SP POWER SYSTEMS LIMITED
ANNUAL REPORT AND ACCOUNTS
for the year ended 31 December 2019

Registered No. SC215841

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CONTENTS

SP POWER SYSTEMS LIMITED
STRATEGIC REPORT

The directors present an overview of SP Power Systems Limited's structure, 2019 performance and strategic outlook including principal risks and uncertainties.

STRATEGIC OUTLOOK

The principal activity of SP Power Systems Limited ("the company"), registered company number SC215841, is the provision of asset management support services to the Energy Networks business ("Energy Networks") of the Scottish Power Limited group ("ScottishPower"). The company will continue with this activity for the foreseeable future.

The ultimate parent of the company is Iberdrola, S.A. ("Iberdrola") which is listed on the Madrid stock exchange. The immediate parent of the company is Scottish Power Energy Networks Holdings Limited ("SPENH"), the holding company of the Scottish Power Energy Networks Holdings Limited group ("SPENH Group" or "Energy Networks"). Scottish Power Limited ("SPL") is the United Kingdom ("UK") parent of ScottishPower of which the company is a member.

The company is part of Energy Networks. Service level agreements exist whereby the company acts as a service-provider to three Energy Networks companies, SP Distribution plc ("SPD"), SP Manweb plc ("SPM") and SP Transmission plc ("SPT"). These 'asset-owner' companies hold Energy Networks' regulated assets and the electricity distribution and transmission licences of ScottishPower whose activities are regulated by The Office of Gas and Electricity Markets ("Ofgem").

2019 performance

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

	Revenue*		Operating profit*		Capital investment**	
	2019	2018	**2019**	2018	**2019**	2018
Financial key performance indicators	**£m**	£m	**£m**	£m	**£m**	£m
SP Power Systems Limited	**178.0**	164.2	**0.8**	1.4	**3.7**	6.9

* Revenue and operating profit as presented on page 15.
** Capital investment for 2019 as presented in Notes 3 and 4 on page 25.

Revenue increased by £13.8 million to £178.0 million in 2019 primarily as a result of higher revenues available from increased asset management support services provided to the Energy Networks licensed businesses.

Operating profit decreased by £0.6 million to £0.8 million in 2019. The movement was primarily due to an increase in external services through corporate recharges, and an increase in staff costs, offset by increased revenues as noted above.

Capital investment decreased by £3.2 million to £3.7 million in 2019. This was primarily due to reduced spending on computer software (£2.8 million) and property, plant and equipment (£0.4 million).

Financial instruments

Treasury services are provided by SPL. ScottishPower has a risk policy within treasury and financing which is designed to ensure that the company's exposure to variability of cash flows and asset values due to fluctuations in market interest rates and exchange rates is minimised and managed at acceptable risk levels. Further details of the treasury and interest policies for ScottishPower and how it manages them are included in the most recent Annual Report and Accounts of SPL.

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 governance structure and risk management are provided in the most recent Annual Report and Accounts of SPL.

The principal risks and uncertainties of ScottishPower, and so that of the company, other than those specific to the COVID-19 crisis and Brexit, that may impact current and future operational and financial performance and the management of these risks are described on the following page:

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

SCOTTISHPOWER - GLOBAL	
RISK	**RESPONSE**
Material deterioration in the relatively stable and predictable UK regulatory and political environment, including any sudden changes of policy, or intervention outside established regulatory frameworks.	Positive and transparent engagement with all appropriate stakeholders to ensure that long-term regulatory stability and political consensus is maintained and public backing is secured for the necessary investment in the UK energy system. Providing stakeholders with evidence of the risks of ad hoc intervention in markets.
A major health and safety incident in the course of operations could impact staff, contractors, communities or the environment.	ScottishPower's Health and Safety function provides specialist services and support for the businesses in relation to health and safety. A comprehensive framework of health and safety policy and procedures, alongside audit programmes, is established throughout ScottishPower, which aim to ensure not only continuing legal compliance but also drive towards best practice in all levels of its health and safety operations.
Breach in cyber security and unwanted infiltration of the ScottishPower IT infrastructure by internal and external parties.	Implementation of a cyber-risk policy which provides the framework for mitigation. Proactive approach to identifying where ScottishPower is vulnerable and addressing these points through technical solutions. Educating company employees as to how behaviour can reduce this risk. Embedding cyber security in all projects where appropriate.

The principal risk and uncertainty of the company, that may impact the current and future operational and financial performance and the management of this risk is described below:

RISK	RESPONSE
Inability of the company to provide the necessary services to the asset owner companies (i.e. inability to retain staff with sufficient skills and expertise).	Continued investment in employee training and development with succession planning for key risks.

Emergence and spread of Coronavirus (COVID-19)

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

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

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

SP POWER SYSTEMS LIMITED
STRATEGIC REPORT *continued*

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

The COVID-19 principal risks considered relevant for ScottishPower, and therefore the company, are set out below:

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

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

Notwithstanding the above, the principal activity of the company (asset management support services) is providing support services to Energy Networks' businesses that are providing essential services to the UK; therefore, the company's business will continue and is expected to operate throughout this crisis period without significant disruption.

Whilst acknowledging the risks faced by ScottishPower and the company, COVID-19 is not deemed to impact the conclusion that the company will continue as a going concern. In respect of the impact on these Accounts, the Financial Reporting Council ("FRC") confirmed that COVID-19 is a non-adjusting post balance sheet event and any potential impacts on accounts, balances or assumptions are disclosed within Note 25 on page 33.

UK decision to leave the EU (Brexit)

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

ENGAGING WITH STAKEHOLDERS

References to "ScottishPower" apply fully to the Energy Networks business, and so the company.

