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

Registered No. SC189126

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CONTENTS

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

SP TRANSMISSION PLC
STRATEGIC REPORT

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

STRATEGIC OUTLOOK

Introduction

The principal activity of SP Transmission plc ("the company"), registered company number SC189126, is the ownership of the electricity transmission network within the Central and Southern Scotland area. In accordance with the British Electricity Trading and Transmission Arrangements ("BETTA"), National Grid operates the Great Britain transmission system, including balancing of generation and demand in Scotland. The company retains network ownership and all associated responsibilities including development of the network. The company will continue with this activity for the foreseeable future.

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

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

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

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

Operating review

The company remains on track to complete an ambitious eight-year price control programme, RIIO-T1 (Revenue = Incentives + Innovation + Outputs) programme of network renewal, which has one year remaining. At March 2020, the company was just under 90% through its overhead line replacement programme of approximately 800 km, which is over 200 km ahead of plan. Other major deliverables include the connection of an additional 1,500 megawatts ("MW") of directly connected generation, completion of two significant overhead line routes utilising innovative composite-core 'High Temperature Low Sag' technology, and completion of a cumulative 80% of non-load outputs, ahead of the RIIO-T1 plan of 76% for the first seven years.

The Western Link High Voltage Direct Current ("HVDC") project, a joint venture with National Grid Electricity Transmission ("NGET") to increase the interconnection capacity between Scotland and England, was partially operational in late summer 2017. The main aim of the project is to support the transition to a low carbon economy by providing further capacity for renewable energy schemes in Scotland to reach the wider Great Britain market, however it has also been designed to enhance the ability to import power into Scotland during periods of low renewable generation. The final full commissioning works were completed through 2019 and the Western Link was formally taken over in November 2019 by the company and NGET. In January 2020 the Western HVDC Link suffered a cable fault in the southern onshore location which was the cause of an outage for the link. The company and NGET worked closely with the cable manufacturer and the repair works were completed in early February 2020 and the link returned to service on 7 February 2020. Ofgem has opened an investigation into both the company and NGET in relation to compliance with their respective obligations relating to the Western Link and both are proactively working with Ofgem to bring this to a satisfactory conclusion.

STRATEGIC OUTLOOK *continued*

During 2019/20, connections to the network increased with two new wind farms being connected in the year, both to Coalburn, a key substation, on the 'west' power corridor to England, delivering 140 MW of new generation capacity. Kype Muir wind farm accounted for nearly two-thirds of the total. This brings the total connections to 1,500 MW. The company's forecast for the RIIO-T1 period remains at 1,620 MW. The company continues to work closely with developers to seek early connection opportunities where it is cost efficient and economical to do so.

The company currently forecasts that by the end of the RIIO-T1 period, it will have spent £76 million less than its allowance, through efficient project delivery and changes to forecast allowance and expenditure for generation connections.

The UK's ambition to become 'net zero' has attracted huge public attention in 2019/20. ScottishPower and Energy Networks are collaborating with the Scottish, Welsh and UK Governments to deliver their sustainability plans and meet the challenges of the low carbon revolution, with a focus on accommodating increasing electrical flows associated with growing low carbon energy sources and meeting the needs of both its current and future customers. Both ScottishPower and Energy Networks place great value in all parts of society benefitting from the low carbon revolution, access to electric vehicles ("EVs") and the health benefits of low or zero emissions. There has been much debate around the role of anticipatory investment for low carbon solutions. The future is uncertain and Energy Networks has encountered reluctance from Ofgem to invest ahead of need, but it contends that without investment in its infrastructure now, there will be significant lost opportunities that could slow down the pace required to meet the net zero deadline.

2019/20 has marked Energy Networks' 'Year of Innovation'. In support of this, Energy Networks has created opportunities for wider engagement in business-focused challenges and developing champions who can drive local innovation. This work will continue throughout 2020/21.

In March 2018, Energy Networks announced the launch of a Green Economy Fund ("the Fund"). Working alongside the Scottish Government, Ofgem and independent economic advisors, funding has been made available for initiatives focused on delivering sustainable low carbon transport and heating. The Fund aims to further Scotland's ambitious green energy plans and at the same time create economic growth opportunities for local communities. Energy Networks has awarded 35 projects through three rounds of funding, ensuring that all of the £20 million of available funds are committed. Projects have been selected that not only meet the overall aims of the scheme but that can also be delivered within the two years that this funding is available.

