SP MANWEB PLC
ANNUAL REPORT AND ACCOUNTS
for the year ended 31 December 2020

Registered No. 2366937

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SP MANWEB PLC
STRATEGIC REPORT

The directors present their Strategic Report on SP Manweb plc ("the Company") for the year ended 31 December 2020. This includes an overview of the Company's structure, strategic outlook including 2020 performance, and principal risks and uncertainties.

STRATEGIC OUTLOOK

Introduction

The principal activity of the Company, registered Company number 2366937, is the ownership 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 sales to their customers. This activity will continue 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 Central and Southern 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. Price controls are delivered on a regulatory basis covering April to March of any given year. Therefore, a majority of the Company's performance and key deliverables are measured and reported on this basis.

COVID-19

In March 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic, due to its rapid spread throughout the world. In common with many governments, the UK and devolved Governments put in place restrictive measures to contain the spread of the virus. These have been in place to various extents since March 2020 and are expected to endure in some form during 2021 and perhaps 2022. The specific risks presented by COVID-19 are considered as part of the 'Principal Risks and Uncertainties' section of the Strategic Report. Whilst acknowledging the risks faced by the Company, COVID-19 is not deemed to impact the conclusion that the Company will continue as a going concern.

As the COVID-19 crisis has developed, ScottishPower has been committed to taking all necessary measures to help to protect the safety and wellbeing of its employees, its customers and the communities it serves. At a Group level, and across its Energy Networks operations, ScottishPower has been working closely with government departments, Ofgem and industry bodies to ensure that it continues to follow the latest advice. Through its membership of Energy UK and the Energy Networks Association ("ENA"), ScottishPower contributed to the industry agreement announced by The Department for Business, Energy and Industrial Strategy ("BEIS") on 18 March 2020 on the importance of supporting vulnerable people through the disruption caused by COVID-19.

As part of the response to COVID-19, Iberdrola successfully undertook a global audit of its COVID-19 mitigation protocols, which was overseen and certified by the Spanish Association for Standardization and Certification ("AENOR"). ScottishPower played an active part in this audit and received independent AENOR certification for its policies, procedures and compliance with local regulations. At the group level, ScottishPower has implemented several measures to ensure it is well positioned to respond to the significant challenges posed by COVID-19. These include ongoing reviews of business continuity, IT resilience, supply chain operations, and the safety and wellbeing of critical and non-critical employees. Employees have received regular communications updates on developments and the ScottishPower website has been routinely updated with the latest information on how it is responding to the crisis. Further detail is provided in the 'Employees' section of the Strategic Report.

STRATEGIC OUTLOOK *continued*

The operational response to COVID-19 has been of the highest priority to Energy Networks. Activities have included: initiating business continuity plans to ensure resilience across network control room operations; undertaking an engineering review of the physical network and developing a resilience plan to ensure continuity of supply for essential services; reviewing supply chain integrity, stock levels and fuel provision; reviewing arrangements for public facing activity to ensure that faults can be addressed and network resilience supported without exposing employees, customers or members of the public to adverse risks; and engaging constructively and proactively with UK resilience and emergency preparedness bodies. Energy Networks has worked closely on arrangements at an industry level with the ENA. The Energy Networks website has presented information and updates intended to provide reassurance to customers and stakeholders that it has robust, well-practised contingency plans in place to make sure its resilient network continues to deliver services during any challenging times. This is available at www.spenergynetworks.co.uk. In addition, regular reports are provided to Ofgem on any COVID-19-related matters and its operational performance.

Electricity networks are essential to the transportation of energy from generators to homes and businesses and are critical national infrastructure. Without them, reliable essential services could cease to operate, and life would become harder for everyone, particularly the most vulnerable. Those who work for network operators are critical to maintaining these supplies. Throughout the pandemic Energy Networks has ensured:

- a safe working environment is in place for its employees that complies with the latest government guidance; and
- a prioritisation of ‘essential works’ i.e. those that are necessary for the short to medium term security of supply or for the protection and safety of consumers and workers.

Energy Networks will continue to provide non-essential services to the extent that it can, balancing the impact on its workforce with the impact on its network and its customers.

Energy Networks has regularly engaged with BEIS’ Downstream Gas and Electricity Resilience team and Ofgem since March 2020. During the initial height of the pandemic, sessions were held at least twice weekly and provided a central source of industry information and sharing of best practice. Regular reports provided by BEIS allowed cross-sector comparisons and a UK perspective as the pandemic unfolded.

The pandemic has resulted in a reprioritisation of Energy Networks’ operational activities and resources, and the Governments’ restrictions to civic life will continue to have impacts on business operations. Throughout the COVID-19 pandemic, Energy Networks has done everything possible to ensure its networks operate as close to normal as possible, and all of ScottishPower’s regulated businesses are undertaking works necessary to meet their licence conditions. Where activities have stopped or been delayed, there is a clear link to restrictions placed on them by third parties which has been captured in Ofgem reporting.

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 24p 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 2020, the Company moved into the sixth year of the eight-year RIIO-ED1 (Revenue = Incentives + Innovation + Outputs) price control period. It is on track to deliver the commitments it made within its original business plan for the remainder of the period. Regulatory reporting reveals that, in 2020, the Company has performed on, or ahead of, targets in its approach to safety, reliability and availability, and customer service. Energy Networks has also established its RIIO-ED2 price control team who will focus on the next distribution price control, RIIO-ED2. This team will lead engagement with a number of stakeholders across the business over the next year to develop a business plan. This will detail the Company’s investment decisions for the years 2023 to 2028, and the first draft is due to be submitted to Ofgem in summer 2021. The final RIIO-ED2 business plan will be submitted to Ofgem in December 2021.

STRATEGIC OUTLOOK *continued*

Innovation continues to be a key focus for the Company as it builds towards delivering a dynamic and accessible network for its customers. Energy Networks, and therefore the Company, are continuing to see the benefits of its innovation projects which continued throughout 2020 and are helping it to realise its goal of being a flexible DSO on the road to net zero. Energy Networks' Low Voltage Engine project revolves around trialling smart transformers on the network, allowing it the flexibility to connect low-carbon technologies while maximising the use of its existing assets. The CHARGE project aims to develop a strategy to facilitate and accelerate the electrification of transport, specifically, the connection of charging infrastructure. Energy Networks' FUSION project aims to roll out network access to all parties and to develop the flexibility of the 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. Energy Networks' latest innovation project in 2020 is called PACE. This project involves the rollout of public electric vehicle ("EV") charging infrastructure which is essential to meeting the Scottish and UK Governments' net zero and carbon reduction targets as this will support customers and communities' adoption of EVs. In 2020, Energy Networks published its site selection report associated with PACE, demonstrating the value network operators can bring when rolling out EV charging infrastructure.

2020 has been an exciting year for the energy sector as it moves towards reduced government carbon targets and net zero. As a result of governments' ambitions to achieve low-carbon targets, a significant amount of investment is required in Energy Networks' distribution networks to accommodate the increased electricity demands on ScottishPower's electricity system. In December 2020, the Committee on Climate Change announced their sixth Carbon Budget in which they recommended that polluting emissions in the UK must fall by almost 80% by 2035. The UK Government has also published its '10 Point Plan for a Green Industrial Revolution', which has now been followed by the UK Government's Energy White Paper and the Scottish Government's Climate Change Plan Update. These climate change ambitions and targets show the need to deliver substantial decarbonisation in several sectors, each of which will have a significant impact on electricity distribution networks over the next ten years. ScottishPower and Energy Networks have worked closely with industry to develop a set of proposals which aim to provide solutions for introducing new investment to facilitate the connection of new low-carbon technologies, such as EVs.

Brexit

Though the UK left the European Union ("EU") on 31 January 2020, all EU laws continued to apply until 31 December 2020. Following intensive negotiation, a UK/EU Trade and Cooperation Agreement was concluded on 24 December 2020 and was ratified by the Council of the European Union on 28 April 2021. The conclusion of the Trade and Cooperation Agreement greatly reduced many of the risks Brexit posed for ScottishPower, and so the Company.

A cross-business operational working-group enabled ScottishPower, and so the Company, to monitor Brexit risks at all stages, and has ensured that they are now fully integrated into the assessment of risks to the business. Further details of the remaining Brexit risks faced by the Company are provided in the 'Principal Risks and Uncertainties' section of the Strategic Report. ScottishPower, and so the Company, shall continue to monitor the consequences of Brexit, and will take mitigating action as appropriate.

Values in action

Net zero continues to attract huge public attention. Scottish Power and Energy Networks are collaborating with the Scottish, Welsh 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 place great value in all parts of society benefiting from the low-carbon revolution, access to 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 whilst it has encountered reluctance from Ofgem to invest ahead of need, ScottishPower contends that without investment in Energy Networks' infrastructure now, there will be significant lost opportunities that could slow down the pace required to meet the net zero deadline.

In 2020, Energy Networks further facilitated competition by developing design tools to quickly identify where the adoption of flexibility can save consumers money on upgrading the network. In September 2020, Energy Networks launched its largest ever tender for flexibility services which aims to procure a total of 960 megawatts ("MW") of active power and 38 mega volt amps of reactive power ("MVAr") for the period 2023 to 2028. From the first tender round, which concluded in February 2021, the business accepted bids for a total of 139.6 MW. The next tender round process commenced in March 2021.

Energy Networks' commitment as a business area to ScottishPower's values has been vital. It was benchmarked first in the UK by Institute of Customer Service, scoring 89.9 in this survey, higher than both the utilities sector and overall sectors.

2020 PERFORMANCE

The table below provides key financial information relating to the Company's performance during the year.

	Revenue*		Operating profit*		Capital investment**	
	2020	2019	**2020**	2019	**2020**	2019
Financial key performance indicators	**£m**	£m	**£m**	£m	**£m**	£m
SP Manweb plc	**408.4**	396.0	**167.8**	156.1	**192.0**	216.3

* Revenue and operating profit are presented on page 26.
** Capital investment is presented within Note 3 on pages 37 and 38.

Distribution revenues reflect increased base revenues allowed under RIIO-ED1 partly offset by a decrease reflecting reduced customer demand due to COVID-19. This decrease is expected to be recoverable in 2023/24 under the terms of the RIIO-ED1 framework.

Operating profit increased by £11.7 million to £167.8 million in 2020, mainly reflecting higher revenues. Lower operating costs were offset by increased depreciation. COVID-19 has had no material operating profit impact other than reduced customer demand.

In response to COVID-19, 2020 capex programmes were re-prioritised to network resilience, fault resolution and continuity of supply for essential services. The Company's capital investment decreased by £24.3 million to £192.0 million in 2020 reflecting this reprioritisation. Despite this, the Company, and ScottishPower remain committed to investing in the UK energy market.

The Company's Electricity Distribution Licence ("the licence") requires the directors to prepare regulatory accounts to 31 March for each regulatory year. Reporting of key performance indicators is aligned to the regulatory year end. Consequently, the latest available data for the last regulatory year has been disclosed in the tables below, with the exception of distributed energy that is reported for the years ending 31 December. The tables below provide key non-financial performance indicators relating to the Company's operational assets and operational performance.

