SP MANWEB PLC
CORPORATE REPORT AND REGULATORY ACCOUNTS
for the year ended 31 March 2020

Registered No. 2366937

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CONTENTS

Some of the statements contained herein are forward looking statements about the company's strategic plans. Although the company believes that the expectations reflected in such statements are reasonable, the statements are not guarantees as to future performance and undue reliance should not be placed on them.

SP MANWEB PLC
STRATEGIC REPORT

The directors present an overview of SP Manweb plc's structure, 2019/20 performance and strategic outlook including principal risks and uncertainties.

STRATEGIC OUTLOOK

Introduction

The principal activity of SP Manweb plc ("the company"), registered company number 2366937, is the ownership and operation of the electricity distribution network within Cheshire, Merseyside, North Shropshire and North Wales. The network is used to distribute electricity, which has been transmitted to grid supply points, for electricity supply companies for onward sale to their customers. 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"), the holding company of the Scottish Power Energy Networks Holdings Limited group ("SPENH Group" or "Energy Networks"). 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.

Energy Networks owns three regulated electricity network businesses in the UK. The company and fellow subsidiary companies, SP Distribution plc and SP Transmission 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 Distribution Network Operator ("DNO"). The electricity distribution networks are regional grids that transport electricity at a lower voltage from the national transmission grid and embedded generators and connect to industrial, commercial and domestic users.

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 consumers' interests while ensuring that demand can be met and companies are able to finance their activities. Price controls are the method by which the amount of allowed revenue is set for network companies over the period of the price control. Price control processes are designed to cover the company's efficient costs and allow it to earn a reasonable return, provided the company acts in an efficient manner, delivers value for customers and meets Ofgem targets.

Operating review

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

During 2019/20 Energy Networks, and therefore the company, moved into the second half of the eight-year RIIO-ED1 (Revenue = Incentives + Innovation + Outputs) price control period. It is on track to deliver its agreed outputs during the remainder of the period while also working to position itself to build on the development of its flexible, accessible and low carbon network. The implementation of a Network Asset Management System has enabled Energy Networks to enhance its efficient delivery and reporting capabilities and has improved the alignment of reporting to the regulator. Regulatory reporting revealed that in 2019/20 Energy Networks has performed on, or ahead of, targets in its approach to safety, reliability and availability, and customer service. Energy Networks has also recently established its RIIO-ED2 price control team to lead engagement with a number of stakeholders across the business over the coming two years on the development of the next set of business plans, which will detail the company's investment decisions starting in regulatory year 2023/24 and ending in 2028/29.

STRATEGIC OUTLOOK *continued*

Innovation has been a key focus in 2019/20 as the company builds towards delivering a dynamic and accessible network for its customers. Energy Networks, and therefore the company, is continuing to see the benefits of its innovation projects which are helping it to realise its goal of being a flexible DSO on the road to 'net zero'. Energy Networks' Low Voltage ("LV") Engine project continued throughout 2019/20, revolving around trialling smart transformers on the network, allowing it the flexibility to connect low carbon technologies while maximising the use of its existing assets. Energy Networks' CHARGE project began in January 2019, aiming to develop a strategy to facilitate and accelerate the electrification of transport, specifically, the connection of charging infrastructure this has continued throughout 2019/20. Energy Networks' FUSION project continued through 2019/20, aiming to rollout network access to all parties and to develop the flexibility of its existing network. This will empower customers to commoditise their flexibility, thanks to new routes to market for existing and emerging flexibility providers in the distribution network.

The UK's ambition to become net zero has attracted huge public attention. ScottishPower and Energy Networks are collaborating with the Scottish and UK Governments to deliver their sustainability plans and meet the challenges of the low carbon revolution, with a focus on accommodating increasing electrical flows associated with growing low carbon energy sources and meeting the needs of both its current and future customers. Both ScottishPower and Energy Networks place great value in all parts of society benefitting from the low carbon revolution, access to electric vehicles ("EVs") and the health benefits of low or zero emissions. There has been much debate around the role of anticipatory investment for low carbon solutions. The future is uncertain and Energy Networks has encountered reluctance from Ofgem to invest ahead of need, but it contends that without investment in its infrastructure now, there will be significant lost opportunities that could slow down the pace required to meet the net zero deadline.

In 2019/20, Energy Networks completed two competitive tenders for the provision of flexibility in both the licence areas of SP Distribution plc and the company. The latter resulted in the award of three contracts for flexibility services across three sites in the SP Manweb plc area. The provision of flexibility saves consumers money by contracting with flexibility providers to fully 'turn down' or 'turn up' their demand or generation respectively, avoiding the need to invest in expensive network upgrades. In the latter half of 2020, Energy Networks have plans in place to tender for further flexibility services from providers for the period 2023-2028.

In addition, Energy Networks placed a £2 million contract with Smarter Grid Solutions to deploy active network management technology within Dumfries and Galloway and North Wales. This technology will allow the control of renewable generation in each area, allowing more than 500 MW to connect to the electricity network without the need for expensive network upgrades. The technology will be deployed in 2020/21 with customers utilising the technology throughout 2021/22.

The Electricity Network Association's ("ENA") Open Networks project continues to lay 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 operate. 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 how it can transition from a traditional DNO role to that of a DSO.

Work continues across five workstreams to support the transition to DSO, exploring future industry models as well as seeking commonality in current initiatives such as the Procurement of Flexibility to address distribution network requirements. The Open Networks project continues to draw on resources across each of the networks companies and is also starting to converge with requirements to develop and support the RIIO-ED2 price control process.

Energy Networks has earned a number of awards in 2019/20:

- It won the Engineering and Technology Innovation of the Year Award and the Information Technology Award in conjunction with Heriot-Watt University for its Network Constraints Early Warning System ("NCEWS").
- The Green Economy Fund has been awarded the Outstanding Project Award 2019 at the Scottish Green Energy Awards.

STRATEGIC OUTLOOK *continued*

- The Mid-Cheshire district won the Customer Care Award at the 2019 Utility Week Awards in December 2019.
- Energy Networks received the Excellence in Planning for the Natural Environment award for its Beauly Denny Visual Mitigation Project from the Royal Town Planning Institute Awards 2019.
- Energy Networks achieved the Gold Award for its Kilmarnock Depot via the Keep Scotland Beautiful National Award for Environmental Excellence.
- Volunteers from across Energy Networks have been recognised with various awards for their dedication to supporting the local community.
- Professor James Yu of Energy Networks was awarded an MBE in the New Year's Honours List for his service to the electricity industry and innovation.

2019/20 OPERATIONAL PERFORMANCE

Business activities

In accordance with Distribution Licence Condition 44 (Regulatory Accounts) the following details are provided for the prescribed distribution business activities:

For the year ended 31 March 2020	Notes	2020 Total £m	Distribution Use of System ("DUOS") (Note (c)) £m	Directly remunerated services (Note (c)) £m	Metering (Note (c)) £m	2019 Total £m
Revenue	(a)	410.5	405.6	-	4.9	358.5
Procurements	(a)	(18.8)	(18.8)	-	-	(18.9)
GROSS MARGIN		**391.7**	**386.8**	**-**	**4.9**	339.6
NET OPERATING (EXPENSES)/INCOME		**(91.2)**	**(92.4)**	**2.0**	**(0.8)**	(94.6)
Net personnel expenses		**(12.9)**	**(11.8)**	**(1.1)**	**-**	(16.8)
Staff costs	(a)	(61.0)	(59.9)	(1.1)	-	(62.1)
Capitalised staff costs	(a)	48.1	48.1	-	-	45.3
Net external (expenses)/income		**(78.3)**	**(80.6)**	**3.1**	**(0.8)**	(77.8)
External services	(a)	(85.5)	(82.4)	(2.3)	(0.8)	(83.3)
Other operating income	(a)	7.2	1.8	5.4	-	5.5
Taxes other than income tax	(a)	**(23.4)**	**(23.4)**	**-**	**-**	(22.8)
GROSS OPERATING PROFIT		**277.1**	**271.0**	**2.0**	**4.1**	222.2
Impairment losses on trade and other receivables	(a)	**(0.6)**	**(0.6)**	**-**	**-**	(0.8)
Depreciation and amortisation charge, allowances and provisions	(a)	**(105.9)**	**(101.8)**	**-**	**(4.1)**	(96.3)
OPERATING PROFIT	(a)	**170.6**	**168.6**	**2.0**	**-**	125.1
Property, plant and equipment asset additions	(b)	**220.1**	**219.5**	**-**	**0.6**	221.7

(a) As presented in the income statement on page 32.
(b) As presented within Note 3 on pages 43 and 44.
(c) These activities are not considered by the company as segments as defined by IFRS 8 'Operating Segments'.

The financial position of the company at the Regulatory year end was satisfactory. The majority of revenue generated by the company is subject to regulation by the Gas and Electricity Markets Authority ("GEMA").

The company's operating profit was £170.6 million, an increase of £45.5 million compared to the prior year, and net profit was £81.7 million, an increase of £12.6 million compared to the prior year.

Revenue increased by £52.0 million compared to the prior year mainly due to higher base revenues allowed under RIIO-ED1.

Procurements remained at broadly the same level as in the prior year.

Net personnel expenses decreased by £3.9 million compared to the prior year, reflecting an increase in the proportion of salary costs being capitalised to property, plant and equipment.

External services increased by £2.2 million primarily as a result of an increase in network operational costs offset by a decrease in leasing costs following the implementation of IFRS 16 'Leases' ("IFRS 16").

2019/20 OPERATIONAL PERFORMANCE *continued*

Other operating income rose by £1.7 million primarily as a result of increased rechargeable network activity.

Taxes other than income tax have increased by £0.6 million as a result of a rise in property rates.

Impairment losses on trade and other receivables decreased by £0.2 million as a result of the reduction in Expected Credit Losses ("ECLs"). Refer to Note 8 on page 47.

Depreciation and amortisation charge, allowances and provisions has increased by £9.6 million mainly due to the growing asset base coupled with the depreciation of right-of-use assets following the implementation of IFRS 16.

Net finance costs increased by £3.3 million as a result of the recognition of an interest charge in respect of leases following the implementation of IFRS 16 and increased net debt.

The **income tax expense** has increased by £29.4 million as a result of higher taxable profits and a change in the rate of deferred tax from 17% to 19%.

Overall, the directors are satisfied with the level of business and the year end financial position.

Net capital investment

ScottishPower's investment strategy is to drive the growth and development of its regulated businesses through a balanced programme of capital investment. The company earns allowed returns on this extensive capital investment programme. Net capital investment for the year was £185.2 million (2019 £210.8 million) consisting of fixed asset additions and transfers from inventories of £237.7 million (2019 £242.1 million) less capital contributions received of £52.5 million (2019 £31.3 million). The scale of investment is consistent with the eight-year price review period allowed capital expenditure programme.

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 2020**	Year ended 31 March 2019
Franchise area (km^2)	**12,200**	12,200
System maximum demand (MW)	**2,645**	2,919
Distributed energy (GWh*)	**14,378**	14,655
Length of overhead lines (circuit km)	**20,922**	19,972
Length of underground cables (circuit km)	**27,313**	27,173

*Gigawatt hours ("GWh")

Ofgem requires all licensees operating electricity distribution systems to report annually on their performance. Statistics remain provisional until they are audited and subsequently published by Ofgem. Consequently, the provisional statistics contained in the table below may differ to the statistics published by Ofgem. The company expects the 2019/20 Electricity Distribution Quality of Service Report to be published online at www.ofgem.gov.uk from November 2020.

Operational performance	Notes	**Actual Year ended 31 March 2020**	**Target Year ended 31 March 2020**	Actual Year ended 31 March 2019	Target Year ended 31 March 2019
Quality of service					
Customer minutes lost ("CML")	(a)	**37.9**	**38.2**	35.6	40.3
Customer interruptions ("CI")	(b)	**34.8**	**36.4**	36.1	37.0
Average time off supply (minutes)		**109**	**105**	98	109
Electricity supply available		**99.99%**	**99.99%**	99.99%	99.99%
Customer performance	(c)				
Broader customer service measure - Interruptions		**9.06**	**8.20**	9.00	8.20
Broader customer service measure - Connections		**9.10**	**8.20**	8.88	8.20
Broader customer service measure - General enquiries		**9.44**	**8.20**	9.33	8.20
Energy Ombudsman (customer complaints)	(d)	**5**	**-**	3	-
Total number of Energy Ombudsman findings against the licensee (financial, non-financial and both)	(d)	**-**	**-**	-	-

2019/20 OPERATIONAL PERFORMANCE *continued*

(a) Customer minutes lost is reported as the average number of minutes that a customer is without power during a year due to power cuts that last for three minutes or more.
(b) Customer interruptions are reported as the number of customers, per 100 customers, that are affected during the year by power cuts that last three minutes or more.
(c) Broader customer service measures are assessed using the following three methods; a customer satisfaction survey, complaints metric and stakeholder engagement. Further detail is given below.
(d) The Energy Ombudsman Services, an independent body, monitors and adjudicates complaint cases.

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

The underlying CML and CI for the year to 31 March 2020 were 37.9 and 34.8 respectively. These values will be validated and confirmed by Ofgem, and will be published in November 2020. During 2019/20 the supply of energy to customers was disrupted by one major wind and gale storm event in February 2020 which met Ofgem's 'exceptional event' exclusion criterion (two exceptional storm events in 2018/19). The actual CML and CI figures for the year ended 31 March 2019 were confirmed by Ofgem, and published in Ofgem's RIIO-ED1 Annual Report 2018/19.

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

Customer service performance: Information regarding all contact with customers relating to interruption of power supplies, requests for and delivery of new connections to the network and any other general enquiries are passed to an independent research agency on a weekly basis (for all DNOs). The independent agency randomly samples customers each week to ask a series of customer satisfaction questions. Sampled customers give a score out of ten and the average annual score for each of the three categories drives each year's performance in this incentive. A reward is received if the average score is above 8.2 out of 10 and anything below 8.2 attracts a financial penalty. The customer satisfaction performance for each of the three elements in 2019/20 is shown in the table on the previous page.

Complaints performance: This is a 'penalty-only' incentive. Companies are measured on their complaints performance over a number of key metrics: volume of complaints resolved in one day; volume of complaints resolved in 31 days; volume of repeat complaints; and the number of complaints referred to the Energy Ombudsman which have been ruled against the company. The Energy Ombudsman, an independent body, monitors and adjudicates complaint cases. The Energy Ombudsman performance is shown in the table on the previous page for 2019/20 performance. The wider complaints metric result will not be published until Autumn 2020.

