SP TRANSMISSION PLC
ANNUAL REPORT AND ACCOUNTS
for the year ended 31 December 2018

Registered No. SC189126

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SP TRANSMISSION PLC
STRATEGIC REPORT

The directors present an overview of SP Transmission plc's structure, 2018 performance and strategic outlook including principal risks and uncertainties.

STRATEGIC OUTLOOK

The principal activity of SP Transmission plc ("the company"), registered company number SC189126, is the ownership of the electricity transmission network within the Central and Southern Scotland area. In accordance with the British Electricity Trading and Transmission Arrangements ("BETTA"), National Grid operates the Great Britain transmission system, including balancing of generation and demand in Scotland. The company retains network ownership and all associated responsibilities including development of the network. 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. The immediate parent of the company is Scottish Power Energy Networks Holdings Limited ("SPENH"). Scottish Power Limited ("SPL") is the United Kingdom ("UK") holding company of the Scottish Power Limited group ("ScottishPower") of which the company is a member.

The company is part of ScottishPower's Energy Networks business ("Energy Networks"). Energy Networks owns three regulated electricity network businesses in the UK. The company and fellow subsidiary companies, SP Manweb plc and SP Distribution plc, are 'asset-owner companies' holding the regulated assets and Electricity Distribution and Transmission licences of ScottishPower, and are regulated monopolies. Energy Networks owns and operates the network of cables and power lines transporting electricity to around 3.5 million connected customers in the south of Scotland, Cheshire, Merseyside, North Shropshire and North Wales.

The company is a transmission network owner. The electricity transmission network consists of the high-voltage electricity wires that convey electricity from power stations to distribution system entry points or, in certain cases, direct to end-users' premises via a national network of high-voltage assets.

The company is a natural monopoly and is governed by The Office of Gas and Electricity Markets ("Ofgem") via a regulatory price control. The primary objective of the regulation of the electricity networks is the protection of customers interests while ensuring that demand can be met and companies are able to finance their activities. Price controls are the method by which the amount of allowed revenue is set for network companies over the period of the price control. Price control processes are designed to cover the company's efficient costs and allows it to earn a reasonable return, provided the company acts in an efficient manner, delivers value for customers and meets Ofgem targets.

Up to 31 December 2017, SP Power Systems Limited ("Power Systems"), an unregulated business, provided asset management expertise and conducted the day-to-day operation of the networks. Along with the asset-owner companies it acted as an integrated business unit to concentrate expertise on regulatory and investment strategy with Power Systems implementing programmes commissioned by and agreed with the asset-owner companies. Strict commercial disciplines were applied at the asset-owner service provider interface, with Power Systems operating as a contractor to the distribution and transmission businesses. From 1 January 2018, the role of Power Systems changed and it now provides a narrower range of asset management support services as opposed to being an internal contractor delivering work programmes. As part of this change, on 1 January 2018 the service contracts of 345 employees, inventories and certain liabilities were transferred from Power Systems to the company. Power Systems transferred an amount of cash equivalent to the net liabilities acquired by the company. A new Network Asset Management System was introduced in 2018. This more fully utilises functionality within Energy Networks' existing SAP enterprise resource planning system. Key improvements targeted include standardised and streamlined business processes alongside automated work management and reporting.

The second round of RIIO (Revenue = Incentives + Innovation + Outputs) price controls (RIIO-2) will begin in 2021 for the transmission business. In July 2018, Ofgem published its RIIO-2 Framework decision which included high level decisions on particular elements of the price control framework. Alongside this document, Ofgem also published a report by Cambridge Economic Policy Associates, a consulting firm setting out its initial cost of capital ranges, which will not be finalised until Ofgem's final transmission price determination in 2020. In December 2018, Ofgem published its RIIO-2 sector specific consultation which includes further price control developments, such as the cost of capital and incentives. Companies are due to submit their final business plans to Ofgem in late 2019.

STRATEGIC OUTLOOK *continued*

The company remains on track to complete an ambitious eight year RIIO-T1 programme of network renewal, which has two years remaining. At December 2018, the company is almost 75% through its overhead line replacement programme of approximately 800 km, which is over 200 km ahead of plan. Other major deliverables include the connection of an additional 1,449 megawatts ("MW") of directly connected generation, completion of two significant overhead line routes utilising innovative composite-core 'High Temperature Low Sag' technology and completion of a cumulative 65% of non-load outputs, ahead of the RIIO-T1 plan of 60% for the first six years.

In February 2012, National Grid and the company announced the award of a £1 billion contract to build the first ever sub-sea electricity link between Scotland and England/Wales. The High Voltage Direct Current ("HVDC") link is the highest capacity HVDC cable in the UK and has increased the capacity of electricity flowing between Scotland and England/Wales by more than 2 GW. The link normally operates in a north to south configuration in line with the economics that underpinned the investment, and is available to be used by National Grid System Operator in the south to north configuration in particular circumstances.

In March 2018, Energy Networks announced the launch of a Green Economy Fund. Working alongside the Scottish Government, Ofgem and independent economic advisors, funding will be made available for initiatives focused on delivering low carbon transport and heating. The Fund aims to further Scotland's ambitious green energy plans and at the same time create economic growth opportunities for local communities.

During 2018, Energy Networks also won a number of awards:

- At the Young Professionals Green Energy Awards 2018, three Energy Networks employees won awards for Innovation, Achievement and a Special Commendation award.
- SP Distribution plc received the BSI Kite Mark Certification for Customer Service after completing a seven day audit. Energy Networks is the first utility in the world to have achieved this new standard.
- The LV ("Low Voltage") Engine project won the annual WSP Project Award for Scotland and North England in the Sustainability Category. LV Engine is a Network Innovation Competition ("NIC") project funded by Ofgem which will build and test a number of smart transformers for use within secondary substations.
- An Energy Networks apprentice was awarded the Rising Star award at the National Skills Academy for Power's annual award ceremony held in September 2018.
- Energy Networks received three awards at the Utility Week Stars Award 2018 event. The Energy Networks employees received the awards in the categories of Rising Star, Guiding Star and Hero Team.

In line with ScottishPower's strategic objectives and its regulatory obligations, Energy Networks is maintaining its significant investment in the UK energy network. Over the last ten years, it has invested around £5.6 billion in its transmission and distribution networks, and during the next ten years, Energy Networks currently plans to invest a further £5.4 billion to modernise and improve service to customers. Energy Networks' ten year investment plans are reviewed annually in detail to ensure plans are aligned with, and continue to support, UK Government energy policy.

In 2017, both the Scottish and UK Governments outlined plans to limit the purchase of new diesel or petrol vehicles after 2032 and 2040 respectively. To enable the wide scale roll out of electric vehicles ("EVs"), it is key that the UK's electricity networks can facilitate suitable charging infrastructure for customers at a reasonable cost. Energy Networks will be engaging with a range of stakeholders to understand the capabilities of EV products and thereby understand the potential impact on customers' electrical needs.

The Electricity Network Association's ("ENA") previously launched Open Networks project lays the foundations of a smart energy grid in the UK. The project brings together the UK energy industry as well as leading academics, trade associations and non-governmental organisations and aims to transform the way networks work. The project will enable the UK's energy networks companies to move from the traditional role of delivering electricity in one direction from centralised power plants to homes and communities, to one where the network acts as a smart platform that enables a whole range of new energy technologies that generate, consume and manage electricity. The project is a key tool to support Energy Networks' vision of the decentralised energy system in which the Transmission network plays a vital part in balancing the system and maintaining security of supply.

Energy Networks is mindful that some of its assets are critical national infrastructure. Energy Networks liaises with UK Government agencies to ensure that any potential threats and risks are assessed and mitigated. Energy Networks takes steps to enhance both the physical security of its assets and the security of its associated IT and communications systems in circumstances where potential risks are identified.

STRATEGIC OUTLOOK *continued*
Announcements in the past few years by the UK Government on funding programmes have led to some renewables developers scaling back future activity. Some developers have requested acceleration in connection dates, while other projects have been deferred or cancelled. These developments have been analysed carefully, resulting in updated projections of volumes and expenditure for the Energy Networks business. The external environment will continue to be monitored and the impact of any changes in trends will be considered in future forecasts.

Investments in electricity transmission assets which facilitate bulk energy transfer across the UK, for which the ability to export energy from Scotland was previously the main driver, have become important to ensure security of supply in Scotland through import capability, in light of existing and planned large generation plant closures on both sides of the Anglo-Scottish border. Energy Networks remains engaged with the UK Government, Scottish Government, National Grid and other industry stakeholders on issues related to ensuring resilience and security of supply in Great Britain.

In July 2018, Energy Networks was awarded the full Successful Delivery Reward of £1.6 million future revenue funding for project ARC (Accelerating Renewable Connections) and project VISOR (Visualisation of Real Time System Dynamics using Enhanced Monitoring) reflecting successful delivery of two flagship innovation projects under the Ofgem NIC. These projects were both about releasing capacity in the transmission and distribution network to enable renewable generation to connect faster and at a lower cost while maintaining network security and stability. Both of these projects were completed on time and below budget while over-delivering on project outputs.

The impact of Brexit on Energy Networks, and so the company, is considered on pages 4 to 6 of the Strategic Report.

2018 OPERATIONAL PERFORMANCE
The table below provides key financial information relating to the company's performance during the year.

	Revenue**		Operating profit**		Capital investment***	
	2018	2017*	**2018**	2017	**2018**	2017
Financial key performance indicators	**£m**	£m	**£m**	£m	**£m**	£m
SP Transmission plc	**371.5**	340.2	**221.4**	213.6	**197.5**	298.8

* Restated (refer to Note 1B1.1).
** Revenue and operating profit are presented on page 19.
*** Capital investment is presented within Note 3 on pages 34 and 35.

Revenue has increased by £31.3 million compared to 2017, primarily as a result of increased allowable revenues under RIIO-T1.

Operating profit increased by £7.8 million to £221.4 million in 2018. This was principally the result of higher revenues which were partially offset by increased staff costs and property taxes, and increased depreciation charges reflecting continued levels of investment.

The company's capital investment was £197.5 million in 2018, a decrease of £101.3 million from the prior year, primarily due to decreased spend as a number of major projects near completion.

The company's Electricity Transmission Licence ("the licence") requires the directors to prepare regulatory accounts to 31 March for each regulatory year. Reporting of operational data is aligned to the regulatory year end. Consequently the latest available data has been disclosed in the tables below. The tables below provide key non-financial performance indicators relating to the company's operational assets and operational performance.

Operational assets	**Year ended 31 March 2018**	Year ended 31 March 2017
Franchise area (km^2)	**22,950**	22,950
System maximum demand (MW*)	**3,337**	3,569
Length of overhead lines (circuit km)	**3,734**	3,620
Length of underground cables (circuit km)	**573**	368

* Megawatts ("MW")

2018 OPERATIONAL PERFORMANCE *continued*

Operational performance	Notes	Year ended 31 March 2018	Year ended 31 March 2017
Annual system availability	(a)	**96.29%**	93.01%
Winter peak system availability	(b)	**97.88%**	95.82%
Annual reliability of supply	(c)	**99.99%**	99.99%
Annual number of loss of supply incidents	(d)	**14**	18
1. Incentivised incidents		**2**	4
2. Non incentivised incidents		**12**	14

(a) Annual system availability details the overall availability of the licensee's transmission circuits, with any reduction below 100% being due to planned outages and faults. Annual system availability increased this year due to a decrease in the number of planned (maintenance and construction) and unplanned (faults) outages.
(b) Winter peak system availability is the average system availability over the three months of December, January and February. Winter peak system availability increased this year due to a decrease in the number of planned (primarily maintenance) and unplanned (fault) outages.
(c) Annual reliability of supply is provided by the system operator, National Grid Electricity Transmission (UK).
(d) Any event on the licensee's transmission system that causes electricity not to be supplied. Incentivised incidents are incidents where the loss of supply is longer than three minutes and non-incentivised incidents are those which do not cause a loss of supply to customers and those that cause a loss of supply to customers that last less than three minutes.