The importance of engaging with stakeholders

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

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

Key stakeholders

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

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

Shareholders are 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/corporate-governance-system/corporate-policies/shareholder-engagement-policy.

ENGAGING WITH STAKEHOLDERS *continued*

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 its employees enables ScottishPower to build on its future capability to operate effectively in a competitive market and continues to have aspirations which are challenging and rewarding. ScottishPower respects and recognises the importance of individuality as part of its ongoing commitment to promoting a culture where individuality is celebrated. ScottishPower also understands that being a diverse organisation goes beyond having legally compliant policies and practices; it includes a focus on creating an innovative, integrated organisation where people feel valued, inspiring them to perform at their best.

Employment regulation

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

Training

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

Employee feedback and consultation

In 2019 as part of the global group engagement survey framework, ScottishPower carried out its annual employee engagement survey, the 'LOOP'. The LOOP provides an opportunity for all employees across the organisation to share their views on the employee experience at ScottishPower. This year, the response rate remained high, with all employees including field staff, having the opportunity to answer the survey online. Overall, the positive insights from the LOOP feedback showed an increase in employee engagement and employee enablement across ScottishPower. The opportunities highlighted from the survey included ensuring a focus on cross-company collaboration.

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

Inclusion and diversity

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

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

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

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

ENGAGING WITH STAKEHOLDERS *continued*

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

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

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

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

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

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

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

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

Over the past 18 months, ScottishPower has continued to support the growth of its employee-led networks; Future Connections, Connected Women, Carers and In-Fuse. In September 2019 ScottishPower celebrated the launch of its first multi-ethnic employee network, VIBE. Employee-led networks now play a key role in the attraction and retention of new employees from underrepresented groups to maximise engagement and performance. On the 9 April 2020 ScottishPower launched a new section of its external careers website, Inclusion@ScottishPower. This is a dedicated space on ScottishPower's website to share some of the important initiatives that go on internally such as ScottishPower's employee networks, involvement with community programmes, partnerships with external organisations and ScottishPower's transition to flexible working.

ENGAGING WITH STAKEHOLDERS *continued*

Rewards and benefits

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

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.

Employee health and wellbeing

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

Employee volunteering

ScottishPower prides itself in being a good corporate neighbour, providing support to the communities it serves in each of its businesses. Volunteering is central to community involvement and ScottishPower has an excellent track record in this area. ScottishPower's company-wide Volunteering Policy has been actively utilised by employees during 2019, giving all registered volunteers, on an annual basis, an opportunity to take one additional day's paid leave as a volunteering day.

Modern Slavery Statement

ScottishPower is committed to human and labour rights and to eliminating modern slavery that could in any way be connected to its business. ScottishPower welcomed the introduction of the Modern Slavery Act 2015 and ScottishPower published its own Modern Slavery Statement, which was approved by the board of directors of SPL. This statement is published on the ScottishPower website at:www.scottishpower.com/pages/scottishpowers_modern_slavery_statement.aspx.

Customers

The company performs asset management services for the Energy Networks licensed businesses who own and operate the network of cables and powerlines transporting electricity to connected customers in certain areas of the UK. The success of the company depends on its ability to understand the needs of these businesses and continuous engagement is the key to successfully meeting customers' needs.

GOVERNMENT AND REGULATORS

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

SUPPLIERS AND CONTRACTORS

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

ENGAGING WITH STAKEHOLDERS *continued*

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

COMMUNITY AND ENVIRONMENT

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

ScottishPower is working to minimise its carbon footprint through environmental management systems, which align with the UN Sustainable Development Goals ("SDGs"). ScottishPower has formal Environmental Management Systems ("EMS"), certified to International Standard 14001:2015, and managed by its operational businesses.

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.

SECTION 172 STATEMENT

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

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

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

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

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

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

- **Customers**: details of how the company engages with its customers are explained in the 'Employees and customers' sub-section of the Strategic Report, on page 5.
- **Employees**: details of how the SPENH Group engages with its employees are set out in the 'Employees and customers' sub-section of the Strategic Report, on page 5.
- **Communities and the environment**: details of how the SPENH Group engages with communities are set out in the 'Community and environment' section of the Strategic Report, on page 8.
- **Suppliers**: details of how the SPENH Group engages with its suppliers are set out in the 'Suppliers and contractors' sub-section of the Strategic Report, on page 7.
- **Government and regulators**: details of how the SPENH Group engages with governments and regulators are set out in the 'Government and regulators' section of the Strategic Report, on page 7.

SECTION 172 STATEMENT *continued*

In addition, a statement in relation to the company's interaction with its shareholders is described in the introduction to the 'Engaging with stakeholders' sub-section of the Strategic Report on page 4.

The directors, both individually and together as a board of SP Power Systems Limited (the "Board"), consider that the decisions taken during the year ended 31 December 2019 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

Marc Rossi
Director
15th September 2020

SP POWER SYSTEMS LIMITED
DIRECTORS' REPORT

The directors present their report and audited Accounts for the year ended 31 December 2019.

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 9:

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

RESULTS AND DIVIDEND

The net loss for the year amounted to £0.6 million (2018 profit £0.3 million). No dividend was paid during the current year (2018 £20.0 million).

DIRECTORS

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

James Sutherland
Marc Rossi

Frank Mitchell was appointed on 6 May 2020, and James Sutherland resigned on 11 August 2020.

DIRECTORS' INDEMNITY

In terms of the company's Articles of Association, a qualifying third party indemnity provision is in force for the benefit of all the directors of the company 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, including a Strategic Report and Directors' Report, 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 UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101").