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

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

- It won the Engineering and Technology Innovation of the Year Award and the Information Technology Award in conjunction with Heriot-Watt University for its Network Constraints Early Warning System ("NCEWS").
- The Green Economy Fund has been awarded the Outstanding Project Award 2019 at the Scottish Green Energy Awards.
- The Mid-Cheshire district won the Customer Care Award at the 2019 Utility Week Awards in December 2019.
- Energy Networks received the Excellence in Planning for the Natural Environment award for its Beauly Denny Visual Mitigation Project from the Royal Town Planning Institute Awards 2019.
- The business achieved the Gold Award for its Kilmarnock Depot via the Keep Scotland Beautiful National Award for Environmental Excellence.
- Volunteers from across Energy Networks have been recognised with various awards for their dedication to supporting the local community.
- Professor James Yu of Energy Networks was awarded an MBE in the New Year's Honours List for his service to the electricity industry and innovation.

2019/20 OPERATIONAL PERFORMANCE
The table below provides key financial information relating to the company's performance during the year.

Financial key performance indicators	Notes	**Year ended 31 March 2020 £m**	Year ended 31 March 2019 £m
Revenue	(a)	**407.4**	379.7
Operating profit	(a)	**225.2**	225.5
Profit before tax	(a)	**189.9**	192.2
Net assets	(b)	**1,180.8**	1,132.0
Net capital investment	(c)	**175.4**	161.0
Cash inflow from operating activities	(d)	**305.3**	298.4
Purchase of tangible fixed assets (cash flow)	(d)	**(212.6)**	(266.3)
Net debt	(e)	**(1,372.3)**	(1,333.6)

(a) Revenue, operating profit and profit before tax are presented in the income statement on page 30.
(b) Net assets are presented in the balance sheet on page 29.
(c) Net capital investment is analysed below.
(d) Cash inflow from operating activities and purchase of tangible fixed assets are presented in the cash flow statement on page 32.
(e) Net debt is further analysed on page 6.

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

The company's operating profit was £225.2 million, a decrease of £0.3 million compared to the prior year, and profit before tax was £189.9 million, a decrease of £2.3 million compared to the prior year.

Revenue increased by £27.7 million mainly due to increased transmission revenues allowable under RIIO-T1.

Net personnel expenses decreased by £0.3 million compared to the prior year with an increase in gross salary offset by a greater proportion of salaries being capitalised within property, plant and equipment.

External services have increased by £23.0 million primarily as a result of Green Economy Fund disbursements, increased network operation and maintenance activity and increased charges for networks and corporate shared services.

Other operating income is broadly in line year on year.

Taxes other than income tax have increased by £0.7 million as a result of increased rates.

Depreciation and amortisation charge, allowances and provisions has increased by £4.4 million mainly as a result of the increased cost base for depreciation and also due to the recognition of right-of-use asset depreciation following the implementation of IFRS 16 'Leases' ("IFRS 16").

Net finance costs increased by £2.6 million primarily as a result of a lower capitalised interest charge following completion of major projects.

The **income tax expense** increased by £21.5 million primarily as a result of a change in tax rates.

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

Net capital investment
ScottishPower's investment strategy is to drive the growth and development of its regulated businesses through a balanced programme of capital investment. The company earns allowed returns on this extensive capital investment programme.

Net capital investment for the year was £175.4 million (2019 £161.0 million) consisting of fixed asset additions of £188.1 million (2019 £181.9 million) less capital contributions received of £12.7 million (2019 £20.9 million). The scale of investment is consistent with the eight-year price review period allowed capital expenditure programme. Fixed asset additions for the year ended 31 March 2020 of £188.1 million includes £25.4 million in respect of the creation of a decommissioning provision for the West Coast HVDC Link (refer to Note 12).

2019/20 OPERATIONAL PERFORMANCE *continued*

The tables below provide key non-financial performance indicators relating to the company's operational assets and operational performance.

Operational assets	Year ended 31 March 2020	Year ended 31 March 2019
Franchise area (km^2)	**22,950**	22,950
System maximum demand (MW)	**3,343**	3,318
Length of overhead lines (circuit km)	**3,709**	3,740
Length of underground cables (circuit km)	**636**	603

Operational performance	Notes	Year ended 31 March 2020	Year ended 31 March 2019
Annual system availability	(a)	**93.90%**	95.31%
Winter peak system availability	(b)	**95.64%**	97.55%
Annual reliability of supply	(c)	**99.99%**	99.99%
Annual number of loss of supply incidents	(d)	**9**	17
1. Incentivised incidents		**1**	9
2. Non incentivised incidents		**8**	8

(a) Annual system availability details the overall availability of the licensee's transmission circuits, with any reduction below 100% being due to planned outages and faults. Annual system availability decreased this year due to an increase in planned (construction and maintenance) outages.