Stakeholder engagement and customer vulnerability: This is a 'reward-only' incentive and is an annual assessment of the company's stakeholder engagement activities. An annual submission is provided to Ofgem in April in respect of the previous regulatory year and is assessed by Ofgem and an independent panel (including social assessors) in July and scored out of ten in order to determine a financial reward. The submissions set out the company's strategy, engagement and outputs for stakeholder engagement and customer vulnerability. The results for 2019/20 will therefore not be known until this assessment is completed.

The company is committed to maintaining high performance during extreme weather events. Consequently, during the year to 31 March 2020, £34.5 million was invested to refurbish or rebuild sections of the overhead line network. In addition, £10.8 million was invested in tree cutting activities. Both of these investments contributed significantly to improving the performance of distribution assets and minimising disruptions during storms.

PROJECTS

In 2019/20, the company continued to deliver its investment plans in line with the RIIO-ED1 agreed regulatory outputs. These projects contribute to the company's strategy for a safe, secure and efficient network. These works are broadly categorised as works to enable network growth and asset modernisation.

Network growth and reinforcement

The growth of the network has two drivers; to increase the capability of the company's asset base to manage future load demand, and to accommodate new connections for generators and customers.

PROJECTS *continued*

The company continues to support local authorities' and private developers' enquiries through the provision of new electrical connections, network alterations and, in conjunction with key stakeholders, connection of new generation plant to the network.

During the regulatory year the company has progressed and completed various network growth and large scale customer driven diversionary works, including the works noted below:

- Ongoing work on 132 kilovolt ("kV") circuit diversion, replacing overhead lines ("OHL") with underground cables at Reaseheath, with expenditure of £1.9 million in 2019/20.
- Approximately £3.7 million spent to progress works of reinforcing the network on the Isle of Anglesey.
- Reinforcement investment of £3.2 million in Mid-Cheshire including installing 9 km of 33 kV cable and 33 kV switchgear at Mobberley and enabling works for a second transformer at Ringway.
- Completed work to install 33 kV circuit breakers and 6 km of cable at Warrington in Mid-Cheshire to alleviate fault-level issues.
- Reinforcement works within the North Shropshire (Whitchurch) area, involving installing 15 km of 132 kV OHL and a new grid transformer with investment in 2019/20 of £1.2 million.

Asset modernisation

Alongside the reinforcement and extension of the network, the company continued its extensive RIIO-ED1 programme to renew its aging infrastructure of plant, cables and overhead lines. These targeted interventions are designed to renew 'end of life' assets with modern equipment to improve the condition, performance and resilience of the network. Some of the projects completed during the regulatory year include:

- Replacement of grid transformers completed at Bootle and Rhyl.
- Modernisation works at 24 primary substations including the replacement of twelve 33 kV transformers, 26 33 kV circuit breakers and the removal of eight 33 kV ring main units.
- The replacement of 264 poor condition ring main units and 50 11 kV primary and secondary circuit breakers at the company's substations.
- The disposal and installation of 5 km of 132 kV underground cable on the Lister Drive – Wavertree circuit in Merseyside.
- The replacement of 122 secondary transformers to manage distribution losses and the refurbishment of 61 of those to be used elsewhere on the network.
- Works to modernise and improve the resilience of the extensive OHL network continued throughout 2019/20 including:
    - 16.6 km 132 kV tower line conductor replaced on the OHL route from Carrington to Warrington;
    - 86 km of conductor and 3,400 poles replaced; and
    - the removal of 26,408 clearance defects as part of the overhead clearance programme.

A number of projects in areas of visual amenity within Wales are in progress and 1.2 km of LV and High Voltage ("HV") OHLs have been replaced by underground lines. The majority of this was within the Clwydian Range. The company also intervened in over 5,500 cases of difficulties encountered at customer meter positions to enable the installation of smart meters across its licence area (out of total installations of 125,172).

The company continued its strategic deployment of wide-ranging innovation funding incentive projects including new and existing projects with academic, industrial and community partners to enhance the existing and future electrical networks. The Network Innovation Competition ("NIC") for the Angle-DC project, which will demonstrate a novel network reinforcement technique by converting an existing 33 kV alternating current circuit to direct current operation, is progressing well with expenditure of £7.5 million during 2019/20.

These, and other works undertaken by the company in the previous year, demonstrate its commitment to deliver the plans it set out for the RIIO-ED1 period over the remaining three years.

LIQUIDITY AND CASH MANAGEMENT

Cash and net debt

Net cash flows from operating activities increased by £79.3 million to £291.0 million for the year, as detailed on page 34. As detailed in the table below, net debt increased by £91.7 million to £1,382.2 million. Cash increased by £7.5 million. Loans payable to Iberdrola group companies increased by £45.2 million and external loans payable increased by £0.3 million. Lease liabilities of £53.7 million arose as a result of the implementation of IFRS 16.

LIQUIDITY AND CASH MANAGEMENT *continued*

Analysis of net debt	Notes	2020 £m	2019 £m
Cash	(a)	**26.5**	19.0
Loans payable to Iberdrola group companies	(b)	**(1,007.5)**	(962.3)
External loans payable	(b)	**(347.5)**	(347.2)
Lease liabilities	(c)	**(53.7)**	-
Net debt		**(1,382.2)**	(1,290.5)

(a) As detailed on the balance sheet, refer to page 31.
(b) As detailed in Note 13 on page 53.
(c) As detailed in Note 4 on pages 44 and 45.

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 the equity (apart from a single share held by Scottish Power UK plc ("SPUK")) 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 are included in Note 8.

HEALTH AND SAFETY

Energy Networks is compliant with relevant health and safety legislation, such as The Health and Safety at Work Etc. Act 1974, The Electricity, Safety, Quality and Continuity Regulations ("ESQCR") 2002 and the Electricity at Work Regulations 1989. Further, Energy Networks' management systems are independently assessed by an external auditor and in 2019/20 the business successfully transitioned to being certificated in the new BS ISO 45001:2018 Occupational Health and Safety Management Systems Standard.

Compliance with the above legislation and standards is considered the minimum requirement, with the ultimate aim being zero harm to employees, contractors and members of the public. Energy Networks is committed to improving public safety and awareness through its behaviours, investments in operational integrity and comprehensive public safety education programmes.

Energy Networks' plan for continuous improvement is illustrated by both internal and external management system assessments returning positive findings. The commitment to promptly investigate incidents to identify root causes remains steadfast and is given the highest priority with a Panel of Inquiry established whenever there is a significant incident. In addition to a focus on safety, Energy Networks has robust risk based health surveillance programmes for employees together with more general well-being initiatives.

Energy Networks works closely with the industry trade body, the ENA, to ensure that good practice is shared and innovation is promoted.

The table below provides key information relating to performance of Energy Networks with regard to health and safety:

	Notes	Actual Year ended 31 March 2020	Target Year ended 31 March 2020
Total recordable incident rate	(a)	**0.28**	0.35
Lost time accidents	(b)	**8**	4
Occupational health monitoring	(c)	**87%**	90%
Audit and inspection programme completion	(d)	**100%**	100%

(a) Total recordable incident rate is the summation of any incidents, be they lost time, medical treatment or leading to some work restriction per 100,000 hours worked.
(b) Contractor lost time accident performance has been disappointing, with no discernible major trends apparent. Energy Networks have clear and unambiguous health and safety performance expectations that its contractors are fully aware of and it will work closely with its contractor base to support an improvement in performance.
(c) Occupational health monitoring is a measure of how Energy Networks meets its planned forecasts for those staff assessed as at risk.
(d) Audit and inspection programme completion is the measurement of the planned internal management system audits and Energy Networks compliance inspections, both against Energy Networks' own staff and contracting partners.

HEALTH AND SAFETY *continued*

During the year there has been a continued focus on employee involvement in health and safety with business wide health and safety stand downs held covering specific issues that are topical and specifically targeting root cause and learning from incidents. The stand-downs provide a forum for raising awareness and allow employees to openly debate and improve areas by focusing on changing behaviours.

Public safety engagement and education promotion has continued with a particular focus and engagement with the agricultural community.

OUTLOOK FOR 2020/21 AND BEYOND

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

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

Energy Networks has a significant part to play in meeting the UK Government's carbon reduction targets. Its ultimate aim is to empower its cities and communities to achieve the economic and health ambitions which can be realised from a low carbon economy.

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

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

PRINCIPAL RISKS AND UNCERTAINTIES

In order to deliver its strategy, ScottishPower, and therefore the company, are required to conduct business in a manner benefitting customers through balancing cost and risk while delivering shareholder value and protecting ScottishPower's performance and reputation by prudently managing 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 governance structure and risk management are provided in the most recent Annual Report and Accounts of SPL.

The principal risks and uncertainties of ScottishPower, and therefore that of the company, other than those specific to the emergence and spread of Coronavirus (COVID-19) and Brexit, that may impact current and future operational and financial performance and the management of these risks are described below and on the following page:

SCOTTISHPOWER - GLOBAL	
RISK	**RESPONSE**
Material deterioration in the relatively stable and predictable UK regulatory and political environment, including any sudden changes of policy, or interventions outside established regulatory frameworks.	Positive and transparent engagement with all appropriate stakeholders to ensure that long-term regulatory stability and political consensus is maintained and public backing is secured for the necessary investment in the UK energy system. Providing stakeholders with evidence of the risks of ad hoc intervention in markets.

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

SCOTTISHPOWER - GLOBAL ***continued***	
RISK	**RESPONSE**
A major health and safety incident in the course of operations could impact staff, contractors, communities or the environment.	ScottishPower's Health and Safety function provides specialist services and support for the businesses in relation to health and safety. A comprehensive framework of health and safety policy and procedures, alongside audit programmes, is established throughout ScottishPower, which aims to ensure not only continuing legal compliance but also to drive towards best practice in all levels of health and safety operations.
Breach in cyber security and unwanted infiltration of ScottishPower's IT infrastructure by internal and external parties.	Implementation of a cyber-risk policy which provides the framework for mitigation. Proactive approach to identifying where ScottishPower is vulnerable and addressing these points through technical solutions. Educating company employees and contractors as to how behaviour can reduce this risk. Embedding cyber security in all projects where appropriate.

Emergence and spread of Coronavirus (COVID-19)

On 11 March 2020, the World Health Organization declared the outbreak of Coronavirus (COVID-19) a pandemic, due to its rapid spread throughout the world, having affected more than 110 countries at that time. Most global governments are taking restrictive measures to contain the spread of the virus, including: isolation, quarantine, restricting the free movement of people, closure of public and private premises (except those of basic necessity and health), closure of borders and a significant reduction in air, sea, rail and land transport.

In the UK, the UK and the devolved Governments have put in place various measures, culminating on 23 March 2020 when a 'lockdown' was announced, requiring all citizens to stay at home (with a few specific exceptions) for a number of weeks. Following the slow release of the full lockdown, some level of restriction is expected to be in place for a significant part of 2020. Also, temporary emergency legislation, the Coronavirus Act 2020 ("The Act") received Royal Assent on 25 March 2020. This Act (and other similar acts approved by the devolved governments) provide powers needed to respond to the current coronavirus pandemic, including containing and slowing the virus and enhancing capacity and the flexible deployment of staff.

This situation is significantly affecting the global economy, due to the interruption or slow-down of supply chains, and the significant increase in economic uncertainty; evidenced by increased volatility of asset prices and exchange rates, and a reduction in long-term interest rates. The Chancellor of the Exchequer has launched a number of unprecedented measures in a bid to support the UK economy and to mitigate the economic and social impacts of this crisis.

ScottishPower's structural response to the issues arising from the pandemic and the associated lockdown was to invoke the existing Business Continuity command structure to provide strategic direction and make key policy decisions during the affected period. This team is referred to as 'Gold Command' and consists of the ScottishPower Management Committee. This is supported by teams consisting of senior management pertinent to each business division to make decisions at an operational level. These teams are referred to as the 'Silver Groups'.

The COVID-19 principal risks considered relevant for the ScottishPower, and therefore the company, are set on the following page.

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

SCOTTISHPOWER - CORONAVIRUS (COVID-19) RISKS	
RISK	**RESPONSE**
The impact of the pandemic increases the risk of ScottishPower not being able to meet its operational obligations to maintain the continuity of electricity supply and obligations as a renewable generator and energy supplier.	Business continuity plans enacted with 'Gold Command' making strategic decisions and determining priorities across ScottishPower. This is underpinned by 'Silver Groups' specific to each business division at an operational level to ensure continuity of decisions and communications. This ensures consistency in prioritising key issues and timely and efficient escalation of matters to the appropriate level of management. This will make sure key issues are prioritised to facilitate a focus on issues which might impact the continuity of supply and the other obligations of ScottishPower.
Impacts arising from the pandemic from market reactions to events. These impacts could include movements in the value of Sterling and other financial instruments. The pandemic is likely to have longer term economic impacts on ScottishPower and on the political and regulatory environment in which it operates.	In addition to monitoring ongoing developments related to the pandemic, a 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 specific business units, will be managed in line with developments. Risks arising from the pandemic are being monitored and managed across ScottishPower with oversight from the ScottishPower Management Committee.
The UK Government response to minimising the impact of the pandemic on the population, has restricted the flow of physical goods and equipment in addition to restricting the mobility of labour. This is likely to result in a degree of supply chain interruption due to a lack of appropriate labour levels and delays to the receipt of products and equipment. In the case of Energy Networks, this may impact major projects and therefore the continuity of electricity supply.	Supply chain monitoring groups have been established across all business divisions to identify early shortages and gaps in the supply chain in terms of products, equipment and labour. This has been supplemented by emergency procurement procedures to expedite orders for replacements, utilising the framework agreements ScottishPower already has in place. Notification has been provided to sub-contractors highlighting their importance in the provision of essential services such that appropriate levels of labour are maintained within the UK and devolved Governments' social distancing guidelines. Contractual protection has also been utilised e.g. force majeure notices, such that ScottishPower is not penalised for the late delivery of projects.
Energy Networks is required to have an immediate focus on maintaining continuity of supply, given constraints over: the availability of staff for critical roles, social distancing rules, and the availability of contractors to perform critical activities on the network.	Energy Networks has invoked pandemic plans and is continuously monitoring all business activities. Actions taken to date are: a dedicated operational pandemic team is in place; non-critical 'planned work' has now ceased; and segregation of control rooms and staff associated with critical national infrastructure is in place.