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that their financial statements comply with the Companies Act 2006. 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information relating to the company that 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 is aware, there is no relevant audit information of which the company's auditor is unaware; and
- he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

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

AUDITOR

KPMG LLP were re-appointed as auditor of the company for the year ended 31 December 2019.

ON BEHALF OF THE BOARD

Marc Rossi

Marc Rossi
Director
15th September 2020

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF SP POWER SYSTEMS LIMITED

Opinion

We have audited the financial statements of SP Power Systems Limited ("the company") for the year ended 31 December 2019 which comprise the Balance Sheet, Income Statement and Statement of Comprehensive Income, Statement of Changes in Equity, Cash Flow Statement, and related notes, including the accounting policies in Note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 'Reduced Disclosure Framework'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Going Concern

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

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

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

Strategic report and directors' report

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF SP POWER SYSTEMS LIMITED *continued*

Directors' responsibilities
As explained more fully in their statement set out on pages 10 and 11, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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

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

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

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

16th September 2020

SP POWER SYSTEMS LIMITED
BALANCE SHEET
at 31 December 2019

	Notes	2019 £m	2018 £m
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	3	**20.5**	29.1
Property, plant and equipment	4	**37.0**	40.0
Right-of-use assets	5	**0.1**	-
Financial assets		**-**	-
Investments in subsidiaries	6	-	-
Trade and other receivables	7	**0.1**	0.1
NON-CURRENT ASSETS		**57.7**	69.2
CURRENT ASSETS			
Trade and other receivables	7	**180.5**	166.6
Current tax asset		**-**	0.8
CURRENT ASSETS		**180.5**	167.4
TOTAL ASSETS		**238.2**	236.6
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the parent		**25.2**	25.8
Share capital	8, 9	12.2	12.2
Retained earnings	9	13.0	13.6
TOTAL EQUITY		**25.2**	25.8
NON-CURRENT LIABILITIES			
Deferred income	10	**5.3**	5.8
Provisions	11	**0.7**	1.2
Lease liabilities	5	**0.1**	-
Trade and other payables	12	**1.2**	1.3
Deferred tax liabilities	13	**4.3**	4.6
NON-CURRENT LIABILITIES		**11.6**	12.9
CURRENT LIABILITIES			
Provisions	11	**0.4**	1.4
Loans and other borrowings	14	**185.3**	178.8
Lease liabilities	5	**0.1**	-
Trade and other payables	12	**14.4**	17.7
Current tax liabilities		**1.2**	-
CURRENT LIABILITIES		**201.4**	197.9
TOTAL LIABILITIES		**213.0**	210.8
TOTAL EQUITY AND LIABILITIES		**238.2**	236.6

Approved by the Board and signed on its behalf on 15th September 2020.

Marc Rossi

Marc Rossi
Director

The accompanying Notes 1 to 25 are an integral part of the balance sheet at 31 December 2019.

SP POWER SYSTEMS LIMITED
INCOME STATEMENT AND STATEMENT OF OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2019

	Notes	**2019** **£m**	2018 £m
Revenue		178.0	164.2
GROSS MARGIN		**178.0**	164.2
NET OPERATING EXPENSES		**(163.0)**	(150.0)
Net personnel expenses	15	**(63.9)**	(60.3)
Staff costs		(64.1)	(60.9)
Capitalised staff costs		0.2	0.6
Net external expenses		**(99.1)**	(89.7)
External services		(101.2)	(95.0)
Other operating income		2.1	5.3
GROSS OPERATING PROFIT		**15.0**	14.2
Impairment losses on trade and other receivables		(0.1)	-
Depreciation and amortisation charge, allowances and provisions	16	(14.1)	(12.8)
OPERATING PROFIT		**0.8**	1.4
Loss on disposal of non-current assets		(0.1)	-
Finance income	17	0.2	0.1
Finance costs	18	(1.3)	(0.6)
(LOSS)/PROFIT BEFORE TAX		**(0.4)**	0.9
Income tax	19	(0.2)	(0.6)
NET (LOSS)/PROFIT FOR THE YEAR		**(0.6)**	0.3

Net loss in the current year and net profit in the prior year are wholly attributable to the equity holder of SP Power Systems Limited.

Net loss in the current year and net profit in the prior year comprise total comprehensive loss/income.

All results relate to continuing operations.

The accompanying Notes 1 to 25 are an integral part of the income statement and statement of other comprehensive income for the year ended 31 December 2019.

SP POWER SYSTEMS LIMITED
STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2019

	Ordinary share capital £m	Retained earnings £m	Total equity £m
At 1 January 2018	12.2	33.3	45.5
Total comprehensive income for the year	-	0.3	0.3
Dividends	-	(20.0)	(20.0)
At 1 January 2019	12.2	13.6	25.8
Total comprehensive loss for the year	-	(0.6)	(0.6)
At 31 December 2019	**12.2**	**13.0**	**25.2**

The accompanying Notes 1 to 25 are an integral part of the statement of changes in equity for the year ended 31 December 2019.