Operational assets	**2020**	2019
Franchise area (km^2)	**12,200**	12,200
System maximum demand (MW)	**2,645**	2,919
Distributed energy (GWh*)	**13,696**	14,448
Length of overhead lines (circuit km)	**20,922**	19,972
Length of underground cables (circuit km)	**27,313**	27,173

*Gigawatt hours ("GWh")

Operational performance	Notes	**Actual 2020**	**Target 2020**	Actual 2019	Target 2019
Quality of service					
Customer minutes lost ("CML")	(a)	**33.8**	**38.2**	35.6	40.3
Customer interruptions ("CI")	(b)	**32.2**	**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					
Broader customer service measure - Interruptions	(c)	**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)	**-**	**-**	-	-

(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 above, 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.

2020 PERFORMANCE *continued*

The underlying CML and CI for the year to 31 March 2020 were 33.8 and 32.2 respectively. These values have been validated and confirmed by Ofgem, and 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 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 above for 2019/20 performance. The wider complaints metric result of 1.40 for the Company translates to a position of third out of the fourteen distribution areas.

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, published in November 2020 show that Energy Networks scored 6.85 for its distribution business. This is equivalent to an award for the Company of £1.2 million. This is an improvement on the previous year's score for which the Company was awarded £1.1 million.

LIQUIDITY AND CASH MANAGEMENT

Cash and net debt

Net cash flows from operating activities decreased by £3.3 million to £245.6 million for the year, as detailed on page 28. As detailed in the table below, net debt increased by £93.7 million to £1,450.7 million. Cash decreased by £10.0 million. Net loans payable to Iberdrola group companies increased by £77.1 million and external loans payable increased by £0.3 million. Lease liabilities increased £6.3 million to £58.4 million.

Analysis of net debt	Notes	**2020** **£m**	2019 £m
Cash	(a)	**14.3**	24.3
Loans receivable from Iberdrola Group companies	(b)	**35.2**	-
Loans payable to Iberdrola Group companies	(c)	**(1,094.0)**	(981.7)
External loans payable	(c)	**(347.8)**	(347.5)
Lease liabilities	(d)	**(58.4)**	(52.1)
Net debt		**(1,450.7)**	(1,357.0)

(a) As detailed on the balance sheet on page 25.
(b) As detailed in Note 6 on page 42.
(c) As detailed in Note 13 on page 47.
(d) As detailed in Note 4 on page 40.

Capital and debt structure

The Company is funded by a combination of debt and equity in accordance with the directors' objectives of establishing an appropriately funded business consistent with the requirements of the Utilities Act 2000 and the objectives of the Iberdrola Group. All of the equity is held by the Company's immediate parent undertaking, SPENH. Treasury services are provided by SPL. Further details of the treasury policy for ScottishPower and how it manages it is included in Note 8.

OUTLOOK FOR 2021 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 £6.0 billion in the transmission and distribution networks, and during the next ten years, Energy Networks plans to invest a further £8.5 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 continue to support UK Government energy policy.

In 2020, the UK Government announced the ban on selling new diesel, petrol and hybrid cars will be brought forward to 2030 under the Prime Minister's '10 Point Plan for a Green Industrial Revolution', announced in November 2020. The Scottish Government target remains at 2032 as announced in 2017.To enable the wide-scale rollout of EVs and facilitate governments' net zero targets, 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. In November 2021 Glasgow will play host to the next United Nations ("UN") Climate Change Conference, the Conference of the Parties ("COP 26"). Energy Networks is already engaged with government, Glasgow City Council and other relevant stakeholders with regard to ensuring the required electricity capacity is delivered for all of the conference venues and arrangements are in place to ensure the security of that supply is maintained throughout the event.

Energy Networks also recognises the opportunity COP 26 brings to raise public awareness of what needs to be done to deliver against the Global Climate Challenge and the part that it plays to deliver the net zero target set for the UK and Scotland. On that basis, Energy Networks is engaged with stakeholders in Glasgow and across Scotland delivering a number of projects particularly focused on decarbonisation of generation, transport and heat. It intends to use COP 26 to publicise these initiatives, raising awareness and gaining support for continuing to deliver similar projects at greater scale.

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 focus on the data which will be useful to a DNO to create benefits for customers. From this 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, is 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 risk management practices can be found in the most recent Annual Report and Accounts of SPL.

The principal risks and uncertainties of ScottishPower relevant to the Company and those specific to the Company, that may impact current, future operational and financial performance and the management of these risks are described below:

FINANCIAL RISKS	
RISK	**RESPONSE**
Market Risk Impacts arising from COVID-19 and Brexit following market reactions to events. These could include increased volatility on the value of Sterling and foreign currencies and, in the longer term, there could be positive or negative changes in the UK economy.	In addition to monitoring ongoing developments related to COVID-19 and Brexit, ScottishPower, and so the Company, has specific procedures in place to manage key market risks. Further details of the Treasury risk management policy are included in the most recent Annual Report and Accounts of SPL.

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

BUSINESS RISKS	
RISK	**RESPONSE**
Reduced UK energy supplier customer demand for electricity driven in 2020 by the impact of COVID-19 could continue into 2021 and beyond. This could impact Energy Networks' revenues which are dependent on supplier volumes.	In Energy Networks, as allowed revenue for each regulatory year is fixed, any shortfall in revenues during a period would be collected in future years in line with the RIIO price control mechanism.
Network operators are key facilitators to governments' net zero ambitions and the failure of Energy Networks, and so the Company, to respond to customers' changing requirements through the low-carbon transition, for example EVs, distributed generation and storage, could result in a failure to meet these targets.	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.

REGULATORY AND POLITICAL RISKS	
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.
Failure to deliver the Energy Network distribution outputs agreed with Ofgem in the price control under the RIIO framework.	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.

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

OPERATIONAL RISKS	
RISK	**RESPONSE**
The impact of COVID-19 increases the risk of ScottishPower and, where relevant, Energy Networks and the Company not being able to meet operational obligations to maintain the continuity of electricity supply. Key areas of risk include supply chain disruption and mobility of labour, which are impacted also by the Brexit deal.	Business continuity plans enacted with 'Gold Command'; making strategic decisions and determining priorities across the Group. 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 focusing on those issues which might impact the continuity of supply and the other obligations of ScottishPower. Supply chain monitoring groups were 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 and utilising the framework agreements the group already has in place. An assessment of key equipment and components was undertaken and additional orders placed in order to increase stock levels prior to 31 December 2020, including any additional storage requirements. Notification has been provided to subcontractors 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. EU nationals who arrived in the UK before 31 December 2020 can continue living in the UK by registering under EU Settlement Scheme by 30 June 2021. During 2020, we have been engaging with employees to ensure that they are informed of any actions they may need to take. Preparation for the new points-based global immigration system has commenced, including workshops with external immigration advisors and training of the ScottishPower Human Resources team. Further details are provided in the 'Employees' section of the Strategic Report.

SP MANWEB PLC
STRATEGIC REPORT *continued*

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

OPERATIONAL RISKS ***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. Further details are provided in the 'Employees' section of the Strategic Report.
Breach in cyber security and unwanted infiltration of ScottishPower's IT infrastructure by internal and external parties impacting key infrastructure, networks or core systems.	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.
Within Energy Networks, reduced security of supply due to potential asset failures alongside reduced generation capacity. Reduced security of supply has the potential to disrupt many of our customers, in both our own licence areas and beyond.	Risk-based asset investment programme in place, business continuity and emergency planning well established including Black Start. Strategic spares policy in place.
Inability to recruit or retain an appropriately skilled workforce within Energy Networks to deliver agreed distribution outputs.	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.
Failure to protect Energy Networks' customer service performance. This has the potential to severely damage the Company's reputation as one of the UK's top DNOs for customer satisfaction and adversely impact our performance against our regulated customer satisfaction financial incentive.	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.

ENGAGING WITH STAKEHOLDERS
References to "ScottishPower" apply fully to the Energy Networks business, 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, especially employees, is key to promoting its success and values.

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: Employees and energy customers; suppliers and contractors; government and regulators; and community and environment.

Behind these stakeholders are millions of people, and thousands of institutions, organisations and groups. All of them, with their decisions and opinions, influence ScottishPower, and they are also affected by ScottishPower's activities. 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 are also important to the Company and ScottishPower. All shareholder management activities are carried out on ScottishPower's 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/corporategovernance-system/corporate-policies/shareholder-engagement-policy.

EMPLOYEES AND 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 continue 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 understand 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.

As part of ScottishPower, the Company's engagement with its employees is driven by the decisions, policies and procedures in place at a ScottishPower level. The directors of the Company ensure that in applying these ScottishPower decisions, policies and procedures they are meeting their duties to the Company.

Details of the following areas in relation to employee engagement, which apply fully to the Company, are provided in the most recent Annual Report and Accounts of SPL:
- impact of COVID-19;
- employment regulation;
- training;
- employee feedback and consultation;
- inclusion and diversity;
- rewards and benefits;
- employee health and wellbeing;
- Brexit; and
- employee volunteering.

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. A more extensive description of how ScottishPower, and therefore the Company, addresses health and safety requirements can be found in the most recent Annual Report and Accounts of SPL.

In August 2020, Energy Networks tragically recorded a fatal accident involving a colleague who was carrying out electrical working activity. This was the only incident involving an electrical hazard in 2020 resulting in harm to staff, and is currently under investigation by a legally privileged Panel of Inquiry to establish the root causes and all contributory factors. Any potential lessons learned from this incident will be communicated to all staff internally and shared with the wider industry.

Modern Slavery Statement

The term 'modern slavery' covers both slavery and human trafficking. ScottishPower is committed to human and labour rights and to eliminating modern slavery that could in any way be connected to its business. In accordance with the Modern Slavery Act 2015, ScottishPower produced its own Modern Slavery Statement, which has been approved by the board of directors of Scottish Power Limited (“the SPL Board”). This statement is published on the ScottishPower website at: https://www.scottishpower.com/userfiles/file/SP_Modern_Slavery_Statement_2019.pdf?v=1.2.

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. Performance relating to the RIIO price controls 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, particularly for vulnerable members of society, continued to be a key objective for Energy Networks in 2020. ScottishPower is the first utility company in the world to achieve the BSI Customer Service Kitemark Certification and Vulnerability Standard. In addition, Energy Networks performed 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, demonstrated by the addition of around 150,000 customers to its Priority Services Register in 2019/20, bringing the total to over one million. Under the Stakeholder Engagement and Consumer Vulnerability (“SECV”) Incentive, set out in the Company’s ‘2020 Operating Performance’ section above, the Company was awarded £1.2 million for 2019/20.

Earning customer satisfaction

Energy Networks continues to raise awareness of how best to contact it and the services it provides for customers. As a result of Energy Networks’ targeted awareness raising activities since 2015, the number of people who know who to call in a power cut (via the National 105 number) has risen from 13% to 47%, and registrations to the Priority Services Register increased from 8% to 31%. Making continual improvements to customer service is a cornerstone of Energy Networks’ RIIO-ED1 strategy. Energy Networks’ focus in the Broad Measure of Customer Service incentive scheme (“BMCS”) has placed the Company fourth across the 14 UK distribution areas during 2019/20 with a score of 9.16, and puts it ahead of where it committed to be on its journey to score 9.42 by the end of the RIIO-ED1 price control period. This performance in 2019/20 will deliver a reward for customer satisfaction to the Company of £4.0 million.

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 it has increased the number of ways to engage, and reach more stakeholders than ever before. In 2019/20 the Company received 12,053 enquiries and issued 9,904 quotations across its distribution licence area. The Company was awarded a total of £0.1 million under the Average Time to Connect Incentive for 2019/20, in line with the previous year. Ofgem confirmed in October 2018 its decision not to penalise the Company under the ‘penalty only’ Incentive on Connections Engagement. The Company has not received a penalty since the introduction of the scheme at the beginning of the RIIO-ED1 price control period.

