(i) The amortisation charge for the 2017 period was £1,789.

4 PROPERTY, PLANT AND EQUIPMENT
(a) Movements in property, plant and equipment

Period ended 31 December 2017	Meters and measuring devices in use £m	Meters and measuring devices in progress £m	Total £m
Cost:			
At incorporation	-	-	-
Additions	31.8	39.8	71.6
Transfer from Iberdrola group companies (Note (i))	52.9	-	52.9
Transfers from in progress to plant in use	21.5	(21.5)	-
At 31 December 2017	106.2	18.3	124.5
Depreciation:			
At incorporation	-	-	-
Depreciation for the period	4.9	-	4.9
At 31 December 2017	4.9	-	4.9
Net book value:			
At 31 December 2017	101.3	18.3	119.6
At incorporation	-	-	-

4 PROPERTY, PLANT AND EQUIPMENT *continued*

(a) Movements in property, plant and equipment *continued*

Year ended 31 December 2018	Meters and measuring devices in use £m	Meters and measuring devices in progress £m	Total £m
Cost:			
At 1 January 2018	106.2	18.3	124.5
Additions	48.3	30.0	78.3
Transfers from in progress to plant in use	35.8	(35.8)	-
Disposals	(0.4)	(0.2)	(0.6)
At 31 December 2018	**189.9**	**12.3**	**202.2**
Depreciation:			
At 1 January 2018	4.9	-	4.9
Depreciation for the year	15.0	-	15.0
At 31 December 2018	**19.9**	-	**19.9**
Net book value:			
At 31 December 2018	**170.0**	**12.3**	**182.3**
At 1 January 2018	101.3	18.3	119.6

(i) On 1 April 2017, SPERL transferred certain smart meter assets to the company at their net book value for a cash consideration of £52.9 million. A capital prepayment of £2.7 million in relation to the purchase of smart meter assets was also transferred.

(b) Capital commitments

	2018 £m	2017 £m
Contracted but not provided	**24.4**	9.7

5 TRADE AND OTHER RECEIVABLES

	Notes	2018 £m	2017 £m
Current receivables:			
Receivables due from Iberdrola group companies - trade		**0.3**	-
Trade receivables (including accrued income)		**2.2**	0.6
Capital prepayments	(a)	**1.9**	3.1
Other tax receivables		**2.0**	3.8
	(b)	**6.4**	7.5

(a) On 1 April 2017, SPERL transferred a capital prepayment of £2.7 million in relation to the purchase of smart meter assets by the company.
(b) Trade and other receivables includes £2.0 million of IFRS 15 receivables (refer to Note 12(c)).

6 SHARE CAPITAL

	2018 £	2017 £
Allotted, called up and fully paid shares:		
One ordinary share of £1 (2017 One)	**1**	1

(a) Holders of 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.

7 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDER OF SP SMART METER ASSETS LIMITED

	Share capital (Note (a)) £m	Retained earnings (Note (b)) £m	Total £m
At incorporation	-	-	-
Share capital issued	-	-	-
Profit for the period attributable to equity holder of SP Smart Meter Assets Limited	-	4.8	4.8
At 1 January 2018	-	4.8	4.8
Profit for the year attributable to equity holder of SP Smart Meter Assets Limited	-	11.7	11.7
At 31 December 2018	**-**	**16.5**	**16.5**

(a) On 9 January 2017 the company issued one ordinary share of £1 to SPRH for a consideration of £1.
(b) Retained earnings comprise the cumulative balance of profits and losses recognised in the financial statements.

8 DEFERRED TAX

Deferred tax recognised in the Accounts is as follows:

	Property, plant and equipment £m
At incorporation	-
Charge to the income statement	2.0
At 1 January 2018	2.0
Charge to the income statement	3.0
At 31 December 2018	**5.0**

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.