(b) Winter peak system availability is the average system availability over the three months of December, January and February. Winter peak system availability decreased this year due to an increase in planned (construction and maintenance) outages and unplanned (faults) outages.

(c) Annual reliability of supply is provided by the system operator, National Grid Electricity Transmission (UK).

(d) Any event on the licensee's transmission system that causes electricity not to be supplied. Incentivised incidents are incidents where the loss of supply is longer than three minutes and non-incentivised incidents are those which do not cause a loss of supply to customers and those that cause a loss of supply to customers that last less than three minutes.

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

PROJECTS

The company, in accordance with its long-term plan agreed with stakeholders, continues to undertake several major projects that will enhance the capability and capacity of the transmission network. This includes key projects to facilitate the delivery of the Scottish Government's target for renewable generation in Scotland.

Strategic reinforcement and generation connections

The engineering and construction works undertaken on strategic reinforcement projects during 2019/20 and prior years has delivered on an ambitious investment plan. These projects have delivered increased capacity from Scotland to England. Capacity has increased from 3.3 gigawatts ("GW") to close to 7 GW.

The company also continues to work closely with stakeholders to connect wind farms in accordance with proposals set out in its business plan for RIIO-T1. The current projection for renewable generation directly connected to the transmission network, based on the company's best view of contracted generation schemes, is currently anticipated to be between 1.5 GW and 2 GW by 2020/21. Whilst this is below the original RIIO-T1 plan, the company has continued to work closely with its customers to develop and progress construction works on a significant number of connections in the regulatory year:

- Across the company's geographical area, development continues on more than 50 schemes with a potential capacity exceeding 5 GW. The number of new connection applications remains strong, at around 100 per annum, although the year saw a 40% drop in battery applications; all applications were delivered on time.
- The work on new connections has been supported by a wide range of reinforcement projects to strengthen the network and facilitate future connections. The reinforcements have added 360 Mega Volt Amperes ("MVA") of additional capacity in the regulatory year at Coalburn substation. The RIIO-T1 target was exceeded in 2017/18 and the company remains on course to deliver around 3.5 giga volt amperes ("GVA") by the end of the price control.

PROJECTS *continued*

The company's work with customers has been recognised in the latest stakeholder satisfaction survey[1]. There has been regular improvement since the start of RIIO-T1 and the company continues to exceed targets in 2019/20 with a mean score of 8.4.

Network reinforcement and modernisation

During the regulatory year a substantial amount of reinforcement work and modernisation has been undertaken to improve the security and quality of supply to existing customers, whilst also enhancing the security of supply and providing new capacity for the distribution network to support economic development. Projects completed and progressed during the year include:

- Schemes to increase capacity at Grid Supply Points ("GSPs") (the main supply to the distribution network) are in advanced development stages or construction. The reinforcement of the Tongland and Currie GSPs were substantively completed in 2019/20.
- Modernisation projects were undertaken to address substation and overhead line assets that were at, or approaching, 'end of life'. This included replacement of transformers/reactors at Erskine, Johnstone, Grangemouth and Shrubhill and switchgear at 132 kilovolt ("kV") (Chapelcross) and 275 kV substations (Currie, Kaimes, Strathaven and Wishaw). Refurbishment works continued on 275 kV overhead line routes – Currie to Kaimes, Kaimes to Cockenzie, and Dalmally to Windyhill and are expected to complete later in 2020. Construction works on the V Route 132kV overhead line are ongoing with planned completion by end of RIIO-T1.

The major works are supported by a programme of minor works as well as regular inspections, maintenance and defect repairs to maintain the reliability and performance on other transmission assets. This ensures that the network assets are modernised efficiently without compromising long-term customer service.

Network innovation

The company has embedded innovation within its RIIO-T1 projects and several have been referred to above; ranging from the HVDC under-sea cable, where a research project on HVDC cable condition monitoring technology has been trialled. The company continues to explore further opportunities to better utilise the existing network, for example using composite core conductor to increase power capacity to smaller substation footprints through wider adoption of digital technology. In line with the company's innovation strategy, the company takes on the stewardship on areas where it can benefit its customers most including Wide Area Monitoring ("WAM"), transmission substation digitalisation, new material and technologies and new operational processes to cope with the evolving nature of the low carbon transformation of the sector. The company firmly believes that innovation can perform the best when it is carried out in an inclusive and collaborative manner. Investment in innovation today will benefit future consumers and the company integrated over £40 million benefits from innovation into RIIO-T2 from the pioneering projects referred herein.