ENGAGING WITH STAKEHOLDERS *continued*

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 RIIO-ED1 price control period. By achieving a 24% reduction so far; Energy Networks is well on its way to exceeding this target.

In 2019/20, Storm Ciara impacted 38,988 of the Company's customers. 99% of all customers were reconnected within 24 hours. Energy Networks already manages the network by automatically restoring a proportion of customers after a fault. It now has 1,828 automatic restoration schemes built enabling 1.4 million customers (40% of the Company's customer base) to be restored within three minutes should they experience a power cut.

During 2019/20, energy to customers was disrupted by one storm event which met Ofgem's 'exceptional event' exclusion criterion; a wind and gale storm in February 2020 (2018/19 two exceptional storm events wind and gale storms in September 2018 and October 2018). As a result, the underlying CML and CI for the Company for the year to 31 March 2020 were 33.8 and 32.2 respectively. This corresponds to a total award of £2.9 million for 2019/20 performance by the Company (£2.4 million in 2018/19).

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. 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 the UK and Scottish Governments' net zero decarbonisation targets. In the early part of the year much of ScottishPower's engagement with government and Ofgem was focused on the response to COVID-19, including steps to ensure that its key workers and engineers were able to continue the vital role in the communities it serves, and seek appropriate adjustments of regulatory obligations affected by lockdown.

ScottishPower has continued to engage extensively with governments, local authorities and other stakeholders on decarbonisation, publishing in June 2020 a report 'Unlocking Net Zero' setting out a ten-point plan to deliver jobs and investment for a green recovery. In the latter part of the year much of ScottishPower's engagement with government, Ofgem and other stakeholders has been on the RIIO-2 network price controls, highlighting the need for appropriate levels of ambition towards net zero, and with government on future support for renewables.

SUPPLIERS AND CONTRACTORS

As part of its mission for a better future, quicker, ScottishPower is always looking for new suppliers and contractors, and for ways to improve its working relationships with existing suppliers and contractors. ScottishPower has a broad and diverse supply chain with over 3,000 suppliers, and during 2020, was awarded contracts with a cumulative value of around £1.8 billion. Suppliers have a key role to play in the delivery of ScottishPower projects and services that ScottishPower is undertaking to provide 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 the 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.

Engagement with the supply chain has been vital during the COVID-19 pandemic and allowed the impact to be assessed not only on the supply of goods, services and progress on works, but also how the pandemic was affecting suppliers. ScottishPower asked for suppliers to highlight significant risks they were facing and how this would affect its supplies, and this put them in a position to take any remedial action as required. In order to support suppliers, ScottishPower collated information on sources of government assistance and relevant contacts, which was shared within its organisation to ensure this information could reach as many suppliers as possible.

ENGAGING WITH STAKEHOLDERS *continued*

COMMUNITY AND ENVIRONMENT

Being a trusted, respected and integrated part of the community is something ScottishPower continually aims for. This is realised through operating with integrity, transparency, and working closely within the community to build relationships. ScottishPower aims to ensure it conducts its activities responsibly and makes a positive contribution to society.

ScottishPower is committed to decarbonisation and minimising 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.

Further details as to how ScottishPower, and so the Company, engages with communities and manages its impact on the environment are provided in the most recent Annual Report and Accounts of SPL.

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 it 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.

In its continuing strategic partnership with the University of Strathclyde, and specifically within the Low Carbon Power and Energy collaboration programme, ScottishPower has carried out studies in many future value areas such as; the ability of wind farms to support the ancillary services market, the use of data analytics to predict health and safety trends, the use of advanced forecasting techniques for energy markets, and using predictive analytics to support future asset planning in electricity networks.

ScottishPower's future innovations will benefit from rapid prototyping and testing in real world environments and to that end, it has signed an agreement with the Halo Kilmarnock project to work together in a world-leading, 'living lab' development. This project plans to create a 100% renewable energy-fed community comprising more than 200 homes and 30 small businesses, a large enterprise and innovation office, and a range of low-carbon technologies throughout. This will enable the trialling and deployment of low-carbon heating, energy storage, electrification of transportation and smart home products and services. This flagship project is intended to allow innovations across the Group to be tested quicker, accelerate time to market, and to provide a conveyor belt of future innovations in the next few years.

Within Energy Networks:

- 2020 saw Energy Networks build on the success of its Year of Innovation in 2019. Staff are key to this success, and an ideas management platform has been embedded in the business to give staff direct access to solve challenges faced by the business.
- The Project PACE team are working in collaboration with Transport Scotland and Local Authorities to deliver around 180 new public chargers in more than 40 locations across Lanarkshire, targeting areas and communities where the commercial market has not yet delivered and is unlikely to in the short to medium term. Project PACE is exploring the benefits of having a DNO involved in the various stages of deploying universally accessible public EV charger infrastructure, including costs and delivery timescales.
- As the electricity network continues to evolve, and demand for power continues to grow, the ability to actively manage ScottishPower's network becomes ever more critical. Fault level management is a key part of that, which is why Energy Networks been working on new and innovative technology that allows it to measure and manage fault levels in real time. As part of trials being run, prototype monitors are installed in substations across Chester, Warrington and Liverpool, allowing Energy Networks greater visibility of the entire electrical network at any given time.

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 requires the directors of SP Manweb plc 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.

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 Company, and how they engage with them are as follows:

- **Customers:** details of how the Company assesses broader customer service measures are explained in the 'Customers' sub-section of the Strategic Report, on page 11.
- **Employees:** details of how ScottishPower, and so the Company, engages with its employees are set out in in the 'Employees' sub-section of the Strategic Report, on page 10.
- **Communities and the environment:** details of how ScottishPower, and so the Company, engages with communities are set out in the 'Community and environment' sub-section of the Strategic Report, on page 13.
- **Suppliers and contractors:** details of how ScottishPower, and so the Company, engages with its suppliers are set out in the 'Suppliers and contractors' sub-section of the Strategic Report, on page 12.
- **Government and regulators:** details of how ScottishPower, and so the Company, engages with governments and regulators are set out in the 'Government and regulators' sub-section of the Strategic Report, on page 12.

In addition, a statement in relation to the Company's interaction with its shareholders is described in the introduction to the 'Engaging with stakeholders' section of the Strategic Report on page 10.

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 December 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

Scott Mathieson
Director
25 May 2021

SP MANWEB PLC
DIRECTORS' REPORT

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

INFORMATION CONTAINED WITHIN THE STRATEGIC REPORT

The directors have chosen to disclose information on the following, required by the Companies Act 2006 to be included in the Directors' Report, within the Strategic Report, found on pages 1 to 14:

- 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 £80.7 million (2019 £92.7 million). A dividend of £73.0 million was paid during the year (2019 £46.3 million).

STREAMLINED ENERGY AND CARBON REPORTING

The Company is exempt under section 20A of The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 from the requirements to present disclosures concerning greenhouse gas emissions, energy consumption and energy efficiency action as such disclosures relating to the SPL Group, of which the Company is a part, are presented in the most recent Annual Report and Accounts of SPL.

CORPORATE GOVERNANCE

Statement regarding the corporate governance arrangements of the SPENH Group

As required by the Companies (Miscellaneous) Reporting Regulations 2018, 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 its terms of reference 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 2020 are set out as follows:

The terms of reference of the SPENH Board are published on www.spenergynetworks.co.uk under 'Corporate Governance'.

The Group Governance Framework is published on the SPL Corporate website under 'Corporate Governance'/ 'Governance and Sustainability System'/'Corporate Governance'.

Corporate governance system

The Company is governed by the Board, which consists of five 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 were as follows:

Frank Mitchell	
Scott Mathieson	
Wendy Barnes	(resigned 6 May 2020)
Alison McGregor	
Professor Dame Lesley Anne Glover	
Stephen Stewart	(resigned 10 June 2020)
Liam O'Sullivan	(appointed 16 December 2020)

At the date of this report, there have been no changes to the composition of the Board since the year end.

CORPORATE GOVERNANCE *continued*

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 2020, the Board has taken into account the Purpose and Values of the Iberdrola Group and the Code of Ethics which are published on www.spenergynetworks.co.uk under 'Corporate Governance'. 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 below.

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 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 policies are published on www.spenergynetworks.co.uk under 'Corporate Governance'.

During 2020, the governance structure was supported by the risk policies of the SPENH Group. Its business risk assessment team and independent 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

Scottish Power Limited Board

The primary responsibilities of 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 nine other directors as at 31 December 2020. José Ignacio Sánchez Galán is also the Chairman and Chief Executive Officer of Iberdrola.

CORPORATE GOVERNANCE *continued*
The directors of SPL Board were:

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
Wendy Jacqueline Barnes	Independent, non-executive director (appointed 12 May 2020)
Dame Nicola Brewer	Independent, non-executive director (resigned 16 March 2020)
Iñigo Fernández de Mesa Vargas	Independent, non-executive director
Suzanne Fox	Independent, non-executive director
Professor Sir James McDonald	Independent, non-executive director
Daniel Alcaín López	Non-independent, non-executive director (appointed 26 March 2020)
Gerardo Codes Calatrava	Non-independent, non-executive director
Juan Carlos Rebollo Liceaga	Non-independent, non-executive director (resigned 1 March 2020)
José Sainz Armada	Non-independent, non-executive director

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
Wendy Jacqueline Barnes	Attended three meetings
Dame Nicola Brewer	Attended one meeting
Iñigo Fernández de Mesa Vargas	Attended all meetings
Suzanne Fox	Attended all meetings
Professor Sir James McDonald	Attended all meetings
Daniel Alcaín López	Attended four meetings
Gerardo Codes Calatrava	Attended all meetings
Juan Carlos Rebollo Liceaga	Attended no meetings
José Sainz Armada	Attended all meetings

The SPL Board's terms of reference are published on the SPL Corporate website under 'Corporate Governance'/'Governance and Sustainability System'/'Corporate Governance'.

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 and non-financial reporting processes 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 SPL Board, the appointment or re-appointment of the auditor and the associated terms of reference.

The SP ACC's terms of reference are published on the SPL Corporate website under 'Corporate Governance'/'Governance and Sustainability System'/'Corporate Governance'.

CORPORATE GOVERNANCE *continued*

Membership and attendance

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

Professor Sir James McDonald, Chairman (external, independent director)	Attended all meetings
Dame Nicola Brewer (external, independent director) (resigned 16 March 2020)	Attended one meeting
Iñigo Fernández de Mesa Vargas (external, independent director)	Attended all meetings
Daniel Alcaín López (internal, non-independent director) (appointed 7 May 2020)	Attended three meetings
Juan Carlos Rebollo Liceaga (internal, non-independent director) (resigned 1 March 2020)	Attended no meetings
José Sainz Armada (internal, non-independent director) (appointed 18 February 2020, resigned 6 May 2020)	Attended one meeting

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 (in part) four meetings of the SP ACC.

Matters considered by the SP ACC during 2020

The issues that the SP ACC specifically addressed are detailed in its report which is published on the SPL Corporate website under 'Corporate Governance'/'Board of Directors'.

For the year ended 31 December 2020 there were no significant financial statement reporting issues for entities within the SPENH Group.