9 LOANS AND OTHER BORROWINGS

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

Instrument	Interest rate*	Maturity	2018 £m	2017 £m
Loans with Iberdrola group companies	Base + 1%	On demand	**141.4**	99.4

* Base – Bank of England Base Rate

(b) Borrowing facilities

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

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

	Current liabilities		
	Loans and other borrowings £m	Interest payable £m	Total £m
At incorporation	-	-	-
Increase in amounts due to Iberdrola group companies	99.4	-	99.4
Total movements from financing cash flows	99.4	-	99.4
Other movements	-	0.7	0.7
Total liability-related movements	-	0.7	0.7
At 31 December 2017	99.4	0.7	100.1

9 LOANS AND OTHER BORROWINGS *continued*

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

	Current liabilities		
	Loans and other borrowings **£m**	***Interest payable*** **£m**	**Total £m**
At 1 January 2018	**99.4**	**0.7**	**100.1**
Increase in amounts due to Iberdrola group companies	42.0	-	42.0
Interest paid	-	(0.7)	(0.7)
Total movements from financing cash flows	**42.0**	**(0.7)**	**41.3**
Other movements	-	2.1	2.1
Total liability-related movements	**-**	**2.1**	**2.1**
At 31 December 2018	**141.4**	**2.1**	**143.5**

10 TRADE AND OTHER PAYABLES

	Note	**2018 £m**	2017 £m
Current trade and other payables:			
Payables due to Iberdrola group companies - trade		**0.1**	0.1
Payables due to Iberdrola group companies - interest		**2.1**	0.7
Trade payables		**0.3**	4.3
Payables due to Iberdrola group companies - payments received on account	(a)	**16.6**	3.8
Capital payables and accruals		**7.6**	13.4
		26.7	22.3

(a) Trade and other payables include £16.6 million of IFRS 15 contract liabilities (refer to Note 12(c)).

11 FINANCIAL INSTRUMENTS

The effect of the initial application of IFRS 9 on the company's Accounts is detailed in Note 1B1.2. Due to the transition method chosen, comparative information has not been restated 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.

		2018			2017		
	Note	**Carrying amount £m**	**Fair value £m**	**Classification under IFRS9**	Carrying amount £m	Fair value £m	Classification under IAS 39
Financial assets							
Receivables	(i)	**2.5**	**2.5**	**Amortised cost**	0.6	0.6	Loans and Receivables
Financial liabilities							
Loans and other borrowings		**(141.4)**	**(141.4)**	**Amortised cost**	(99.4)	(99.4)	Loans and Receivables
Payables	(i)	**(10.1)**	**(10.1)**	**Amortised cost**	(18.5)	(18.5)	Loans and Receivables

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

(i) Balances outwith the scope of IFRS 7 and IFRS 9 have been excluded, namely prepayments, other tax receivables and payments received on account.

(b) Financial risk management

The company's 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 receivables that arise directly from its operations.

11 FINANCIAL INSTRUMENTS ***continued***

(b) Financial risk management *continued*

The company has exposure to the following risks arising from its 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 trade receivables. The carrying amount of financial assets represents 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 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).

Credit risk in respect of customers is mitigated by contracting with multiple counterparties and limiting exposure to individual counterparties to clearly defined limits based upon the risk of counterparty default. At 31 December 2018 and 2017, the company evaluated the concentration of risk with respect to financial assets as low, with no material concentration of credit risk in the company arising from one particular counterparty.

Trade receivables (including trade receivables due from Iberdrola group companies)

The company uses the simplified model approach to measure ECLs for trade receivables. The provision rates represent a lifetime ECL and are based on the Iberdrola group's historical loss experience and default rates. The table below illustrates the ECL on trade receivables:

As at 31 December 2018	0-6 months £m	Greater than 6 months £m	Total £m
Weighted average expected loss rate (%)	**4.3%**	**25.0%**	**7.4%**
Gross carrying value	**2.3**	**0.4**	**2.7**
Loss allowance	(0.1)	(0.1)	(0.2)
Net carrying value	**2.2**	**0.3**	**2.5**

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. Refer to the table below reconciling the movement in the opening to the closing loss allowance.