SP POWER SYSTEMS LIMITED
CASH FLOW STATEMENT
for the year ended 31 December 2019

	2019	2018
	£m	£m
Cash flows from operating activities		
(Loss)/profit before tax	**(0.4)**	0.9
Adjustments for:		
Depreciation and amortisation	**14.8**	14.9
Change in provisions	**(0.8)**	(0.1)
Deferred income	**(0.5)**	(0.5)
Finance income and costs	**1.1**	0.5
Reversal of inventory impairment provision	**-**	(1.3)
Loss on disposal of non-current assets	**0.1**	-
Changes in working capital:		
Change in trade and other receivables	**(13.9)**	(46.9)
Change in trade payables	**(3.2)**	(45.7)
Provisions paid	**(0.7)**	(1.1)
Income taxes received/(paid)	**1.5**	(9.3)
Net cash flows from operating activities (i)	**(2.0)**	(88.6)
Cash flows from investing activities		
Transfer to other Iberdrola group companies	**-**	(127.1)
Interest received	**-**	1.8
Investments in intangible assets	**(2.7)**	(6.2)
Investments in property, plant and equipment	**(1.5)**	(1.4)
Proceeds from disposal of property, plant and equipment	**0.5**	-
Decrease in amounts due from Iberdrola group companies - current loans receivable	**-**	62.7
Net cash flows from investing activities (ii)	**(3.7)**	(70.2)
Cash flows from financing activities		
Increase in amounts due to Iberdrola group companies - current loans payable	**6.4**	178.8
Dividends paid to company's equity holder	**-**	(20.0)
Interest paid	**(0.7)**	-
Payments of lease liabilities	**(0.1)**	-
Net cash flows from financing activities (iii)	**5.6**	158.8
Net decrease in cash and cash equivalents (i)+(ii)+(iii)	**(0.1)**	-
Cash and cash equivalents at beginning of year	**-**	-
Cash and cash equivalents at end of year	**(0.1)**	-
Cash and cash equivalents at end of year comprises:		
Bank ovedraft	**(0.1)**	-
Cash flow statement cash and cash equivalents	**(0.1)**	-

The accompanying Notes 1 to 25 are an integral part of the cash flow statement for the year ended 31 December 2019.

1 BASIS OF PREPERATION

A COMPANY INFORMATION

SP Power Systems Limited ("the company"), registered company number SC215841, is a private company limited by shares, incorporated in Scotland and its registered address is 320 St. Vincent Street, Glasgow, Scotland, G2 5AD.

B BASIS OF PREPARATION OF THE ACCOUNTS

The company is required by law to prepare Accounts and to deliver them to the Registrar of Companies. The Accounts are prepared in accordance with the Accounting Policies set out in Note 2. Monetary amounts are presented in pounds Sterling and are rounded to the nearest hundred thousand unless otherwise indicated. The Accounts are prepared on the historical cost basis.

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

The Accounts have been prepared in accordance with FRS 101. In preparing these financial statements, the company has applied the recognition, measurement and disclosure requirements of International Financial Reporting Standards ("IFRS"), as adopted by the EU as at the date of approval of these Accounts and which are mandatory for the year ended 31 December 2019 ("IFRS as adopted by the EU") but has made amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantages of the FRS 101 disclosure exemptions have been taken.

In the transition to FRS 101 from IFRS as adopted by the EU, the company has made no measurement and recognition adjustments.

In these Accounts, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- reconciliation of movements of liabilities to cash flows arising from financing activities;
- certain disclosures regarding revenue;
- comparative period reconciliations for property, plants and equipment and intangible assets;
- disclosures in respect of transactions with wholly owned subsidiaries of Iberdrola, S.A.;
- disclosures in respect of capital management;
- the effects of new but not yet effective IFRS pronouncements; and
- disclosures in respect of the compensation of key management personnel.

As the consolidated financial statements of Iberdrola, S.A. include the equivalent disclosures, the company has also taken the exemptions under FRS 101 available in respect of certain disclosures required by IFRS 13 'Fair Value Measurement' and the disclosures required by IFRS 7 'Financial Instruments: Disclosures'.

C ACCOUNTING STANDARDS

C1 IMPACT OF NEW IFRS

In preparing these Accounts, the company has applied all relevant International Accounting Standards ("IAS"), IFRS and International Financial Reporting Interpretations Committee ("IFRIC") (collectively referred to as IFRS) that have been adopted by the EU as of the date of approval of these Accounts and that are mandatory for the financial year ended 31 December 2019.

For the year ended 31 December 2019, the company has applied the following standards and amendments for the first time:

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

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

1 BASIS OF PREPARATION *continued*

C ACCOUNTING STANDARDS *continued*

C1 IMPACT OF NEW IFRS *continued*

C1.1 EFFECT OF INITIAL APPLICATION OF IFRS 16

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

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

Lessee

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

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

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

When applying IFRS 16 to leases previously classified as operating leases under IAS 17, the company did not apply any practical expedients at the date of initial application.

On transition to IFRS 16, the company recognised £0.1 million of right-of-use assets and £0.1 million of lease liabilities. When measuring lease liabilities, the company discounted lease payments using its incremental borrowing rate at 1 January 2019. The discount rates used to calculate the below pertaining to Sterling was in the range of 1.22% to 2.05%.

	1 January 2019 **£m**
Operating lease commitment at 31 December 2018 (discounted using interest rate at lease commencement) (as disclosed in Note 5(c))	0.1
Operating lease commitment at 31 December 2018 (discounted using the incremental borrowing rate at 1 January 2019)	0.1
Lease liabilities recognised at 1 January 2019	**0.1**

Lessor

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

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES

In determining and applying accounting policies, judgement is often required in respect of items which have a significant effect on the reported amounts of assets, liabilities, income and expenses recognised in the financial statements, other than those involving estimates; the company has no such judgements. At 31 December 2019, there are no assumptions made about the future or 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

The company recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. All revenue is earned wholly within the UK and is wholly attributable to the principal activities of the company.

The provision of asset management support services is a performance obligation satisfied over time as the customer benefits from the service as it is provided. Cost is used to measure progress towards complete satisfaction of the performance obligation as this represents the transfer of the service to the customer. Revenue is therefore recognised as the costs are incurred at the agreed contractual rate.

In previous years, certain payments were made in advance and recorded within Deferred income in the balance sheet (this is a contract liability). Revenue is subsequently recognised as the service is provided to the customer.