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 Finance and Resources; 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, 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 five other directors as at 31 December 2020. The directors and their attendance at SPENH Board meetings held during the period under review (seven meetings) are shown below:

Armando Martinez Martinez (Chairman, non-independent, non-executive director)	Attended six meetings
Frank Mitchell CEO	Attended all meetings
Wendy Barnes (independent, non-executive director)	Attended two meetings (resigned 6 May 2020)
Professor Dame Lesley Anne Glover (independent, non-executive director)	Attended all meetings
Alison McGregor (independent, non-executive director)	Attended all meetings
Antonio Espinosa de los Monteros (non-independent, non-executive director)	Attended all meetings (resigned 30 December 2020)
Mónica Grau Domene (non-independent, non-executive director)	Attended one meeting (appointed 18 November 2020)
José Izaguirre Nazar (non-independent, non-executive director)	Attended three meetings (resigned 10 July 2020)
Scott Mathieson (non-independent, executive director)	Attended six meetings (resigned 17 November 2020)
Marc Rossi (non-independent, executive director)	Attended four meetings (appointed 10 July 2020, resigned 23 November 2020)
José Ignacio Sánchez Galán Garcia-Tabernero (non-independent, non-executive director)	Attended one meeting (appointed 12 October 2020)

The terms of reference of the SPENH Board are published on www.spenergynetworks.co.uk under 'Corporate Governance'.

CORPORATE GOVERNANCE *continued*

SPENH Audit and Compliance Committee ("SPENH ACC")

The SPENH Audit and Compliance Committee ("SPENH ACC") undertakes the role and function of the SP ACC as they relate to the regulated Energy Networks business division. 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 on www.spenergynetworks.co.uk under 'Corporate Governance'.

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; 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:
www.spenergynetworks.co.uk under 'Corporate Governance' / 'Board of Directors'.

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 two meetings
Alison McGregor, Chairperson (external, independent director) (appointed Chairperson 11 May 2020)	Attended all meetings
Professor Dame Lesley Anne Glover (external, independent director) (appointed 11 May 2020)	Attended three meetings
Mónica Grau Domene (internal, non-independent director) (appointed 18 November 2020)	Attended one meeting
José Izaguirre Nazar (internal, non-independent director) (resigned 10 July 2020)	Attended three meetings
Marc Rossi (internal, executive director) (appointed 10 July 2020, resigned 23 November 2020)	Attended one meeting

DIRECTORS' INDEMNITY

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

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- state whether they have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

SP MANWEB PLC
DIRECTORS' REPORT *continued*

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

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

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, and Corporate Governance Statement that complies with that law and those regulations.

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 Annual Report and Accounts confirms that:

- so far as he or she is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- he or she has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

AUDITOR

KPMG LLP was re-appointed as the auditor of the Company for the year ended 31 December 2021.

ON BEHALF OF THE BOARD

Scott Mathieson
Director
25 May 2021

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF SP MANWEB PLC

1 Our opinion is unmodified

We have audited the financial statements of SP Manweb plc ("the Company") for the year ended 31 December 2020 which comprise the balance sheet, income statement and statement of comprehensive income, statement of changes in equity, cash flow statement, and the related notes, including the accounting policies in Note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors on 11 January 2018. The period of total uninterrupted engagement is for the four financial years ended 31 December 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (unchanged from 2019), in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Capital expenditure

(£192.0 million; 2019 £216.3 million)

Refer to page 32 (accounting policy) and pages 37 and 38 (financial disclosures).

The risk – Accounting Treatment - The Company continues to undertake major capital projects, including significant enhancements to the distribution networks. The determination of project costs as capital or operating expenditure is inherently judgemental as there is a need to distinguish between enhancement and maintenance works. Costs capitalised include an allocation of overhead costs, relating to the proportion of time spent by support function staff, which is also inherently judgemental. Property, plant and equipment (including those assets in the course of construction) is quantitatively the most significant amount on the Company's balance sheet and is the most significant area of audit effort.

Our response - Our procedures included:

Control design and observation: Evaluating the design and operating effectiveness of a selection of the Company's controls over the capital expenditure process including the approval of the capital expenditure. Tests of effectiveness were performed by re-performing a sample selected on the basis of the frequency of control operation and were designed to verify that appropriate procedures were followed in each instance. Testing was also performed to ensure that the **automated system control used to calculate overheads allocated to projects was operating effectively.**

Test of details: A sample of external costs for projects were agreed to purchase invoices and reviewed to ensure that these had been capitalised in line with applicable accounting standards as well as the company's capitalisation policy rather than being classified as maintenance works incurred as part of the company's operating expenditure. We identified and assessed the impact of in-year changes to capitalisation rates for all existing projects, as once set they are typically unchanged from period to period. Overhead costs allocated to projects were agreed to the overhead allocation model on a sample basis. We critically assessed the proportion of overhead costs which are capitalised based on corroborated enquiry and our sector knowledge.

Our results - We found the accounting treatment for capital expenditure to be acceptable.

3 Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £15.0 million (2019: £15.0 million), determined with reference to a benchmark of total assets, of which it represents 0.43% (2019: 0.45%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole. Performance materiality was set at 75% (2019: 75%) of materiality for the financial statements as a whole, which equates to £11,250,000 (2019: £11,250,000). We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.75 million (2019: £0.75 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the company was undertaken to the materiality level specified above and was performed by a single audit team.

4 Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least twelve months from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Company, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risk that we considered most likely to adversely affect the Company's available financial resources over this period was the impact of a reduction in energy volumes which would lead to reduced revenue in the period. It is important to note however that any such reductions in volumes would only create a short-term cash flow impact as under the Company's regulatory mechanism, the shortfall would be recoverable through allowable revenues in future periods.

We considered whether these risks could plausibly affect the liquidity in the going concern period by assessing the Directors' sensitivities over the level of available financial resources indicated by the Company's financial forecasts taking account of severe, but plausible adverse effects that could arise from these risks individually and collectively.

Our procedures also included critically assessing assumptions in the Directors' initial downside scenarios relevant to liquidity, in particular in relation to the impact of an increase in customer debt due to the ongoing COVID-19 pandemic compared to recent past experience. Furthermore, we assessed the ability and intent of the parent company to continue to support the company should any such support be required.

We considered whether the going concern disclosure in Note 1 to the financial statements gives a full and accurate description of the Directors' assessment of going concern, including the identified risks and dependencies.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in Note 1 to be acceptable.

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 above conclusions are not a guarantee that the Company will continue in operation.

5 Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

5 Fraud and breaches of laws and regulations – ability to detect *continued*

- Enquiring of directors and internal audit and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board/Audit Committee/Group Disclosure Committee minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets/ recent revisions to guidance/ our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements. On this audit we do not believe there is a fraud risk related to revenue recognition because the Company's revenue consists entirely of routine, non-complex transactions which are subject to systematic processing and do not require significant judgements.

We did not identify any additional fraud risks.

We performed procedures including identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management and those posted to unusual accounts.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.
We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Company's license to operate. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, environmental protection legislation and Ofgem regulations, recognising the regulated nature of the Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6 We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

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

Strategic report and directors' report

Based solely on our work on the other information:

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

7 We have nothing to report on the other matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

8 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on pages 19 and 20, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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

Philip Charles (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
319 St. Vincent Street
Glasgow
G2 5AS
26 **May 2021**

SP MANWEB PLC
BALANCE SHEET
at 31 December 2020

	Notes	2020 £m	2019 £m
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment		**3,268.7**	3,165.8
Property, plant and equipment in use	3	2,927.7	2,736.9
Property, plant and equipment in the course of construction	3	341.0	428.9
Right-of-use assets	4	**56.8**	51.0
Financial assets		**0.1**	0.1
Investments in subsidiaries	5	0.1	0.1
Trade and other receivables	6	**0.3**	-
NON-CURRENT ASSETS		**3,325.9**	3,216.9
CURRENT ASSETS			
Inventories	7	**17.6**	11.2
Trade and other receivables	6	**105.4**	66.8
Cash	8	**14.3**	24.3
CURRENT ASSETS		**137.3**	102.3
TOTAL ASSETS		**3,463.2**	3,319.2
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the parent		**1,032.7**	1,025.0
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	723.4	715.7
TOTAL EQUITY		**1,032.7**	1,025.0
NON-CURRENT LIABILITIES			
Deferred income	11	**527.1**	498.4
Provisions	12	**1.6**	1.4
Bank borrowings and other financial liabilities		**1,320.1**	1,266.8
Loans and other borrowings	13	1,320.1	1,266.8
Lease liabilities	4	**52.9**	47.0
Trade and other payables	14	**0.1**	0.1
Deferred tax liabilities	15	**202.6**	182.6
NON-CURRENT LIABILITIES		**2,104.4**	1,996.3
CURRENT LIABILITIES			
Provisions	12	**0.4**	0.5
Bank borrowings and other financial liabilities		**121.7**	62.4
Loans and other borrowings	13	121.7	62.4
Lease liabilities	4	**5.5**	5.1
Trade and other payables	14	**193.7**	222.3
Current tax liabilities		**4.8**	7.6
CURRENT LIABILITIES		**326.1**	297.9
TOTAL LIABILITIES		**2,430.5**	2,294.2
TOTAL EQUITY AND LIABILITIES		**3,463.2**	3,319.2

Approved by the Board and signed on its behalf on 25 May 2021:

Scott Mathieson

Scott Mathieson
Director

The accompanying Notes 1 to 26 are an integral part of the balance sheet at 31 December 2020.

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

	Notes	**2020 £m**	2019 £m
Revenue	16	408.4	396.0
Procurements		(20.9)	(18.9)
GROSS MARGIN		**387.5**	377.1
NET OPERATING EXPENSES		**(86.3)**	(93.0)
Net personnel expenses	17	**(15.9)**	(13.8)
Staff costs	17	(59.9)	(60.5)
Capitalised staff costs	17	44.0	46.7
Net external expenses		**(70.4)**	(79.2)
External services		(81.3)	(84.1)
Other operating income		10.9	4.9
Taxes other than income tax	18	**(23.5)**	(23.3)
GROSS OPERATING PROFIT		**277.7**	260.8
Net expected credit losses on trade and other receivables		(0.6)	(0.8)
Depreciation and amortisation charge, allowances and provisions	19	(109.3)	(103.9)
OPERATING PROFIT		**167.8**	156.1
Gains on disposal of non-current assets		-	0.1
Dividends received		-	0.1
Finance income	20	0.1	0.4
Finance costs	21	(41.5)	(42.8)
PROFIT BEFORE TAX		**126.4**	113.9
Income tax	22	(45.7)	(21.2)
NET PROFIT FOR THE YEAR		**80.7**	92.7

Net profit for both years is wholly attributable to the equity holder 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 26 are an integral part of the income statement and statement of comprehensive income for the year ended 31 December 2020.

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

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
At 1 January 2019	300.0	3.3	6.0	669.3	978.6
Total comprehensive income for the year	-	-	-	92.7	92.7
Dividends	-	-	-	(46.3)	(46.3)
At 1 January 2020	300.0	3.3	6.0	715.7	1,025.0
Total comprehensive income for the year	-	-	-	80.7	80.7
Dividends	-	-	-	(73.0)	(73.0)
At 31 December 2020	**300.0**	**3.3**	**6.0**	**723.4**	**1,032.7**

The accompanying Notes 1 to 26 are an integral part of the statement of changes in equity for the year ended 31 December 2020.