Although these metrics give a view on asset network performance, it must be pointed out that performance can be impacted by factors that are outwith the control of the transmission licensee for example, faults due to bad weather.

LIQUIDITY AND CASH MANAGEMENT

Cash and net debt

Net cash flows from operating activities decreased by £62.1 million to £234.7 million for the year, as detailed on page 21. As detailed in the table below, net debt decreased by £8.4 million to £1,315.2 million. The movement comprises a repayment of £52.0 million in long-term group loans offset by an increase of £42.0 million in the on demand group loan and a decrease of £1.6 million in cash.

Analysis of net debt	Notes	2018 £m	2017 £m
Cash	(a)	**18.9**	20.5
Group loans payable	(b)	**(1,334.1)**	(1,344.1)
Net debt		**(1,315.2)**	(1,323.6)

(a) As detailed on the balance sheet, refer to page 18.
(b) As detailed in Note 11 on pages 42 and 43.

Capital and debt structure

The company is funded by a combination of debt and equity in accordance with the directors' objectives of establishing an appropriately funded business consistent with the requirements of the Utilities Act 2000 and the objectives of the Iberdrola group. All of the equity is held by the company's immediate parent undertaking, SPENH. Treasury services are provided by SPL. Further details of the treasury policy for ScottishPower and how it manages them 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 the ScottishPower addresses health and safety requirements can be found in the most recent Annual Report and Accounts of SPL.

UK DECISION TO LEAVE THE EU (BREXIT)

The UK was originally scheduled to leave the 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.

DECISION TO LEAVE THE EU (BREXIT) *continued*

The EU and the UK have now agreed a delay to Brexit until 31 October 2019 at the latest, assuming that the UK takes part in the European Parliamentary elections on 23 May 2019. If the UK does not participate in the European elections then the UK will need to leave the EU on 1 June 2019 under a 'no-deal' scenario unless the UK Parliament has approved an EU Withdrawal Agreement.

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 ScottishPower risks considered relevant to the company are explained in the table below.

BREXIT RISKS	
RISK	**RESPONSE**
Impacts arising from the UK decision to leave the EU or market reactions to events during the negotiation. These impacts could include movements in the value of Sterling and other financial instruments. In the longer term there could be positive or negative changes in the UK economy and in the political and regulatory environment in which the group and 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. Additional storage requirements also assessed and actions taken to ensure there is sufficient storage.
Foreign exchange rate exposure and additional tariffs if WTO rules apply.	Exchange rate hedged on existing orders and contracts. Legal review of all critical contracts to determine potential exposure to additional tariffs.
Contractual risk for existing non-trading contracts including the risk of contract re-openers, clauses such as force majeure/material adverse change clauses and jurisdiction.	Legal review of all critical contracts to determine potential exposure and mitigation specific to each contract.
Free movement of labour – potential restrictions on EU nationals working in the UK or international assignees from elsewhere in the Iberdrola group, not currently in the UK but wishing to enter the UK.	Recent announcements by the UK Government confirmed EU nationals in the UK will be part of an EU settlement scheme. Workplace audit underway to assess impact and support staff affected through the process.
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.

DECISION TO LEAVE THE EU (BREXIT) *continued*

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 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.

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

PRINCIPAL RISKS AND UNCERTAINTIES

ScottishPower's strategy, which is adopted by the company, is to conduct business in a manner benefiting customers through balancing cost and risk while delivering shareholder value and protecting ScottishPower's performance and reputation by prudently managing the risks inherent in the business. To maintain this strategic direction ScottishPower develops and implements risk management policies and procedures, and promotes a robust control environment at all levels of the organisation. Further details of ScottishPower's risk management practices can be found in Note 5.

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 performance and management of these risks are described below:

SCOTTISHPOWER - GLOBAL	
RISK	**RESPONSE**
Material deterioration in the relatively stable and predictable UK regulatory and political environment, including any sudden changes of policy, or intervention 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 risks and uncertainties of the Energy Networks business, and so that of the company, that may impact the current and future operational and financial performance and the management of these risks are described below:

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

ON BEHALF OF THE BOARD

Scott Mathieson
Director
26 April 2019

SP TRANSMISSION PLC
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 7:

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

RESULTS AND DIVIDEND

The profit for the year amounted to £153.5 million (2017 £149.1 million). A dividend of £91.5 million was paid during the year (2017 £75.8 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.

INNOVATION

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

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

EMPLOYEES

Employment regulation

ScottishPower has well-defined policies in place throughout its businesses to ensure compliance with applicable laws and related codes of practice. These policies cover a wide range of employment issues such as disciplinary, grievance, harassment, discrimination, stress, anti-bribery and 'whistleblowing' and have been brought together in the Code of Ethics of Iberdrola and its group of companies (which also outlines expectations for employees' conduct).

Training

ScottishPower has a continuing commitment to training and personal development for its employees with 3,061 (2017 2,900) training events in the year. Much of the training is focused on health and safety and technical training ensuring field staff are safe and competent. In addition ScottishPower recruits over 100 craft and engineering trainees annually who undertake a formal, structured training programme leading towards a recognised apprenticeship or formal engineering qualification. Team leaders and managers also participate in core management skills training and there are management development programmes and modules aimed at increasing our leadership capability.

Employee feedback and consultation

In 2018, ScottishPower carried out its annual employee engagement survey, 'The LOOP' as part of an Iberdrola group engagement survey framework. The survey provides key insight on how employees feel about working for ScottishPower. The response rate in 2018 equalled 2017, with 75% of employees providing feedback. The results of the survey highlighted a number of strengths and opportunities and overall 61% of employees feel proud to work for ScottishPower. Areas of strength highlighted were in relation to collaboration, performance management and safety. The opportunities identified as part of the feedback where the ScottishPower businesses have the opportunity to respond to challenges are around providing more clarity on ScottishPower's future strategy, enabling employees to carry out their role and supporting employees to develop and grow through the organisation. These areas are a focus for the ScottishPower action plan going forward.

In addition to employee feedback, ScottishPower regularly consults with employees and their representatives via a variety of channels, including monthly team meetings, business conferences, health and safety committees and employee relations forums.

EMPLOYEES *continued*

Inclusion and diversity

Inclusion and diversity fosters innovation and creativity, driving better business performance. ScottishPower is working hard to create an inclusive and diverse workplace that is open to change; where employees feel they can be themselves.

In March 2018, ScottishPower welcomed the steps that the UK Government has taken to introduce legislation on gender pay gap reporting. ScottishPower is committed to pay for performance equally and fairly, and is focused on breaking down barriers across the employee lifecycle as over time this will improve the Gender Pay Gap position whilst widening the inclusion of other under-represented groups. Key activities during 2018 included the design and roll out of e-learning and training on diversity and unconscious bias for recruiting managers and newly appointed managers. In addition, in 2018 ScottishPower welcomed six females into Science, Technology, Engineering and Mathematics ("STEM") based placements as part of the Women Returners programme to support women returning to work after a lengthy career break. The programme aims to help women grow their career after a career break from the STEM sector, offering the time and support needed to refresh and redevelop their skills to help them in returning to employment on a more permanent basis.

As part of its commitment to closing the gender pay gap the ScottishPower Senior Leadership Team have set two aspirational targets to break down the barriers for women:

- Increase the number of women in ScottishPower's senior leadership population to exceed 30% (currently 21%).
- Increase the number of women in ScottishPower's middle management population to exceed 40% (currently 29%).

For more information on ScottishPower's gender pay gap please go to
https://www.scottishpower.com/pages/gender_pay.aspx

ScottishPower continues to forge links with a number of recognised organisations to grow its commitment to diversity and inclusion. These include: Business Disability Forum, Employers Network for Equality & Inclusion, Equate, Working Families, ENABLE, POWERful Women and Stonewall.

ScottishPower expects all employees to be treated with respect and has supporting policy guidance on People with Disabilities to help ensure equality of employment opportunity for people with disabilities. ScottishPower have obtained the Disability Confident standard and are accredited to an 'engaged level' with Carers Scotland. In addition, in 2018 ScottishPower was part of an inspirational programme, called Breaking Barriers. The programme aimed to raise aspirations for young people who have learning disabilities and provide equal opportunities to access university. Between January and June 2018 eight learners aged 18 to 24 studied for a Certificate in Applied Business Skills at the University Of Strathclyde Business School. As part of this experience the learners gained valuable skills and work experience as part of an eight week placement with ScottishPower.

Employee health and wellbeing

ScottishPower promotes and supports the physical and mental health and wellbeing of its employees through a programme of health promotion and information run by its occupational health department.

Employee volunteering

ScottishPower prides itself in being a good corporate neighbour, providing support to the communities it serves in each of its businesses. Volunteering is central to community involvement and ScottishPower has an excellent track record in this area. ScottishPower's company-wide Volunteering Policy has been actively utilised by employees during 2018. This policy gives all registered volunteers, on an annual basis, an opportunity to take an additional one day's paid leave, to be used as a volunteering day.

Modern Slavery Statement

ScottishPower is committed to human and labour rights and to eliminating modern slavery that could in any way be connected to its business. ScottishPower welcomed the introduction of the Modern Slavery Act 2015 and published its own Modern Slavery Statement which was approved by the Board of Directors of Scottish Power Limited.

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

CORPORATE GOVERNANCE

The ultimate parent company is Iberdrola, S.A. which is listed on the Madrid stock exchange.

As a guiding principle, the company adopts the principles and rules contained in the most widely recognised good governance recommendations and, in particular, has taken as reference (for guidance purposes only) the Uniform Good Governance Code for Listed Companies approved by the National Securities Market Commission of Spain. The company is not, however, subject to any corporate governance codes and, in particular, is not subject to the Uniform Good Governance Code for Listed Companies.

ScottishPower, the UK operations of Iberdrola, S.A., operates on divisional lines and the activities of the company fall within the Transmission and Distribution business within the Energy Networks Regulated Business ("Regulated Business").

Administrative, management and supervisory bodies

Board and management meetings

During the year, the company was governed by a Board ("the SP Transmission Board") consisting of five directors, all of whom brought a broad range of skills and experience to the company. Two of the five directors were independent non-executive directors. The immediate parent of the company is SPENH. The SPENH Board of Directors ("SPENH Board") is responsible for the effective day to day oversight of the Regulated Business, including that of the company, within ScottishPower. The SPENH Board operates in accordance with the strategy defined by the Scottish Power Limited Board ("ScottishPower Board") and in accordance with the terms of reference of the SPENH Board.

Oversight is provided at ScottishPower group level by the ScottishPower Board (which included four independent non-executive directors), other than on those matters reserved for the SPENH Board (which includes independent non-executive directors, who are also appointed to the SP Transmission Board).

In addition to formal SP Transmission plc and SPENH Board meetings, which are convened as required, the directors and other senior managers within the Regulatory Business hold monthly management meetings which review strategy, operational performance and risk issues on behalf of both the company (and other companies within the Regulated Business), including all other matters not reserved for the SPENH Board.

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

SPENH Board

The SPENH Board comprised the Chairman Armando Martínez Martínez and six other directors as at 31 December 2018.

The directors of SPENH are shown below.