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:

	Trade receivables £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	0.2
At 31 December 2018	**0.2**

The increase in the loss allowance of £0.2 million from 1 January 2018 is due to the increase in the gross carrying value of trade receivables and an increase in the population of aged receivables.

(ii) Treasury risk

Treasury risk is comprised of 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 ScottishPower's credit facilities already in place.

11 FINANCIAL INSTRUMENTS *continued*

(b) Financial risk management *continued*

(ii) Treasury risk *continued*

Treasury liquidity risk management

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

The 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 exposures.

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.

Loans payable	Interest rate	Change in rate	**Impact on interest rate expense in 2018 £m**	Impact on interest rate expense for period from incorporation to 31 December 2017 £m
Short-term variable rate loan payable	Base	+0.25%	**0.4**	0.2
		+0.50%	**0.7**	0.5
		-0.25%	**(0.4)**	(0.2)
		-0.50%	**(0.7)**	(0.5)

12 REVENUE

The effect of the initial application of IFRS 15 on the company Accounts is detailed in Note 1B1.1.

(a) Disaggregation of revenue for the year ended 31 December 2018

	2018 £m
Smart meter provision	33.2

All revenue is recognised over time and arises from operations within the UK.

(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.

Smart meter provision is a performance obligation satisfied over time as the customer benefits from the service as it is provided. The customer benefits from the company's service evenly throughout the year and therefore time is used to measure progress towards complete satisfaction of the performance obligation. Revenue is recognised on a straight-line basis throughout the year based on the agreed contractual rate.

Invoices with Iberdrola group companies are typically raised and settled on a monthly basis. Invoices with external parties are raised monthly in arrears and typically settled within 30 days. Customer payments that are in excess of the contractual amounts are recorded within contract liabilities.

12 REVENUE *continued*

(c) Contract balances

	Notes	31 December 2018 £m	1 January 2018 £m
Receivables	(i), (ii)	2.0	0.6
Contract liabilities	(iii), (iv)	(16.6)	(3.8)

(i) Included within Trade and other receivables (refer to Note 5).
(ii) £0.2 million of impairment losses were recognised during the year on receivables arising from the company's contracts with customers.
(iii) Included within Trade and other payables (refer to Note 10).
(iv) The increase in the contract liabilities is due to advance payments received from customers. The amount of contract liabilities recognised as income in the year is £nil.

13 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS

	2018 £m	Period from incorporation to 31 December 2017 £m
Property, plant and equipment depreciation charge	15.0	4.9
Intangible asset amortisation	0.1	-
Charges and provisions, allowances and impairment of assets	0.6	-
	15.7	4.9

14 FINANCE COSTS

	2018 £m	Period from incorporation to 31 December 2017 £m
Interest on amounts due to Iberdrola group companies	2.1	0.7

15 INCOME TAX

	2018 £m	Period from incorporation to 31 December 2017 £m
Current tax:		
UK Corporation Tax	(0.7)	(1.2)
Current tax (credit) for the period	**(0.7)**	(1.2)
Deferred tax:		
Origination and reversal of temporary differences	3.4	2.3
Impact of tax rate change	(0.4)	(0.3)
Deferred tax charge for the period	**3.0**	2.0
Income tax charge for the period	**2.3**	0.8

15 INCOME TAX *continued*

Tax on profit on ordinary activities for the year varied from the standard rate of UK Corporation Tax applicable to the company as follows:

	2018 £m	Period from incorporation to 31 December 2017 £m
Corporation Tax at 19% (2017 19.25%)	2.7	1.1
Impact of tax rate change	(0.4)	(0.3)
Income tax expense for the period	**2.3**	0.8

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

16 EMPLOYEE INFORMATION

The company has no employees. Details of directors' remuneration are set out in Note 17(c).