The Project VISOR trial has provided the system operator with the ability and confidence to utilise the full capacity of the network where increasing volumes of wind generation lead to more volatile system flows, resulting in greater operating margins to maintain and manage network security. The Electricity System Operator ("ESO") and other transmission owners have adopted a WAM strategy as part of their own RIIO-T2 strategy.

The company's Network Innovation Competition ("NIC") Project FITNESS (Future Intelligent Transmission Network Substation) demonstrates a reduced outage and low risk approach to future substation monitoring, protection, automation and control. The solutions enabled by FITNESS facilitate reduced network costs and constraints, significantly benefitting customers in Great Britain ("GB"). The first bay under this trial was successfully commissioned in July 2018. Since then, Energy Networks has organised workshops and site visits at Wishaw for its stakeholders. This has generated great learning points for digital substation applications for both transmission and distribution network owners in the country providing 'whole system' benefits from this innovation.

The company in collaboration with NGET ESO is also deploying hybrid synchronous compensators ("H-SC") for the first time on the GB transmission system. Project Phoenix is in its construction phase at the Neilston 275 kV substation and has already generated valuable knowledge through its research and development work with the University of Strathclyde and Denmark Technical University. The company is also engaging with NGET ESO and an independent market consultant to enable commercial mechanisms to backfill grid services in future. Considering the COVID-19 pandemic and protective measures currently in place through government agencies, this innovation can provide timely and much needed support for transmission voltage control for the Scottish and national transmission network.

[1] The company surveys its supply chain, developers connecting to its network, connected customers, the communities it works in and stakeholders with a Broad Interest in what it does. All respondents are asked to rate their overall satisfaction out of 10.

PROJECTS *continued*

Green Economy Fund

Energy Networks is working with the Scottish Government and Ofgem to fund low-carbon initiatives which support local economic growth. The fund supports the ambitious green targets of the Scottish Government to boost local economic growth, improve air quality in cities and deliver a better future, quicker.

Over the course of 2019/20, a further two rounds of funding have been completed. The second tranche of funding saw a further 21 projects, receiving just under £10 million of funding. This saw a variety of projects being supported, including two projects developing and utilising e-cargo bikes seen as an answer to the inner cities 'last mile deliveries', removing the need for vans and lorries in these congested areas. The third round of funding has seen a further £3 million of funding being allocated. Within this portfolio of projects is a partnership with Lothian buses in Edinburgh to replicate the partnership already established in Glasgow.

RIIO-T2

In the RIIO-T2 period, the role of the network will continue to evolve as the demands from the network continue to change. Further to extensive stakeholder engagement during 2018 and 2019, the company issued its final RIIO-T2 business plan to Ofgem in December 2019 and has published the content.[2] Ofgem published its Consumer Challenge Group ("CCG") report on transmission owner plans in January 2020. The report is very positive for the company and was stated to be one of the best. The CCG assessed plans against 13 criteria and indicated that the company was joint first across all companies (including gas). The plans are currently being reviewed by Ofgem and its consultants and the initial determination was received on 9 July 2020. Overall, the Electricity Transmission Licensees have received a challenging outcome compared with business plans and existing regulatory arrangements. The draft determination has proposed a reduction in shareholder returns, whilst also setting further efficiency challenges. In late November 2020, Ofgem is expected to publish their final determination for the RIIO-T2 price control. The company will now review the draft determination and engage closely and constructively with Ofgem to inform the final determination.

LIQUIDITY AND CASH MANAGEMENT

Cash and net debt

Net cash flows from operating activities increased by £6.9 million to £305.3 million for the year, as detailed on page 32. As detailed in the table below, net debt increased by £38.7 million to £1,372.3 million. Cash decreased by £5.8 million. Loans payable to Iberdrola group companies decreased by £326.0 million whilst external loans payable increased by £346.7 million. Lease liabilities of £12.2 million arose as a result of the implementation of IFRS 16.