Armando Martínez Martínez	Chairman
Frank Mitchell	Chief Executive Officer
Antonio Espinosa de los Monteros	
José Izaguirre Nazar	
Scott Mathieson	
Wendy Barnes	Independent non-executive director
Suzanne Fox	Independent non-executive director (resigned 15 November 2018)
Alison McGregor	Independent non-executive director (appointed 15 November 2018)

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

Armando Martínez Martínez	Attended all meetings
Frank Mitchell	Attended all meetings
Antonio Espinosa de los Monteros	Attended all meetings
José Izaguirre Nazar	Attended four meetings
Scott Mathieson	Attended all meetings
Wendy Barnes	Attended all meetings
Suzanne Fox	Attended all meetings
Alison McGregor	Attended one meeting

CORPORATE GOVERNANCE *continued*
Administrative, management and supervisory bodies *continued*
SPENH Board *continued*
The terms of reference of the SPENH Board are published at:
www.scottishpower.com/userfiles/file/SPENHL-Terms%20of-Reference-Board-Directors-130603.pdf.

ScottishPower Board
The ScottishPower Board comprised the Chairman José Ignacio Sánchez Galán and eight other directors as at 31 December 2018. José Ignacio Sánchez Galán is also the Chairman and Chief Executive of Iberdrola.

The directors of Scottish Power Limited are shown below.

Directors	
José Ignacio Sánchez Galán	Chairman
Lord Kerr of Kinlochard GCMG	Vice Chairman, Independent non-executive director
Keith Anderson	
Juan Carlos Rebollo Liceaga	
José Sainz Armada	
Professor Sir James McDonald	Independent non-executive director
Anthony Gardner	Independent non-executive director (resigned 19 February 2018)
Dame Nicola Brewer	Independent non-executive director
Suzanne Fox	Independent non-executive director (appointed 12 December 2018)
Iñigo Fernández de Mesa Vargas	Independent non-executive director (appointed 12 December 2018)

ScottishPower Board meetings were held on five occasions during the year under review. Attendance by the directors is also shown below.

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

ScottishPower Audit and Compliance Committee ("SP ACC")
The SP ACC, a permanent internal body, has an informative and consultative role, without executive functions, with powers of information, assessment and presentation of proposals to the ScottishPower Board within its scope of action, which is governed by the Articles of Association of SPL and by the terms of reference of the SP ACC. The SP ACC's responsibilities include:

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

The SP ACC's terms of reference are published at:
www.scottishpower.com/pages/audit_and_compliance_committee.aspx.

CORPORATE GOVERNANCE *continued*
Administrative, management and supervisory bodies *continued*
ScottishPower Audit and Compliance Committee ("SP ACC") *continued*
Membership and attendance
The SP ACC met five times during the year under review. The members of the SP ACC and their attendance record are shown below.

Professor Sir James McDonald (Chairman)	External independent, attended all meetings
Juan Carlos Rebollo Liceaga	Attended all meetings
Anthony Gardner	External independent, attended one meeting (resigned 19 February 2018)
Dame Nicola Brewer	External independent, attended three meetings (appointed 11 July 2018)

Iñigo Fernández de Mesa Vargas was appointed as an external independent member of the SPACC on 12 December 2018.

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

Matters considered by the SP ACC during 2018
The issues that the SP ACC specifically addressed are detailed in its report which is published at: www.scottishpower.com/pages/activities_report_of_the_audit_and_compliance_committee.aspx.

In addition to the issues detailed in the report above, the SP ACC, in early 2019, also considered various matters which are relevant to the monitoring of the statutory audit of the Annual Report and Accounts of ScottishPower for 2018. In particular on 12 February 2019:

- the SP ACC reviewed the independence of the external auditor and submitted its conclusions on the same to the ScottishPower Board;
- as part of the SP ACC's supervision of the auditing of the Annual Report and Accounts, the external auditor appeared before the SP ACC to present its conclusions on the 2018 statutory audit; and
- the SP ACC reviewed the financial results to 31 December 2018 and submitted its conclusions on the same to the ScottishPower Board.

For the year ended 31 December 2018 there were no significant financial statement reporting issues.

SPENH Audit and Compliance Committee ("SPENH ACC")
On 31 January 2018, the SPENH Board approved the establishment of the SPENH Audit & Compliance Committee ("SPENH ACC") to undertake the role and function of the SP ACC as they relate to the Regulated Business within ScottishPower (including the company).

The SPENH ACC, a permanent internal body, has an informative and consultative role, without executive functions, with powers of information, assessment and presentation of proposals to the SPENH Board within its scope of action, which is governed by the Articles of Association of SPENHL and by the terms of reference of the SPENH ACC. The SPENHL ACC's terms of reference are published at:
https://www.spenergynetworks.co.uk/userfiles/file/Terms_of_Reference_of_the_Audit_and_Compliance_Committee.pdf.

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

Wendy Barnes (Chairperson*)	External independent, attended all meetings
Sr José Izaguirre Nazar	Attended all meetings
Suzanne Fox	External independent, attended all meetings, (resigned 15 November 2018)
Alison McGregor	External independent, attended one meeting (appointed 15 November 2018)

* On 15 November 2018, Wendy Barnes was appointed as Chair of the SPENH ACC following the resignation of Suzanne Fox. Until 15 November 2018, Ms Fox was Chair of the SPENH ACC.

In addition to the attendance set out above, the ScottishPower Energy Networks Finance Director and Head of Internal Audit normally attend all meetings of the SPENH ACC. Other members of senior management and the external auditor are also invited to attend as appropriate.

CORPORATE GOVERNANCE *continued*
Administrative, management and supervisory bodies *continued*
SPENH Audit and Compliance Committee ("SPENH ACC") *continued*
Matters considered by the SPENH ACC during 2018
The issues that the SPENH ACC specifically addressed are detailed in its report which is published at: https://www.spenergynetworks.co.uk/userfiles/file/2018_Committee_Annual_Activity_Report.pdf.

Internal control
During the year under review, the directors of the company had overall responsibility for establishing and maintaining an adequate system of internal controls within the company and they participated in the review of internal controls over financial reporting and the certification process which took place on a ScottishPower group-wide basis. The effectiveness of the system at ScottishPower group level was kept under review through the work of the SP ACC. The system of internal control is designed to manage rather than eliminate risk. In pursuing these objectives, internal control can only provide reasonable and not absolute assurance against material misstatement or loss.

A risk and control governance framework is in place across ScottishPower. The risk management framework and internal control system is subject to continuous review and development. The company is committed to ensuring that a proper control environment is maintained. There is a commitment to competence and integrity and to the communication of ethical values and control consciousness to managers and employees. HR policies underpin that commitment by a focus on enhancing job skills and promoting high standards of probity among staff. In addition, the appropriate organisational structure has been developed within which to control the businesses and to delegate authority and accountability, having regard to acceptable levels of risk. The company's expectations in this regard are set out in 'ScottishPower Code of Ethics', a policy document which aims to summarise some of the main legal, regulatory, cultural and business standards applicable to all employees. This document has been distributed to all employees of the company.

ScottishPower has a set of Anti-Bribery and Corruption policies and procedures, Crime Prevention and Anti-Fraud guidelines, and Speaking Out guidelines in place. Together with the Code of Ethics, these policies, procedures and guidelines provide mechanisms to ensure that instances of fraud, bribery, corruption or other criminal or unethical behaviour are identified, reported and investigated. The Speaking Out guidelines incorporate a confidential external reporting service operated by an independent provider. These guidelines, which are applicable to employees and suppliers of the company, cover any incident, issue, behaviour or practice which does not comply with The Code of Ethics, including fraud, bribery, theft, misuse of company resources and conflicts of interest. There is also a process in existence within ScottishPower whereby all members of staff may report any financial irregularities to the Audit and Risk Supervision Committee of Iberdrola.

Identification and evaluation of risks and control objectives
During the year under review the ScottishPower governance structure was supported by risk policies adopted by the ScottishPower Board. These risk policies are adopted by the ScottishPower Board on an annual basis with the Energy Network specific policy also being adopted by the SPENH Board. ScottishPower business risk assessment teams and the independent group risk management function support the ScottishPower Board in the execution of due diligence and risk management. In addition, the SPENH Board is responsible for ensuring that business risks are adequately assessed, monitored, mitigated and managed.

ScottishPower's strategy, which is adopted by the company, is to conduct business in a manner benefiting customers through balancing cost and risk while delivering shareholder value and protecting ScottishPower's performance and reputation by prudently managing the risks inherent in the business. ScottishPower develops and implements risk management policies and procedures, and promotes a robust control environment at all levels of the organisation.

The company identifies and assesses the key business risks associated with the achievement of its strategic objectives. Any key actions needed to further enhance the control environment are identified, along with the person responsible for the management of the specific risk.

External auditor
Annually, the SP ACC reviews the external auditor's audit plan and reviews and assesses the information provided by them confirming their independence and objectivity within the context of regulatory requirements and professional standards. The external auditor contributes a further independent perspective on certain aspects of the company's internal controls over financial reporting arising from their work and reports to the SP ACC if appropriate.

During 2018 the SP ACC approved the proposal to the ScottishPower Board on the terms of engagement of the external auditor, KPMG LLP.

CORPORATE GOVERNANCE *continued*

Auditor independence

The Audit, Risk and Supervision Committee of Iberdrola, which comprises non-executive directors, is responsible for the nomination of the external auditor. This committee and the external auditor have safeguards to avoid the possibility that the auditor's objectivity and independence could be compromised.

Where the work to be undertaken is of a nature that is generally considered reasonable to be completed by the external auditor for sound commercial and practical reasons, including confidentiality, the conduct of such work is permissible provided that all necessary internal governance requirements have been met.

Iberdrola Appointments and Remuneration Committees

There is no separate Appointments or Remuneration Committee within ScottishPower. Instead appointments and remuneration matters relevant to ScottishPower and the company are dealt with by the Iberdrola Appointments Commitee ("IAC") and the Iberdrola Remuneration Committee ("IRC").

The members of the IAC are:

María Helena Antolín Raybaud (Chairperson)	External independent
Iñigo Víctor De Oriol Ibarra	Other External
Sara de la Goiricelaya	External independent

The members of the IRC are:

Juan Manuel González (Chairperson)	External independent
Inés Macho Stadler	Other External
Manuel Moreu Munaiz	External independent

The IAC has the power to supervise the process of selection of directors and senior managers of the Iberdrola group companies. The diversity policy applied by the IAC is included within the Committee's terms of reference at:
www.iberdrola.com/wcorp/gc/prod/en_US/corporativos/docs/comision_nombramientos.pdf.
The diversity policy itself is published at:
www.iberdrola.com/wcorp/gc/prod/en_US/corporativos/docs/director_candidate_selection_policy.pdf.

The IRC has the power to assist the Iberdrola Board of Directors in the determination and supervision of the compensation policy for the above-mentioned persons.

Social, environmental and ethical matters

Social, environmental, and ethical ("SEE") matters are included in the overall risk and control framework and in the Risk Report which is reviewed at the monthly management meetings. As such, regular account is taken of the strategic significance of SEE matters to the company, and the risks and opportunities arising from these issues that may have an impact on ScottishPower's short-term and long-term values are considered.

Further information regarding the SEE matters can be found in the 'Corporate Responsibility' section of the ScottishPower website at: www.scottishpower.com.

DIRECTORS

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

Wendy Barnes	
Suzanne Fox	(resigned 15 November 2018)
Alison McGregor	(appointed 15 November 2018)
Pearse Murray	
Scott Mathieson	
Frank Mitchell	

DIRECTORS' INDEMNITY

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

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

The directors are responsible for preparing the Annual Report and Accounts in accordance with applicable law and regulations.

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

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 its 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, Directors' Report, and Corporate Governance Statement 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

Scott Mathieson
Director
26 April 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SP TRANSMISSION PLC

Opinion
We have audited the financial statements of SP Transmission plc ("the company") for the year ended 31 December 2018 which comprise the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement, and related notes, including the accounting policies in note 2.