B INTANGIBLE ASSETS (COMPUTER SOFTWARE)

The costs of acquired computer software are capitalised on the basis of the costs incurred to acquire and bring to use the specific software and are amortised on a straight-line basis over their operational lives. Costs directly associated with the development of computer software programmes that are expected to generate economic benefits over a period in excess of one year are capitalised and amortised, on a straight-line basis, over their estimated operational lives. Costs include employee costs relating to software development and an appropriate proportion of relevant overheads directly attributable to bringing the software into use. Amortisation of computer software is over periods of up to four years.

C PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost and is generally depreciated on a straight-line basis over the estimated operational lives of the assets. Property, plant and equipment includes, where appropriate, capitalised employee and other directly attributable costs. Reviews of the estimated remaining lives and residual values of property, plant and equipment are undertaken annually. Residual values are assessed based on prices prevailing at each balance sheet date.

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

	Years
Buildings	2 - 50
Other items of property, plant and equipment	3 - 25

D LEASED ASSETS

The company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately at Note 2D2 if they are different from those under IFRS 16 and the impact of the change in policy disclosed in Note 1C1.1.

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

D LEASED ASSETS *continued*

D1 POLICY APPLICABLE FROM 1 JANUARY 2019

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

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

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

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

D1.1 LESSEE

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

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

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

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

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

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

D1.2 LESSOR

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

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

D LEASED ASSETS *continued*

D1.2 LESSOR *continued*

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

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

D2 POLICY APPLICABLE BEFORE 1 JANUARY 2019

For contracts entered into before 1 January 2019, the company determined whether the arrangement was, or contained a lease, based on an assessment of the substance of the arrangement at inception date and whether:

- fulfilment of the arrangement was dependent on the use of a specific asset(s); and
- the arrangement conveyed a right to use the asset(s) even if that right was not explicitly specified in the arrangement.

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

The accounting policies applicable by the group as a lessor in the comparative period were in line with the lessor policy for leases entered into from 1 January 2019 as noted in Note 2D1.2.

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

E IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

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

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

The company's financial assets are classified, at initial recognition, as subsequently measured at amortised cost. Trade receivables are initially recognised when they originate. All other financial assets are initially recognised when the company becomes a party to the contractual provision on the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus transaction costs that are directly attributable to its acquisition or issue. Trade receivables without a significant financing component and for which the company has applied the simplified Expected Credit Loss ("ECL") model are measured at the transaction price determined under IFRS 15 'Revenue from Contracts with Customers' ("IFRS 15") in Note 7.

F1.2 CLASSIFICATION AND SUBSEQUENT MEASUREMENT

(a) Classification

Financial assets are not reclassified subsequent to their initial recognition unless the company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model. These are expected to be infrequent and no other reclassifications are permitted.

The company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. The business model of the company does not depend on the intentions of management for an individual instrument. Therefore, it is not an instrument-by-instrument classification approach and should be determined from a higher level of aggregation.

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

F FINANCIAL INSTRUMENTS *continued*

F1 FINANCIAL ASSETS *continued*

F1.2 CLASSIFICATION AND SUBSEQUENT MEASUREMENT *continued*

(a) Classification *continued*

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.

Trade receivables that do not contain a significant financing component and for which the company has applied the simplified ECL model are measured at the transaction price determined under IFRS 15.

(b) Subsequent measurement and gains and losses

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

(i) Derecognition

A financial asset (or, where applicable, a part of a financial asset) is primarily derecognised (i.e. removed from the company's balance sheet) when the rights to receive cash flows from the asset have expired.

(c) Impairment of financial assets

The company has adopted the simplified ECL model for its trade receivables.

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

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

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

(i) Measurement of ECLs

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

Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

(ii) Credit-impaired financial assets

At each reporting date, the company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

(iii) Write-offs

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

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

F FINANCIAL INSTRUMENTS *continued*

F2 FINANCIAL LIABILITIES

F2.1 RECOGNITION AND INITIAL MEASUREMENT

All financial liabilities are recognised initially at fair value and net of directly attributable transaction costs.

F2.2 CLASSIFICATION AND SUBSEQUENT MEASUREMENT

All financial liabilities are classified as measured at amortised cost and subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in the income statement.

(a) Derecognition

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

G RETIREMENT BENEFITS

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

H TAXATION

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

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

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

3 INTANGIBLE ASSETS

Year ended 31 December 2019	Note	Computer software in use £m
Cost:		
At 1 January 2019		63.3
Additions	(a)	2.7
Disposals		(7.0)
At 31 December 2019		**59.0**
Amortisation:		
At 1 January 2019		34.2
Amortisation for the year		11.3
Disposals		(7.0)
At 31 December 2019		**38.5**
Net book value:		
At 31 December 2019		**20.5**
At 1 January 2019		29.1

(a) Included within additions is £0.2 million (2018 £0.6 million) from internal development.
(b) The cost of fully amortised computer software still in use at 31 December 2019 was £15.5 million (2018 £18.2 million).