Analysis of net debt	Notes	**2020 £m**	2019 £m
Cash	(a)	**12.2**	18.0
Loans payable to Iberdrola group companies	(b)	**(1,025.6)**	(1,351.6)
External loans payable	(b)	**(346.7)**	-
Lease liabilities	(c)	**(12.2)**	-
Net debt		**(1,372.3)**	(1,333.6)

(a) As detailed on the balance sheet, refer to page 29.
(b) As detailed in Note 13 on pages 52 and 53.
(c) As detailed in Note 4 on pages 43 to 45.

Capital and debt structure

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

HEALTH AND SAFETY

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

[2] Business plan narrative, tables, and supporting documents published on website; some commercially sensitive information withheld.

HEALTH AND SAFETY *continued*

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

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

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

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

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

(a) Total recordable incident rate is the summation of any incidents, be they lost time, medical treatment or leading to some work restriction per 100,000 hours worked.

(b) Contractor lost time accident performance has been disappointing, with no discernible major trends apparent. Energy Networks have clear and unambiguous health and safety performance expectations that its contractors are fully aware of and it will work closely with its contractor base to support an improvement in performance.

(c) Occupational health monitoring is a measure of how Energy Networks meets its planned forecasts for those staff assessed as at risk.

(d) Audit and inspection programme completion is the measurement of the planned internal management system audits and Energy Networks compliance inspections, both against Energy Networks' own staff and contracting partners.

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

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

OUTLOOK FOR 2020/21 AND BEYOND

In 2019/20 the company finalised its business plan submission for the RIIO-T2 period (which takes effect from April 2021), where the role of the network will continue to evolve as the demands on the network continue to change. The generation landscape will undergo further radical change as existing nuclear and carbon intensive generation closes and more renewable generation connects to the system. In the same timescale, demand patterns are expected to change as a result of the increase in electrification of transport and heat. This is expected to begin reversing the trend of reducing demand that Energy Networks has seen over the last ten years. As a result of this transition, the role of the transmission network will become even more vital to the economy; transferring power across the country to facilitate greater interconnection and maintaining a coordinated national system. It is therefore important to invest in the network at the correct time to ensure that there is no risk of stranded assets or barriers created for customers.

PRINCIPAL RISKS AND UNCERTAINTIES

In order to deliver its strategy, ScottishPower, and therefore the company, is required to conduct business in a manner benefitting customers through balancing cost and risk while delivering shareholder value and protecting ScottishPower's performance and reputation by prudently managing the risks inherent in the business. To maintain this strategic direction, ScottishPower develops and implements risk management policies and procedures, and promotes a robust control environment at all levels of the organisation. Further details of ScottishPower's governance structure and risk management are provided in the most recent Annual Report and Accounts of SPL.

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

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

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

Emergence and spread of Coronavirus (COVID-19)

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

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

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

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

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

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

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

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

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

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

UK decision to leave the EU (Brexit)

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

The principal risks and uncertainties of the Energy Networks business, and therefore those of the company, that may impact current and future operational and financial performance and the management of these risks are described below:

ENERGY NETWORKS	
RISK	**RESPONSE**
Potential reduction in base regulatory revenues as a result of RIIO-2 price control process set out in Ofgem's sector specific methodology consultations, published in December 2018, suggesting lower estimates for company returns.	Steering group and dedicated teams in place to produce robust business plan submission; extensive proactive engagement with Ofgem and other stakeholders.
Inability to recruit or retain an appropriately skilled workforce.	A Strategic Workforce Planning and Implementation plan has been put in place that incorporates: a) retirement profiles with demographics; b) a one year ahead strategic recruitment plan; and c) a ten year strategic recruitment plan. Identification of business critical roles and succession planning.
Reduced security of supply due to potential asset failures alongside reduced generation capacity.	Risk based asset investment programme in place, business continuity and emergency planning well established including Black Start. Strategic spares policy in place.
Failure to deliver the transmission outputs agreed with Ofgem in their price control.	Mitigating actions include formulating detailed investment, resource, outage and contingency plans supported by an extensive procurement strategy. Good communication and co-ordination of activities across the business is integral to success, complemented by a comprehensive monitoring regime that provides early warning of potential issues.
Failure to protect customer service performance.	Well-established customer service processes to respond to power loss, including storm readiness. Priority Service Register to protect vulnerable customers in the event of power loss. Implementation of a single emergency number to route customer queries.
Failure to respond to customers' changing requirements and to deploy new technologies through low carbon transition, for example electric vehicles, distributed generation, storage and heat pumps.	Mitigating actions include owning a clear Distribution Systems Operator vision and influencing developments at industry forums, undertaking scenario modelling of the impact of low carbon technologies, considering technical and commercial innovation projects and engaging with key stakeholders.