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

	2020 £m	2019 £m
Cash flows from operating activities		
Profit before tax	**126.4**	113.9
Adjustments for:		
Depreciation, amortisation and impairment	**108.1**	102.8
Change in provisions	**0.2**	0.2
Transfer of assets from customers	**(16.3)**	(15.9)
Finance income and costs	**41.4**	42.3
Shareholding income	**-**	(0.1)
Write-off of non-current assets	**0.7**	(0.1)
Changes in working capital:		
Change in trade and other receivables	**(3.7)**	(11.8)
Change in inventories	**(23.5)**	(19.7)
Change in trade and other payables	**(4.0)**	(3.4)
Provisions paid	**(0.1)**	(1.4)
Assets received from customers	**44.9**	50.3
Income taxes paid	**(28.5)**	(8.2)
Net cash flows from operating activities (i)	**245.6**	248.9
Cash flows from investing activities		
Interest received	**0.1**	0.4
Dividends received	**-**	0.1
Investments in property, plant and equipment	**(212.2)**	(218.3)
Proceeds from disposal of property, plant and equipment	**-**	0.1
Net cash flows from investing activities (ii)	**(212.1)**	(217.7)
Cash flows from financing activities		
Net decrease in amounts due to/from Iberdrola group companies - current loans	**(97.9)**	(279.1)
Increase in amounts due to Iberdrola group companies - non-current loans payable	**175.0**	350.0
Dividends paid to the Company's equity holder	**(73.0)**	(46.3)
Interest paid	**(41.0)**	(43.1)
Interest paid on lease liabilities	**(0.9)**	(0.2)
Payments of lease liabilities	**(5.7)**	(5.3)
Net cash flows from financing activities (iii)	**(43.5)**	(24.0)
Net (decrease)/ increase in cash and cash equivalents (i)+(ii)+(iii)	**(10.0)**	7.2
Cash and cash equivalents at beginning of year	**24.3**	17.1
Cash and cash equivalents at end of year	**14.3**	24.3

Cash and cash equivalents at end of year comprises:

	2020 £m	2019 £m
Cash	**14.3**	24.3
Cash flow statement cash and cash equivalents	**14.3**	24.3

The accompanying Notes 1 to 26 are an integral part of the cash flow statement for the year ended 31 December 2020.

SP MANWEB PLC
NOTES TO ACCOUNTS
31 December 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

B1 BASIS OF PREPARATION OF THE ACCOUNTS

The Company is required by law to prepare accounts for the Company and to deliver them to the Registrar of Companies. The accounts have been prepared in accordance with International Accounting Standards ("IAS") in conformity with the requirements of the Companies Act 2006 and in accordance with International Financial Reporting Standards ("IFRS") adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (refer to Note 1C1 below). The accounts are prepared in accordance with the accounting policies set out in Note 2. Monetary amounts are presented in pounds Sterling and 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.

B2 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 14.

The Company balance sheet presents net current liabilities of £188.8 million as at 31 December 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 the ScottishPower Group which is a significant component 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 through the global treasury function. Scottish Power UK plc ("SPUK"), an immediate subsidiary of Scottish Power Limited, has indicated its intention to provide the Company with the funding it requires to meet its liabilities as they fall due, through the UK treasury function and utilising its committed facilities with Scottish Power Limited, for a period of at least twelve months from the date of approval of these financial statements ("the going concern period"). 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.

Throughout the year, and up to the date of signing, 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.

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 throughout the going concern period, the directors have prepared a company cash flow forecast for the period to 31 December 2022 which indicates 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 SPUK are sufficient to enable it to trade and pay its liabilities as they fall due for the forecast period and hence for the going concern period.

Consequently, the directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for the period to 31 December 2022 and therefore have prepared the financial statements on a going concern basis.

1 BASIS OF PREPARATION *continued*

C ACCOUNTING STANDARDS

C1 IMPACT OF BREXIT

After the end of the Brexit transition period (31 December 2020) the UK ceased to be subject to EU law. Under the European Union (Withdrawal) Act 2018, all existing IFRSs adopted by the EU at that time have been 'frozen' into UK law thus were considered as in force in the UK at the end of the transition period. Adoptions, interpretations and amendments of IFRS adopted by the EU after the end of the transition period will no longer apply in the UK. For subsequent financial years, companies must use UK-adopted IFRS. At the end of the transition period, those standards will be identical to the EU-adopted IFRS in force on that date, but subsequently the UK has established its own endorsement process to adopt UK-adopted IFRS, interpretations and amendments of IFRS. For the year ended 31 December 2020, UK companies therefore have the option to use any standards which have been adopted for use within the UK in addition to the frozen EU-adopted IFRS.

In previous years, the accounts have been prepared in accordance with IFRS as adopted by the EU at the date of approval of the accounts and which were mandatory for each financial year. In line with the above, the accounts for the year ended 31 December 2020 have been prepared in accordance with the 'frozen' IFRS as adopted by the EU in accordance with the International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019. The accounts for financial year beginning 1 January 2021, will be prepared in accordance with IFRS as adopted by the UK.

The changes in the way that IFRS are described as a result of the UK's exit from the EU, including the move to UK-adopted IFRS for accounting periods starting on or after 1 January 2021, do not represent a change in the basis of preparation which would necessitate a prior year restatement.

C2 IMPACT OF NEW IFRS

As noted above, these Accounts have been prepared in accordance with the frozen IFRS as adopted by the EU. In preparing these Accounts, the Company has applied all relevant IASs, IFRSs and International Financial Reporting Interpretations Committee interpretations ("IFRICs") (collectively referred to as "IFRS") that have been adopted by the EU/UK as of the date of approval of these Accounts and that are mandatory for the financial year ended 31 December2020.

For the year ended 31 December 2020, the Company has applied the following amendments for the first time:

Standard	Note
• Amendments to References to the Conceptual Framework in IFRS Standards	(a)
• Amendments to IFRS 3 'Business Combinations: Definition of a Business'	(a)
• Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors': 'Definition of Material'	(a)
• Amendments to IFRS 9 'Financial Instruments'; IAS 39 'Financial Instruments: Recognition and Measurement'; and IFRS 7 'Financial Instruments: Disclosures': 'Interest Rate Benchmark Reform'	(a)

(a) 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/UK, and thus have not yet been implemented by the Company:

Standard	Notes	IASB effective date (for periods commencing on or after)	Planned date of application by the Company
• Amendments to IFRS 16 'Leases': 'Covid-19-Related Rent Concessions' and 'Covid-19-Related Rent Concessions beyond 30 June 2021'	(b),(c)	1 June 2020	1 January 2021
• Amendments to IFRS 9 'Financial Instruments'; IAS 39 'Financial Instruments: Recognition and Measurement'; IFRS 7 'Financial Instruments: Disclosures'; IFRS 4 'Insurance Contracts'; and IFRS 16 'Leases': 'Interest Rate Benchmark Reform Phase 2'	(d)	1 January 2021	1 January 2021
• Amendments to IFRS 4 'Insurance Contracts': 'Extension of the Temporary Exemption from Applying IFRS 9'	(c)	1 January 2021	1 January 2021

SP MANWEB PLC
NOTES TO ACCOUNTS *continued*
31 December 2020

1 BASIS OF PREPARATION *continued*
C ACCOUNTING STANDARDS *continued*
C2 IMPACT OF NEW IFRS *continued*

Standard *continued*	**Notes**	**IASB effective date (for periods commencing on or after)**	**Planned date of application by the Company**
• Amendments to IFRS 3 'Business Combinations', IAS 16 'Property, Plant and Equipment' and IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'	(c),(e)	1 January 2022	1 January 2022
• Annual Improvements to IFRS Standards 2018-2020 Cycle	(c),(e)	1 January 2022	1 January 2022
• Amendments to IAS 1 'Presentation of Financial Statements': 'Classification of Liabilities as Current or Non-current' and 'Deferral of Effective Date'	(c),(e)	1 January 2023	1 January 2023
• Amendments to IAS 1 'Presentation of Financial Statements': 'Classification of Liabilities as Current or Non-current' and 'Deferral of Effective Date'	(c),(e)	1 January 2023	1 January 2023
• IFRS 17 'Insurance Contracts' including 'Amendments to IFRS 17'	(c),(e)	1 January 2023	1 January 2023
• Amendments to IAS 1 'Presentation of Financial Statements: Disclosure of Accounting Policies'	(c),(e)	1 January 2023	1 January 2023
• Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates'	(c),(e)	1 January 2023	1 January 2023
• IFRS 14 'Regulatory Deferral Accounts'	(c),(e),(f)	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),(e),(g)	Deferred indefinitely	To be decided

(b) The first-noted amendment to IFRS 16, makes available a practical expedient around rent concessions affecting payments originally due on or before June 2021. The further amendment extends the time that practical expedient is available. The latter amendment is effective for periods commencing on or after 1 April 2021.

(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) Following the decision taken by global regulators to reform benchmark rates and replace Inter-bank Offered Rates ("IBORs") the IASB launched a two-phase process to address the expected financial reporting implications. Phase 1 of the IBOR reform was effective for the Company from 1 January 2020 but has not had a material impact on the Company's accounting policies, financial position or performance. Phase 2 of this reform will be effective for the Company as from 1 January 2021. The Company holds debt referencing LIBOR (London Inter-Bank Offer Rate). Refer to Note 8(b). Following implementation of these amendments, these instruments will need to be revised to reference an alternative benchmark rate. The modification accounting reliefs provided under the amendments to IFRS 9 are expected to be applicable for these changes, as are the additional disclosure requirements contained in the amendments to IFRS 7.

(e) This pronouncement had not been endorsed by the EU as at 31 December 2020 and has not yet been endorsed by the UK.

(f) The endorsement process of this interim standard has not been launched. On 29 January 2021, the IASB issued an exposure draft for a proposed replacement standard for this interim standard.

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

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES

In determining and applying accounting policies, judgement is often required in respect of items which have a significant effect on the reported amounts of assets, liabilities income and expenses recognised in the financial statements. Other than those involving estimates, the Company has no such judgements. At 31 December 2020, there were no assumptions made about the future and other major sources of estimation uncertainty 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 AND LEASED ASSETS
F FINANCIAL INSTRUMENTS
G INVENTORIES
H RETIREMENT BENEFITS
I TAXATION
J CASH AND CASH EQUIVALENTS

A REVENUE

The Company recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods and services.

(a) Electricity distribution

The Company provides the 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. Therefore, revenue is 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 regulatory 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 one month in arrears and are typically settled within one month.

(b) 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 used to connect those customers to a network. Both the cash 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. As the cash contributions received from customers relate to underlying business activities, they are recorded as cash flows from operating activities in the cash flow statement.

B PROCUREMENTS

Procurements principally comprises use of system charges from National Grid. Costs are recorded on an accruals basis.

C PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost and 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	2 - 22
Other items of property, plant and equipment	4 - 50

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

D LEASED ASSETS

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 'Leases'.

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, 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 they have 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 they have the right to operate the asset or they 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 thus accounts for the lease and non-lease components in a contract as a single lease component.

D1 LESSEE

As a lessee, the Company recognises a right-of-use asset at the lease commencement date measured initially at cost. This 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 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 and 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.

The lease liability recognised at the commencement date is measured initially at the present value of the lease payments that are not paid at that date. As the rates implicit in the leases cannot be readily determined, the liabilities are discounted using the Company's incremental borrowing rate. This rate being the currency-specific interest rate that would be incurred on a loan, with similar terms, to purchase a similar asset. The incremental borrowing rates will be updated annually and applied to leases commencing in the subsequent year. 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 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 the Company is reasonably certain not to do so.