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

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

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 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 its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SP TRANSMISSION PLC *continued*

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

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

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

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

Philip Charles (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
319 St. Vincent Street
Glasgow
G2 5AS
29 April 2019

SP TRANSMISSION PLC
BALANCE SHEET
at 31 December 2018

	Notes	2018 £m	2017 £m
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	3	**2,933.4**	2,815.4
Property, plant and equipment in use	3	2,567.2	2,541.2
Property, plant and equipment in the course of construction	3	366.2	274.2
Financial assets		**-**	0.1
Investment in joint venture	4	-	-
Finance lease receivables	5	-	0.1
NON-CURRENT ASSETS		**2,933.4**	2,815.5
CURRENT ASSETS			
Inventories	6	**0.3**	-
Trade and other receivables	7	**15.4**	12.4
Financial assets		**0.4**	0.7
Finance lease receivables	5	-	0.4
Derivative financial instruments	5	0.4	0.3
Cash	5	**18.9**	20.5
CURRENT ASSETS		**35.0**	33.6
TOTAL ASSETS		**2,968.4**	2,849.1
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the parent		**1,093.0**	1,029.2
Share capital	8, 9	385.0	385.0
Hedge reserve	9	0.1	(1.7)
Retained earnings	9	707.9	645.9
TOTAL EQUITY		**1,093.0**	1,029.2
NON-CURRENT LIABILITIES			
Deferred income	10	**122.4**	100.5
Bank borrowings and other financial liabilities		**972.0**	1,251.0
Loans and other borrowings	11	972.0	1,251.0
Trade and other payables	12	**0.3**	0.1
Deferred tax liabilities	13	**164.6**	150.6
NON-CURRENT LIABILITIES		**1,259.3**	1,502.2
CURRENT LIABILITIES			
Provisions	14	**0.3**	0.7
Bank borrowings and other financial liabilities		**362.4**	93.2
Loans and other borrowings	11	362.1	93.1
Derivative financial instruments	5	0.3	0.1
Trade and other payables	12	**241.1**	215.0
Current tax liabilities		**12.3**	8.8
CURRENT LIABILITIES		**616.1**	317.7
TOTAL LIABILITIES		**1,875.4**	1,819.9
TOTAL EQUITY AND LIABILITIES		**2,968.4**	2,849.1

Approved by the Board on 26 April 2019 and signed on its behalf by:

Scott Mathieson
Director

The accompanying Notes 1 to 27 are an integral part of the balance sheet at 31 December 2018.

SP TRANSMISSION PLC
INCOME STATEMENT
for the year ended 31 December 2018

	Notes	2018 £m	2017 Restated* £m
Revenue	15	371.5	340.2
GROSS MARGIN		**371.5**	340.2
NET OPERATING EXPENSES		**(35.4)**	(31.7)
Net personnel expenses		**(4.0)**	(1.3)
Staff costs	16	(26.4)	(1.3)
Capitalised staff costs	16	22.4	-
Net external expenses		**(31.4)**	(30.4)
External services		(35.0)	(35.7)
Other operating income		3.6	5.3
Taxes other than income tax	17	**(35.2)**	(32.4)
GROSS OPERATING PROFIT		**300.9**	276.1
Depreciation and amortisation charge, allowances and provisions	18	(79.5)	(62.5)
OPERATING PROFIT		**221.4**	213.6
Finance income	19	0.1	-
Finance costs	20	(33.5)	(30.9)
PROFIT BEFORE TAX		**188.0**	182.7
Income tax	21	(34.5)	(33.6)
NET PROFIT FOR THE YEAR		**153.5**	149.1

* Comparative figures have been restated (refer to Note 1B1.1).

Net profit for both years is wholly attributable to the equity holder of SP Transmission plc.

All results relate to continuing operations.

The accompanying Notes 1 to 27 are an integral part of the income statement for the year ended 31 December 2018.

SP TRANSMISSION PLC
STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2018

	Note	2018 £m	2017 £m
NET PROFIT FOR THE YEAR		**153.5**	149.1
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to the income statement:			
Cash flow hedges:			
Change in the value of cash flow hedges	9	**2.2**	(0.2)
Tax relating to cash flow hedges	9	**(0.4)**	-
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**1.8**	(0.2)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**155.3**	148.9

Total comprehensive income for both years is wholly attributable to the equity holder of SP Transmission plc.

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

	Share capital £m	Hedge reserve £m	Retained earnings £m	Total equity £m
At 1 January 2017	385.0	(1.5)	572.6	956.1
Total comprehensive income for the year	-	(0.2)	149.1	148.9
Dividends	-	-	(75.8)	(75.8)
At 1 January 2018	385.0	(1.7)	645.9	1,029.2
Total comprehensive income for the year	-	1.8	153.5	155.3
Dividends	-	-	(91.5)	(91.5)
At 31 December 2018	**385.0**	**0.1**	**707.9**	**1,093.0**

The accompanying Notes 1 to 27 are an integral part of the statement of comprehensive income and the statement of changes in equity for the year ended 31 December 2018.

SP TRANSMISSION PLC
CASH FLOW STATEMENT
for the year ended 31 December 2018

	2018 £m	2017 £m
Cash flows from operating activities		
Profit before tax	**188.0**	182.7
Adjustments for:		
Depreciation	**79.5**	61.9
Change in provisions	**(0.6)**	-
Capital grants and transfer of assets from customers	**(3.1)**	(2.1)
Finance income and costs	**33.4**	30.9
Write-off of non-current assets	**-**	0.6
Changes in working capital:		
Change in trade and other receivables	**(2.9)**	(2.0)
Change in inventories	**(0.3)**	-
Change in trade payables	**(66.9)**	25.9
Assets received from customers	**25.0**	14.7
Income taxes paid	**(17.4)**	(15.8)
Net cash flows from operating activities (i)	**234.7**	296.8
Cash flows from investing activities		
Investments in property, plant and equipment	**(191.9)**	(357.2)
Transfers from Power Systems	**93.6**	-
Net cash flows from investing activities (ii)	**(98.3)**	(357.2)
Cash flows from financing activities		
Decrease in amounts due to Iberdrola group companies - current loans payable	**(10.0)**	(263.8)
Increase in amounts due to Iberdrola group companies - non-current loans payable	**-**	450.0
Dividends paid to company's equity holder	**(91.5)**	(75.8)
Interest paid	**(36.5)**	(36.4)
Net cash flows from financing activities (iii)	**(138.0)**	74.0
Net increase in cash and cash equivalents (i)+(ii)+(iii)	**(1.6)**	13.6
Cash and cash equivalents at beginning of year	**20.5**	6.9
Cash and cash equivalents at end of year	**18.9**	20.5

Cash and cash equivalents at end of year comprises:

Cash	**18.9**	20.5
Cash flow statement cash and cash equivalents	**18.9**	20.5

The accompanying Notes 1 to 27 are an integral part of the cash flow statement for the year ended 31 December 2018.

1 BASIS OF PREPARATION

A COMPANY INFORMATION

SP Transmission plc ("the company"), registered company number SC189126, is a private company limited by shares, incorporated in Scotland and its registered address is Ochil House, 10 Technology Avenue, Hamilton International Technology Park, Blantyre, G72 0HT.

B BASIS OF PREPARATION OF THE ACCOUNTS

The company is required by law to prepare accounts and to deliver them to the Registrar of Companies. The Accounts have been prepared in accordance with International Financial Reporting Standards as adopted by the EU as at the date of approval of these Accounts and which are mandatory for the financial year ended 31 December 2018 (IFRS as adopted by the EU). The Accounts are prepared in accordance with the Accounting Policies set out in Note 2. Monetary amounts are presented in pounds Sterling and are rounded to the nearest hundred thousand unless otherwise indicated.

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

B1 CHANGES IN PRESENTATION

B1.1 TRANSFERS OF ASSETS FROM CUSTOMERS

The company earns income arising from transfers of assets from customers, as it is common for utilities to receive contributions from customers so that they can be connected to a network or receive ongoing access to a supply of services from them. In line with IFRIC 18 'Transfer of Assets from Customers', this income had previously been presented within Other operating income in the income statement. However, in order to provide better information to the users of the financial statements and classify all customer-derived income consistently under the scope of IFRS 15 'Revenue from Contracts with customers', management have opted to reclassify this stream of income, and as such, income arising from transfers of assets from customers is now presented within Revenue in the income statement. The prior year income statement has been restated accordingly. The effect of this change in presentation has been to decrease the prior year Other operating income and increase Revenue by £2.1 million. This restatement has had no impact on the net profit for the year shown on the income statement nor the net assets position shown on the Balance sheet.

B2 EFFECT OF INITIAL APPLICATION OF IFRS 15 AND IFRS 9

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

B2.1 EFFECT OF INITIAL APPLICATION OF IFRS 15

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

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

B2.2 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 three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

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

1 BASIS OF PREPARATION *continued*

B BASIS OF PREPARATION OF THE ACCOUNTS *continued*

B2 EFFECT OF INITIAL APPLICATION OF IFRS 15 AND IFRS 9 *continued*

B2.2 EFFECT OF INITIAL APPLICATION OF IFRS 9 *continued*

The impact of the application of IFRS 9 on the opening balances at 1 January 2018 was less than £0.1 million and therefore there is no impact on the balance sheet.

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

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

Financial assets

The company has classified its financial assets, excluding derivatives, into the following categories:

- financial assets held at amortised cost; and
- financial assets at FVTPL.

A description of these categories of financial assets can be found in Note 2E.

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	New carrying value under IFRS 9
Finance lease receivables	N/A	N/A	(i), (ii)	0.5	0.5
Derivative financial instruments	Fair-value hedging instrument	Fair-value hedging instrument	(iii)	0.3	0.3
Receivables	Loans and Receivables	Amortised cost	(iv), (v)	1.2	1.2
Cash	Loans and Receivables	Amortised cost	(v)	20.5	20.5
				22.5	**22.5**

(i) While this balance is subject to the impairment requirements of IFRS 9, the identified impairment loss was less than £0.1 million.

(ii) IAS 39 only applied to lease receivables in respect of derecognition and impairment. The carrying amount of finance lease receivables is calculated as set out in Note 2E. IFRS 9 requires the new Expected Credit Loss ("ECL") methodology to be applied to leases within the scope of IAS 17 'Leases'.

(iii) Derivative financial instruments continue to be held at fair value. Within derivative financial instruments there are hedging derivatives with a value of £0.3 million that are categorised as FVTPL.

(iv) Receivables include trade receivables (including accrued income and trade receivables due from Iberdrola group companies and jointly controlled entities). Refer to Notes 5(a) and 7.

(v) Balances that were classified as Loans and receivables under IAS 39 are now classified at amortised cost. An increase of less than £0.1 million in the allowance for impairment over these balances was recognised in the opening retained earnings at 1 January 2018 on transition to IFRS 9.

Refer to Note 5 for details of the company's financial assets in the current year. The classification and measurement requirements of IFRS 9 did not have a significant impact on the company. Most financial assets continue to be valued at amortised cost and derivative financial instruments continue to be valued at fair value as was the case under the previously applied IAS 39.

1 BASIS OF PREPARATION *continued*
B BASIS OF PREPARATION OF THE ACCOUNTS *continued*
B2 EFFECT OF INITIAL APPLICATION OF IFRS 15 AND IFRS 9 *continued*
B2.2 EFFECT OF INITIAL APPLICATION OF IFRS 9 *continued*
(a) Classification and measurement of financial assets and financial liabilities *continued*

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 and derivative financial instruments (for derivatives that are used as hedging instruments (refer to footnote (c) below)). 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 ECL approach. This new impairment model applies to financial assets measured at amortised cost including finance lease receivables. Other financial assets measured at FVTPL are out of scope. Under IFRS 9, credit losses are recognised earlier than under IAS 39 – refer to Note 2E1.1.