Notwithstanding the above, the principal activity of the company (the distribution of energy) is providing essential services to the UK; therefore, the company's business will continue and is expected to operate throughout this crisis period without significant disruption.

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

Whilst acknowledging the risks faced by ScottishPower and the company, COVID-19 is not deemed to impact the conclusion that the company will continue as a going concern.

UK decision to leave the EU (Brexit)

On 31 January 2020 the UK left the EU. However, all EU laws will remain in force in the UK until 31 December 2020 when the transition period is scheduled to expire. A cross-business working group will continue to co-ordinate ScottishPower's preparations to mitigate the impact on ScottishPower, and therefore the company, of any pre and post-Brexit outcomes as they become clearer. The key risks considered relevant to ScottishPower, and therefore the company, are detailed in the latest version of the SPL Accounts. The directors of the company confirm that there has been no material change to these risks as at the date of approval of these Accounts.

The principal risks and uncertainties of the Energy Networks business division, and therefore that of the company, that may impact 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 set out in Ofgem's sector specific methodology consultations, published in December 2018, suggesting lower estimates for company returns.	Steering group and dedicated teams in place to produce robust business plan submission; extensive proactive engagement with Ofgem and other stakeholders.
Inability to recruit or retain an appropriately skilled workforce.	A Strategic Workforce Planning and Implementation plan has been put in place that incorporates: a) retirement profiles with demographics; b) a one year ahead strategic recruitment plan; and c) a ten year strategic recruitment plan. Identification of business critical roles and succession planning.
Reduced security of supply due to potential asset failures alongside reduced generation capacity.	Risk based asset investment programme in place, business continuity and emergency planning well established including Black Start. Strategic spares policy in place.
Failure to deliver the distribution 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 owning a clear DSO vision and influencing developments at industry forums, undertaking scenario modelling of the impact of low carbon technologies, considering technical and commercial innovation projects and engaging with key stakeholders.

ENGAGING WITH STAKEHOLDERS

References to "ScottishPower" apply fully to the Energy Networks business division and therefore to the company.

The importance of engaging with stakeholders

As part of the Iberdrola group, ScottishPower is developing a responsible and sustainable energy model which focuses on the wellbeing of people, the protection of the environment and the economic and social progress in the communities in which it operates. ScottishPower strongly believes that effective and meaningful engagement with stakeholders and employees is key to promoting its success.

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

Key stakeholders

ScottishPower, and therefore Energy Networks and the company, has four key stakeholder categories:

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

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

EMPLOYEES AND ENERGY CUSTOMERS

Employees

ScottishPower employs approximately 5,600 employees, working across a range of roles. The employees make a real difference in determining how successfully ScottishPower operates. The creativity, innovation and individuality of ScottishPower's employees enables ScottishPower to build on its future capability to operate effectively in a competitive market and continues to have aspirations which are challenging and rewarding. ScottishPower respects and recognises the importance of individuality as part of its ongoing commitment to promoting a culture where individuality is celebrated. ScottishPower also understands that being a diverse organisation goes beyond having legally compliant policies and practices; it includes a focus on creating an innovative, integrated organisation where people feel valued, inspiring them to perform at their best.

Employment regulation

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, anti-corruption and 'whistleblowing' and have been brought together in the Code of Ethics of Iberdrola and its group of companies (which also outlines expectations for employees' conduct).

ENGAGING WITH STAKEHOLDERS *continued*

Training

ScottishPower has a continuing commitment to training and personal development for its employees and provided 3,190 training events in the year to 31 December 2019 (3,061 in 2018). The priorities across ScottishPower remain compliance related training; health and safety critical and engineering-based training ensuring field staff, both onshore and offshore, are safe and competent. In addition, training is focused around new requirements such as data analytics and agile project management. ScottishPower recruits over 100 craft and engineering trainees annually who undertake a structured training programme leading towards a recognised apprenticeship or formal engineering qualification. Team leaders and managers also participate in core management skills training and there are management development programmes and modules aimed at increasing leadership capability.

Employee feedback and consultation

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

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

Inclusion and diversity

ScottishPower is committed to driving diversity in the energy industry, increasing its diverse and inclusive workforce whilst taking action to address the deepening skills shortage in the sector.

ScottishPower wants to attract and inspire the best talent regardless of gender, age, sexual orientation, disability, ethnicity or any other factor. ScottishPower values every individual's differences and the insights they bring to how ScottishPower thinks, what it believes and what it is as an organisation.

ScottishPower published its third Gender Pay Report in April 2020 and reiterated its commitment to pay for performance equally and fairly. This continued ScottishPower's focus on breaking down barriers across the employee lifecycle, as over time this will improve ScottishPower's gender pay gap position whilst widening the inclusion of other under-represented groups. E-learning and training on unconscious bias has been designed and rolled out to over 600 recruiting managers and new people managers to date. In addition, the STEM (science, technology, engineering and mathematics) Returners programme aims to help employees returning to work after a lengthy career break to grow and develop their career, offering the time and support needed to refresh and redevelop their skills to help them in returning to employment on a more permanent basis. The 2018/19 programme celebrated the scheme's fourth year with one of the participants securing a permanent job with ScottishPower as a direct result of taking part in the programme. The 2019/20 programme has commenced with a record number of placements across the business with six females and three males participating this year.

For more information go to: https://www.scottishpower.com/pages/gender_pay.aspx

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

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

The 2019 Gender Pay Report published on 9 April 2020, highlighted positive movement against these targets. Females now make up 24% of ScottishPower's senior management population (2018 21%) and 33% of its middle management population (2018 30%).

ENGAGING WITH STAKEHOLDERS *continued*

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

- Inclusive recruitment principles such as balanced shortlisting and gender balanced interviewing are now incorporated into all external recruitment campaigns.
- Implementation of gender de-coding (i.e. highlighting masculine and feminine language for all external job adverts).
- STEM engagement – throughout the year to 31 December 2019 the team has delivered the message to over 22,000 school age girls and boys; ScottishPower works with a range of partners and events to communicate early careers programmes to school children and their families.
- Inspiring women in sport – Energy Networks has extended its rugby partnerships in Scotland and Wales to support more women in sport. This includes becoming the first shirt sponsor of the Scotland Women national squad and the creation of more Welsh age group teams for girls. With ScottishPower's support, the number of young women playing organised rugby in North Wales has doubled.
- ScottishPower became a founding partner of the Energy Leaders Coalition which comprises eight of the leading Chief Executive Officers from the UK's energy sector who are making a public declaration to improve gender diversity in their groups and in the sector as a whole.
- ScottishPower are a corporate partner of the Women's Engineering Society to help with the important work that they do in supporting women engineers and encouraging girls to see engineering as a career option.
- ScottishPower receive continuing accreditation from Tommy's Healthy Pregnancy Charity.

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

ScottishPower expects all of its employees to be treated with respect and has supporting policy guidance to help ensure equality of employment opportunity for people with disabilities. ScottishPower has renewed the Disability Confident standard and increased its accredited level from 'engaged' to 'established' with Carers Scotland.

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

ScottishPower has continued to support the growth of its employee-led networks; Future Connections, Connected Women, Carers and In-Fuse. In September 2019 ScottishPower celebrated the launch of its first multi-ethnic employee network, VIBE. Employee-led networks now play a key role in the attraction and retention of new employees from underrepresented groups to maximise engagement and performance. On 9 April 2020 ScottishPower launched a new section of its external careers website, Inclusion@ScottishPower. This is a dedicated space on ScottishPower's website to share some of the important initiatives that go on internally such as its employee networks, involvement with community programmes, partnerships with external organisations and its transition to flexible working.

Rewards and benefits

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

ENGAGING WITH STAKEHOLDERS *continued*

Health and Safety

The company has a clear strategy to continue to improve health and safety performance using ScottishPower health and safety standards. Further details can be found on pages 7 and 8.

Employee health and wellbeing

ScottishPower promotes and supports the physical and mental health and wellbeing of all employees through a programme of health promotion and information run by its Occupational Health department. This includes statutory and voluntary health surveillance for employees. As part of ScottishPower's focus on health and wellbeing, conscious efforts have been made to reduce the stigma and discrimination surrounding mental health and increase the support available to employees. Occupational Health has initiated a mental health first aiders' training programme and support forums. Over 257 employees have volunteered to be a mental health first aider, with 144 employees trained during the year to 31 December 2019.

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 the year, giving all registered volunteers, on an annual basis, an opportunity to take one additional day's paid leave as a volunteering day.

Modern Slavery Statement

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 ScottishPower published its own Modern Slavery Statement, which was approved by the Board of SPL. This statement is published on the ScottishPower website at: www.scottishpower.com/pages/scottishpowers_modern_slavery_statement.aspx.

Energy customers

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

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

Delivering for stakeholders and vulnerable customers

Improving customer service has been a key objective for Energy Networks in 2019/20, particularly for vulnerable members of society.

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

Energy Networks is dedicated to understanding the needs of vulnerable customers in its licence areas. This is demonstrated by the addition of 187,000 customers to Energy Networks' Priority Services Register in 2018/19, bringing the total to 920,000, and covering 32% of customers in its low resilience communities across both the company and SP Distribution plc.

Awards under the Stakeholder Engagement and Consumer Vulnerability ("SECV") Incentive, set out in the '2019/20 Operational Performance' section on pages 4 and 5, will not be known until after publication of these accounts

Earning customer satisfaction

Across Energy Networks' distribution licence areas, Energy Networks continues to raise awareness of how best to contact us and the services it provides for customers. Making continual improvements to customer service is a cornerstone of Energy Networks' RIIO-ED1 strategy. Its focus in the Broad Measure of Customer Service incentive scheme ("BMCS") has placed the company fourth across the 14 UK distribution license areas during 2018/19 with a score of 9.01, and puts it ahead of where it committed to be on its journey to score 9.42 by the end of the RIIO-ED2 price control period. The company achieved an overall score of 9.16 for 2019/20. Further details are set out on pages 4 and 5.

ENGAGING WITH STAKEHOLDERS *continued*

The value in connections

Core engagement, such as connections stakeholder panels and in-depth annual surveys, help Energy Networks to shape its strategic direction, confirming stakeholder priorities and identifying new themes as they emerge. In response to stakeholder feedback Energy Networks has increased the number of ways to engage and reach more stakeholders than ever before. The company's score for 2019/20 is detailed on page 4, however the reward will not be determined until after the publication of these accounts. The company has not received a penalty since the introduction of the scheme at the beginning of the RIIO-ED1 price control period.

Targeting reliable supply performance

Under Ofgem's Interruptions Incentive Scheme, the company is incentivised on its performance in the number of CML and CI, which include both planned and unplanned supply interruptions. By 2023, Energy Networks aims to have reduced the average time its customers are off supply by 25% over the current price control period. By achieving a 20% reduction so far; Energy Networks is well on its way to exceeding this target. Further details are set out on pages 4 and 5.

GOVERNMENT AND REGULATORS

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

SUPPLIERS AND CONTRACTORS

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

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

COMMUNITY AND ENVIRONMENT

Community

The community

Building the trust of communities has been at the heart of ScottishPower's activities for many years. ScottishPower has a significant presence in many communities and it aims to conduct activities responsibly, in ways that are considerate to local communities and make a positive contribution to society. Engaging with these communities, as key stakeholders, is therefore an essential aspect to delivering its objectives, and underpins collaboration through sharing knowledge and information to help ScottishPower make informed decisions.

Community consultation

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

ENGAGING WITH STAKEHOLDERS *continued*

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

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

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

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

Investing in the community

ScottishPower has a long track record of supporting communities not only financially, but also by sharing its resources and the skills of employees. ScottishPower promotes payroll giving and encourages employee development through volunteering and community-based programmes. ScottishPower aims, where possible, to create opportunities for local employment during construction and operations, through events such as 'Meet the Developer' days where local contractors are invited to find out about opportunities at its facilities. ScottishPower works closely with the UK Government and devolved administrations to develop policy on community engagement and benefit, and to ensure that it adheres to all voluntary codes of good practice.

As part of the Iberdrola group, ScottishPower uses the London Benchmarking Group ("LBG") Framework to evaluate its community investment activity. This framework is used by leading businesses around the world and provides a comprehensive and consistent set of measures for companies to determine their contributions to the community. Further detail is provided in the most recent Annual Report and Accounts of SPL.

The environment

Environment

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

ScottishPower is committed to reducing its environmental footprint by:

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

ENGAGING WITH STAKEHOLDERS *continued*
Energy Networks is committed to delivering environmental protection and enhancement. For example, reducing the volume of waste associated with its construction projects, and making greater use of alternatives for sulphur hexafluoride ("SF6") in the network assets; a gas that has many times the global warming potential of carbon dioxide ("CO2"). Energy Networks aims to minimise and mitigate construction impacts for the benefit of species and habitats throughout its work. Therefore, collaboration with landowners and organisations like Scottish Forestry and North Wales Wildlife Trust has provided opportunities to encourage natural regeneration, create woodland and prevent bird collisions with overhead lines including the red kite and peregrine falcon.

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

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

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

In 2020 and beyond, ScottishPower will continue to build upon Iberdrola's commitment to become carbon neutral by 2050 alongside objectives approved by the independent experts in the Science Based Target Initiative in March 2019. ScottishPower's focus in 2020/21 will be to establish associated targets and actions specifically aimed at ScottishPower's ambitions in environmental leadership and tackling climate change.

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

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

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

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

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

ENGAGING WITH STAKEHOLDERS *continued*

Within Energy Networks:

- 2019/20 has seen a transformative internal programme continuing to influence the Energy Networks team through a 'Year of Innovation'. This initiative has driven a pipeline of innovations across engineering, procedural and stakeholder-focused projects.
- In relation to EVs, Project CHARGE will provide tools to deliver a step-change in the rollout of public infrastructure for EVs. The project brings together experts in transport planning, electricity network planning and charging systems to identify the best locations for new charge points. In particular, it will address more challenging locations for EV infrastructure, such as crowded city streets, destination charging and areas with little or no access to off-street parking.
- In October 2019, Energy Networks launched Zero Carbon Communities – the first detailed roadmap to show how local communities can play their part in reaching net zero targets, as the country transitions to an electric future. The campaign launched in Liverpool, with the City Region chosen as the first community to benefit from this roadmap approach. For the first time, Zero Carbon Communities sets out the details of what this means at a local level. The Zero Carbon Communities campaign will roll out to other areas served by the Energy Networks team, including major cities like Edinburgh and Glasgow, and rural communities in Anglesey and Cheshire, to reflect how different places have differing needs.