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.

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

D LEASED ASSETS *continued*

D2 LESSOR

When the Company acts as a lessor, it determines at 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.

E IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND LEASED ASSETS

At each balance sheet date, the Company reviews the carrying amount of its property, plant and equipment and leased assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money, the risks specific to the asset and lease liabilities under IFRS 16.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. 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. Any impairment is recognised in the income statement in the period in which it is identified. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been recognised, net of depreciation or amortisation, if no impairment loss had been recognised.

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 as measured at amortised cost both at initial recognition and subsequently. Trade receivables without a significant financing component, and for which the Company has applied the simplified Expected Credit Loss ("ECL") model, are measured at the transaction price determined under IFRS 15 'Revenue from Contracts with Customers' ("IFRS 15") (refer to Note 8).

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 them, 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. Such reclassifications are expected to be infrequent; no other reclassifications are permitted.

The Company's business model for managing financial assets refers to how it manages them 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.

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

F FINANCIAL INSTRUMENTS *continued*

F1 FINANCIAL ASSETS *continued*

F1.2 CLASSIFICATION AND SUBSEQUENT MEASUREMENT *continued*

(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 net expected credit losses. Interest income and net expected credit losses are recognised in the income statement. Any gain or loss on derecognition is also recognised in the Company income statement.

(i) Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) 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 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 economic environment.

ECLs for all other financial assets are recognised using the general model which 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 resulting from default events that are considered possible within the next twelve months (a twelve-month ECL); and
- for credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

As an exception to the general model, if the credit risk of a financial instrument is low at the reporting date, management can measure impairment using a 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.

The Company considers financial assets to have low credit risk when their 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. Therefore, all of the Company's other financial assets are considered to have low credit risk at both the beginning and end of the reporting period.

(i) Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Lifetime ECLs are the ECLs resulting from all possible default events over the expected life of a financial instrument. Twelve-month ECLs are the ECLs resulting 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 Company in accordance with the contract and those the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

F FINANCIAL INSTRUMENTS *continued*

F1 FINANCIAL ASSETS *continued*

F1.2 CLASSIFICATION AND SUBSEQUENT MEASUREMENT *continued*

(c) Impairment of financial assets *continued*

(ii) Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost are 'credit-impaired'. This is the case 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.

(a) Derecognition

The Company derecognises a financial liability when the obligation under that liability is discharged, 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, the original liability is derecognised and a new liability recognised. The difference in their 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

Assets and liabilities for current tax are calculated using the tax rates that have been enacted or substantively enacted at the balance sheet date.

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

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

I TAXATION *continued*

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 expected to be 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 recognised in equity and is shown in the statement of comprehensive income.

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income. For income tax arising on dividends, the related tax is recognised in the income statement, statement of other comprehensive income, or in equity consistently with the transactions that generated the distributable profits.

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 have a maturity of less than 90 days at the date of acquisition. In the cash flow statement, cash and cash equivalents includes bank overdrafts repayable on demand the next business day.

3 PROPERTY, PLANT AND EQUIPMENT

(a) Movements in property, plant and equipment

Year ended 31 December 2019	Distribution facilities £m	Meters and measuring devices £m	Other items of property, plant and equipment in use (Note(i)) £m	Plant in the course of construction (Note (ii)) £m	Total £m
Cost:					
At 1 January 2019	3,721.0	87.0	17.5	399.8	4,225.3
Additions (Note (iii))	0.4	0.6	4.7	210.6	216.3
Transfers from plant in the course of construction to plant in use	199.1	-	0.3	(199.4)	-
Transfers from inventories	-	-	-	17.9	17.9
Disposals	(2.5)	(3.0)	-	-	(5.5)
At 31 December 2019	3,918.0	84.6	22.5	428.9	4,454.0
Depreciation:					
At 1 January 2019	1,121.8	68.0	3.9	-	1,193.7
Depreciation for the year	95.2	4.0	0.8	-	100.0
Disposals	(2.5)	(3.0)	-	-	(5.5)
At 31 December 2019	1,214.5	69.0	4.7	-	1,288.2
Net book value:					
At 31 December 2019	2,703.5	15.6	17.8	428.9	3,165.8
At 1 January 2019	2,599.2	19.0	13.6	399.8	3,031.6

The net book value of property plant and equipment at 31 December 2019 is analysed as follows:

Property, plant and equipment in use	2,703.5	15.6	17.8	-	2,736.9
Property, plant and equipment in the course of construction	-	-	-	428.9	428.9
	2,703.5	15.6	17.8	428.9	3,165.8

3 PROPERTY, PLANT AND EQUIPMENT

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

Year ended 31 December 2020	Distribution facilities £m	Meters and measuring devices £m	Other items of property, plant and equipment in use (Note(i)) £m	Plant in the course of construction (Note (ii)) £m	Total £m
Cost:					
At 1 January 2020	3,918.0	84.6	22.5	428.9	4,454.0
Additions (Note (iii))	0.5	0.4	1.3	189.8	192.0
Transfers from plant in the course of construction to plant in use	293.3	-	1.5	(294.8)	-
Transfers from inventories	-	-	-	17.1	17.1
Disposals	(6.9)	(15.5)	-	-	(22.4)
At 31 December 2020	**4,204.9**	**69.5**	**25.3**	**341.0**	**4,640.7**
Depreciation:					
At 1 January 2020	1,214.5	69.0	4.7	-	1,288.2
Depreciation for the year	100.2	4.0	0.9	-	105.1
Disposals	(5.8)	(15.5)	-	-	(21.3)
At 31 December 2020	**1,308.9**	**57.5**	**5.6**	**-**	**1,372.0**
Net book value:					
At 31 December 2020	**2,896.0**	**12.0**	**19.7**	**341.0**	**3,268.7**
At 1 January 2020	2,703.5	15.6	17.8	428.9	3,165.8

The net book value of property plant and equipment at 31 December 2020 is analysed as follows:					
Property, plant and equipment in use	2,896.0	12.0	19.7	-	2,927.7
Property, plant and equipment in the course of construction	-	-	-	341.0	341.0
	2,896.0	**12.0**	**19.7**	**341.0**	**3,268.7**

(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 the course of construction principally comprises distribution facilities in the course of construction.
(iii) Additions of £0.4 million (2019 £0.6 million) were purchased from other Iberdrola Group companies, as shown in Note 25.
(iv) The cost of fully depreciated property, plant and equipment still in use at 31 December 2020 was £124.3 million (2019 £131.9 million).
(v) Included within the cost of property, plant and equipment as at 31 December 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 (2019 £0.1 million) which the Company leases to third parties via operating leases.

(b) Capital commitments

	2020						
	2021 £m	**2022 £m**	**2023 £m**	**2024 £m**	**2025 £m**	**2026 and thereafter £m**	**Total £m**
Contracted but not provided	67.9	10.7	2.2	-	-	-	**80.8**

	2019						
	2020 £m	2021 £m	2022 £m	2023 £m	2024 £m	2025 and thereafter £m	Total £m
Contracted but not provided	69.7	2.3	2.3	-	-	-	74.3

(c) Research and development expenditure

The amount of research and development expenditure recognised as an expense during the year was £0.6 million (2019 £0.2 million).

4 LEASING

4A LESSEE

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

(a) 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 up to 40 years. Certain agreements contain the right to extend the terms by up to 50 years and can be terminated with up to twelve months' notice.

Vehicles

The Company leases vehicles with lease terms of between two and ten years, primarily being pool vehicles to mobilise its operational staff and other specialist vehicles. Certain agreements can be terminated without notice.

Buildings

The Company leases buildings primarily as operational depots. The leases typically have terms of up to 25 years. Certain leases have options to extend the term by up to 25 years at the end of the term whilst others have options to terminate subject to a notice period typically of up to six months.

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 five 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 £6.6 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.

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.

4 LEASING *continued*

4A LESSEE *continued*

(b) Right-of-use assets

Year ended 31 December 2019	Note	Land £m	Vehicles £m	Buildings £m	Other equipment £m	Total £m
Cost:						
On transition to IFRS 16 at 1 January 2019		42.3	3.5	2.4	0.1	48.3
Additions		1.5	5.1	0.4	-	7.0
Adjustments for changes in liabilities	(i)	-	0.6	-	0.1	0.7
At 31 December 2019		43.8	9.2	2.8	0.2	56.0
Depreciation:						
On transition to IFRS 16 at 1 January 2019		-	-	-	-	-
Charge for the year		2.1	2.4	0.4	0.1	5.0
At 31 December 2019		2.1	2.4	0.4	0.1	5.0
Net book value:						
At 31 December 2019		41.7	6.8	2.4	0.1	51.0
On transition to IFRS 16 at 1 January 2019		42.3	3.5	2.4	0.1	48.3

Year ended 31 December 2020	Note	Land £m	Vehicles £m	Buildings £m	Other equipment £m	Total £m
Cost:						
At 1 January 2020		43.8	9.2	2.8	0.2	56.0
Additions		4.7	4.1	-	-	8.8
Adjustments for changes in liabilities	(i)	1.6	1.0	-	0.1	2.7
Disposals		(0.3)	-	-	-	(0.3)
At 31 December 2020		**49.8**	**14.3**	**2.8**	**0.3**	**67.2**
Depreciation:						
At 1 January 2020		2.1	2.4	0.4	0.1	5.0
Charge for the year		2.1	3.2	0.1	0.1	5.5
Disposals		(0.1)	-	-	-	(0.1)
At 31 December 2020		**4.1**	**5.6**	**0.5**	**0.2**	**10.4**
Net book value:						
At 31 December 2020		**45.7**	**8.7**	**2.3**	**0.1**	**56.8**
At 31 December 2019		41.7	6.8	2.4	0.1	51.0

(i) 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.

(ii) There are no right-of-use assets measured at revalued amounts.

(c) 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	2019 £m
Less than one year	6.4	5.2
One to five years	18.7	16.8
More than five years	55.3	54.8
Total undiscounted lease liabilities at 31 December	**80.4**	76.8
Finance cost	(22.0)	(24.7)
Total discounted lease liabilities	**58.4**	52.1
Analysis of total lease liabilities		
Non-current	52.9	47.0
Current	5.5	5.1
Total	**58.4**	52.1

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

4 LEASING *continued*

4A LESSEE *continued*

(d) Amounts recognised in income statement

	Note	2020 £m	2019 £m
Interest on lease liabilities		**(1.6)**	(1.6)
Expenses relating to short-term leases	(i)	**(2.4)**	(2.8)

(i) 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.

(e) Amounts recognised in the cash flow statement

	2020 £m	2019 £m
Payments of lease liabilities	**(5.7)**	(5.3)
Interest paid on lease liabilities	**(0.9)**	(0.2)
Payments for short-term leases	**(2.3)**	(2.7)
Total cash outflow for leases	**(8.9)**	(8.2)

4B LESSOR

The Company has contracts to lease land and 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.

Lease income recognised by the Company during 2020 was £0.5 million (2019 £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:

	2020 £m	2019 £m
Less than one year	**0.4**	0.4
One to two years	**0.3**	0.3
Two to three years	**0.1**	0.1
Total undiscounted lease payments	**0.8**	0.8

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.