ENGAGING WITH STAKEHOLDERS

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

The importance of engaging with stakeholders

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

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

Key stakeholders

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

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

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

EMPLOYEES AND ENERGY CUSTOMERS

Employees

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

Employment regulation

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

ENGAGING WITH STAKEHOLDERS *continued*

Training

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

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

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

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

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

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

ENGAGING WITH STAKEHOLDERS *continued*
Work is continuing on the following initiatives to achieve these targets and progress is monitored on a continuing basis:

- Inclusive recruitment principles such as balanced shortlisting and gender balanced interviewing are now incorporated into all external recruitment campaigns.
- Implementation of gender de-coding (i.e. highlighting masculine and feminine language for all external job adverts).
- STEM engagement – throughout 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 its employee networks, involvement with community programmes, partnerships with external organisations and its transition to flexible working.

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

ENGAGING WITH STAKEHOLDERS *continued*

Employee health and wellbeing

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

Health and Safety

The company has a clear strategy to continue to improve health and safety performance using ScottishPower health and safety standards. Further details can be found on pages 6 and 7.

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. ScottishPowers 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 SPL. This statement is published on the ScottishPower website at: www.scottishpower.com/pages/scottishpowers_modern_slavery_statement.aspx.

Energy customers

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

Serving stakeholders

Energy Networks' stakeholder engagement strategy is a priority in all it undertakes to do. Energy Networks understands that its investment programmes can at times involve and affect communities and stakeholders in many different ways, and ensuring it has a clear understanding of this allows it to consider these wider requirements at an early stage as it develops and delivers it projects. Each of the business's major projects is individually assessed at an early stage by the Community Liaison Team to gauge the potential impact of the work involved. Drawing from previous experience and local knowledge from communities, a tailored community liaison plan is created for each project to minimise any inconvenience or disruption on communities. The level of stakeholder satisfaction is discussed on page 5.

Facilitating renewable generation

Connecting renewable energy to the grid is key to the decarbonisation of the energy system. Energy Networks is finding new and innovative ways to connect more renewables to the system quicker. As previously mentioned, it is providing £20 million through the introduction of a Green Economy Fund to enable uptake of low carbon technology. This support includes a ground-breaking new partnership with First Bus Greater Glasgow, to bring the first large passenger electric buses to Glasgow. In Edinburgh, a mini hydro-electric scheme on the Water of Leith at Saughton Park will also receive funding, as will an innovative app which tracks electric vehicle charging points.

Targeting reliable supply performance

The company's focus is simple - ensuring that its network in Central and Southern Scotland continues to provide a safe and secure supply for around 80% of Scotland's population and playing a key role in the decarbonisation of the UK energy system. Undelivered energy as a result of faults on its networks was 3.2 megawatt hours ("MWh"), a reliability of 99.999% (refer to page 4), well below the benchmark level of 225 MWh. The company has achieved this despite a high level of network depletion due to the volume of project works, through meticulous co-ordination across its portfolio and robust contingency planning.

ENGAGING WITH STAKEHOLDERS *continued*

GOVERNMENT AND REGULATORS

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

SUPPLIERS AND CONTRACTORS

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

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

COMMUNITY AND ENVIRONMENT

Community

The community

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

Community consultation

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

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

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

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

ENGAGING WITH STAKEHOLDERS *continued*

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

Investing in the community

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

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

The environment

Environment

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

ScottishPower is committed to reducing its environmental footprint by:

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

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

Sustainability

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

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

ENGAGING WITH STAKEHOLDERS *continued*

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

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

INNOVATION

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

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

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

2019/20 has also seen further investment in support of low carbon, local energy system projects such as the HALO Project in Kilmarnock. This project looks to build a net zero carbon campus for homes, offices, education and leisure facilities in South West Scotland. Through low carbon transport, smart home technology and electricity provided by renewables, this energy system aims to serve as an example of an affordable, 100% electric local energy framework for communities across the UK.