4 PROPERTY, PLANT AND EQUIPMENT

(a) Movements in property, plant and equipment

Year ended 31 December 2019	Land and buildings £m	Other items of property, plant and equipment in use (Note (i)) £m	Total £m
Cost:			
At 1 January 2019	64.1	20.9	85.0
Additions	0.3	0.7	1.0
Disposals	(0.8)	(0.2)	(1.0)
At 31 December 2019	**63.6**	**21.4**	**85.0**
Depreciation:			
At 1 January 2019	34.4	10.6	45.0
Depreciation for the year	-	3.4	3.4
Disposals	(0.2)	(0.2)	(0.4)
At 31 December 2019	**34.2**	**13.8**	**48.0**
Net book value:			
At 31 December 2019	**29.4**	**7.6**	**37.0**
At 1 January 2019	29.7	10.3	40.0

(i) The category 'Other items of property, plant and equipment in use' principally comprises machinery, IT equipment and tooling.
(ii) The cost of fully depreciated property, plant and equipment in use at 31 December 2019 was £20.1 million (2018 £18.6 million).
(iii) Included within the cost of property, plant and equipment at 31 December 2019 are assets in use not subject to depreciation, being land, of £1.0 million (2018 £1.0 million).
(iv) Included in Other items of property, plant and equipment in use and Land and buildings are assets with a carrying value of £0.1 million and £0.3 million respectively which the company leases to third parties via operating leases.

(b) Capital commitments

The company had £0.1 million of capital commitments at 31 December 2019 (2018 £0.4 million) expected to be settled within one year in both years.

(c) Research and development expenditure

The amount of research and development expenditure recognised as an expense during the year was £2.8 million (2018 £2.8 million).

5 LEASES

(a) Lessee

The company leases vehicles. Information about leases for which the company is a lessee is presented below.

(i) Nature of leases

Vehicles

The company leases vehicles, primarily being pool vehicles to mobilise its operational staff, with lease terms of between three and five years.

Other information

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

(ii) Right-of-use assets

	Vehicles £m
On transition to IFRS 16 at 1 January 2019	0.1
Additions	0.1
Depreciation charge for the year	(0.1)
At 31 December 2019	**0.1**

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

(iii) Lease liabilities

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

	2019 £m
Less than one year	0.1
One to five years	0.1
Total discounted lease liabilities	**0.2**

Analysis of total lease liabilities	
Non-current	0.1
Current	0.1
Total	0.2

Details of ScottishPower's, and so the company's, risk management strategy for liquidity risks inherent in the company's lease liabilities are described in the most recent Annual Report and Accounts of SPL.

(iv) Amounts recognised in the income statement

	2019 £m
Expenses relating to short-term leases	(0.1)

(v) Amounts recognised in the cash flow statement

	2019 £m
Total cash outflow for leases	**(0.2)**

Included in this amount is £0.1 million relating to payments of lease liabilities.

5 LEASES *continued*

(b) 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 between 2 and 26 years, running to between 2021 and 2029. The lessor retains no significant rights in relation to the underlying assets.

Lease income recognised by the company during 2019 was £0.8 million. No income relating to variable lease payments that do not depend on an index or rate has been recognised.

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

	2019
	£m
Less than one year	**0.8**
One to two years	**0.6**
Two to three years	**0.2**
Three to four years	**0.2**
Four to five years	**0.2**
More than five years	**0.9**
Total undiscounted lease payments	**2.9**

(c) Operating lease disclosures under IAS 17

	2018
(i) Operating lease payments	£m
Minimum lease payments under operating leases recognised as an expense in the year	0.1

The company leases various vehicles under non-cancellable operating lease arrangements. The leases have varying terms and escalation clauses.

	2018
(ii) Operating lease commitments	£m
The future minimum discounted lease payments under non-cancellable operating leases were as follows:	
Between one and five years	0.1
	0.1

	2018
(iii) Operating lease receivables	£m
The future minimum discounted lease payments receivable under non-cancellable operating leases were as follows:	
Within one year	0.8
Between one and five years	0.8
More than five years	0.8
	2.4

6 INVESTMENT IN SUBSIDIARY

	Note	Investments in subsidiaries £m
At 1 January 2018, 1 January 2019 and 31 December 2019	(a)	-

(a) The company's investment in the share capital of SP Network Connections Limited has been fully written down and as a consequence the carrying value at 31 December 2019 is £nil (2018 £nil).

		Equity interest in ordinary shares	
Subsidiary	**Principal activity**	**2019**	2018
SP Network Connections Limited	Design and construction of utility connections	100%	100%

(b) SP Network Connections Limited is incorporated in England and Wales and its registered office is 3 Prenton Way, Prenton, CH43 3ET, England.

(c) The investment is a direct holding of the company.

7 TRADE AND OTHER RECEIVABLES

	Note	2019 £m	2018 £m
Current receivables:			
Receivables due from Iberdrola group companies - trade		**177.4**	163.8
Trade receivables (including accrued income)		**1.1**	0.5
Prepayments		**0.5**	1.2
Other tax receivables		**1.5**	1.1
	(a)	**180.5**	166.6
Non-current receivables:			
Prepayments		**0.1**	0.1
		0.1	0.1

(a) The following table provides information about IFRS 15 contract balances included within trade and other receivables.

	Note	2019 £m	2018 £m
Receivables	(i)	**178.4**	163.7

(i) Impairment losses of £0.1 million (2018 nil) were recognised during the year on receivables arising from the company's contracts with customers.

8 SHARE CAPITAL

	2019 £m	2018 £m
Allotted, called up and fully paid shares:		
12,247,000 ordinary shares of £1 each (2018 12,247,000)	**12.2**	12.2

(a) The holder of ordinary shares is 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 the member entitled to one vote on a show of hands and on a poll one vote for every share held.

9 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDER OF THE COMPANY

	Share capital £m	Retained earnings (Note (a)) £m	Total £m
At 1 January 2018	12.2	33.3	45.5
Total comprehensive income for the year	-	0.3	0.3
Dividends	-	(20.0)	(20.0)
At 1 January 2019	12.2	13.6	25.8
Total comprehensive loss for the year	-	(0.6)	(0.6)
At 31 December 2019	**12.2**	**13.0**	**25.2**

(a) Retained earnings comprises the cumulative balance of profits and losses recognised in the Accounts as adjusted for transactions with shareholders, principally dividends.