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

Brief explanations of each model are set out below:
i. General Model: The loss allowance is measured at an amount equal to twelve month ECL. However, if the credit risk on that financial instrument has increased significantly since initial recognition, the loss allowance is measured at an amount equal to the lifetime ECL.
ii. Simplified Model: The loss allowance is measured at an amount equal to a lifetime ECL. The company has adopted the practical expedient whereby it calculates the ECL on trade receivables using a provision matrix based on its historical credit loss experience and where possible readily available forecast information.

Additional information about how the company measures the allowance for impairment is described in Note 5. The company has adopted the impairment requirements retrospectively, with initial application on 1 January 2018, thus opting not to restate the figures for comparative periods.

The company has determined that the application of IFRS 9's impairment requirements at 1 January 2018 results in an adjustment of less than £0.1 million to the allowance for impairment and the resultant adjusted balance is also less than £0.1 million.

(c) Hedge accounting
The company has elected to apply the new general hedge accounting model in IFRS 9. This requires the company to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

The company uses forward contracts to hedge the variability in cash flows arising from changes in foreign exchange rates relating to non-financial asset purchases.

There has been no change to the accounting treatment of forward exchange contracts used to hedge asset purchases. At the date of initial application, all of the company's existing hedging relationships were eligible to be treated as continuing hedging relationships. For an explanation of how the company applies hedge accounting under IFRS 9, see Note 2E1.3

C ACCOUNTING STANDARDS
C1 IMPACT OF NEW IFRS
In preparing these Accounts, the company has applied all relevant International Accounting Standards ("IAS"), International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") (collectively referred to as IFRS) that have been adopted by the EU as of the date of approval of these Accounts and that are mandatory for the financial year ended 31 December 2018.

1 BASIS OF PREPARATION *continued*

C ACCOUNTING STANDARDS *continued*

C1 IMPACT OF NEW IFRS *continued*

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

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

(a) The application of these pronouncements has not had a material impact on the company's accounting policies, financial position or performance.
(b) This pronouncement includes amendments to three standards. The amendments to IFRS 1 'First-time Adoption of International Financial Reporting Standards' and IAS 28 'Investments in Associates and Joint Ventures' have been applied by the company effective 1 January 2018. The amendments to IFRS 12 'Disclosure of Interests in Other Entities' were applied by the group effective 1 January 2017.
(c) Refer to Note 1B2.1 for further information.
(d) Refer to Note 1B2.2 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) Details of the impact of implementing IFRS 16 'Leases' is described at Note 1C2 below.
(f) The future application of this pronouncement is not expected to have a material impact on the company's accounting policies, financial position or performance.
(g) This pronouncement has not yet been endorsed by the EU.
(h) The endorsement process of this interim standard has not been launched as the EU has decided to wait for the final standard to be issued.
(i) The IASB set the effective date of this pronouncement as for periods commencing on or after 1 January 2016. However, in December 2015, the IASB postponed the effective date indefinitely pending the outcome of its research project on the equity method of accounting. The EU endorsement process for this pronouncement has been postponed, awaiting a revised exposure draft from the IASB. The effective date will be amended in due course.

1 BASIS OF PREPARATION *continued*

C ACCOUNTING STANDARDS *continued*

C2 IMPACT OF FUTURE IMPLEMENTATION OF IFRS 16

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

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

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

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

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

The right-of-use assets will be depreciated and the charge recorded within Depreciation and amortisation charge, allowances and provisions in the income statement; similarly the discount on the liabilities will unwind over the term of the lease and charged to Finance costs in the income statement. The expense in the year relating to minimum lease payments under operating leases will no longer be recognised in the income statement; a charge of £0.4 million was recognised in 2018 (refer to Note 3(b)).

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

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

As at 1 January 2019, IFRS 16 will give rise to an increase in current and non-current liabilities totalling an estimated £0.8 million as noted below for the different types of underlying assets:

Estimated total lease liability as at 1 January 2019	£m
Vehicles	0.7
Land	0.1
Total	**0.8**

The total liability noted above is presented on a discounted net present value basis. As at the date of initial application, the range of discount rates used to calculate the above pertaining to Sterling were in the range of between 1.35% and 3.23%.

1 BASIS OF PREPARATION *continued*

C ACCOUNTING STANDARDS *continued*

C2 IMPACT OF FUTURE IMPLEMENTATION OF IFRS 16 *continued*

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

The company will continue to refine its accounting policies and monitor emerging industry practice in relation to this standard.

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 PROPERTY, PLANT AND EQUIPMENT
C LEASED ASSETS
D IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS
E FINANCIAL INSTRUMENTS
F INVENTORIES
G RETIREMENT BENEFITS
H TAXATION
I CASH AND CASH EQUIVALENTS

A REVENUE

The company has applied IFRS 15 for the first time from 1 January 2018. Information about the company's accounting policies and estimates in relation to contracts with customers is provided in Note 15. The effect of the initial application of IFRS 15 is disclosed in Note 1B2.1.

B PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost and is generally depreciated on a straight-line basis over the estimated operational lives of the assets. Property, plant and equipment includes, where appropriate, capitalised employee costs, interest and other directly attributable costs. Borrowing costs directly attributable to the acquisition, construction or production of major qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added, where appropriate, to the cost of those assets, until such time as the assets are substantially ready for their intended use. Reviews of the estimated remaining lives and residual values of property, plant and equipment are undertaken annually. Residual values are assessed based on prices prevailing at each balance sheet date.

Land is not depreciated. The main depreciation periods used by the company are set out below.

	Years
Transmission facilities	40
Other facilities and other items of property, plant and equipment	3 - 50

C LEASED ASSETS

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date; whether fulfilment of the arrangement is dependent on the use of a specific asset(s) or the arrangement conveys a right to use the asset(s), even if that right is not explicitly specified in the arrangement. For arrangements entered into prior to 1 April 2004, the date of inception is deemed to be 1 April 2004 in accordance with the transitional requirements of IFRIC 4 'Determining Whether an Arrangement Contains a Lease'.

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

C LEASED ASSETS *continued*

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

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the period of the lease

D IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

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

E 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

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

All other financial assets are initially recognised when the company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. 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 15).

(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.

All other financial assets not classified as measured at amortised cost as described above are measured at FVTPL.

(ii) Subsequent measurement and gains and losses

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

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

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 *continued*

(ii) Subsequent measurement and gains and losses continued

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

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 5.

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

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

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

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

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

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. Twelve month ECLs are the portion of ECLs that result from default events that are possible within the twelve months after the reporting date (or a shorter period if the expected life of the instrument is less than twelve months). The maximum period considered when estimating ECLs is the maximum contractual period over which the company is exposed to credit risk. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

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 *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.

E1.2 FINANCIAL LIABILITIES
(a) Recognition and initial measurement
The company's financial liabilities include trade and other payables, loans and borrowings, and derivative financial instruments.

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 FVTPL or amortised cost.

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

Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense 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.

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.

E1.3 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING
(a) Derivative financial instruments
The company uses derivative financial instruments, such as forward foreign currency contracts, to hedge its foreign currency risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

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

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

E FINANCIAL INSTRUMENTS *continued*

E1 ACCOUNTING POLICIES UNDER IFRS 9 *continued*

E1.3 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING *continued*

(a) Derivative financial instruments *continued*

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

Under IFRS 9 the hedge documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the company will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

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

Hedge accounting is applied when certain conditions required by IFRS 9 are met. The accounting for cash flow hedges is discussed at (b) below.

(b) Cash flow hedges

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

The portion of gain or loss of the hedging instrument that was determined to be an effective hedge is recognised directly in equity and forms part of the hedge reserve. The ineffective portion of the change in fair value of the hedging instruments is recognised in the income statement.

If the cash flow hedge relates to an underlying transaction which results in the recognition of a non-financial asset, the associated gains or losses on the derivative that had previously been recognised in equity are recognised in the initial measurement of the asset arising from the hedged transaction. For hedges that relate to an underlying transaction which results in recognition of a financial asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects the income statement.

The company discontinues hedge accounting when the hedge instrument expires or is sold, terminated or exercised, when the hedge relationship no longer qualifies for hedge accounting or when the designation is revoked. In the case of cash flow hedging, any gain or loss that has been recognised in equity until that time remains separately recognised in equity until the forecast transaction occurs. If the transaction is no longer expected to occur, related cumulative gains and losses which have been previously deferred in equity are recognised in the income statement.

(c) Valuation of financial instruments

In those circumstances where IFRS 9 requires financial instruments to be recognised in the balance sheet at fair value, the company's valuation strategies for derivative and other financial instruments utilise as far as possible quoted prices in an active trading market.

In the absence of quoted prices for identical or similar assets or liabilities, it is sometimes necessary to apply valuation techniques where contracts are marked using approved models. Models are used for developing both the forward curves and the valuation metrics of the instruments themselves where the instruments are complex combinations of standard or non-standard products. All models are subject to rigorous testing prior to being approved for valuation, and subsequent continuous testing and approval procedures are designed to ensure the validity and accuracy of the model assumptions and inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, the details of which are described in Note 5.

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

E FINANCIAL INSTRUMENTS *continued*

E2 ACCOUNTING POLICIES UNDER IAS 39

As detailed in Note 1B2.2 on 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) The carrying amount of finance lease receivables is calculated as set out in Note 5.
(c) Financial liabilities categorised as trade payables are recognised and carried at original invoice amount.
(d) 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.

IAS 39 requires all derivatives to be recognised on the balance sheet at fair value. Embedded derivatives in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value through the income statement.

Unrealised gains or losses on remeasurement of derivatives and embedded derivatives are reported in the income statement except when hedge accounting is applied (see E2.2 and E2.3 below).

E2.1 RISK CONTROL ENVIRONMENT

Scottish Power's strategy, and therefore that of the company, is to conduct business in a manner benefiting customers through balancing cost and risk while delivering shareholder value and protecting its 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 rigid control environment at all levels of the organisation. Further details of ScottishPower's strategy and management of risks, and so that of the company, are discussed in detail in Note 5.

E2.2 HEDGE ACCOUNTING

Hedge accounting is applied when certain conditions required by IAS 39 are met. The categories of hedge accounting are consistent with those of IFRS 9.

E2.3 CASH FLOW HEDGES

Accounting for cash flow hedges is consistent with the IFRS 9 treatment.

E2.4 DISCONTINUING HEDGE ACCOUNTING

Both the circumstances that cause hedge accounting to be discontinued and the accounting treatment of such hedges are consistent with IFRS 9.

E2.5 VALUATION OF FINANCIAL INSTRUMENTS HELD AT FAIR VALUE

Valuation of financial instruments held at fair value is consistent with IFRS 9.

F INVENTORIES

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

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

G RETIREMENT BENEFITS

ScottishPower operates two defined benefit schemes and one defined contribution retirement benefit scheme in the UK. SP Transmission plc is a participating company in these group arrangements, and the contributions for the defined benefit schemes are based on pension costs across all the participating companies. The company is unable to identify its share of the underlying assets and liabilities in the defined benefit schemes, as the scheme administrators do not calculate these separately for each of the various companies participating in the schemes and therefore treats these schemes as if they were defined contribution schemes. The amount charged to the income statement in respect of pension costs is the contributions payable in the period.

H TAXATION

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

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

Deferred tax is calculated on a non-discounted basis at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised based on tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred tax is charged to the income statement, except where it relates to items charged or credited to equity (via the statement of comprehensive income), in which case the deferred tax is also dealt with in equity and is shown in the statement of comprehensive income.