5 INVESTMENTS

	Investment in subsidiaries £m
At 1 January 2019, 1 January 2020 and 31 December 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)	**8.3**	7.0
Receivables due from Iberdrola Group companies - loans	(b)	**35.2**	-
Trade receivables and accrued income	(a)	**61.3**	59.2
Other tax receivables		**0.6**	0.6
	(c)	**105.4**	66.8
Non-current receivables:			
Prepayments		**0.3**	-
		0.3	-

(a) Information about the Company's exposure to credit and market risks, and impairment losses for trade receivables are included in Note 8.
(b) Loans receivables due from Iberdrola Group companies are repayable on demand and earn interest at Base +1%.
(c) Trade and other receivables includes £67.3 million (2019 £64.5 million) of IFRS 15 receivables (refer to Note 16(b)).

7 INVENTORIES

	Note	2020 £m	2019 £m
Other inventories	(a)	**17.6**	11.2

(a) Inventories with a value of £2.5 million (2019 £11.8 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)	**104.8**	**104.8**	66.2	66.2
Cash	Amortised cost	(ii)	**14.3**	**14.3**	24.3	24.3
Financial liabilities						
Loans and other borrowings	Amortised cost	(iii)	**(1,441.8)**	**(1,545.0)**	(1,329.2)	(1,412.7)
Payables	Amortised cost	(i)	**(130.3)**	**(130.3)**	(150.4)	(150.4)

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

(i) Balances outwith the scope of IFRS 7 '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 December 2020 comprised deposits with banks of £14.3 million (2019 £24.3 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.

8 FINANCIAL INSTRUMENTS *continued*

(b) Financial risk management *continued*

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 represents 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 December 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 the 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 Company's historical loss experience and default rates. The impact of COVID-19 has been considered when setting the default rates.

The tables below illustrate the ECL on trade receivables:

At 31 December 2020	**0-6 months £m**	**Greater than 6 months £m**	**Total £m**
Weighted average expected loss rate (%)	**1.1%**	**85.7%**	**2.1%**
Gross carrying amount	**61.9**	**0.7**	**62.6**
Loss allowance	(0.7)	(0.6)	(1.3)
Net carrying value	**61.2**	**0.1**	**61.3**

At 31 December 2019	0-6 months £m	Greater than 6 months £m	Total £m
Weighted average expected loss rate (%)	0.9%	32.0%	3.4%
Gross carrying amount	56.3	5.0	61.3
Loss allowance	(0.5)	(1.6)	(2.1)
Net carrying value	55.8	3.4	59.2

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 at A5 below reconciling the movement in the opening to the closing loss allowance.

A3 RECEIVABLES DUE FROM IBERDROLA GROUP COMPANIES £43.5 million (2019 £7.0 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 £14.3 million (2019 £24.3 million)

The Company held cash of £14.3 million (2019 £24.3 million) at 31 December 2020. The cash is held with banks and financial institution counterparties, which are rated BBB- to AAA, based on Standard & Poor's ratings. Impairment on cash has been measured on a three month expected loss basis and reflects the short maturities of the exposures. The Company considers that its cash has 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.

8 FINANCIAL INSTRUMENTS *continued*
(b) Financial risk management *continued*
A CREDIT RISK *continued*
A5 RECONCILIATION OF OPENING TO CLOSING LOSS ALLOWANCE

The closing loss allowances for all financial assets measured at amortised cost, as at 31 December 2019 reconciles to the opening loss allowances as follows:

	£m
Balance at 1 January 2019	1.3
Increase in loss allowance recognised in the income statement	0.8
Balance at 1 January 2020	2.1
Increase in loss allowance recognised in the income statement	0.6
Utilisation of provision	(1.4)
At 31 December 2020	**1.3**

The overall decrease in the loss allowance of £0.8 million from 31 December 2019 is primarily related to the reduction in the value of customer debt greater than six months old.

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 Company 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.

The tables below summarise the maturity profile of the Company's financial liabilities as at 31 December 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		154.2	84.5	150.0	25.9	126.4	1,111.7	**1,652.7**
Payables	(a)	118.1	0.1	-	-	-	-	**118.2**
		272.3	84.6	150.0	25.9	126.4	1,111.7	**1,770.9**

					2019			
Cash outflows	Note	2020 £m	2021 £m	2022 £m	2023 £m	2024 £m	2025 and thereafter £m	Total £m
Loans and other borrowings		100.4	157.3	87.9	153.5	28.8	1,071.9	1,599.8
Payables	(a)	137.0	0.1	-	-	-	-	137.1
		237.4	157.4	87.9	153.5	28.8	1,071.9	1,736.9

(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.

8 FINANCIAL INSTRUMENTS *continued*
(b) Financial risk management *continued*
B. TREASURY RISK *continued*
B2 TREASURY MARKET RISK MANAGEMENT *continued*
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.

Interest rate analysis of debt	**2020 £m**	2019 £m
Fixed rate	**566.8**	621.5
Variable rate	**875.0**	707.7
	1,441.8	1,329.2

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 £875.0 million (2019 £700.0 million) LIBOR debt and £nil (2019 £7.7 million) linked to Base.

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/Receivable category		Interest Rate	Change in rate	Impact on interest rate charge in 2020 £m	Impact on interest rate charge in 2019 £m
Loans payable	LIBOR debt	LIBOR	+ 0.25%	**2.2**	1.8
			+0.50%	**4.4**	3.5
			-0.25%	**(2.2)**	(1.8)
			- 0.50%	**(4.4)**	(3.5)
Loans receivable	Short-term variable rate	Base	+ 0.25%	**(0.1)**	-
			+0.50%	**(0.2)**	-
			-0.25%	**0.1**	-
			- 0.50%	**0.2**	-

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 HOLDER OF THE COMPANY

	Share capital £m	Share premium (Note (a)) £m	Other reserves (Note (b)) £m	Retained earnings (Note (c)) £m	Total £m
At 1 January 2019	300.0	3.3	6.0	669.3	978.6
Profit for the year attributable to equity holder of the Company	-	-	-	92.7	92.7
Dividends	-	-	-	(46.3)	(46.3)
At 1 January 2020	300.0	3.3	6.0	715.7	1,025.0
Profit for the year attributable to equity holder of the Company	-	-	-	80.7	80.7
Dividends	-	-	-	(73.0)	(73.0)
At 31 December 2020	**300.0**	**3.3**	**6.0**	**723.4**	**1,032.7**

(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 December 2019	At 1 January 2019 £m	Receivable during year £m	Released to income statement £m	At 31 December 2019 £m
Transfer of assets from customers	463.8	50.5	(15.9)	498.4

Year ended 31 December 2020	At 1 January 2020 £m	Disposals £m	Receivable during year £m	Released to income statement £m	**At 31 December 2020 £m**
Transfer of assets from customers	498.4	(0.4)	45.4	(16.3)	**527.1**

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

12 PROVISIONS

Year ended 31 December 2019	Notes	At 1 January 2019 £m	New provisions £m	Utilised during year £m	Released during year £m	At 31 December 2019 £m
Onerous contracts	(a)	0.3	-	-	-	0.3
Insurance	(b)	0.5	0.7	-	(0.1)	1.1
Overtime and commission	(c)	1.8	-	(1.4)	(0.4)	-
Decommissioning	(d)	0.1	0.4	-	-	0.5
		2.7	1.1	(1.4)	(0.5)	1.9

Year ended 31 December 2020	Notes	At 1 January 2020 £m	New provisions £m	Utilised during year £m	Released during year £m	**At 31 December 2020 £m**
Onerous contracts	(a)	0.3	-	(0.1)	-	**0.2**
Insurance	(b)	1.1	0.6	-	(0.3)	**1.4**
Decommissioning	(d)	0.5	-	-	(0.1)	**0.4**
		1.9	0.6	(0.1)	(0.4)	**2.0**

Analysis of total provisions	**2020 £m**	2019 £m
Non-current	**1.6**	1.4
Current	**0.4**	0.5
	2.0	1.9

12 PROVISIONS *continued*

(a) The provision for onerous contract costs relates to a property contract. The provision is expected to be utilised in 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 2019.
(d) The provision for decommissioning costs is the discounted future estimated costs of decommissioning certain non-current assets. The decommissioning is expected to occur in 2040.

13 LOANS AND OTHER BORROWINGS

(a) Analysis by instrument and maturity

Instrument	Notes	Interest rate*	Maturity	**2020 £m**	2019 £m
Loans with Iberdrola Group companies - SPUK		Base + 1%	On demand	**-**	7.7
Loans with Iberdrola Group companies - SPUK	(i), (ii)	3.416%	22 December 2022	**55.0**	110.0
Loans with Iberdrola Group companies - SPUK	(i), (iii)	3.570%	21 December 2023	**44.0**	44.0
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	**347.8**	347.5
Loans with Iberdrola Group companies - Iberdrola Financiacion	(vii)	LIBOR + 0.78%	20 December 2027	**240.0**	240.0
Loans with Iberdrola Group companies - SPUK	(i), (viii)	LIBOR + 3.365%	28 January 2029	**110.0**	110.0
Loans with Iberdrola Group companies - SPUK	(i), (viii)	LIBOR + 1.025%	27 December 2029	**350.0**	350.0
Loans with Iberdrola Group companies - Iberdrola Financiacion	(ix)	6m LIBOR + 0.78%	22 December 2030	**175.0**	-
				1,441.8	1,329.2

Analysis of total loans and other borrowings	Note	**2020 £m**	2019 £m
Non-current		**1,320.1**	1,266.8
Current	(x)	**121.7**	62.4
		1,441.8	1,329.2

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

(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 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 was due in 2020 was classified as current in the 2019 analysis above.
(iii) The 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 is due in 2021 is classified as current in the 2020 analysis above.
(iv) The 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 the Company at a higher redemption price (as determined by a financial advisor appointed by the Company and Fiscal Agent) giving 30 to 60 days' notice. The bond is shown net of finance costs of (£0.3) million (2019 £(0.3) million), which are classified as current in the analysis above.
(vii) The loan with Iberdrola Financiacion that is repayable in December 2027, is repayable in equal instalments on a biennial basis. The repayment of £60.0 million that is due in 2021 is classified as current in the 2020 analysis above.
(viii) The loans with SPUK that are repayable in January and December 2029 are repayable in full at maturity.
(ix) The loan with Iberdrola Financiacion that is repayable in December 2030 is repayable in full at maturity.
(x) Current borrowings comprise the short-term element of the 2023 loan with SPUK (refer to footnote (iii) above), the short-term element of the 2025 loan with SPUK (refer to footnote (iv) above), the short-term element of the LIBOR 2027 loan with Iberdrola Financiacion (refer to footnote (vii) above) and finance costs due to be amortised within one year which totalled £(0.3) million (2019 £(0.3) million). In 2019 current borrowings comprised the on demand loan from SPUK, the short-term element of the 2022 loan with SPUK (refer to footnote (ii) above) and finance costs due to be amortised within one year which totalled £(0.3) million.
(xi) In July 2020 the Company entered into an intra-group committed revolving credit facility arrangement with SPUK for £250.0 million, with an expiry date of February 2025. Therefore, at the date of signing these Accounts, the Company has £250.0 million of undrawn committed facilities available.