10 DEFERRED INCOME

Year ended 31 December 2018	At 1 January 2018 £m	Released to income statement £m	At 31 December 2018 £m
Deferred income	6.3	(0.5)	5.8

Year ended 31 December 2019	Note	At 1 January 2019 £m	Released to income statement £m	**At 31 December 2019 £m**
Deferred income	(a)	5.8	(0.5)	**5.3**

(a) The following table provides information about IFRS 15 contract liabilities included within deferred income.

10 DEFERRED INCOME *continued*

	Note	**2019** **£m**	2018 £m
Contract liabilities	(i)	**5.3**	5.8

(i) The amount of contract liabilities recognised as income in the year is £0.5 million (2018 £0.5 million).

11 PROVISIONS

Year ended 31 December 2018	Notes	At 1 January 2018 £m	Transfers £m	New provisions £m	Utilised during year £m	Released during year £m	At 31 December 2018 £m
Reorganisation and restructuring	(a)	0.5	-	0.6	(0.7)	-	0.4
Insurance	(b)	3.0	-	-	(0.4)	(0.8)	1.8
Overtime and commission	(c)	2.9	(2.6)	0.1	-	-	0.4
		6.4	(2.6)	0.7	(1.1)	(0.8)	2.6

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**
Reorganisation and restructuring	(a)	0.4	-	(0.4)	-	**-**
Insurance	(b)	1.8	0.4	-	(1.1)	**1.1**
Overtime and commission	(c)	0.4	-	(0.3)	(0.1)	**-**
		2.6	0.4	(0.7)	(1.2)	**1.1**

Analysis of total provisions	**2019** **£m**	2018 £m
Non-current	**0.7**	1.2
Current	**0.4**	1.4
	1.1	2.6

(a) The 2018 provision for reorganisation and restructuring related to a group-wide restructuring programme. The provision was fully utilised during the current year.

(b) The provision for insurance principally represents the value of claims reserves. Of the total outstanding at 31 December 2019, £0.4 million is expected to be utilised in 2020 and the remaining balance in 2021.

(c) The provision for overtime and commission primarily was comprised of probable holiday pay entitlements under the Working Time Regulations arising from commission and overtime. On 1 January 2018, as part of a change in the role of the company, along with the transfer of certain employee service contracts, £2.6 million of this provision was transferred to the asset-owner companies and an equivalent amount received as a cash inflow to the on demand group loan account. The provision was fully utilised or released during the current year.

12 TRADE AND OTHER PAYABLES

	Note	**2019** **£m**	2018 £m
Current trade and other payables:			
Payables due to Iberdrola group companies - trade		**-**	1.3
Payables due to Iberdrola group companies - interest		**1.3**	0.7
Trade payables		**6.9**	7.7
Other taxes and social security		**1.2**	1.2
Payments received on account		**0.6**	0.6
Capital payables and accruals		**0.5**	1.0
Other payables		**3.9**	5.2
		14.4	17.7
Non-current other payables:			
Other payables		**1.2**	1.3
		1.2	1.3

13 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 2018	3.6	(1.1)	2.5
Charge to the income statement	1.3	0.8	2.1
At 1 January 2019	4.9	(0.3)	4.6
(Credit)/charge to the income statement	(0.5)	0.2	(0.3)
At 31 December 2019	**4.4**	**(0.1)**	**4.3**

Legislation was previously enacted to reduce the rate of UK Corporation Tax to 17% on 1 April 2020. Accordingly, deferred tax balances have been measured at the 17% rate, this being the tax rate enacted at the balance sheet date and the rate temporary differences are expected to reverse. After 31 December 2019, further legislation has been substantively enacted on 17 March 2020 under The Provisional Collection of Taxes Act 1968 that maintains the 19% UK Corporation tax rate. The 19% rate will apply from 1 April 2020. This rate change would increase the 31 December 2019 deferred tax liability by £0.5 million.

14 LOANS AND BORROWINGS

Analysis of loans and borrowings by instrument and maturity

Instrument	Interest rate*	Maturity	**2019 £m**	2018 £m
Bank overdraft	Base + 1%	On demand	**0.1**	-
Loans with Iberdrola group companies	Base + 1%	On demand	**185.2**	178.8
			185.3	178.8

*Base – Bank of England Base Rate

15 EMPLOYEE INFORMATION

(a) Staff costs

	2019 £m	2018 £m
Wages and salaries	**46.5**	43.8
Social security costs	**4.7**	4.5
Pension and other costs	**12.9**	12.6
Total staff costs	**64.1**	60.9
Less: capitalised staff costs	**(0.2)**	(0.6)
Charged to the income statement	**63.9**	60.3

(b) Employee numbers

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

	Average 2019	Average 2018
Administrative staff	**378**	360
Operations	**630**	588
Total	**1,008**	948

(c) Pensions

The company's pension contributions payable in the year were £12.1 million (2018 £12.3 million). The company contributes to ScottishPower'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 2019, the deficit in ScottishPower's defined benefit schemes in the UK amounted to £651.7 million (2018 £512.7 million). The employer contribution rate for these schemes in the year ended 31 December 2019 was 47.9% - 51.0%.