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

Within Energy Networks:

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

SECTION 172 STATEMENT

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

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

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

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

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

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

- **Customers:** details of how the SPENH Group assesses broader customer service measures are explained in the 'Employees and Energy Customers' sub-section of the Strategic Report, on page 11.
- **Employees:** details of how the SPENH Group engages with its employees are set out in in the 'Employees and Energy Customers' sub-section of the Strategic Report, on page 11.
- **Communities and the environment:** details of how the SPENH Group engages with communities are set out in the 'Community and Environment' sub-section of the Strategic Report, on page 15.
- **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 15.
- **Government and regulators:** details of how the SPENH Group engages with governments and regulators are set out in the 'Government and Regulators' sub-section of the Strategic Report, on page 15.

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 11.

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

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

ON BEHALF OF THE BOARD

Frank Mitchell
Director
21 July 2020

SP TRANSMISSION PLC
DIRECTORS' REPORT

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

INFORMATION CONTAINED WITHIN THE STRATEGIC REPORT

The directors have chosen to disclose information on the following, required by Companies Act 2006 to be included in the Directors' Report, within the Strategic Report, found on pages 1 to 18:

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

RESULTS AND DIVIDEND

The profit for the year amounted to £133.1 million (2019 £156.9 million). A dividend of £85.0 million was paid during the year (2019 £91.5 million).

DIRECTORS

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

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

Wendy Barnes resigned on 6 May 2020.

DIRECTORS' INDEMNITY

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

DIRECTORS' RESPONSIBILITY FOR FINANCIAL INFORMATION INCLUDED ON WEBSITE

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

DISCLOSURE OF INFORMATION TO AUDITOR

Each of the directors in office as at the date of this Annual Report and Accounts confirms that:

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

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

AUDITOR

KPMG LLP were re-appointed as the auditor of the company for the year ended 31 March 2020.

ON BEHALF OF THE BOARD

Frank Mitchell
Director
21 July 2020

SP TRANSMISSION PLC
CORPORATE GOVERNANCE STATEMENT

Statement regarding the corporate governance arrangements of the company

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

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

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

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

Corporate governance system

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

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

Board composition

The directors who held office during the year are set out in the Directors section of the Directors' Report on page 19.

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

Purpose and values

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

During 2019/20, the Board has taken into account the Purpose and Values of the Iberdrola Group and the Code of Ethics (https://www.spenergynetworks.co.uk/pages/other_internal_codes_procedures.aspx). These documents define and promote the purpose, values and culture of the company and the SPENH Group.

Director responsibilities

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

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

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

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

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

During 2019/20, the governance structure was supported by the risk policies of the SPENH Group. Its business risk assessment team and independent group risk management function supported the Board in the execution of due diligence and risk management, as described in the 'Principal Risks and Uncertainties' section of the Strategic Report.

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

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

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

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

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

SPL Board
The directors of SPL are shown below.

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

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

***SPL Board** continued*
Meetings of the SPL Board were held on five occasions during the year under review. Attendance by the directors is also shown below.

José Ignacio Sánchez Galán	Attended all meetings
Lord Kerr of Kinlochard GCMG	Attended all meetings
Keith Anderson	Attended all meetings
Juan Carlos Rebollo Liceaga	Attended four meetings
Daniel Alcaín López	Attended no meetings
José Sainz Armada	Attended four meetings
Gerardo Codes Calatrava	Attended one meeting
Suzanne Fox	Attended all meetings
Iñigo Fernández de Mesa Vargas	Attended all meetings
Professor Sir James McDonald	Attended all meetings
Dame Nicola Brewer	Attended all meetings

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Wendy Barnes resigned as a director on 6 May 2020.

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

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

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

The SPENH ACC, a permanent internal body, has an informative and consultative role, without executive functions, with powers of information, assessment and presentation of proposals to the SPENH Board within its scope of action, which is governed by the Articles of Association of SPENH and by the terms of reference of the SPENH ACC.

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

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

SPENH Audit and Compliance Committee ("SPENH ACC") *continued*
The SPENH ACC met five times during the year under review. The members of the SPENH ACC and their attendance record are shown below:

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

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

SP TRANSMISSION PLC
STATEMENT OF DIRECTORS' RESPONSIBILITIES
in respect of the Regulatory Accounts and the compliance with Standard Licence Condition B1

Standard Condition B1 of the Electricity Transmission Licence requires the directors to prepare Regulatory Accounts, for each regulatory year, which presents fairly the assets, liabilities, reserves and provisions of, or reasonably attributable to, the company and of the revenues, costs and cash flows of, or reasonably attributable to, the company for the year. The directors confirm that these Regulatory Accounts comply with Standard Licence Condition B1 in all aspects except with respect to the nature of the audit opinion. Ofgem have consented to this having regard to the guidance contained in the Institute of Chartered Accountants in England and Wales ("ICAEW") Technical Release TECH02/16AAF. In preparing the Regulatory Accounts, the directors are required to:

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 and Standard Condition B1 as applicable. They are also responsible for the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT

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

Opinion

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

In our opinion the regulatory accounts of the company for the year ended 31 March 2020 have been properly prepared, in all material respects, in accordance with Standard Condition B1 of the company's Regulatory Licence and the special purpose basis of preparation and accounting policies set out in Notes 1 and 2.