SECTION 172 STATEMENT

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

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

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

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

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

SECTION 172 STATEMENT *continued*
The directors strongly believe that effective and meaningful engagement with stakeholders and employees is key to promoting the success of the company. Details of the key stakeholders of the SPENH Group, and therefore the company, and how they engage with them are as follows:

- **Customers:** details of how the SPENH Group assesses broader customer service measures are explained in the 'Employees and Energy customers' sub-section of the Strategic Report, on page 12.
- **Employees:** details of how the SPENH Group engages with its employees are set out in in the 'Employees and Energy Customers' sub-section of the Strategic Report, on page 12.
- **Communities and the environment:** details of how the SPENH Group engages with communities are set out in the 'Community and environment' sub-section of the Strategic Report, on page 16.
- **Suppliers:** details of how the SPENH Group engages with its suppliers are set out in the 'Suppliers and contractors' sub-section of the Strategic Report, on page 16.
- **Government and regulators:** details of how the SPENH Group engages with governments and regulators are set out in the 'Government and regulators' sub-section of the Strategic Report, on page 16.

In addition, a statement in relation to the company's interaction with its shareholders is described in the introduction to the 'Engaging with stakeholders' sub-section of the Strategic Report on page 12.

The directors, both individually and together as the board of SP Manweb plc ("the Board"), consider that the decisions taken during the year ended 31 March 2020 in discharging the function of the Board were in conformance with their duty under section 172 of the Companies Act 2006.

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

ON BEHALF OF THE BOARD

Frank Mitchell
Director
21 July 2020

SP MANWEB PLC
DIRECTORS' REPORT

The directors present their report and audited Regulatory Accounts for the year ended 31 March 2020.

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 20:

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

RESULTS AND DIVIDEND

The net profit for the year amounted to £81.7 million (2019 £69.1 million). A dividend of £46.3 million was paid during the year (2019 £96.7 million).

DIRECTORS

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

Frank Mitchell
Scott Mathieson
Stephen Stewart
Wendy Barnes
Alison McGregor
Professor Dame Lesley Anne Glover (appointed 3 July 2019)

Wendy Barnes resigned as a director on 6 May 2020. Stephen Stewart resigned as a director on 10 June 2020.

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.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL INFORMATION INCLUDED ON WEBSITE

The directors are responsible for the maintenance and integrity of the corporate and financial information relating to the company which is included on the ScottishPower website. Legislation in the UK governing the preparation and dissemination of the financial statements differs from legislation in other jurisdictions.

DISCLOSURE OF INFORMATION TO AUDITOR

Each of the directors in office as at the date of this Corporate Report and Regulatory 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 March 2020.

ON BEHALF OF THE BOARD

Frank Mitchell
Director
21 July 2020

SP MANWEB PLC
CORPORATE GOVERNANCE STATEMENT

Statement regarding the corporate governance arrangements of the company
The directors of the company have set out as follows a statement of the corporate governance arrangements of the company.

The ultimate parent of the company is Iberdrola, S.A., which is listed on the Madrid stock exchange. The company, which has as its direct parent company SPENH and is part of the SPENH Group, does not apply a corporate governance code on the basis that it, as part of the SPENH Group, has adopted the rules and principles of the SPENH Group as they have been set by the board of directors of SPENH (the "SPENH Board"), in accordance with the terms of reference of the SPENH Board and the Policy for the Definition and Coordination of the Iberdrola Group and Foundations of Corporate Organisation (the "Group Governance Framework"), all of which are based on widely recognised good governance recommendations (the "SPENH Group corporate governance system"). Those rules and principles of the SPENH Group corporate governance system that applied to the company as part of the SPENH Group during 2019/20 are set out as follows:

The terms of reference of the SPENH Board are published at https://www.scottishpower.com/userfiles/file/SPENHL-Terms%20of-Reference-Board-Directors-130603.pdf.

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

Corporate governance system
The company is governed by the Board, which consists of six directors who bring a broad range of skills and experience to the company. The Board is regulated in accordance with the company's Articles of Association.

In discharging its responsibilities and in the exercise of its decision-making powers, and in accordance with the company's Articles of Association, the Board has, in accordance with the 'Group Governance Framework', adhered to the SPENH Group corporate governance system which applies to the company as part of the SPENH Group. The SPENH Group corporate governance system includes the internal corporate rules (including the Purpose and Values of the Iberdrola Group, the Code of Ethics, corporate policies and other internal codes and procedures) that make up the corporate governance system of ScottishPower and, ultimately, of the Iberdrola group.

Board composition
The directors who held office during the year are set out in the Directors section of the Directors' Report on page 21.

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

Purpose and values
The structure of the company, and the SPENH Group, is set out in the Strategic Report.

During the year, the Board has taken into account the Purpose and Values of the Iberdrola Group and the Code of Ethics (https://www.spenergynetworks.co.uk/pages/other_internal_codes_procedures.aspx). These documents define and promote the purpose, values and culture of the company and the SPENH Group.

Director responsibilities
The directors are fully aware of their duties under the Companies Act 2006, including as set out in section 172 of the same. The primary responsibility of the Board is to supervise and make decisions as required in relation to the activities of the company's business and the SPENH Group, in accordance at all times with the SPENH Group corporate governance system and the provisions of all applicable legislation and regulations.

The SPENH Board has the responsibility of carrying out the day-to-day management and effective administration, and for the ordinary control, of the SPENH Group overall.

Further relevant information on the administrative, management and supervisory bodies of the boards of the company's parents, as they are pertinent to the SPENH Group and the company, are described in the section on the following page.

Opportunity and risk

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

To maintain this strategic direction, Energy Networks develops and implements risk management policies and procedures and promotes a robust control environment at all levels of the organisation. Details of the applicable risk polices are published at https://www.spenergynetworks.co.uk/pages/corporate_policies.aspx.

During the year, the governance structure was supported by the risk policies of the SPENH Group. Its business risk assessment team and independent group risk management function supported the Board in the execution of due diligence and risk management, as described in the 'Principal Risks and Uncertainties' section of the Strategic Report.

Remuneration

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

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

Stakeholders

The Board fully recognises that effective and meaningful engagement with stakeholders is key to promoting the success of the company. The details of key stakeholders, why they are important to the company, and how it engages with its stakeholders are an integral part of its strategic goals and are described in the Strategic Report.

Administrative, management and supervisory bodies

SPL Board

The primary responsibilities of the board of SPL (the "SPL Board"), which has its own management team, include disclosing, implementing, and ensuring compliance with the policies, strategies and general guidelines of ScottishPower overall, in accordance at all times with the provisions of all applicable legislation and regulations.

The SPL Board comprised the Chairman José Ignacio Sánchez Galán and eight other directors as at 31 March 2020. José Ignacio Sánchez Galán is also the Chairman and Chief Executive Officer of Iberdrola.

SPL Board

The directors of SPL are shown below.

José Ignacio Sánchez Galán	Chairman, non-independent, non-executive director
Lord Kerr of Kinlochard GCMG	Vice Chairman, independent, non-executive director
Keith Anderson	Chief Executive Officer
Juan Carlos Rebollo Liceaga	Non-independent, non-executive director (resigned 1 March 2020)
Daniel Alcaín López	Non-independent, non-executive director (appointed 26 March 2020)
José Sainz Armada	Non-independent, non-executive director
Gerardo Codes Calatrava	Non-independent, non-executive director (appointed 11 December 2019)
Suzanne Fox	Independent, non-executive director
Iñigo Fernández de Mesa Vargas	Independent, non-executive director
Professor Sir James McDonald	Independent, non-executive director
Dame Nicola Brewer	Independent, non-executive director (resigned 16 March 2020)

Wendy Barnes was appointed as an independent, non-executive director on 12 May 2020.

SPL Board *continued*
Meetings of the SPL Board 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 four meetings
Daniel Alcaín López	Attended no meetings
José Sainz Armada	Attended four meetings
Gerardo Codes Calatrava	Attended one meeting
Suzanne Fox	Attended all meetings
Iñigo Fernández de Mesa Vargas	Attended all meetings
Professor Sir James McDonald	Attended all meetings
Dame Nicola Brewer	Attended all meetings

The terms of reference of the SPL Board are published at:
https://www.scottishpower.com/userfiles/file/Terms_of_Reference_of_the_Scottish_Power_Limited_Board_of_Directors.pdf

SPL 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 SPL 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.

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

Professor Sir James McDonald, Chairman (external independent director)	Attended all meetings
Dame Nicola Brewer (external independent director) (resigned 16 March 2020)	Attended all meetings
Juan Carlos Rebollo Liceaga (internal non-independent director) (resigned 1 March 2020)	Attended three meetings
José Sainz Armada (internal non-independent director) (appointed 18 February 2020)	Attended one meeting
Iñigo Fernández de Mesa Vargas (external independent director)	Attended all meetings

José Sainz Armada resigned from the SP ACC on 6 May 2020. Daniel Alcain López (internal, non-independent director) was appointed on 7 May 2020.

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

Matters considered by the SP ACC during 2019
The issues that the SP ACC specifically addressed are detailed in its report which is published at:
www.scottishpower.com/pages/activities_report_of_the_audit_and_compliance_committee.aspx.

For the year ended 31 December 2019 there were no significant financial statement reporting issues for all entities within ScottishPower.

ScottishPower Management Committee ("SPMC")

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

SPENH Board

The SPENH Board is responsible for the effective management of the Energy Networks business division, in accordance with the strategy of the SPENH Group. The SPENH Board meets regularly and reviews strategy, operational performance and risk issues on behalf of the SPENH Group.

The SPENH Board comprised the Chairman Armando Martínez Martínez and seven other directors as at 31 March 2020. The directors and their attendance at SPENH Board meetings held during the year under review (six meetings) are shown below:

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

Wendy Barnes resigned as a director on 6 May 2020.

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

SPENH Audit and Compliance Committee ("SPENH ACC")

The SPENH ACC undertakes the role and function of the SP ACC as they relate to the regulated Energy Networks businesses. The relationship between the SP ACC and the SPENH ACC is governed in accordance with their respective terms of reference.

The SPENH ACC's terms of reference are published at:
https://www.spenergynetworks.co.uk/userfiles/file/Terms_of_Reference_of_the_Audit_and_Compliance_Committee.pdf.

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 SPENH and by the terms of reference of the SPENH ACC.

The SPENH ACC's responsibilities include:

- monitoring the regulatory financial reporting process for the SPENH Group;
- monitoring the effectiveness of the SPENH Group's internal control, internal audit, compliance and risk management systems;
- monitoring the regulatory audit of the Corporate Report and Regulatory Accounts of the Licensed entities; and
- monitoring the independence of the external auditor and recommending to the SPENH Board the appointment or reappointment of the auditor and the associated terms of engagement each in respect of the regulatory audit.

The issues that the SPENH ACC specifically addressed are detailed in its report which is published at:
https://www.spenergynetworks.co.uk/pages/activities_report_of_the_audit_compliance_committee.aspx

SPENH Audit and Compliance Committee ("SPENH ACC") *continued*

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

Wendy Barnes, Chairperson (external independent director) (resigned 6 May 2020)	Attended all meetings
Alison McGregor (external independent director)	Attended all meetings
José Izaguirre Nazar (internal non-independent director)	Attended all meetings

Wendy Barnes was Chairperson of the SPENH ACC until her resignation on 6 May 2020. On 11 May 2020, Alison McGregor was appointed as Chairperson of the SPENH ACC. Professor Dame Lesley Anne Glover was also appointed as a committee member on 11 May 2020.

SP MANWEB PLC
STATEMENT OF DIRECTORS' RESPONSIBILITIES
in respect of the Regulatory Accounts and compliance with Standard Licence Condition 44

Standard Condition 44 of the Electricity Distribution Licence requires the directors to prepare Regulatory Accounts, for each regulatory year, which presents fairly the assets, liabilities, reserves and provisions of, or reasonably attributable to, the company and of the revenues, costs and cash flows of, or reasonably attributable to, the company for the year. The directors confirm that these Regulatory Accounts comply with Standard Licence condition 44 in all aspects except with respect to the nature of the audit opinion. Ofgem have consented to this having regard to the guidance contained in the Institute of Chartered Accountants in England and Wales ("ICAEW") Technical Release TECH02/16AAF. In preparing the Regulatory Accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the Accounts comply with International Financial Reporting Standards ("IFRSs") as adopted by the EU, subject to any material departures disclosed and explained in the financial statements; and
- prepare the Regulatory Accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 and Standard Condition 44 as applicable. They are also responsible for the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT

to SP Manweb plc and to the Gas and Electricity Markets Authority ("GEMA" or the "Regulator")

Opinion

We have audited the regulatory accounts of SP Manweb Plc ("the company") for the year ended 31 March 2020 which comprise the Balance Sheet, Income Statement and Statement of Comprehensive Income, Statement of Changes in Equity, Cash Flow Statement and related notes, including the accounting policies in Note 2.

In our opinion the regulatory accounts of the company for the year ended 31 March 2020 have been properly prepared, in all material respects, in accordance with Standard Condition 44 of the company's Regulatory Licence and the special purpose basis of preparation and accounting policies set out in Notes 1 and 2.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and the terms of our engagement letter dated 23 June 2020 and having regard to the guidance contained in ICAEW Technical Release Tech 02/16 AAF 'Reporting to Regulators on Regulatory Accounts' issued by the Institute of Chartered Accountants in England & Wales. 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 FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Emphasis of matter – special purpose basis of preparation

We draw attention to Note 1 to the regulatory accounts, which describes their basis of preparation. As explained in that note, the regulatory accounts are prepared to assist the company in complying with the company's Regulatory Licence Standard Condition 44. The nature, form and content of regulatory accounts are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly, we make no such assessment.

The regulatory accounts are separate from the statutory financial statements of the company. There are differences between International Financial Reporting Standards as adopted by the EU and the basis of preparation of the regulatory accounts because Standard Condition 44 of the Regulatory Licence specifies alternative treatment or disclosure in certain respects. Where Standard Condition 44 of the Regulatory Licence does not specifically address an accounting issue, it requires International Financial Reporting Standards as adopted by the EU to be followed. Consequently, the regulatory accounts may not necessarily represent a true and fair view of the financial performance or financial position of the company as shown in financial statements prepared in accordance with the Companies Act 2006. As a result, the regulatory accounts may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Going concern

The directors have prepared the regulatory accounts 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 regulatory accounts ("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 regulatory accounts. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model 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.