13 LOANS AND OTHER BORROWINGS *continued*

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

	Notes	Liabilities				
		Lease liabilities	Loans and other borrowings (Current)	Loans and other borrowings (Non-current)	Interest payable (Current) (Note (i))	Total
		£m	£m	£m	£m	£m
Balance at 1 January 2019		48.6	286.5	971.4	15.4	1,321.9
(Decrease)/increase in amounts due to Iberdrola group companies	(ii)	-	(279.1)	350.0	-	70.9
Payments of lease liabilities		(5.3)	-	-	-	(5.3)
Interest paid		(0.2)	-	-	(43.1)	(43.3)
Total movements from financing cash flows		(5.5)	(279.1)	350.0	(43.1)	22.3
Other movements	(iii)	9.0	55.0	(54.6)	41.0	50.4
Total liability-related movements		9.0	55.0	(54.6)	41.0	50.4
At 31 December 2019		52.1	62.4	1,266.8	13.3	1,394.6

	Notes	**Liabilities**				
		Lease liabilities	**Loans and other borrowings (Current)**	**Loans and other borrowings (Non-current)**	**Interest payable (Current) (Note (i))**	**Total**
		£m	**£m**	**£m**	**£m**	**£m**
At 1 January 2020		**52.1**	**62.4**	**1,266.8**	**13.3**	**1,394.6**
(Decrease)/increase in amounts due to Iberdrola group companies	(ii)	-	(62.7)	175.0	-	112.3
Payments of lease liabilities		(5.7)	-	-	-	(5.7)
Interest paid		(0.9)	-	-	(41.0)	(41.9)
Total movements from financing cash flows		**(6.6)**	**(62.7)**	**175.0**	**(41.0)**	**64.7**
Other movements	(iii)	**12.9**	122.0	(121.7)	39.8	53.0
Total liability-related movements		**12.9**	**122.0**	**(121.7)**	**39.8**	**53.0**
At 31 December 2020		**58.4**	**121.7**	**1,320.1**	**12.1**	**1,512.3**

(i) External interest payable of £4.8 million (2019 £4.8 million) and internal interest payable of £7.3 million (2019 £8.5 million) are included within Trade and other payables (refer to Note 14).

(ii) The cash outflow in the cash flow statement for the year ended 31 December 2020 for ‘Net decrease in amounts due to/from Iberdrola group companies – current loans’ of £97.9 million (2019 £279.1 million) comprises a decrease of £62.7 million (2019 £279.1 million) in current loans due to Iberdrola group companies (above) and an increase of £35.2 million (2019 £nil) in current loans receivable from Iberdrola group companies (included within Trade and other receivables - refer to Note 6).

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

14 TRADE AND OTHER PAYABLES

	Notes	**2020**	2019
		£m	£m
Current trade and other payables:			
Payables due to Iberdrola Group companies - trade		**71.1**	70.1
Payables due to Iberdrola Group companies - interest		**7.3**	8.5
Payables due to Iberdrola Group companies - other	(a)	**4.6**	4.6
Trade payables		**12.2**	10.0
Other taxes and social security		**9.7**	8.0
Payments received on account	(b)	**53.8**	64.0
Capital payables and accruals		**24.1**	47.5
Other payables	(a)	**10.9**	9.6
		193.7	222.3
Non-current other payables:			
Other payables		**0.1**	0.1
		0.1	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 December 2020, the Company held cash collateral of £9.4 million (2019 £7.9 million) of which £4.6 million (2019 £4.6 million) is payable to Iberdrola Group companies.

(b) Trade and other payables includes £53.8 million (2019 £64.0 million) of IFRS 15 contract liabilities (refer to Note 16 (b)).

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 January 2019	174.1	(0.4)	173.7
Charge to the income statement	8.6	0.3	8.9
At 1 January 2020	182.7	(0.1)	182.6
Charge to the income statement	20.0	-	20.0
At 31 December 2020	**202.7**	**(0.1)**	**202.6**

(a) Legislation was previously enacted to reduce the UK rate of Corporation Tax to 17% on 1 April 2020. Accordingly deferred tax balances were measured at the 17% rate at 31 December 2019. Further legislation was enacted on 22 July 2020 under the Finance Act 2020 that maintains the 19% UK Corporation Tax rate. The 19% rate applies from 1 April 2020. This rate change increased the deferred tax liability by £21.0 million.

(b) In the 3 March 2021 Budget, the Chancellor of the Exchequer announced that the UK tax rate will increase to 25% from 1 April 2023. This will have a consequential effect on the Company's future tax charge. If this rate change had been substantively enacted at the current balance sheet date the deferred tax liability would have been £64.9 million higher.

16 REVENUE

(a) Disaggregation of revenue

	2020 £m	2019 £m
Electricity distribution	**392.1**	380.1
Transfers of assets from customers	**16.3**	15.9
	408.4	396.0

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

(b) Contract balances

	Notes	**2020 £m**	2019 £m	2018 £m
Receivables	(i), (ii)	**67.3**	64.5	48.8
Contract liabilities	(iii),(iv)	**(580.9)**	(562.4)	(532.3)

(i) Included within Trade and other receivables (refer to Note 6).

(ii) £0.6 million (2019 £0.8 million) of net expected credit losses were recognised during the year on receivables arising from the Company's contracts with customers (refer to Note 8).

(iii) £527.1 million (2019 £498.4 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 payments on account of £34.8 million (2019 £46.0 million) less contract liabilities recognised as income in the year of £16.3 million (2019 £15.9 million).

17 EMPLOYEE INFORMATION

(a) Staff costs

	2020 £m	2019 £m
Wages and salaries	44.4	45.0
Social security costs	4.7	4.7
Pension and other costs	10.8	10.8
Total staff costs	**59.9**	60.5
Less: capitalised staff costs	(44.0)	(46.7)
Charged to the income statement	**15.9**	13.8

(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' emoluments are set out in Note 25(c).

17 EMPLOYEE INFORMATION *continued*

(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	**226**	235
Operations	**643**	669
Total	**869**	904

(c) Pensions

The Company's contributions payable in the year were £9.8 million (2019 £10.0 million). The Company contributes to the ScottishPower Group's defined benefit and defined contribution schemes in the UK and the contributions payable in the year reflect the contributions payable in respect of active participants in the Group schemes who are employed by the Company. Full details of these schemes are provided in the most recent Annual Report and Accounts of SPL. As at 31 December 2020, the deficit in ScottishPower's defined benefit schemes in the UK amounted to £558.6 million (2019 £651.7 million). The employer contribution rate for these schemes in the year ended 31 December 2020 was 47.9% - 51.0%.

18 TAXES OTHER THAN INCOME TAX

	2020 £m	2019 £m
Property taxes	**23.5**	23.3

19 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS

	2020 £m	2019 £m
Property, plant and equipment depreciation charge	**105.1**	100.0
Right-of-use asset depreciation charge	**5.5**	5.0
Charges and provisions, allowances and impairment of assets	**1.2**	1.1
	111.8	106.1
Capitalised right-of-use asset depreciation	**(2.5)**	(2.2)
	109.3	103.9

20 FINANCE INCOME

	2020 £m	2019 £m
Interest on bank and other deposits	**0.1**	0.1
Interest receivable from Iberdrola Group companies	**-**	0.3
	0.1	0.4

21 FINANCE COSTS

	2020 £m	2019 £m
Interest on amounts due to Iberdrola Group companies	**22.6**	24.0
Interest on other borrowings	**17.5**	17.4
Interest on lease liabilities	**1.6**	1.6
	41.7	43.0
Capitalised interest	**(0.2)**	(0.2)
	41.5	42.8

22 INCOME TAX

	2020	2019
	£m	£m
Current tax:		
UK Corporation Tax charge on profits for the year	**21.5**	12.1
Adjustments in respect of prior years	**4.2**	0.2
Current tax for the year	**25.7**	12.3
Deferred tax:		
Origination and reversal of temporary differences	**3.1**	10.0
Adjustments in respect of prior years	**(4.1)**	(0.1)
Impact of tax rate change	**21.0**	(1.0)
Deferred tax for the year	**20.0**	8.9
Income tax expense for the year	**45.7**	21.2

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%)	**24.0**	21.6
Adjustments in respect of prior years	**0.1**	0.1
Impact of tax rate change	**21.0**	(1.0)
Non-deductible expenses and other permanent differences	**0.6**	0.5
Income tax expense for the year	**45.7**	21.2

Legislation was previously enacted to reduce the UK rate of Corporation Tax to 17% on 1 April 2020. Accordingly deferred tax balances were measured at the 17% rate at 31 December 2019. Further legislation was enacted on 22 July 2020 under the Finance Act 2020 that maintains the 19% UK Corporation Tax rate. The 19% rate applies from 1 April 2020. This rate change increased the deferred tax liability by £21.0 million. Refer to Note 15 (b) for details of future tax rate changes.

23 DIVIDENDS

	2020	2019	**2020**	2019
	pence per ordinary share	pence per ordinary share	**£m**	£m
Interim dividend paid	**12.2**	7.7	**73.0**	46.3

24 FINANCIAL COMMITMENTS

Contractual commitments

	2020						
	2021	**2022**	**2023**	**2024**	**2025**	**2026 and thereafter**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Contractual commitments	9.7	0.2	0.1	-	-	-	**10.0**

	2019						
	2020	2021	2022	2023	2024	2025 and thereafter	Total
	£m	£m	£m	£m	£m	£m	£m
Contractual commitments	3.9	0.1	0.1	0.2	-	-	4.3

25 RELATED PARTY TRANSACTIONS

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

	2020		2019		
	Immediate parent (SPENH)	**Other Iberdrola Group companies**	UK parent (SPL)	Immediate parent (SPENH)	Other Iberdrola Group companies
	£m	**£m**	£m	£m	£m
Types of transaction					
Sales and rendering of services	**-**	**56.9**	-	-	56.1
Purchases and receipt of services	**-**	**(73.9)**	-	-	(73.1)
Purchases of property, plant and equipment	**-**	**(0.4)**	-	-	(0.6)
Interest income	**-**	**-**	-	-	0.3
Interest costs (excluding ECLs)	**-**	**(22.6)**	(0.2)	-	(23.8)
Dividends paid	**(73.0)**	**-**	-	(46.3)	-
Balances outstanding					
Loans receivable	**-**	**35.2**	-	-	-
Trade and other receivables	**-**	**8.3**	-	-	7.0
Loans payable	**-**	**(1,094.0)**	-	-	(981.7)
Trade and other payables	**-**	**(75.7)**	-	-	(74.7)
Interest payable	**-**	**(7.3)**	-	-	(8.5)

(i) During the year ended 31 December 2020, SPUK made pension contributions of £9.8 million on behalf of the Company (2019 £10.0 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.

(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 16 (2019 13) key management personnel, 14 (2019 eleven) were remunerated by other ScottishPower companies during the year.

	2020	2019
	£000	£000
Short-term employee benefits	**2,129**	2,305
Post-employment benefits	**299**	260
Termination benefits	**221**	-
Share-based payments	**2,104**	1,049
	4,753	3,614

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

	2020	2019
	£000	£000
Aggregate remuneration in respect of qualifying services	**1,349**	1,442
Aggregate compensation for loss of office	**104**	-
Number of directors who exercised share options	**2**	2
Number of directors who received shares under a long-term incentive scheme	**3**	2
Number of directors accruing retirement benefits under a defined benefit scheme	**2**	1

	2020	2019
Highest paid director	**£000**	£000
Aggregate remuneration	**830**	839
Accrued pension benefit	**101**	99

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

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

25 RELATED PARTY TRANSACTIONS *continued*

(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	2019
	£000	£000
Audit of the Company's annual accounts and regulatory accounts	**171**	116