I CASH AND CASH EQUIVALENTS

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

3 PROPERTY, PLANT AND EQUIPMENT

(a) Movements in property, plant and equipment

Year ended 31 December 2017	Transmission facilities £m	Other items of property, plant and equipment in use (Note (i)) £m	Plant in progress (Note (ii)) £m	Total £m
Cost:				
At 1 January 2017	2,238.9	103.9	758.7	3,101.5
Additions (Note (iii))	-	-	298.8	298.8
Transfers from in progress to plant in use	783.2	0.1	(783.3)	-
Disposals	(9.1)	-	-	(9.1)
At 31 December 2017	3,013.0	104.0	274.2	3,391.2
Depreciation:				
At 1 January 2017	472.3	50.1	-	522.4
Depreciation for the year	59.1	2.8	-	61.9
Disposals	(8.5)	-	-	(8.5)
At 31 December 2017	522.9	52.9	-	575.8
Net book value:				
At 31 December 2017	2,490.1	51.1	274.2	2,815.4
At 1 January 2017	1,766.6	53.8	758.7	2,579.1

The net book value of property plant and equipment at 31 December 2017 is analysed as follows:

Property, plant and equipment in use	2,490.1	51.1	-	2,541.2
Property, plant and equipment in the course of construction	-	-	274.2	274.2
	2,490.1	51.1	274.2	2,815.4

Year ended 31 December 2018	Transmission facilities £m	Other items of property, plant and equipment in use (Note (i)) £m	Plant in progress (Note (ii)) £m	Total £m
Cost:				
At 1 January 2018	3,013.0	104.0	274.2	3,391.2
Additions (Note (iii))	-	0.1	197.4	197.5
Transfers from in progress to plant in use	105.4	-	(105.4)	-
Disposals	(0.5)	-	-	(0.5)
At 31 December 2018	**3,117.9**	**104.1**	**366.2**	**3,588.2**
Depreciation:				
At 1 January 2018	522.9	52.9	-	575.8
Depreciation for the year	76.7	2.8	-	79.5
Disposals	(0.5)	-	-	(0.5)
At 31 December 2018	**599.1**	**55.7**	**-**	**654.8**
Net book value:				
At 31 December 2018	**2,518.8**	**48.4**	**366.2**	**2,933.4**
At 1 January 2018	2,490.1	51.1	274.2	2,815.4

The net book value of property plant and equipment at 31 December 2018 is analysed as follows:

Property, plant and equipment in use	2,518.8	48.4	-	2,567.2
Property, plant and equipment in the course of construction	-	-	366.2	366.2
	2,518.8	**48.4**	**366.2**	**2,933.4**

3 PROPERTY, PLANT AND EQUIPMENT *continued*

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

(i) The category Other items of property, plant and equipment in use principally comprises land and communications equipment.
(ii) The category Plant in progress principally comprises transmission facilities in the course of construction.
(iii) During the year ended 31 December 2018, additions of £0.2 million (2017 £245.7 million) were purchased from the asset management entity Power Systems and other Iberdrola group companies and £75.2 million (2017 £51.3 million) from a joint venture, NGET/SPT Upgrades Limited ("NGET") as noted within Note 25.
(iv) Interest on the funding attributable to major capital projects was capitalised during the year ended 31 December 2018 at a rate of 2.8% (2017 3.1%).
(v) The cost of fully depreciated property, plant and equipment still in use at 31 December 2018 was £84.8 million (2017 £81.6 million).
(vi) Included within the cost of property, plant and equipment at 31 December 2018 are assets in use not subject to depreciation, being land of £23.2 million (2017 £23.2 million).

(b) Operating lease arrangements

(i) Operating lease payments	2018 £m	2017 £m
Minimum lease payments under operating leases recognised as an expense in the year	**0.4**	-

The company leases certain land and vehicles under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights.

(ii) Operating lease commitments	2018 £m	2017 £m
Within one year	**0.3**	-
Between one and five years	**0.7**	-
More than five years	**1.1**	-
	2.1	-

The company leases certain land and vehicles under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights.

(iii) Operating lease receivables	2018 £m	2017 £m
The future minimum discounted lease payments receivable under non-cancellable operating leases are as follows:		
Within one year	**0.2**	0.1
Between one and five years	**0.1**	0.1
	0.3	0.2

The company leases buildings as a lessor under operating leases. The leases have varying terms, escalation clauses and renewal rights.

(c) Capital commitments

	2018 £m	2017 £m
Contracted but not provided	**186.8**	397.7

(d) Research and development expenditure

The amount of research and development expenditure recognised as an expense during the year was £0.7 million (2017 £0.6 million).

4 INVESTMENT IN JOINT VENTURE

	Shares in joint venture £
At 1 January 2017, 1 January 2018 and 31 December 2018	**50**

Joint venture	Principal activities	Registered office and country of incorporation (see Note (a))	Equity interest in ordinary shares 2018	2017
NGET/SPT Upgrades Limited	Development and operation of offshore HVDC West Coast transmission link	England & Wales	**50%**	50%

(a) The address of the registered office of this joint venture is 1-3 Strand, London, WC2N 5EH, England.
(b) This direct investment in 100% of the 'B' ordinary shares represents 50% of the joint venture's total issued share capital.

5 FINANCIAL INSTRUMENTS

The effect of the initial application IFRS 9 on the company's Accounts is detailed in Note 1B2.2. Due to the transition method chosen, comparative information has not been presented to reflect the new requirements.

(a) Carrying value of financial instruments

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

		2018			2017		
	Notes	Carrying amount £m	Fair value £m	Classification under IFRS9	Carrying amount £m	Fair value £m	Classification under IAS 39
Financial assets							
Finance lease receivables	(i)	-	-	N/A	0.5	0.5	N/A
Derivative financial instruments	(ii)	0.4	0.4	Fair value hedging instrument	0.3	0.3	Fair value hedging instrument
Receivables	(iii)	6.6	6.6	Amortised cost	1.2	1.2	Loans and Receivables
Cash	(iv)	18.9	18.9	Amortised cost	20.5	20.5	Loans and Receivables
Financial liabilities							
Derivative financial instruments	(ii)	(0.3)	(0.3)	Fair value hedging instrument	(0.1)	(0.1)	Fair value hedging instrument
Loans and other borrowings	(v)	(1,334.1)	(1,460.1)	Amortised cost	(1,344.1)	(1,505.2)	Loans and Receivables
Payables	(iii)	(199.5)	(199.5)	Amortised cost	(160.5)	(160.5)	Loans and Receivables

The carrying amount of these financial instruments is calculated as set out in Note 2E. With the exception of loans and other borrowings, the carrying value of financial instruments is a reasonable approximation of fair value. The fair value of loans and other borrowings is calculated as set out in footnote (v) below.

(i) The carrying value of lease receivables is calculated as set out in Note 2C. IAS 39 is only applied to lease receivables in respect of derecognition and impairment. IFRS 9, however, requires the new ECL methodology to be applied to leases within the scope of IAS 17.
(ii) Further details on derivative financial instruments are disclosed within Note 5(c).
(iii) Balances outwith the scope of IFRS 7 'Financial Instruments: Disclosure' ("IFRS 7") have been excluded, namely prepayments, other tax receivables, payments received on account and other taxes and social security.
(iv) As a general rule, cash deposited with banks earns interest at rates similar to market rates on daily deposits. Cash as at 31 December 2018 includes deposits with banks of £18.9 million (2017 £20.5 million) in respect of ring-fenced funds received from third parties for use on specific innovation projects and are not available to finance the company's day-to-day operations.
(v) The carrying value of loans and other borrowings are accounted for at amortised cost. The carrying value of short-term debt is a reasonable approximation of fair value. The fair value of long-term debt is calculated using a discounted cash flow.

(b) Measurement of financial instruments

The company holds certain financial instruments which are measured in the balance sheet at fair value. The company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

All derivatives held by the company are Level 2. Level 2 foreign exchange rate derivatives comprise forward foreign exchange contracts which are fair valued using foreign exchange rates that are quoted in an active market.

(c) Analysis of derivative financial instruments – carrying value

	2018				2017			
	Assets		Liabilities		Assets		Liabilities	
	Current £m	Non-current £m	Current £m	Non-current £m	Current £m	Non-current £m	Current £m	Non-current £m
Hedging derivatives								
Cash flow hedge								
- Foreign exchange rate	0.4	-	(0.3)	-	0.3	-	(0.1)	-

5 FINANCIAL INSTRUMENTS *continued*

(d) Financial risk management

The company's principal financial liabilities comprise loans and borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the company's operations. The company has trade and other receivables and cash 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 (comprising both liquidity and market risk).

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

(i) Credit risk

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

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

Credit risk management

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

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

- Credit risk 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.
- Credit risk from balances with banks and financial institutions is managed by the ScottishPower's treasury department in accordance with Iberdrola's cash investment procedure. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty by Corporate Risk Management.

At 31 December 2018 and 2017, the company evaluated the concentration of risk with respect to financial assets as low, with no material concentration of credit risk in company arising from one particular counterparty.

Expected credit loss assessment

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

Trade receivables

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 impact of the initial application of IFRS 9 on the gross carrying value at 31 December 2018 of £1.0 million (1 January 2018 £0.8 million) was less than £0.1 million at both dates and therefore there is no impact on the balance sheet.

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.

Cash and short-term deposits

The company held cash of £18.9 million (2017 £20.5 million) 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. On initial application of IFRS 9, the company recognised no impairment allowance as at 1 January 2018. The loss allowance in the year to 31 December 2018 is £nil.

5 FINANCIAL INSTRUMENTS *continued*

(d) Financial risk management *continued*

(i) Credit risk continued

Reconciliation of opening to closing loss allowance

The closing loss allowances for all financial assets measured at amortised cost, as at 31 December 2018 is less than £0.1 million (opening loss allowance is also less than £0.1 million).

(ii) Treasury risk

Treasury risk for the company 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 the ScottishPower's credit facilities already in place.

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 and therefore the company. Scottish Power UK plc is the principal counterparty for the loan balances due to and from the company.

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

				2018			
Cash outflows	**2019 £m**	**2020 £m**	**2021 £m**	**2022 £m**	**2023 £m**	**2024 and thereafter £m**	**Total £m**
Loans and other borrowings	398.3	82.3	233.7	76.7	227.4	545.7	**1,564.1**
Payables*	182.0	0.1	0.1	0.1	-	-	**182.3**
	580.3	**82.4**	**233.8**	**76.8**	**227.4**	**545.7**	**1,746.4**

				2017			
Cash outflows	2018 £m	2019 £m	2020 £m	2021 £m	2022 £m	2023 and thereafter £m	Total £m
Derivative financial instruments	4.4	-	-	-	-	-	4.4
Loans and other borrowings	130.4	314.5	80.8	231.8	74.9	765.8	1,598.2
Payables*	142.0	0.1	-	-	-	-	142.1
	276.8	314.6	80.8	231.8	74.9	765.8	1,744.7

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

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

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

Treasury market risk management

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

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

Interest rate analysis of debt	**2018 £m**	2017 £m
Fixed rate	**591.0**	643.0
Variable rate	**743.1**	701.1
	1,334.1	1,344.1

The company's borrowings are held at amortised cost. The reference interest rates for the floating rate borrowings are London Inter-Bank Offer Rate ("LIBOR") and Bank of England Base Rate ("Base").

The variable rate debt consists of £660.0 million (2017 £660.0 million) LIBOR debt and a £83.1 million (2017 £41.1 million) loan linked to 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.

Debt category	Interest rate	Change in rate	Impact on interest 2018 £m	Impact on interest 2017 £m
LIBOR debt	LIBOR	+0.25%	**1.7**	1.7
		+0.50%	**3.3**	3.3
		-0.25%	**(1.7)**	(1.7)
		-0.50%	**(3.3)**	(3.3)
Short-term variable rate debt	Base	+0.25%	**0.2**	0.1
		+0.50%	**0.4**	0.2
		-0.25%	**(0.2)**	(0.1)
		-0.50%	**(0.4)**	(0.2)

Foreign Currency Risk
The company is exposed to transactional foreign currency risk to the extent that there is a mismatch between the currencies in which purchases are denominated. These transactions are primarily denominated in Euro. ScottishPower board policy stipulates that there should be no significant exposure to foreign currency balances and therefore Treasury will hedge all foreign exchange payments/contracts which have a (cumulative) value greater than a sterling equivalent of a quarter of a million pounds.