Other information

The directors are responsible for the other information, which comprises the Corporate Governance Report. Our opinion on the regulatory accounts does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our regulatory accounts audit work, the information therein is materially misstated or inconsistent with the regulatory accounts or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

Directors' responsibilities

As explained more fully in their statement set out on page 27, the directors are responsible for: the preparation of the regulatory accounts in accordance with the Standard Condition 44 of the Regulatory Licence and the special purpose basis of preparation and accounting policies as set out in Note 1 to the regulatory accounts; such internal control as they determine is necessary to enable the preparation of regulatory accounts 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 regulatory accounts 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) and having regard to the guidance contained in ICAEW Technical Release Tech 02/16 AAF 'Reporting to Regulators on Regulatory Accounts' issued by the Institute of Chartered Accountants in England & Wales 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 regulatory accounts.

As part of an audit in accordance with ISAs (UK) and having regard to the guidance contained in ICAEW Technical Release Tech 02/16 AAF 'Reporting to Regulators on Regulatory Accounts' issued by the Institute of Chartered Accountants in England & Wales, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the regulatory accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the company's internal control.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Communicate with those charged with governance, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.
- Assess the reasonableness of significant accounting estimates and related disclosures made by the directors.

We have not assessed whether the accounting policies are appropriate to the circumstances of the company where these are laid down by Standard Condition 44 of the company's Regulatory Licence. Where Standard Condition 44 of the company's Regulatory Licence does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the regulatory accounts are consistent with those used in the preparation of the statutory financial statements of the company. Furthermore, as the nature, form and content of the regulatory accounts are determined by the Regulator, we did not evaluate the overall adequacy of the presentation of the information which would have been required if we were to express an audit opinion under International Standards on Auditing (UK and Ireland).

INDEPENDENT AUDITOR'S REPORT

to SP Manweb plc and to the Gas and Electricity Markets Authority ("GEMA" or the "Regulator") ***continued***

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

This report is made on terms that have been agreed solely to the company and the Regulator in order to meet the requirements of Standard Condition 44 of the company's Regulatory Licence. Our audit work has been undertaken so that we might state to the company and the Regulator those matters that we have agreed to state to them in our report, in order to (a) assist the company to meet its obligation under the Companies Regulatory Licence to procure such a report and (b) facilitate the carrying out by the Regulator of its regulatory functions, and for no other purposes. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the Regulator, for our audit work, for this report, or for the opinions we have formed.

Our opinion on the regulatory accounts is separate from our opinion on the statutory financial statements of the company. Our audit report in relation to the statutory financial statements of the company (for our "statutory" audit) was made solely to the company members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our statutory work was undertaken so that we might state to the company those matters which we required to state to them in a statutory auditor's report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the company's members, as a body, for our statutory audit work, for any statutory audit work, for our statutory audit report, or for the opinions we have formed in respect of that statutory audit.

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

SP MANWEB PLC
BALANCE SHEET
at 31 March 2020

	Notes	**2020 £m**	2019 £m
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment		**3,192.6**	3,057.0
Property, plant and equipment in use	3	2,755.5	2,666.5
Property, plant and equipment in the course of construction	3	437.1	390.5
Right-of-use assets	4	**52.0**	-
Financial assets		**0.1**	0.1
Investments in subsidiaries	5	0.1	0.1
Trade and other receivables	6	**0.3**	-
NON-CURRENT ASSETS		**3,245.0**	3,057.1
CURRENT ASSETS			
Inventories	7	**10.3**	12.8
Trade and other receivables	6	**64.9**	54.8
Cash	8	**26.5**	19.0
CURRENT ASSETS		**101.7**	86.6
TOTAL ASSETS		**3,346.7**	3,143.7
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the parents		**1,038.6**	1,003.2
Share capital	9, 10	300.0	300.0
Share premium	10	3.3	3.3
Other reserves	10	6.0	6.0
Retained earnings	10	729.3	693.9
TOTAL EQUITY		**1,038.6**	1,003.2
NON-CURRENT LIABILITIES			
Deferred income	11	**505.1**	468.8
Provisions	12	**1.5**	1.2
Bank borrowings and other financial liabilities		**1,226.8**	971.5
Loans and other borrowings	13	1,226.8	971.5
Lease liabilities	4	**49.5**	-
Trade and other payables	14	**0.2**	0.1
Deferred tax liabilities	15	**204.9**	176.2
NON-CURRENT LIABILITIES		**1,988.0**	1,617.8
CURRENT LIABILITIES			
Provisions	12	**0.5**	0.2
Bank borrowings and other financial liabilities		**128.2**	338.0
Loans and other borrowings	13	128.2	338.0
Lease liabilities	4	**4.2**	-
Trade and other payables	14	**172.7**	178.6
Current tax liabilities		**14.5**	5.9
CURRENT LIABILITIES		**320.1**	522.7
TOTAL LIABILITIES		**2,308.1**	2,140.5
TOTAL EQUITY AND LIABILITIES		**3,346.7**	3,143.7

Approved by the Board and signed on its behalf on 21 July 2020:

Frank Mitchell
Director

The accompanying Notes 1 to 27 are an integral part of the balance sheet at 31 March 2020.

SP MANWEB PLC
INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 March 2020

	Notes	2020 £m	2019 £m
Revenue	16	410.5	358.5
Procurements		(18.8)	(18.9)
GROSS MARGIN		**391.7**	339.6
NET OPERATING EXPENSES		**(91.2)**	(94.6)
Net personnel expenses		**(12.9)**	(16.8)
Staff costs	17	(61.0)	(62.1)
Capitalised staff costs	17	48.1	45.3
Net external expenses		**(78.3)**	(77.8)
External services		(85.5)	(83.3)
Other operating income		7.2	5.5
Taxes other than income tax	18	**(23.4)**	(22.8)
GROSS OPERATING PROFIT		**277.1**	222.2
Impairment losses on trade and other receivables		(0.6)	(0.8)
Depreciation and amortisation charge, allowances and provisions	19	(105.9)	(96.3)
OPERATING PROFIT		**170.6**	125.1
Gains on disposal of non-current assets		-	0.2
Dividends received		0.1	0.1
Finance income	20	0.1	-
Finance costs	21	(43.6)	(40.2)
PROFIT BEFORE TAX		**127.2**	85.2
Income tax	22	(45.5)	(16.1)
NET PROFIT FOR THE YEAR ATTRIBUTABLE TO THE PARENTS		**81.7**	69.1

Net profit for both years is wholly attributable to the equity holders of SP Manweb plc.

Net profit for both years comprises the total comprehensive income for the respective years.

All results relate to continuing operations.

The accompanying Notes 1 to 27 are an integral part of the income statement and statement of comprehensive income for the year ended 31 March 2020.

SP MANWEB PLC
STATEMENT OF CHANGES IN EQUITY
for the year ended 31 March 2020

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
At 1 April 2018	300.0	3.3	6.0	721.5	1,030.8
Total comprehensive income for the year	-	-	-	69.1	69.1
Dividends	-	-	-	(96.7)	(96.7)
At 1 April 2019	300.0	3.3	6.0	693.9	1,003.2
Total comprehensive income for the year	-	-	-	81.7	81.7
Dividends	-	-	-	(46.3)	(46.3)
At 31 March 2020	**300.0**	**3.3**	**6.0**	**729.3**	**1,038.6**

The accompanying Notes 1 to 27 are an integral part of the statement of changes in equity for the year ended 31 March 2020.

SP MANWEB PLC
CASH FLOW STATEMENT
for the year ended 31 March 2020

	2020	2019
	£m	£m
Cash flows from operating activities		
Profit before tax	**127.2**	85.2
Adjustments for:		
Depreciation, amortisation and impairment	**104.1**	96.1
Change in provisions	**0.7**	0.2
Transfer of assets from customers	**(16.2)**	(14.5)
Finance income and costs	**43.5**	40.2
Shareholding income	**(0.1)**	(0.1)
Write-off of non-current assets	**0.7**	-
Changes in working capital:		
Change in trade and other receivables	**(10.4)**	1.1
Change in inventories	**(15.1)**	(24.3)
Change in trade payables	**12.8**	5.8
Provisions paid	**(0.1)**	(1.0)
Assets received from customers	**52.1**	30.9
Income taxes paid	**(8.2)**	(7.9)
Net cash flows from operating activities (i)	**291.0**	211.7
Cash flows from investing activities		
Interest received	**0.1**	0.2
Dividends received	**0.1**	0.1
Investments in property, plant and equipment	**(235.7)**	(210.8)
Proceeds from disposal of property, plant and equipment	**-**	0.2
Net cash flows from investing activities (ii)	**(235.5)**	(210.3)
Cash flows from financing activities		
Net (decrease)/increase in amounts due to/from Iberdrola group companies - current loans	**(304.8)**	142.4
Increase in amounts due to Iberdrola group companies - non-current loans payable	**350.0**	-
Dividends paid to company's equity holders	**(46.3)**	(96.7)
Interest paid	**(41.0)**	(40.4)
Payments of lease liabilities	**(5.9)**	-
Net cash flows from financing activities (iii)	**(48.0)**	5.3
Net increase in cash and cash equivalents (i)+(ii)+(iii)	**7.5**	6.7
Cash and cash equivalents at beginning of year	**19.0**	12.3
Cash and cash equivalents at end of year	**26.5**	19.0

Cash and cash equivalents at end of year comprises:		
Cash	**26.5**	19.0
Cash flow statement cash and cash equivalents	**26.5**	19.0

The accompanying Notes 1 to 27 are an integral part of the cash flow statement for the year ended 31 March 2020.

1 BASIS OF PREPARATION

A COMPANY INFORMATION

SP Manweb plc, registered company number 2366937, is a private company limited by shares, incorporated in England and Wales and its registered address is 3 Prenton Way, Prenton, CH43 3ET.

B BASIS OF PREPARATION OF THE ACCOUNTS

The Accounts have been prepared in accordance with Standard Condition 44 of the company's Regulatory Licence and 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 March 2020 ("IFRS as adopted by the EU"). The company's accounting reference date is 31 December to match that of its ultimate parent undertaking, Iberdrola, S.A.. Standard Condition 44 of the Electricity Distribution Licence requires the directors to prepare Regulatory Accounts, for each regulatory year, with the same content and format as the most recent statutory accounts of the company. The references made to the financial year within these Regulatory Accounts refer to the year from 1 April 2019 to 31 March 2020. Consequently, the Corporate Report and Regulatory Accounts for the year ended 31 March 2020 are separate from the Annual Report and Accounts of the company which have been prepared for the year ended 31 December 2019. 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 are prepared on the historical cost basis.

The Accounts contain information about SP Manweb plc as an individual company and do not contain consolidated financial information as the parent of subsidiary companies. Under Section 405 of the Companies Act 2006, the company has not prepared consolidated accounts as the inclusion of its subsidiary undertakings in consolidated accounts is not material for the purpose of giving a true and fair view.

The company has one operating segment for management reporting purposes which operates in a single geographical area and reports revenues from a single activity.

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 March 2020.

For the year ended 31 March 2020, the company has applied the following standards and amendments for the first time:

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

(a) Refer to Note 1C1.1 for further information.
(b) The application of these pronouncements has not had a material impact on the company's accounting policies, financial position or performance.

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)	Effective date for and planned date of application by the company
• Amendments to References to the Conceptual Framework in IFRS Standards	(c)	1 January 2020	1 April 2020
• Amendments to IFRS 3 'Business Combinations'	(c)	1 January 2020	1 April 2020

1 BASIS OF PREPARATION *continued*

C ACCOUNTING STANDARDS *continued*

C1 IMPACT OF NEW IFRS *continued*

Standard *continued*	**Notes**	**IASB effective date (for periods commencing on or after)**	**Effective date and planned date of application by the company**
• Amendments to IAS 1 ‘Presentation of Financial Statements’ and IAS 8 ‘Accounting Policies, Changes in Accounting Estimates and Errors‘: 'Definition of Material'	(c)	1 January 2020	1 April 2020
• Amendments to IFRS 9 ‘Financial Instruments’, IAS 39 ‘Financial Instruments: Recognition and Measurement‘, and IFRS 7 ‘Financial Instruments: Disclosures’: ‘Interest Rate Benchmark Reform’	(c)	1 January 2020	1 April 2020
• IFRS 17 ‘Insurance Contracts’ including 'Amendments to IFRS 17'	(c),(d)	1 January 2023	1 April 2023
• Amendments to IAS 1 ‘Presentation of Financial Statements’: ‘Classification of Liabilities as Current or Non-current’	(c),(d)	1 January 2022	To be decided
• IFRS 14 ‘Regulatory Deferral Accounts’	(c),(d),(e)	1 January 2016	To be decided
• Amendments to IFRS 10 ‘Consolidated Financial Statements’ and IAS 28 ‘Investments in Associates and Joint Ventures’: ‘Sale or Contribution of Assets between an Investor and its Associate or Joint Venture’	(c),(d),(f)	Deferred indefinitely	To be decided

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

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

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

(f) The IASB set the effective date of this pronouncement as for periods commencing on or after 1 January 2016. However, in December 2015, the IASB postponed the effective date indefinitely pending the outcome of its research project on the equity method of accounting. The EU endorsement process for this pronouncement has been postponed, awaiting a revised exposure draft from the IASB. The effective date will be amended in due course.

C1.1 EFFECT OF INITIAL APPLICATION OF IFRS 16

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

Previously the company determined at contract inception whether an arrangement was, or contained, a lease under IFRIC 4. Under IFRS 16, the company assesses whether a contract is, or contains, a lease based on the definition of a lease, as explained in Note 2D1. On transition to IFRS 16, the company reassessed all of its existing contracts to determine whether each contract is, or contains, a lease applying the requirements of IFRS 16.

Lessee

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

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

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

1 BASIS OF PREPARATION *continued*

C ACCOUNTING STANDARDS *continued*

C1 IMPACT OF NEW IFRS *continued*

C1.1 EFFECT OF INITIAL APPLICATION OF IFRS 16 *continued*

When applying IFRS 16 to certain leases previously classified as operating leases under IAS 17, the company used the practical expedient to adjust the right-of-use asset at the date of initial application by the amount of any provision for onerous leases recognised in the balance sheet immediately before the date of initial application (in line with the requirements of IAS 37 'Provisions, contingent liabilities and contingent assets') as an alternative to an impairment review. This resulted in a reduction in provisions of £0.4 million and a reduction in the right-of-use assets of £0.4 million.