17 RELATED PARTY TRANSACTIONS

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

	2018		2017	
	UK parent (SPL) £m	**Other Iberdrola group companies £m**	UK parent (SPL) £m	Other Iberdrola group companies £m
Types of transaction				
Sales and rendering of services	-	**29.5**	-	11.3
Purchases and receipt of services	-	**(0.8)**	-	(0.6)
Purchase of property, plant and equipment and capital prepayments (Note (i))	-	-	-	(55.6)
Interest costs	**(2.1)**	-	(0.7)	-
ECL recognised in respect of				
Trade and other receivables	-	-	-	-
Balances outstanding				
Trade and other receivables	-	**0.3**	-	-
Loans payable	**(141.4)**	-	(99.4)	-
Trade and other payables	-	**(16.7)**	-	(3.9)
Interest payable	**(2.1)**	-	(0.7)	-
ECL on				
Trade and other receivables	-	-	-	-

(i) On 1 April 2017, SPERL transferred certain smart meter assets to the company at their net book value for a cash consideration of £52.9 million. A capital prepayment of £2.7 million in relation to the purchase of smart meter assets was also transferred.
(ii) The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

17 RELATED PARTY TRANSACTIONS *continued*

(b) Remuneration of key management personnel

The remuneration of the key management personnel of the company is set out below. As all of the key management personnel are remunerated for their work for the SPRH group, it has not been possible to apportion the remuneration specifically in respect of services to this company. All three (2017 four) key management personnel were remunerated by other Iberdrola group companies.

	2018 £000	Period from incorporation to 31 December 2017 £000
Short-term employee benefits	**944**	869
Post-employment benefits	**133**	183
Share-based payments	**497**	515
	1,574	1,567

(c) Directors' remuneration

The total remuneration of the directors that provided qualifying services to the company is shown below. As these directors are remunerated for their work the SPRH group, it has not been possible to apportion the remuneration specifically in respect of services to this company. Both (2017 all three) directors were remunerated by other Iberdrola group companies.

Executive directors	2018 £000	Period from incorporation to 31 December 2017 £000
Aggregate remuneration in respect of qualifying services	**346**	339
Number of directors who exercised share options	**2**	2
Number of directors who received shares under a long-term incentive scheme	**1**	1
Number of directors accruing retirement benefits under a defined benefit scheme	**2**	2

Highest paid director	2018 £000	Period from incorporation to 31 December 2017 £000
Aggregate remuneration	**241**	238
Accrued pension benefit	**105**	103

(i) The highest paid director received shares under a long-term incentive scheme during both periods.
(ii) The highest paid director exercised share options during both periods.

(d) Ultimate and immediate parent company

The immediate parent company is SPRH. The registered office of SPRH 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 Scottish Power UK plc ("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 ScottishPower UK plc, at its registered office, 320 St. Vincent Street, Glasgow, G2 5AD.

The company has no other related undertakings in addition to the parent undertakings disclosed above.

18 AUDITOR REMUNERATION

	2018	Period from incorporation to 31 December 2017
	£000	£000
Audit of the company's annual Accounts	**25**	26

19 GOING CONCERN

The company has recorded a net profit of £11.7 million and operating cash inflows of £41.7 million for the year to 31 December 2018 and the company's balance sheet shows that it has net current liabilities of £161.0 million and net assets of £16.5 million at its most recent balance sheet date.

The company participates in the Iberdrola group's centralised treasury arrangement and so shares banking facilities with its parent companies and fellow subsidiaries. The directors have prepared cash flow forecasts for the period up to 31 December 2020 which indicate that, taking account of reasonably possible downsides, the company will have sufficient funds, through funding from its parent companies and fellow subsidiaries, to meet its liabilities as they fall due for that period.

Those forecasts are dependent on the company's parent companies and fellow subsidiaries not seeking repayment of the amounts currently due to the Iberdrola group, which at 31 December 2018 amounted to £141.4 million, and providing additional financial support during that period. The wider Iberdrola group remain supportive of the company and SPUK has indicated that if required, SPUK (or if appropriate an alternative Iberdrola group subsidiary) will provide additional funding to enable the company to meet its liabilities as they fall due for a period of at least twelve months from the date of approval of the company's 31 December 2018 accounts. This includes funding to cover the amounts currently due to Iberdrola group companies. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least twelve months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.