16 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS

	2019	2018
	£m	£m
Property, plant and equipment depreciation charge	**3.4**	3.5
Intangible asset amortisation	**11.3**	11.4
Right-of-use assets depreciation charge	**0.1**	-
Charges and provisions, allowances and impairment of assets	**(0.7)**	(2.1)
	14.1	12.8

17 FINANCE INCOME

	2019	2018
	£m	£m
Foreign exchange gains	**0.2**	0.1

18 FINANCE COSTS

	2019	2018
	£m	£m
Interest on amounts due to Iberdrola group companies	**1.3**	0.7
Impairment loss reversals on loan and interest receivables	**-**	(0.1)
	1.3	0.6

19 INCOME TAX

	2019	2018
	£m	£m
Current tax:		
UK Corporation tax on loss/profits for the year	**1.2**	1.0
Adjustments in respect of prior years	**(0.7)**	(2.5)
Current tax charge/(credit) for the year	**0.5**	(1.5)
Deferred tax:		
Origination and reversal of temporary differences	**(1.1)**	(0.2)
Adjustments in respect of prior years	**1.2**	2.5
Impact of tax rate change	**(0.4)**	(0.2)
Deferred tax (credit)/charge for the year	**(0.3)**	2.1
Income tax charge for the year	**0.2**	0.6

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

	2019	2018
	£m	£m
Corporation Tax at 19% (2018 19%)	**(0.1)**	0.2
Adjustments in respect of prior years	**0.5**	-
Impact of tax rate change	**(0.4)**	(0.2)
Non-deductible expenses and other permanent differences	**0.2**	0.6
Income tax expense for the year	**0.2**	0.6

Legislation has been enacted to reduce the rate of UK Corporation Tax to 17% on 1 April 2020. After 31 December 2019, further legislation has been substantively enacted on 17 March 2020 under the Provisional Collection of Taxes Act 1968 that maintains the 19% UK Corporation tax rate. The 19% rate will apply from 1 April 2020.

20 DIVIDENDS

	2019	2018	**2019**	2018
	£ per ordinary share	£ per ordinary share	**£m**	£m
Interim dividend paid	**-**	1.63	**-**	20.0

21 FINANCIAL COMMITMENTS

The company had other contractual commitments of £2.0 million at 31 December 2019 (2018 £4.1 million).

22 RELATED PARTY TRANSACTIONS

(a) 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. Both directors were remunerated directly by the company in both the current and prior years.

	2019	2018
Executive directors	**£000**	£000
Aggregate remuneration in respect of qualifying services	**401**	381
Number of directors who exercised share options	**2**	2
Number of directors who received shares under a long-term incentive scheme	**2**	2
Number of directors accruing retirement benefits under a defined benefit scheme	**2**	2

	2019	2018
Highest paid director	**£000**	£000
Aggregate remuneration	**205**	191
Accrued pension benefits	**50**	67

(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.

(b) Ultimate and immediate parent company

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

The directors regard Iberdrola, S.A. as the ultimate parent company, which is also the parent company of the largest group in which the results of the company are consolidated. The parent company of the smallest group in which the results of the company are consolidated is Scottish Power UK plc ("SPUK").

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

In addition to the parent undertakings disclosed above, the company's other related undertaking is disclosed in Note 6.

23 AUDITOR REMUNERATION

	2019	2018
	£m	£m
Audit of the company's annual Accounts	**0.1**	0.1

24 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 9.

The company has recorded a loss after tax in the current financial year and the company's balance sheet shows that it has net current liabilities of £20.9 million and net assets of £25.2 million as at 31 December 2019. Notwithstanding this, as at 31 December 2019 the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

24 GOING CONCERN *continued*

The company is a significant component of ScottishPower which in turn is part of Iberdrola, one of the world's largest integrated utilities. The company participates in a UK treasury function operated by the company's intermediate parent company, Scottish Power Limited. The UK treasury function works closely with Iberdrola to manage the company's funding requirements which are reviewed and adjusted on a regular basis funding provided via Iberdrola, through the global treasury function. Scottish Power Limited has indicated its intention to provide the company with the funding it requires, including not seeking repayment of the amounts currently due to Scottish Power Limited ("financial support"), for a period of at least twelve months from the date of these financial statements, which at 31 December 2019 amounted to £185.2 million. Scottish Power Limited will provide this financial support through the UK treasury function utilising its committed facilities with Iberdrola group treasury. The directors of Scottish Power Limited have completed an assessment of their ability to provide this financial support across the ScottishPower group and are satisfied that this can be provided utilising its committed facilities with Iberdrola group treasury.

The directors of the company are aware of the assessment performed by the directors of Scottish Power Limited and they are satisfied that Scottish Power Limited has the ability to provide the company with the financial support it requires to meet its liabilities as they fall due for a period of at least twelve months from the date of these financial statements. However, as with any company placing reliance on other group entities for financial support, the company directors acknowledge that there can be no certainty that this financial support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Since the year end, 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 as a result of COVID-19 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, the directors have prepared a company cash flow statement for a period of 15 months from the date of approval of these financial statements. The cash flow forecasts indicate that, after taking account of severe but plausible downsides including the impact of the COVID-19 pandemic, the company's existing resources and the financial support noted above from Scottish Power Limited are sufficient to enable it to trade and pay its liabilities as they fall due for the forecast period.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 15 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

25 EVENTS AFTER THE BALANCE SHEET DATE

In March 2020, the World Health Organization declared the outbreak of Coronavirus COVID-19 a pandemic, due to its rapid spread throughout the world. In common with many governments, the UK and devolved Governments have put in place restrictive measures to contain the spread of the virus. These are expected to endure for some time.

As the significant impacts of COVID-19 arose after 31 December 2019, this is considered a non-adjusting post balance sheet event for the company for the year ended 31 December 2019, without prejudice to the fact that the impacts will be recognised as part of the 31 December 2020 year end.

At the date of signing these Accounts, it is the directors' opinion that the principal activity of the company is expected to operate throughout this crisis period without significant disruption and therefore will not have a material impact on the company's business operations, assets and liabilities.