On transition to IFRS 16, the company recognised £47.7 million of right-of-use assets and £48.1 million of lease liabilities. The difference relates to provisions. When measuring lease liabilities, the company discounted lease payments using its incremental borrowing rate at 1 April 2019. The discount rates used to calculate the below pertaining to Sterling was in the range of 1.12% to 3.32%.

	£m
Operating lease commitment at 31 March 2019 (discounted using interest rate at lease commencement) (as disclosed in Note 4(c))	7.2
Operating lease commitment at 31 March 2019 (discounted using incremental borrowing rate at 1 April 2019)	7.1
Lease agreements newly in scope at 1 April 2019	41.0
Lease liabilities recognised at 1 April 2019	**48.1**

Lessor

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

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES

In determining and applying accounting policies, judgement is often required in respect of items which have a significant effect on the reported amounts of assets, liabilities, income and expenses recognised in the financial statements. At 31 March 2020, there are no items which have significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities in the next financial year.

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

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

A REVENUE

Information about the company's accounting policies and estimates in relation to contracts with customers is provided in Note 16.

B PROCUREMENTS

Procurements principally comprises use of system charges from National Grid.

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

C PROPERTY, PLANT AND EQUIPMENT

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

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

	Years
Distribution facilities	40
Meters and measuring devices	3 - 22
Other facilities and other items of property, plant and equipment	4 - 50

D LEASED ASSETS

The company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately at Note 2D1.2 if they are different from those under IFRS 16 and the impact of the change in policy disclosed in Note 1C1.1.

D1 POLICY APPLICABLE FROM 1 APRIL 2019

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

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

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

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

D1.1 LESSEE

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

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

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

D LEASED ASSETS *continued*

D1 POLICY APPLICABLE FROM 1 APRIL 2019 *continued*

D1.1 LESSEE *continued*

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

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

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

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

D1.2 LESSOR

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

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

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

D2 POLICY APPLICABLE BEFORE 1 APRIL 2019

For contracts entered into before 1 April 2019, the company determined whether the arrangement was, or contained a lease, based on an assessment of the substance of the arrangement at inception date and whether:
- fulfilment of the arrangement was dependent on the use of a specific asset(s); and
- the arrangement conveyed a right to use the asset(s) even if that right was not explicitly specified in the arrangement.

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

The accounting policies applicable by the company as a lessor in the comparative period were in line with the lessor policy for leases entered into from 1 April 2019 as noted in Note 2D1.2. However, when the company was an intermediate lessor, sub-leases were classified with reference to the underlying asset.

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

E 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.

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

F FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

F1 FINANCIAL ASSETS

F1.1 RECOGNITION AND INITIAL MEASUREMENT

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost. Trade receivables without a significant financing component and for which the company has applied the simplified ECL model are measured at the transaction price determined under IFRS 15 'Revenue from Contracts with Customers' ("IFRS 15") (refer to Note 16).

F1.2 CLASSIFICATION AND SUBSEQUENT MEASUREMENT

(a) 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.

(b) Subsequent measurement and gains and losses

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

(i) 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.

(c) Impairment of financial assets

Disclosures relating to impairment of financial assets are provided in Note 8.

The company has adopted the simplified ECL model for its trade receivables and the general model for all other financial assets held at amortised cost. In applying the simplified model, loss allowances for trade receivables are always measured at an amount equal to lifetime ECL. The company has established a provision matrix based on its historical credit loss experience and adjusted for, where possible, forward looking factors specific to the debtors and the economic environment.

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

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

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*
F FINANCIAL INSTRUMENTS *continued*
F1 FINANCIAL ASSETS *continued*
F1.2 CLASSIFICATION AND SUBSEQUENT MEASUREMENT *continued*
(c) Impairment of financial assets *continued*

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

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

All of the company's cash has 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.

(i) Measurement of ECLs

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

(ii) 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.

(iii) Write-offs

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

F2 FINANCIAL LIABILITIES

F2.1 RECOGNITION AND INITIAL MEASUREMENT

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

F2.2 CLASSIFICATION AND SUBSEQUENT MEASUREMENT

Financial liabilities are classified as measured at amortised cost. Financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense is recognised in the income statement. Any gain or loss on derecognition is also recognised in the income statement.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest method is included as Finance costs in the income statement.

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

F FINANCIAL INSTRUMENTS *continued*

F2 FINANCIAL LIABILITIES *continued*

F2.2 CLASSIFICATION AND SUBSEQUENT MEASUREMENT *continued*

(a) Derecognition

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

G 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.

H RETIREMENT BENEFITS

ScottishPower operates two defined benefit schemes and one defined contribution retirement benefit scheme in the UK. SP Manweb 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 year.

I 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.

J CASH AND CASH EQUIVALENTS

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

3 PROPERTY, PLANT AND EQUIPMENT

(a) Movements in property, plant and equipment

Year ended 31 March 2019	Distribution facilities £m	Meters and measuring devices £m	Other items of property, plant and equipment in use (Note (i)) £m	Plant in progress (Note (ii)) £m	Total £m
Cost:					
At 1 April 2018	3,596.4	89.5	14.1	341.0	4,041.0
Additions (Note (iii))	0.5	0.5	4.1	216.6	221.7
Transfers from in progress to plant in use	186.5	-	1.0	(187.5)	-
Transfers from inventories	-	-	-	20.4	20.4
Disposals	(6.0)	(5.7)	-	-	(11.7)
At 31 March 2019	3,777.4	84.3	19.2	390.5	4,271.4
Depreciation:					
At 1 April 2018	1,058.6	67.9	3.5	-	1,130.0
Depreciation for the year	91.7	3.8	0.6	-	96.1
Disposals	(6.0)	(5.7)	-	-	(11.7)
At 31 March 2019	1,144.3	66.0	4.1	-	1,214.4
Net book value:					
At 31 March 2019	2,633.1	18.3	15.1	390.5	3,057.0
At 1 April 2018	2,537.8	21.6	10.6	341.0	2,911.0
The net book value of property plant and equipment at 31 March 2019 is analysed as follows:					
Property, plant and equipment in use	2,633.1	18.3	15.1	-	2,666.5
Property, plant and equipment in the course of construction	-	-	-	390.5	390.5
	2,633.1	18.3	15.1	390.5	3,057.0

Year ended 31 March 2020	Distribution facilities £m	Meters and measuring devices £m	Other items of property, plant and equipment in use (Note (i)) £m	Plant in progress (Note (ii)) £m	Total £m
Cost:					
At 1 April 2019	3,777.4	84.3	19.2	390.5	4,271.4
Additions (Note (iii))	0.5	0.6	3.1	215.9	220.1
Transfers from in progress to plant in use	186.5	-	0.4	(186.9)	-
Transfers from inventories	-	-	-	17.6	17.6
Disposals	(4.5)	(11.2)	-	-	(15.7)
At 31 March 2020	**3,959.9**	**73.7**	**22.7**	**437.1**	**4,493.4**
Depreciation:					
At 1 April 2019	1,144.3	66.0	4.1	-	1,214.4
Depreciation for the year	96.6	4.1	0.8	-	101.5
Disposals	(3.9)	(11.2)	-	-	(15.1)
At 31 March 2020	**1,237.0**	**58.9**	**4.9**	**-**	**1,300.8**
Net book value:					
At 31 March 2020	**2,722.9**	**14.8**	**17.8**	**437.1**	**3,192.6**
At 1 April 2019	2,633.1	18.3	15.1	390.5	3,057.0
The net book value of property plant and equipment at 31 March 2020 is analysed as follows:					
Property, plant and equipment in use	2,722.9	14.8	17.8	-	2,755.5
Property, plant and equipment in the course of construction	-	-	-	437.1	437.1
	2,722.9	**14.8**	**17.8**	**437.1**	**3,192.6**

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 other technical installations, communications equipment and land.
(ii) The category Plant in progress principally comprises distribution facilities in the course of construction.
(iii) During the year ended 31 March 2020, additions of £1.3 million (2019 £0.6 million) were purchased from other Iberdrola group companies as noted within Note 25.
(iv) The cost of fully depreciated property, plant and equipment still in use at 31 March 2020 was £120.7 million (2019 £125.7 million).
(v) Included within the cost of property, plant and equipment at 31 March 2020 are assets in use not subject to depreciation, being land of £6.0 million (2019 £6.0 million).
(vi) Included in Distribution facilities are assets with a carrying value of £0.1 million which the company leases to third parties via operating leases.

(b) Capital commitments

	2020						
	2021	**2022**	**2023**	**2024**	**2025**	**2026 and thereafter**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Contracted but not provided	69.4	4.7	1.1	-	-	-	**75.2**

	2019						
	2020	2021	2022	2023	2024	2025 and thereafter	Total
	£m	£m	£m	£m	£m	£m	£m
Contracted but not provided	76.1	15.8	-	-	-	-	91.9

(c) Research and development expenditure

The amount of research and development expenditure recognised as an expense during the year was £0.4 million (2019 £nil).

4 LEASING

(a) Lessee

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

(i) Nature of leases

Land

The company holds agreements to lease land and for the assignment of rights to use land, primarily relating to operational assets, with typical lease terms running from 25 to 40 years. Certain agreements contain the right to extend the terms by up to 50 years and can be terminated with appropriate notice, generally up to twelve months.

Buildings

The company leases buildings primarily for its operational depots. The leases typically have terms of 20 to 25 years. Certain leases have options to extend the term by up to 25 years at the end of the term and certain leases have options to terminate without notice.

Vehicles

The company lease vehicles with lease terms of between two and eight years, primarily being pool vehicles to mobilise its operational staff and other specialist vehicles.

Other equipment

The company leases operating plant, with lease terms of up to 42 years. Certain agreements have rights to extend the term by up to six years or terminate the lease without notice. Certain plant leases for generators and temporary site security systems are considered short-term and the company has elected not to recognise right-of-use assets and lease liabilities for these leases.

Variable lease payments

Certain leases contain variable lease payments that are based on the building services supplied or radio hill site usage. The fixed annual payments for the year were £5.5 million compared to variable payments made of less than £0.1 million. The company expects the relative proportions of fixed and variable lease payments to remain broadly consistent in future years.

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

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

(ii) Right-of-use assets

	Note	Land £m	Buildings £m	Vehicles £m	Other £m	Total £m
Cost:						
On transition to IFRS 16 at 1 April 2019		42.1	2.1	3.4	0.1	47.7
Additions		1.3	0.5	5.9	-	7.7
Depreciation charge for the year		(2.1)	(0.2)	(2.8)	(0.1)	(5.2)
Adjustments for changes in liabilities	(a)	0.9	-	1.1	-	2.0
Disposals		(0.2)	-	-	-	(0.2)
At 31 March 2020		**42.0**	**2.4**	**7.6**	**-**	**52.0**

(a) Adjustments for changes in liabilities are movements in the right-of-use asset resulting from remeasurement of the associated lease liability to reflect changes to the lease payments due to any reassessment or lease modifications.
(b) There are no right-of-use assets measured at revalued amounts.

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

	2020 £m
Less than one year	6.1
One to five years	17.8
More than five years	54.0
Total undiscounted lease liabilities at 31 March	**77.9**
Finance cost	(24.2)
Total discounted lease liabilities	**53.7**

Analysis of total lease liabilities	**2020 £m**
Non-current	49.5
Current	4.2
Total	**53.7**

Details of the company's risk management strategy for liquidity risks inherent in the company's lease liability are described at Note 8.

(iv) Amounts recognised in income statement

	2020 £m
Interest on lease liabilities	(1.6)
Expenses relating to short-term leases*	(2.5)

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

4 LEASING *continued*
(a) Lessee *continued*
(v) Amounts recognised in the cash flow statement

	2020
	£m
Total cash outflow for leases	**(8.4)**

Included in this amount is £5.9 million relating to payments of lease liabilities.

(b) Lessor

The company has contracts to lease buildings which have been classified as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets. These leases have terms of up to two years. The lessor retains no significant rights in relation to the underlying assets.

Lease income recognised by the company during the year ended 31 March 2020 was £0.5 million. No income relating to variable lease payments that do not depend on an index or rate have been recognised.

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

Amounts receivable under operating leases:	**2020**
	£m
Less than one year	**0.4**
One to two years	**0.3**
Total undiscounted lease payments	**0.7**

Details of the company's risk management strategy for addressing and reducing the risks associated with the retained rights in the underlying assets are described in Note 8.

(c) Operating lease disclosures under IAS 17

	2019
(i) Operating lease payments	£m
Minimum lease payments under operating leases recognised as an expense in the year	2.6

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

	2019
(ii) Operating lease commitments	£m
The future minimum discounted lease payments under non-cancellable operating leases were as follows:	
Within one year	1.6
Between one and five years	3.1
More than five years	2.5
	7.2

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

	2019
(iii) Operating lease receivables	£m
The future minimum discounted lease payments receivable under non-cancellable operating leases were as follows:	
Within one year	0.3
Between one and five years	0.4
	0.7

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

5 INVESTMENTS

	Investments in subsidiairies £m
At 1 April 2018, 1 April 2019 and 31 March 2020	**0.1**

Subsidiary	Principal activities	Notes	Country of incorporation	Equity interest in ordinary shares 2020	2019
Manweb Services Limited	Operation of a private electricity distribution network	(a), (b)	England and Wales	**100%**	100%

(a) The registered office of Manweb Services Limited is 3 Prenton Way, Prenton, CH43 3ET, England.
(b) This investment is a direct holding of the company.

6 TRADE AND OTHER RECEIVABLES

	Notes	2020 £m	2019 £m
Current receivables:			
Receivables due from Iberdrola group companies - trade	(a)	**9.2**	8.4
Trade receivables and accrued income	(a)	**55.1**	45.8
Other tax receivables		**0.6**	0.6
	(b)	**64.9**	54.8
Non-current receivables:			
Prepayments		**0.3**	-
	(b)	**0.3**	-

(a) Information about the company's exposure to credit and market risks, and impairment losses for trade receivable are included in Note 8.
(b) Trade and other receivables includes £63.1 million (2019 £48.9 million) of IFRS 15 receivables (refer to Note 16(c)).

7 INVENTORIES

	Note	2020 £m	2019 £m
Other inventories	(a)	**10.3**	12.8

(a) Inventories with a value of £2.9 million (2019 £3.0 million) were recognised as an expense during the year.