Hedging of foreign currency risk
The company enters into foreign currency forwards in relation to asset purchases. For such items the company designates the entire value of the foreign currency forward in the hedge relationship. The notional amount of hedging instruments at 31 December 2018 is £49.2 million at an average exchange rate of 1.12 Euros to GBP. All instruments are due to mature within one year.

Foreign exchange rate cash flow hedges
The company is subject to cash flow risk resulting from the purchase of various assets which are denominated in foreign currencies. The risk being hedged relates to the fluctuation in the functional currency terms of value of these foreign currency denominated purchases. The company enters into forward foreign exchange rate contracts to hedge those risks.

5 FINANCIAL INSTRUMENTS *continued*
(d) Financial risk management *continued*
Foreign Currency Risk *continued*
Foreign exchange rate cash flow hedges *continued*

For an analysis of the split of the carrying value of foreign exchange contracts please refer to Note 5(c). The amounts relating to foreign exchange rate derivatives designated as cash flow hedges during the year are detailed in the table below.

	Notes	2018 Hedging derivatives £m	2017 Hedging derivatives £m
Notional amount		**49.2**	48.6
Carrying amount - asset	(a)	**0.4**	0.3
Carrying amount - liability	(a)	**(0.3)**	(0.1)
Changes in the value of the hedging instrument recognised in Other comprehensive income	(b)	**0.1**	1.9
Amount reclassified from cash flow hedge reserve to balance sheet	(c)	**1.9**	10.9

(a) The carrying amount of derivative assets and liabilities are recorded within Derivative financial instruments.
(b) This is consistent with the change in the fair value of the hedging instrument used to calculate ineffectiveness.
(c) The amount reclassified from the cash flow hedge to balance sheet is included within Property, plant and equipment in the course of construction.

The amounts at the reporting date relating to foreign exchange items designated as hedged items were as follows.

	Change in fair value used for calculating hedge ineffectiveness		Cash flow hedge reserve balance	
	2018	2017	**2018**	2017
Line item in the financial statements in which the hedged item is/will be	**£m**	£m	**£m**	£m
Property, plant and equipment in the course of construction	**(0.1)**	(1.9)	**0.1**	(1.7)

The company determines that the economic relationship between the hedging instrument (the foreign exchange rate forward contract) and the hedged item (the asset purchase) will virtually always achieve 100% effectiveness. This is because the company compares movements in the fair value of the expected highly probable forecast foreign currency cash flows, with movements in the fair value of the expected changes in cash flows from the hedging instrument. Forecast future foreign currency cash flows are largely based upon contractual obligations.

Ineffectiveness will arise if the trade has been cancelled, in which case there would be no future transaction. Ineffectiveness will also arise if the company receives notification that the business has been unable to obtain a reliable price forecast from market sources or if there is a change to the risk management strategy.

Hedge assessment on foreign currency derivatives
Hedge assessment on foreign currency derivatives is done prospectively to verify that the forecast transactions are still highly probable of occurring (for cash flow hedges) as well as retrospectively, to assess the effectiveness in the period under review. Prospective assessment is performed using sensitivity analysis and critical terms matching.

Sensitivity analysis on foreign currency cash flows
No sensitivity analysis has been performed in relation to changes in foreign exchange rates as almost all foreign currency purchases are hedged. Therefore there is immaterial financial exposure. Any movement in the value of the hedged item would be compensated for by movement in the value of the hedging instrument.

6 INVENTORIES

	Note	2018 £m	2017 £m
Other inventories	(a)	**0.3**	-

(a) Inventories with a value of £0.1 million (2017 £nil) were recognised as an expense during the year.

7 TRADE AND OTHER RECEIVABLES

	Note	2018 £m	2017 £m
Current receivables:			
Receivables due from Iberdrola group companies - trade		**1.5**	-
Receivables due from jointly controlled entities - trade		**4.1**	0.4
Trade receivables (including accrued income)	(a)	**1.0**	0.8
Prepayments with jointly controlled entities		**-**	2.6
Other tax receivables		**8.8**	8.6
	(b)	**15.4**	12.4

(a) Information about the company's exposure to credit and market risks, and impairment losses for trade receivables and other are included in Note 5.

(b) Trade and other receivables includes £0.2 million of IFRS 15 receivables (refer to Note 15(c)).

8 SHARE CAPITAL

	2018 £m	2017 £m
Allotted, called up and fully paid shares:		
385,000,000 ordinary shares of £1 each (2017 385,000,000)	**385.0**	385.0

(a) Holders of these ordinary shares are entitled to dividends as declared from time to time; amounts on the capitalisation of profits and reserves; and notice and attendance at general meetings of the company, with every member entitled to one vote on a show of hands and on a poll one vote for every share held.

9 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDER OF SP TRANSMISSION PLC

	Share capital £m	Hedge reserve (Note (a)) £m	Retained earnings (Note (b)) £m	Total £m
At 1 January 2017	385.0	(1.5)	572.6	956.1
Profit for the year attributable to equity holder of SP Transmission plc	-	-	149.1	149.1
Changes in the value of cash flow hedges	-	(0.2)	-	(0.2)
Dividends	-	-	(75.8)	(75.8)
At 1 January 2018	385.0	(1.7)	645.9	1,029.2
Profit for the year attributable to equity holder of SP Transmission plc	-	-	153.5	153.5
Changes in the value of cash flow hedges	-	2.2	-	2.2
Tax relating to cash flow hedges	-	(0.4)	-	(0.4)
Dividends	-	-	(91.5)	(91.5)
At 31 December 2018	**385.0**	**0.1**	**707.9**	**1,093.0**

(a) The hedge reserve represents the balance of gains and losses on cash flow hedges (net of taxation) not yet transferred to income or the carrying amount of a non-financial asset.

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

9 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDER OF SP TRANSMISSION PLC *continued*

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

Cash flow hedges	Foreign exchange rate hedges £m	Tax effect £m	Total £m
At 1 January 2017	(1.9)	0.4	(1.5)
Effective cash flow hedges recognised	(11.1)	2.1	(9.0)
Removed from equity and recognised in carrying amount of hedged items	10.9	(2.1)	8.8
At 1 January 2018	(2.1)	0.4	(1.7)
Effective cash flow hedges recognised	0.3	(0.1)	0.2
Removed from equity and recognised in carrying amount of hedged items	1.9	(0.3)	1.6
At 31 December 2018	**0.1**	-	**0.1**

(d) All amounts included in the hedge reserve as at 31 December 2018 are due to mature within one year (2017 due within one year).

10 DEFERRED INCOME

Year ended 31 December 2017	At 1 January 2017 £m	Receivable during year £m	Released to income statement £m	At 31 December 2017 £m
Transfer of assets from customers	87.9	14.7	(2.1)	100.5

Year ended 31 December 2018	Note	At 1 January 2018 £m	Receivable during year £m	Released to income statement £m	**At 31 December 2018 £m**
Transfer of assets from customers	(a)	100.5	25.0	(3.1)	**122.4**

(a) On first application of IFRS 15 on 1 January 2018, transfer of assets from customers is an IFRS 15 contract liability (refer to Note 15(c)).

11 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 group companies - SPUK		Base + 1%	On demand	**83.1**	41.1
Loans with group companies - SPL		3.858%	29 January 2019	**75.0**	75.0
Loans with group companies - SPUK	(i), (ii)	3.416%	21 December 2022	**104.0**	156.0
Loans with group companies - SPUK	(i), (iii)	3.570%	20 December 2023	**132.0**	132.0
Loans with group companies - SPUK	(i), (iv)	2.821%	31 March 2025	**280.0**	280.0
Loans with group companies - SPUK	(i), (v)	LIBOR + 0.78%	20 December 2027	**450.0**	450.0
Loans with group companies - SPUK	(i)	LIBOR + 3.365%	28 January 2029	**210.0**	210.0
				1,334.1	1,344.1

*Base – Bank of England Base Rate; LIBOR – London Inter-Bank Offer Rate

Analysis of total loans and other borrowings	**2018 £m**	2017 £m
Non-current	**972.0**	1,251.0
Current	**362.1**	93.1
	1,334.1	1,344.1

(i) Under the conditions of the long-term loan agreements between the company and Scottish Power UK plc ("SPUK"), the company has an option, without fee or penalty, to make a repayment in whole or in part, of the then outstanding loan principal, plus accrued interest thereon, by providing SPUK with written notice at least five business days before the intended repayment date.

(ii) The intercompany loan with SPUK that is due to mature in December 2022 is repayable in equal instalments on a bi-annual basis. The repayment of £52.0 million that was due in 2018 was classified as current in the 2017 analysis above.

(iii) The intercompany loan with SPUK that is due to mature in December 2023 is repayable in equal instalments on a bi-annual basis. The repayment of £44.0 million that is due in 2019 has been classified as current in the 2018 analysis above.

(iv) The intercompany loan with SPUK that is due to mature in March 2025 is repayable in equal instalments on a bi-annual basis. The repayment of £70.0 million that is due in 2019 has been classified as current in the 2018 analysis above.

(v) The intercompany loan with SPUK that is repayable in December 2027, is repayable in equal instalments on a bi-annual basis. The repayment of £90.0 million that is due in 2019 is classified as current in the 2018 analysis above.

11 LOANS AND OTHER BORROWINGS *continued*

(b) Borrowing facilities

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

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

	Liabilities			
	Loans and other borrowings (Current) £m	Loans and other borrowings (Non-current) £m	Interest payable (Current) (Note (i)) £m	Total £m
At 1 January 2017	304.9	853.0	19.2	1,177.1
(Decrease)/increase in amounts due to Iberdrola group companies	(263.8)	450.0	-	186.2
Interest paid	-	-	(36.4)	(36.4)
Total movements from financing cashflows	(263.8)	450.0	(36.4)	149.8
Other movements	52.0	(52.0)	35.6	35.6
Total liability-related movements	52.0	(52.0)	35.6	35.6
At 31 December 2017	93.1	1,251.0	18.4	1,362.5

	Liabilities			
	Loans and other borrowings (Current) £m	**Loans and other borrowings (Non-current) £m**	**Interest payable (Current) (Note (i)) £m**	**Total £m**
At 1 January 2018	**93.1**	**1,251.0**	**18.4**	**1,362.5**
Decrease in amounts due to Iberdrola group companies	(10.0)	-	-	(10.0)
Interest paid	-	-	(36.5)	(36.5)
Total movements from financing cash flows	**(10.0)**	-	**(36.5)**	**(46.5)**
Other movements	279.0	(279.0)	35.3	35.3
Total liability-related movements	**279.0**	**(279.0)**	**35.3**	**35.3**
At 31 December 2018	**362.1**	**972.0**	**17.2**	**1,351.3**

(i) Internal interest payable of £17.2 million (2017 £18.4 million) is included within Trade and other payables (refer to Note 12).

12 TRADE AND OTHER PAYABLES

	Note	**2018 £m**	2017 £m
Current trade and other payables:			
Payables due to Iberdrola group companies - trade		**32.4**	21.9
Payables due to Iberdrola group companies - interest		**17.2**	18.4
Payables due to jointly controlled entities - trade		**0.8**	-
Trade payables		**22.9**	18.8
Other taxes and social security		**8.5**	9.3
Payments received on account	(a)	**33.4**	45.3
Capital payables and accruals		**124.2**	100.9
Other payables		**1.7**	0.4
	(a)	**241.1**	215.0
Non-current other payables:			
Other payables		**0.3**	0.1
		0.3	0.1

(a) Trade and other payables includes £33.4 million of IFRS 15 contract liabilities (refer to Note 15 (c)).