8 FINANCIAL INSTRUMENTS

(a) Carrying value of financial instruments

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

	Classification	Notes	2020 Carrying amount £m	2020 Fair value £m	2019 Carrying amount £m	2019 Fair value £m
Financial assets						
Receivables	Amortised cost	(i)	**64.3**	**64.3**	54.2	54.2
Cash	Amortised cost	(ii)	**26.5**	**26.5**	19.0	19.0
Financial liabilities						
Loans and other borrowings	Amortised cost	(iii)	**(1,355.0)**	**(1,475.6)**	(1,309.5)	(1,450.8)
Payables	Amortised cost	(i)	**(94.8)**	**(94.8)**	(105.1)	(105.1)

The carrying amount of these financial instruments is calculated as set out in Note 2F. With the exception of Loans and other borrowings, the carrying value of financial instruments is a reasonable approximation of fair value. The fair value of Loans and other borrowings is calculated as set out in footnote (iii) on the following page.

8 FINANCIAL INSTRUMENTS *continued*

(a) Carrying value of financial instruments *continued*

(i) Balances outwith the scope of IFRS 7 'Financial Instruments: Disclosure' ("IFRS 7") and IFRS 9 'Financial Instruments' ("IFRS 9") have been excluded, namely prepayments, other tax receivables, payments received on account and other taxes and social security.

(ii) As a general rule, cash deposited with banks earns interest at rates similar to market rates on daily deposits. Cash as at 31 March 2020 included deposits with banks of £26.5 million (2019 £19.0 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.

(iii) The fair value of listed debt is calculated using the most recently traded price to the year end date and the fair value of all other Loans and borrowings is calculated using a discounted cash flow.

(b) 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 receivables and cash that arise directly from its operations.

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

A Credit risk; and
B 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.

A. CREDIT RISK

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

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

A1 CREDIT RISK MANAGEMENT

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

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 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 March 2020 and 2019, 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.

A2 TRADE RECEIVABLES

The company uses the simplified model 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 tables below and on the following page illustrate the ECL on trade receivables:

	Ageing of trade receivables		
	0-6 months	**Greater than 6 months**	**Total**
As at 31 March 2020	**£m**	**£m**	**£m**
Weighted Average Expected Loss Rate (%)	**0.8%**	**32.2%**	**4.0%**
Gross carrying value	**51.5**	**5.9**	**57.4**
Loss allowance	(0.4)	(1.9)	(2.3)
Net carrying value	**51.1**	**4.0**	**55.1**

8 FINANCIAL INSTRUMENTS *continued*
(b) Financial risk management *continued*
A. CREDIT RISK *continued*
A2 TRADE RECEIVABLES *continued*

	Ageing of trade receivables		
	0-6 months	Greater than 6 months	Total
As at 31 March 2019	£m	£m	£m
Weighted Average Expected Loss Rate (%)	2.4%	85.7%	3.6%
Gross carrying value	46.8	0.7	47.5
Loss allowance	(1.1)	(0.6)	(1.7)
Net carrying value	45.7	0.1	45.8

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

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

A3 RECEIVABLES DUE FROM IBERDROLA GROUP COMPANIES £9.2 million (2019 £8.4 million)
The loss allowance recognised in the balance sheet in both the current and prior year is less than £0.1 million as is the movement in the ECL in the year.

A4 CASH £26.5 million (2019 £19.0 million)
At 31 March 2020, the company held cash of £26.5 million (2019 £19.0 million). The cash deposits are held with banks and financial institution counterparties, which are rated BBB- to AAA, based on Standard & Poor's ratings. Impairment on cash 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 deposits have low credit risk based on the external credit ratings of the counterparties. The loss allowance recognised in the balance sheet in both the current and prior year is less than £0.1 million as is the movement in the ECL in the year.

A5 RECONCILIATION OF OPENING TO CLOSING LOSS ALLOWANCE
The closing loss allowances for all financial assets measured at amortised cost, as at 31 March 2020 reconciles to the opening loss allowances as follows:

	£m
Balance as at 1 April 2018	0.9
Increase in loss allowance recognised in the income statement	0.8
Balance as at 1 April 2019	1.7
Increase in loss allowance recognised in the income statement	0.6
At 31 March 2020	**2.3**

The overall increase in the loss allowance of £0.6 million for the year ended 31 March 2020 is principally the result of an increase in customers (energy retailers) going into liquidation or administration during the year.

B. TREASURY RISK
Treasury risk is comprised of liquidity risk and market risk. ScottishPower's cash management and short-term financing activity, and therefore that of the company, is integrated with Iberdrola's. The company produces short-term rolling cash-flow requirements and if necessary any required funding is obtained via ScottishPower's credit facilities already in place.

B1 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. SPUK is the principal counterparty for the loan balances due by the company.

8 FINANCIAL INSTRUMENTS *continued*
(b) Financial risk management *continued*
B. TREASURY RISK *continued*
B1 TREASURY LIQUIDITY RISK MANAGEMENT *continued*

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

		2020						
Cash outflows	Note	**2021 £m**	**2022 £m**	**2023 £m**	**2024 £m**	**2025 £m**	**2026 and thereafter £m**	**Total £m**
Loans and other borrowings		165.1	113.9	125.8	110.0	66.8	1,015.4	**1,597.0**
Payables	(a)	80.3	0.1	0.1	-	-	-	**80.5**
		245.4	114.0	125.9	110.0	66.8	1,015.4	**1,677.5**

		2019						
Cash outflows	Note	2020 £m	2021 £m	2022 £m	2023 £m	2024 £m	2025 and thereafter £m	Total £m
Loans and other borrowings		375.2	130.0	114.1	125.5	109.5	721.9	1,576.2
Payables	(a)	91.9	0.1	-	-	-	-	92.0
		467.1	130.1	114.1	125.5	109.5	721.9	1,668.2

(a) Contractual cash flows exclude accrued interest as these cash flows are included within Loans and other borrowings.

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

B2 TREASURY MARKET RISK MANAGEMENT

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

B2.1 INTEREST RATE RISK

In order to adequately manage and limit this risk, Iberdrola 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 ratios. Actions to be carried out over the course of a year may include obtaining new sources of financing (at a fixed, floating or indexed rate) and/or utilising interest rate derivatives. The table below shows the debt structure of the company.

	2020 £m	2019 £m
Fixed rate	**621.5**	643.2
Variable rate	**733.5**	666.3
	1,355.0	1,309.5

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 £700.0 million (2019 £410.0 million) LIBOR debt and a £33.5 million (2019 £256.3 million) loan linked to Base.

8 FINANCIAL INSTRUMENTS *continued*
(c) Financial risk management *continued*
B. TREASURY RISK *continued*
B2 TREASURY MARKET RISK MANAGEMENT *continued*
B2.2 SENSITIVITY ANALYSIS ON INTEREST RATE CHANGES

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

Debt category	Interest rate	Change in rate	Impact on interest rate charges in 2020 £m	Impact on interest rate charges in 2019 £m
LIBOR debt	LIBOR	+ 0.25%	**1.8**	1.0
		+ 0.50%	**3.5**	2.1
		- 0.25%	**(1.8)**	(1.0)
		- 0.50%	**(3.5)**	(2.1)
Short-term variable rate debt	Base	+ 0.25%	**0.1**	0.6
		+ 0.50%	**0.2**	1.3
		- 0.25%	**(0.1)**	(0.6)
		- 0.50%	**(0.2)**	(1.3)

9 SHARE CAPITAL

	2020 £m	2019 £m
Allotted, called up and fully paid shares:		
600,000,000 ordinary shares of 50p each (2019 600,000,000)	**300.0**	300.0

(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.

10 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF SP MANWEB PLC

	Share capital £m	Share premium (Note (a)) £m	Other reserves (Note (b)) £m	Retained earnings (Note (c)) £m	Total £m
At 1 April 2018	300.0	3.3	6.0	721.5	1,030.8
Profit for the year attributable to equity holders of SP Manweb plc	-	-	-	69.1	69.1
Dividends	-	-	-	(96.7)	(96.7)
At 1 April 2019	300.0	3.3	6.0	693.9	1,003.2
Profit for the year attributable to equity holders of SP Manweb plc	-	-	-	81.7	81.7
Dividends	-	-	-	(46.3)	(46.3)
At 31 March 2020	**300.0**	**3.3**	**6.0**	**729.3**	**1,038.6**

(a) The share premium account represents consideration received for shares issued in excess of their nominal amount.
(b) The other reserve comprises the nominal value of the company's ordinary share capital purchased by the company in previous years.
(c) Retained earnings comprise the cumulative balance of profits and losses recognised in the financial statements as adjusted for transactions with shareholders, principally dividends.

11 DEFERRED INCOME

Year ended 31 March 2019	Note	At 1 April 2018 £m	Receivable during year £m	Released to income statement £m	At 31 March 2019 £m
Transfer of assets from customers	(a)	452.0	31.3	(14.5)	468.8

Year ended 31 March 2020	Note	At 1 April 2019 £m	Receivable during year £m	Released to income statement £m	**At 31 March 2020 £m**
Transfer of assets from customers	(a)	468.8	52.5	(16.2)	**505.1**

(a) Transfer of assets from customers is an IFRS 15 contract liability (refer to Note 16(c)).

12 PROVISIONS

Year ended 31 March 2019	Notes	At 1 April 2018 £m	New provisions £m	Utilised during year £m	Released during year £m	At 31 March 2019 £m
Onerous contracts	(a)	0.9	-	(0.1)	-	0.8
Insurance	(b)	-	0.6	-	-	0.6
Overtime and commission	(c)	1.3	-	(0.9)	(0.4)	-
		2.2	0.6	(1.0)	(0.4)	1.4

Year ended 31 March 2020	Notes	Adjustments due to IFRS 16 (Note (d)) £m	Adjusted balance at 1 April 2019 £m	New provisions £m	Utilised during year £m	Released during year £m	**At 31 March 2020 £m**
Onerous contracts	(a)	(0.5)	0.3	-	(0.1)	-	**0.2**
Insurance	(b)	-	0.6	0.8	-	(0.1)	**1.3**
Decommissioning and environmental	(e)	0.1	0.1	0.4	-	-	**0.5**
		(0.4)	1.0	1.2	(0.1)	(0.1)	**2.0**

Analysis of total provisions	**2020 £m**	2019 £m
Non-current	**1.5**	1.2
Current	**0.5**	0.2
	2.0	1.4

(a) The provision for onerous contract costs relates to a property contract. The majority of the provision was utilised to adjust the associated right-of-use asset in accordance with the transition provisions of IFRS 16. Refer to Note 1C1.1. The remaining provision is expected to be utilised between 2021 and 2026.

(b) The provision for insurance principally represents the value of claims reserves. The provision is expected to be utilised between 2021 and 2022.

(c) The provision for overtime and commission comprised probable holiday pay entitlements under the Working Time Regulations arising from commission and overtime. The full balance of the provision was utilised or released during 2018/19.

(d) Refer to Note 1C1.1.

(e) The provision for decommissioning costs is the discounted future estimated costs of decommissioning certain non-current assets. The decommissioning is expected to occur between 2021 and 2037. Had the estimated value of the costs at the balance sheet date been 10.0% higher or lower, this would have resulted in the decommissioning provision being less than £0.1 million higher and lower respectively. Had the discount rate been 0.25% higher or lower, this would have resulted in the decommissioning provision being less than £0.1 million lower and higher respectively.

13 LOANS AND OTHER BORROWINGS

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

Instrument	Notes	Interest rate*	Maturity	2020 £m	2019 £m
Loans with Iberdrola group companies - SPUK		Base + 1%	On demand	**33.5**	256.3
Loans with Iberdrola group companies - SPUK	(i), (ii)	3.416%	21 December 2022	**110.0**	110.0
Loans with Iberdrola group companies - SPUK	(i), (iii)	3.570%	20 December 2023	**44.0**	66.0
Loans with Iberdrola group companies - SPUK	(i), (iv)	2.821%	31 March 2025	**120.0**	120.0
£350m euro-sterling bond	(v), (vi)	4.875%	20 September 2027	**347.5**	347.2
Loans with Iberdrola group companies - SPUK	(i), (vii)	LIBOR + 0.78%	20 December 2027	**-**	300.0
Loans with Iberdrola group companies - Iberdrola Financiacion	(viii)	LIBOR + 0.78%	20 December 2027	**240.0**	-
Loans with Iberdrola group companies - SPUK	(i), (ix)	LIBOR + 3.365%	28 January 2029	**110.0**	110.0
Loans with Iberdrola group companies - SPUK	(i),(ix)	LIBOR + 1.025%	27 December 2029	**350.0**	-
				1,355.0	1,309.5

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

Analysis of total loans and other borrowings	2020 £m	2019 £m
Non-current	**1,226.8**	971.5
Current	**128.2**	338.0
	1,355.0	1,309.5

(i) Under the conditions of the long-term loan agreements between the company and 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 repayable in December 2022, is repayable in equal instalments on a biennial basis. The repayment of £55.0 million that is due in 2021 is classified as current in the 2020 analysis above.

(iii) The intercompany loan with SPUK that is repayable in December 2023, is repayable in equal instalments on a biennial basis. The repayment of £22.0 million that was due in 2020 is classified as current in the 2019 analysis above.

(iv) The intercompany loan with SPUK that is repayable in March 2025, is repayable in equal instalments on a biennial basis. The repayment of £40.0 million that is due in 2021 is classified as current in the 2020 analysis above.

(v) This bond contains a 'Loss of licences' covenant that will require repayment of the outstanding amount should the company lose its relevant licences.

(vi) The £350 million euro-sterling bond will be redeemed at its principal amount on 20 September 2027 unless previously redeemed or purchased and cancelled. The bond can be redeemed at any time by ScottishPower at a higher redemption price (as determined by a financial advisor appointed by ScottishPower and Fiscal Agent) giving 30 to 60 days' notice. The bond is shown net of finance costs, with £(0.3) million (2019 £(0.3) million) being classified as current in the analysis above.

(vii) The intercompany loan with SPUK that was repayable in December 2027, was repayable in equal instalments on a biennial basis. The repayment of £60.0 million that was due in 2020 is classified as current in the 2019 analysis above. This loan was repaid during the year and replaced with a loan from Iberdrola Financiacion which is repayable in equal instalments on a biennial basis.

(viii) The intercompany loan with Iberdrola Financiacion that is repayable in December 2027 is repayable in equal instalments on a biennial basis, commencing 2022.

(ix) The intercompany loans with SPUK that are repayable in January 2029 and December 2029 are repayable in full at maturity.