(b) On 1 January 2018, as part of a change in the role of Power Systems, £93.4 million of trade and other payables was transferred to the company from Power Systems and an equivalent amount received as a cash inflow to the on demand group loan account.

13 DEFERRED TAX

Deferred tax provided in the Accounts is as follows:

	Property, plant and equipment £m	Derivative financial instruments £m	Other temporary differences £m	Total £m
At 1 January 2017	134.8	(0.4)	-	134.4
Charge to the income statement	16.2	-	-	16.2
At 1 January 2018	151.0	(0.4)	-	150.6
Charge to the income statement	13.7	-	(0.1)	13.6
Recorded in the statement of comprehensive income	-	0.4	-	0.4
At 31 December 2018	**164.7**	**-**	**(0.1)**	**164.6**

(a) 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.

14 PROVISIONS

Year ended 31 December 2017	Note	At 1 January 2017 £m	At 31 December 2017 £m
Onerous contracts	(a)	0.7	0.7

Year ended 31 December 2018	Notes	At 1 January 2018 £m	Transfers (Note (b)) £m	New provisions £m	Released during year £m	**At 31 December 2018 £m**
Onerous contracts	(a)	0.7	-	-	(0.7)	-
Overtime and commission	(b)	-	0.2	0.1	-	**0.3**
		0.7	0.2	0.1	(0.7)	**0.3**

(a) The provision for onerous contracts related to unavoidable project costs which were dependant on the project outcome. This provision was released in 2018.

(b) The provision for overtime and commission comprises probable holiday pay entitlements under the Working Time Regulations arising from commission and overtime. It relates to employees whose contracts of service were transferred from Power Systems on 1 January 2018, as part of the change in the role of Power Systems. This provision amounting to £0.2 million was transferred to the company and an equivalent amount received as a cash inflow to the on demand group loan account. The provision is expected to be utilised during 2019.

15 REVENUE

The effect of initial application IFRS 15 on the Accounts is detailed in Note 1B2.1

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

	Total £m
Electricity transmission	**368.4**
Transfers of assets from customers	**3.1**
	371.5

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

(b) Accounting policies

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.

15 REVENUE *continued*

(b) Accounting policies *continued*

(i) Electricity transmission

The company provides a service of making its transmission network available to the Great Britain system operator. This performance obligation is satisfied over time as the customer simultaneously receives and consumes the benefits of the company's performance as it makes the transmission network available. The customer benefits from the company's service (of making the transmission network available) evenly throughout the year and therefore time is used to measure progress towards complete satisfaction of the performance obligation. Revenue is recognised on a straight-line basis throughout the year based on the amount of allowed revenue for the year set by the price control.

Invoices are typically raised and settled on a monthly basis and therefore there are no related IFRS 15 receivables, contract assets or contract liabilities at the end of the year.

(ii) Transfers of assets from customers

Pursuant to the applicable industry regulations, the company occasionally receives contributions from its customers for the construction of grid connection facilities, or is assigned assets that must be used to connect those customers to a network. Both the cash received and the fair value of the facilities received are credited to Deferred income in the balance sheet (this is a contract liability). Revenue is subsequently recognised in line with the period over which the facilities are depreciated.

(c) **Contract balances**

	Notes	31 December 2018 £m	1 January 2018 £m
Receivables	(i)	**0.2**	0.6
Contract liabilities	(ii), (iii)	**(155.8)**	(145.8)

(i) Included within Trade and other receivables (refer to Note 7).

(ii) £122.4 million (1 January 2018 £100.5 million) of contract liabilities relates to the transfer of assets from customers which is recorded within Deferred income (refer to Note 10). The remainder is included with Trade and other payables (refer to Note 12).

(iii) The movement in the contract liabilities in the year comprises a net increase in transfers of assets from customers and payments on account of £13.1 million less contract liabilities recognised as income in the year of £3.1 million

(iv) Impairment losses of less than £0.1 million were recognised during the year on receivables arising from the company's contracts with customers.

16 EMPLOYEE INFORMATION

(a) Staff costs

	2018 £m	2017 £m
Wages and salaries	**19.4**	0.9
Social security costs	**2.1**	0.1
Pension and other costs	**4.9**	0.3
Total staff costs	**26.4**	1.3
Less: capitalised staff costs	**(22.4)**	-
Charged to the income statement	**4.0**	1.3

(i) Employee costs for the years ended 31 December 2018 and 31 December 2017 include those in respect of one director, Scott Mathieson. The emoluments of the other directors of the company for the years ended 31 December 2018 and 31 December 2017 are included within the employee costs of another ScottishPower group company, as they do not have a contract of service with the company. Details of directors' emoluments are set out in Note 25 (c).

(ii) On 1 January 2018, 345 employees had their contracts of service transferred from Power Systems to the company.

(b) Employee numbers

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

	Year end 2018	Average 2018	Year end 2017	Average 2017
Administrative staff	**51**	**51**	10	10
Operations	**287**	**289**	-	-
Total	**338**	**340**	10	10

16 EMPLOYEE INFORMATION *continued*

(b) Employee numbers *continued*

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

	Year end 2018	**Average 2018**	Year end 2017	Average 2017
Total	**334**	**337**	10	10

(c) Pensions

The company's contributions payable in the year were £4.3 million (2017 £0.2 million). The company contributes to the ScottishPower group's defined benefit and defined contribution schemes in the UK and the contributions payable in the year reflect the contributions payable in respect of active participants in the group schemes who are employed by the company. Full details of these schemes are provided in the most recent Annual Report and Accounts of SPL. As at 31 December 2018, the deficit in ScottishPower's defined benefit schemes in the UK amounted to £512.7 million (2017 £564.8 million). The employer contribution rate for these schemes in the year ended 31 December 2018 was 45.0% - 48.0%.

17 TAXES OTHER THAN INCOME TAX

	2018 £m	2017 £m
Property taxes	**35.2**	32.4

18 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS

	2018 £m	2017 £m
Property, plant and equipment depreciation charge	**79.5**	61.9
Charges and provisions, allowances and impairment of assets	**-**	0.6
	79.5	62.5

19 FINANCE INCOME

	2018 £m	2017 £m
Foreign exchange gains	**0.1**	-

20 FINANCE COSTS

	2018 £m	2017 £m
Interest on amounts due to Iberdrola group companies	**35.3**	35.6
Capitalised interest	**(1.8)**	(4.7)
	33.5	30.9

21 INCOME TAX

	2018 £m	2017 £m
Current tax:		
UK Corporation tax	21.3	17.8
Adjustments in respect of prior years	(0.4)	(0.4)
Current tax for the year	**20.9**	17.4
Deferred tax:		
Origination and reversal of temporary differences	15.1	17.9
Adjustments in respect of prior years	0.1	0.4
Impact of tax rate change	(1.6)	(2.1)
Deferred tax for the year	**13.6**	16.2
Income tax expense for the year	**34.5**	33.6

The tax charge on 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%)	35.7	35.2
Adjustments in respect of prior periods	(0.3)	-
Impact of tax rate change	(1.6)	(2.1)
Non - deductable expenses and other permanent differences	0.7	0.5
Income tax expense for the year	**34.5**	33.6

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

22 DIVIDENDS

	2018 pence per ordinary share	2017 pence per ordinary share	2018 £m	2017 £m
Interim dividend paid	23.8	19.7	91.5	75.8

23 CONTINGENT LIABILITIES

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

24 FINANCIAL COMMITMENTS

Other contractual commitments

	2018						
	2019 £m	2020 £m	2021 £m	2022 £m	2023 £m	2024 and thereafter £m	Total £m
Other contractual commitments	1.2	0.1	-	-	-	-	1.3

There were no contractual commitments as at 31 December 2017.

25 RELATED PARTY TRANSACTIONS

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

	2018				2017			
	UK parent (SPL) £m	Immediate parent (SPENH) £m	Other Iberdrola group companies £m	Jointly controlled entities £m	UK parent (SPL) £m	Immediate parent (SPENH) £m	Other Iberdrola group companies £m	Jointly controlled entities £m
Types of transaction								
Sales and rendering of services	-	-	**0.3**	**1.5**	-	-	-	2.5
Purchases and receipt of services	-	-	**(31.9)**	**(0.7)**	-	-	(32.6)	-
Purchases of property, plant and equipment	-	-	**(0.2)**	**(75.2)**	-	-	(245.7)	(51.3)
Transfers of trade and other payables (Note (i))	-	-	**93.4**	-	-	-	-	-
Transfers of provisions (Note (i))	-	-	**0.2**	-	-	-	-	-
Interest costs	**(2.9)**	-	**(32.4)**	-	(2.9)	-	(32.7)	-
Net gains on foreign exchange	-	-	-	**0.3**	-	-	-	-
Changes in the value of cash flow hedge reserve	**2.2**	-	-	-	(0.2)	-	-	-
Dividends paid	-	**(91.5)**	-	-	-	(75.8)	-	-
Balances outstanding								
Trade and other receivables	-	-	**1.5**	**4.1**	-	-	-	3.0
Derivative financial assets	**0.4**	-	-	-	0.3	-	-	-
Loans payable	**(75.0)**	-	**(1,259.1)**	-	(75.0)	-	(1,269.1)	-
Trade and other payables	-	-	**(32.4)**	**(0.8)**	-	-	(21.9)	-
Interest payable	**(2.7)**	-	**(14.5)**	-	(2.7)	-	(15.7)	-
Derivative financial liabilities	**(0.3)**	-	-	-	(0.1)	-	-	-

(i) On 1 January 2018, as part of a change in the role of Power Systems, £93.4 million of trade and other payables and £0.2 million of other provisions was transferred to the company from Power Systems along with £93.6 million received as a cash inflow to the on demand group loan account.

(ii) During the year ended 31 December 2018, SPUK made pension contributions of £4.3 million on behalf of the company (2017 £0.2 million).

(iii) 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.

(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 Energy Networks, it has not been possible to apportion the remuneration specifically in respect of services to this company. Of the twelve (2017 14) key management personnel only one (2017 one) was remunerated directly by the company. The remaining key management personnel were remunerated by other ScottishPower group companies in both years.

	2018 £'000	2017 £'000
Short-term employee benefits	**1,839**	1,684
Post-employment benefits	**262**	363
Share-based payments	**766**	1,010
	2,867	3,057

(c) Directors' remuneration

The total remuneration of the directors that provided qualifying services to the company are shown below. As these directors are remunerated for their work for Energy Networks, it has not been possible to apportion the remuneration specifically in respect of services to this company. Of the six directors (2017 six), only one (2017 one) was directly remunerated by the company. The remaining directors were remunerated by other ScottishPower group companies.

25 RELATED PARTY TRANSACTIONS *continued*

(c) Directors' remuneration *continued*

Executive directors	**2018 £'000**	2017 £'000
Aggregate remuneration in respect of qualifying services	**1,236**	1,116
Number of directors who exercised share options	**2**	2
Number of directors who received shares under a long-term incentive scheme	**3**	3
Number of directors accruing retirement benefits under a defined benefit scheme	**2**	2

Highest paid director	**2018 £'000**	2017 £'000
Aggregate remuneration	**690**	632
Accrued pension benefits	**96**	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 Scottish Power Energy Networks Holdings Limited ("SPENH"). The registered office of SPENH is Ochil House, 10 Technology Avenue, Hamilton International Technology Park, Blantyre, G72 0HT.

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 the registered office of the company at Iberdrola, S.A., 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 undertaking is disclosed in Note 4.

26 AUDITOR REMUNERATION

	2018 £m	2017 £m
Audit of the company's annual accounts and regulatory accounts	**0.1**	0.1

27 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 7.

The company has recorded a profit after tax in both the current year and previous financial year and the company's balance sheet shows that it has net current liabilities of £581.1 million and net assets of £1,093.0 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.