(b) Borrowing facilities

The company has no undrawn committed borrowing facilities at 31 March 2020 (2019 £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
Balance at 1 April 2018	169.7	1,053.2	13.6	1,236.5
Increase in amounts due to Iberdrola group companies (Note (ii))	86.3	-	-	86.3
Interest paid	-	-	(40.4)	(40.4)
Total movements from financing cashflows	86.3	-	(40.4)	45.9
Other movements	82.0	(81.7)	39.9	40.2
Total liability-related movements	82.0	(81.7)	39.9	40.2
At 31 March 2019	338.0	971.5	13.1	1,322.6

13 LOANS AND OTHER BORROWINGS *continued*

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

	Liabilities				
	Lease liabilities £m	Loans and other borrowings (Current) £m	Loans and other borrowings (Non-current) £m	Interest payable (Current) (Note (i)) £m	Total £m
Adjusted balance at 1 April 2019	**48.1***	**338.0**	**971.5**	**13.1**	**1,370.7**
(Decrease)/increase in amounts due to Iberdrola group companies (Note (ii))	-	(304.8)	350.0	-	45.2
Payments of lease liabilities	(5.9)	-	-	-	(5.9)
Interest paid	(0.2)	-	-	(40.8)	(41.0)
Total movements from financing cash flows	**(6.1)**	**(304.8)**	**350.0**	**(40.8)**	**(1.7)**
Fair value and other non-cash movements					
Other movements	11.7	95.0	(94.7)	42.0	54.0
Total liability-related movements	**11.7**	**95.0**	**(94.7)**	**42.0**	**54.0**
At 31 March 2020	**53.7**	**128.2**	**1,226.8**	**14.3**	**1,423.0**

* On transition to IFRS 16, the company recognised £48.1 million of lease liabilities (refer to Note 1C1.1).

(i) External interest payable of £9.0 million (2019 £9.0 million) and internal interest payable of £5.3 million (2019 £4.1 million) are included within Trade and other payables (refer to Note 14).

(ii) The cash outflow in the cash flow statement for 'Net (decrease)/increase in amounts due to/from Iberdrola group companies – current loans' of £(304.8) million (2019 £142.4 million) comprises a decrease of £304.8 million (2019 increase of £86.3 million) in current loans due to Iberdrola group companies (as noted above and on previous page) and a decrease of £nil (2019 a decrease of £56.1 million) in current loans receivable from Iberdrola group companies.

(iii) Other movements include non-cash movements, including accrued interest expense and the acquisition of lease liabilities.

14 TRADE AND OTHER PAYABLES

	Notes	2020 £m	2019 £m
Current trade and other payables:			
Payables due to Iberdrola group companies - trade		**18.7**	21.5
Payables due to Iberdrola group companies - interest		**5.3**	4.1
Payables due to Iberdrola group companies - other	(a)	**4.6**	4.6
Trade payables		**11.8**	3.6
Other taxes and social security		**13.1**	6.1
Payments received on account		**65.0**	67.5
Capital payables and accruals		**38.7**	57.5
Other payables	(a)	**15.5**	13.7
	(b)	**172.7**	178.6
Non-current other payables:			
Other payables		**0.2**	0.1
	(b)	**0.2**	0.1

(a) The company utilises forms of collateral to manage its credit exposure in respect of the provision of network services. All collateral held is settled in cash. At 31 March 2020, the company held cash collateral of £9.2 million (2019 £7.2 million), of which £4.6 million (2019 £4.6 million) is payable to Iberdrola group companies.

(b) Trade and other payables includes £65.0 million (2019 £67.5 million) of IFRS 15 contract liabilities (refer to Note 16(c)).

15 DEFERRED TAX

Deferred tax provided in the Accounts is as follows:

	Property, plant and equipment £m	Other temporary differences £m	Total £m
At 1 April 2018	166.6	(0.1)	166.5
Charge to the income statement	9.7	-	9.7
At 1 April 2019	176.3	(0.1)	176.2
Charge to the income statement	28.7	-	28.7
At 31 March 2020	**205.0**	**(0.1)**	**204.9**

(a) At 31 March 2020, the company had unutilised capital losses of £12.5 million (2019 £12.6 million). No deferred tax asset has been recognised in the Accounts due to the unpredictability of suitable future profit streams against which these losses may be utilised.

(b) Legislation was previously enacted to reduce the UK rate of Corporation Tax to 17% on 1 April 2020. Accordingly deferred tax balances had been measured at the 17% rate as at 31 March 2019, this being the tax rate enacted at the balance sheet date and the rate temporary differences are expected to reverse. Further legislation has been substantively enacted on 17 March 2020 under The Provisional Collection of Taxes Act 1968 that maintains the 19% UK corporation tax rate. The deferred tax balance as at 31 March 2020 has therefore been calculated at 19%.

16 REVENUE

(a) Disaggregation of revenue

	2020 **£m**	2019 £m
Electricity distribution	**394.3**	344.0
Transfers of assets from customers	**16.2**	14.5
	410.5	358.5

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.

(i) Electricity distribution

The company provides a service of making its distribution network available to customers. This performance obligation is satisfied over time as the customer simultaneously receives and consumes the benefits of the company's performance as it makes the distribution network available. The company has a right to consideration in an amount that corresponds directly with the value to the customer of the company's performance to date. Revenue is therefore recognised in the amount to which the company has a right to invoice based on the amount of allowed revenue for the year set by the price control. Due to the nature of the electricity settlements industry process, revenue includes unbilled income recognised as a receivable relating to units transferred over the network but not yet invoiced at the end of the year. Invoices are raised a month in arrears and are typically settled within a month.

(ii) 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.

16 REVENUE *continued*
(c) Contract balances

	Notes	31 March 2020 £m	31 March 2019 £m	1 April 2019 £m
Receivables	(i), (ii)	**63.1**	48.9	52.1
Contract liabilities	(iii), (iv)	**(570.1)**	(536.3)	(515.9)

(i) Included within Trade and other receivables (refer to Note 6).
(ii) £0.6 million (2019 £0.8 million) of impairment losses were recognised during the year on receivables arising from the company's contracts with customers (refer to Note 8).
(iii) £505.1 million (2019 £468.8 million) of contract liabilities relates to the transfer of assets from customers which is recorded within Deferred income (refer to Note 11). The remainder is included with Trade and other payables (refer to Note 14).
(iv) The movement in the contract liabilities in the year comprises an increase in transfers of assets from customers and payment on account of £50.0 million (2019 £34.9 million) less contract liabilities recognised as income in the year of £16.2 million (2019 £14.5 million).

17 EMPLOYEE INFORMATION
(a) Staff costs

	2020 £m	2019 £m
Wages and salaries	45.3	45.8
Social security costs	4.8	4.9
Pension and other costs	10.9	11.4
Total staff costs	**61.0**	62.1
Less: capitalised staff costs	(48.1)	(45.3)
Charged to the income statement	**12.9**	16.8

(i) The employee costs do not include the directors of the company as they do not have a contract of service with the company. The emoluments of all directors are included within the employee costs of other ScottishPower companies. Details of directors' remuneration are set out in Note 25(c).

(b) Employee numbers
The average numbers of employees (full and part-time) employed by the company, including UK based directors, were:

	Average 2020	Average 2019
Administrative staff	**234**	235
Operations	**667**	667
Total	**901**	902

(c) Pensions
The company's contributions payable in the year were £10.0 million (2019 £10.5 million). The company contributes to the ScottishPower company'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 company 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 2019, the deficit in ScottishPower's defined benefit schemes in the UK amounted to £651.7 million (2018 £512.7 million). The employer contribution rate for these schemes in the year ended 31 December 2019 was 45.0% - 48.0%.

18 TAXES OTHER THAN INCOME TAX

	2020 £m	2019 £m
Property taxes	**23.4**	22.8

19 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS

	2020	2019
	£m	£m
Property, plant and equipment depreciation charge	**101.5**	96.1
Right-of-use assets depreciation charge	**5.2**	-
Charges and provisions, allowances and impairment of assets	**1.8**	0.2
	108.5	96.3
Capitalised right-of-use depreciation	**(2.6)**	-
	105.9	96.3

20 FINANCE INCOME

	2020	2019
	£m	£m
Interest on bank and other deposits	**0.1**	-

21 FINANCE COSTS

	2020	2019
	£m	£m
Interest on amounts due to Iberdrola group companies	**24.8**	22.8
Interest on other borrowings	**17.5**	17.4
Interest on lease liabilities	**1.6**	-
	43.9	40.2
Capitalised interest	**(0.3)**	-
	43.6	40.2

22 INCOME TAX

	2020	2019
	£m	£m
Current tax:		
UK Corporation tax	**16.2**	7.7
Adjustments in respect of prior years	**0.6**	(1.3)
Current tax for the year	**16.8**	6.4
Deferred tax:		
Origination and reversal of temporary differences	**8.5**	8.7
Adjustments in respect of prior years	**(0.5)**	1.9
Impact of tax rate change	**20.7**	(0.9)
Deferred tax for the year	**28.7**	9.7
Income tax expense for the year	**45.5**	16.1

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

	2020	2019
	£m	£m
Corporation tax at 19% (2019 19%)	**24.2**	16.2
Adjustments in respect of prior years	**0.1**	0.6
Impact of tax rate change	**20.7**	(0.9)
Non-deductible expenses and other permanent differences	**0.5**	0.2
Income tax expense for the year	**45.5**	16.1

Legislation was previously enacted to reduce the UK rate of Corporation Tax to 17% on 1 April 2020. Accordingly deferred tax balances had been measured at the 17% rate as at 31 March 2019, this being the tax rate enacted at the balance sheet date and the rate temporary differences are expected to reverse. Further legislation has been substantively enacted on 17 March 2020 under The Provisional Collection of Taxes Act 1968 that maintains the 19% UK corporation tax rate. The deferred tax balances as at 31 March 2020 have therefore been calculated at 19%.

23 DIVIDENDS

	2020 pence per ordinary share	2019 pence per ordinary share	**2020** £m	2019 £m
Interim dividend paid	**7.7**	16.1	**46.3**	96.7

24 FINANCIAL COMMITMENTS

Other contractual commitments

	2020						
	2021 £m	**2022** £m	**2023** £m	**2024** £m	**2025** £m	**2026 and thereafter** £m	**Total** £m
Other contractual commitments	8.6	0.6	0.1	0.1	-	-	**9.4**

	2019						
	2020 £m	2021 £m	2022 £m	2023 £m	2024 £m	2025 and thereafter £m	Total £m
Other contractual commitments	14.0	0.5	0.1	-	-	-	14.6

25 RELATED PARTY TRANSACTIONS

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

	2020		2019		
	Immediate parent (SPENH) £m	**Other Iberdrola group companies £m**	UK parent (SPL) £m	Immediate parent (SPENH) £m	Other Iberdrola group companies £m
Types of transaction					
Sales and rendering of services	**-**	**56.8**	-	-	54.1
Purchases and receipt of services	**-**	**(74.4)**	-	-	(69.9)
Purchases of property, plant and equipment	**-**	**(1.3)**	-	-	(0.6)
Interest costs	**-**	**(24.8)**	(2.4)	-	(20.4)
Dividends paid	**(46.3)**	**-**	-	(96.7)	-
Balances outstanding					
Trade and other receivables	**-**	**9.2**	-	-	8.4
Loans payable	**-**	**(1,007.5)**	-	-	(962.3)
Trade and other payables	**-**	**(23.3)**	-	-	(26.1)
Interest payable	**-**	**(5.3)**	-	-	(4.1)

(i) During the year ended 31 March 2020, SPUK made pension contributions of £10.0 million on behalf of the company (2019 £10.5 million).
(ii) 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.

25 RELATED PARTY TRANSACTIONS *continued*

(b) Remuneration of key management personnel

The remuneration of the key management personnel of the company is set out below. As all of the key management personnel are remunerated for their work for Energy Networks, it has not been possible to apportion the remuneration specifically in respect of services to this company. Of the 13 (2019 twelve) key management personnel, twelve (2019 twelve) were remunerated by other ScottishPower companies during the year.

	2020 **£000**	2019 £000
Short-term employee benefits	**2,153**	1,863
Post-employment benefits	**260**	206
Share-based payments	**168**	913
	2,581	2,982

(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 (2019 six) directors, five (2019 six) were remunerated by other ScottishPower companies during the year.

Executive directors	**2020** **£000**	2019 £000
Aggregate remuneration in respect of qualifying services	**1,321**	1,268
Number of directors who exercised share options	**2**	2
Number of directors who received shares under a long-term incentive scheme	**-**	2
Number of directors accruing retirement benefits under a defined benefit scheme	**1**	1

Highest paid director	**2020** **£000**	2019 £000
Aggregate remuneration	**736**	714
Accrued pension benefits	**101**	99

(i) The highest paid director received shares under a long-term incentive scheme during 2019 only.
(ii) The highest paid director exercised share options during both years.

(d) Ultimate and immediate parent company

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

The directors regard Iberdrola, S.A. (incorporated in Spain) as the ultimate parent company, which is also the parent company of the largest group in which the results of the company are consolidated. The parent company of the smallest group in which the results of the company are consolidated is 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 5.

26 AUDITOR REMUNERATION

	2020 **£000**	2019 £000
Audit of the company's annual accounts and regulatory accounts	**116**	94

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 20.

Notwithstanding net current liabilities of £218.4 million as at 31 March 2020, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The company is a significant component of ScottishPower which in turn is part of Iberdrola, one of the world's largest integrated utilities groups. The company participates in a UK treasury function operated by the company's intermediate parent company, Scottish Power Limited. The UK treasury function works closely with Iberdrola to manage the company's funding requirements, which are reviewed and adjusted on a regular basis using a mixture of external funding and funding provided via Iberdrola, through the global treasury function. Scottish Power Limited has indicated its intention to provide the company with the funding it requires, through the UK treasury function and utilising its committed facilities with Iberdrola group treasury, for a period of at least twelve months from the date of these financial statements. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Since March 2020, the economic environment has been affected by the global COVID-19 pandemic, however due to the nature of the company's core activities, the direct effects on cash flows are expected to be limited. The company continues to trade at close to normal levels, providing vital services which underpin the national economy and all essential services.

For the purposes of the directors' assessment of the company's going concern position and to satisfy them of the company's ability to pay its liabilities as they fall due, the directors have prepared a company cash flow statement for a period of 17 months from the date of approval of these financial statements. The cash flow forecasts indicate that, after taking account of severe but plausible downsides including the impact of the COVID-19 pandemic, the company's existing resources and facilities and the support noted above from Scottish Power Limited are sufficient to enable it to trade and pay its liabilities as they fall due for the forecast period.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 17 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.