Basis for opinion

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

Emphasis of matter – special purpose basis of preparation

We draw attention to Note 1 to the regulatory accounts, which describes their basis of preparation. As explained in that note, the regulatory accounts are prepared to assist the company in complying with the company's Regulatory Licence Standard Condition B1. The nature, form and content of regulatory accounts are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly, we make no such assessment.

The regulatory accounts are separate from the statutory financial statements of the company. There are differences between International Financial Reporting Standards as adopted by the EU and the basis of preparation of the regulatory accounts because Standard Condition B1 of the Regulatory Licence specifies alternative treatment or disclosure in certain respects. Where Standard Condition B1 of the Regulatory Licence does not specifically address an accounting issue, it requires International Financial Reporting Standards as adopted by the EU to be followed. Consequently the regulatory accounts may not necessarily represent a true and fair view of the financial performance or financial position of the company as shown in financial statements prepared in accordance with the Companies Act 2006. As a result, the regulatory accounts may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Going concern

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

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

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

Other information

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

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

INDEPENDENT AUDITOR'S REPORT

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

Directors' responsibilities

As explained more fully in their statement set out on page 25, the directors are responsible for: the preparation of the regulatory accounts in accordance with the Standard Condition B1 of the Regulatory Licence and the special purpose basis of preparation and accounting policies as set out in Note 1 to the regulatory accounts; such internal control as they determine is necessary to enable the preparation of regulatory accounts that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the regulatory accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) and having regard to the guidance contained in ICAEW Technical Release Tech 02/16 AAF 'Reporting to Regulators on Regulatory Accounts' issued by the Institute of Chartered Accountants in England & Wales will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the regulatory accounts.

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

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

We have not assessed whether the accounting policies are appropriate to the circumstances of the company where these are laid down by Standard Condition B1 of the company's Regulatory Licence. Where Standard Condition B1 of the company's Regulatory Licence does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the regulatory accounts are consistent with those used in the preparation of the statutory financial statements of the company. Furthermore, as the nature, form and content of the regulatory accounts are determined by the Regulator, we did not evaluate the overall adequacy of the presentation of the information which would have been required if we were to express an audit opinion under International Standards on Auditing (UK and Ireland).

INDEPENDENT AUDITOR'S REPORT

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

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

This report is made, on terms that have been agreed solely to the company and the Regulator in order to meet the requirements of Standard Condition B1 of the company's Regulatory Licence. Our audit work has been undertaken so that we might state to the company and the Regulator those matters that we have agreed to state to them in our report, in order to (a) assist the company to meet its obligation under the Companies Regulatory Licence to procure such a report and (b) facilitate the carrying out by the Regulator of its regulatory functions, and for no other purposes. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the Regulator, for our audit work, for this report, or for the opinions we have formed.

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

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

SP TRANSMISSION PLC
BALANCE SHEET
at 31 March 2020

	Notes	**2020 £m**	2019 £m
NON-CURRENT ASSETS			
Property, plant and equipment		**3,051.7**	2,947.7
Property, plant and equipment in use	3	2,667.4	2,562.9
Property, plant and equipment in the course of construction	3	384.3	384.8
Right-of-use assets	4	**11.7**	-
Financial assets		**-**	-
Investment in joint venture	5	-	-
NON-CURRENT ASSETS		**3,063.4**	2,947.7
CURRENT ASSETS			
Inventories	6	**0.3**	0.3
Trade and other receivables	7	**4.2**	5.3
Financial assets		**-**	0.5
Derivative financial instruments	8	-	0.5
Cash	8	**12.2**	18.0
CURRENT ASSETS		**16.7**	24.1
TOTAL ASSETS		**3,080.1**	2,971.8
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the parent		**1,180.8**	1,132.0
Share capital	9, 10	385.0	385.0
Hedge reserve	10	-	(0.7)
Retained earnings	10	795.8	747.7
TOTAL EQUITY		**1,180.8**	1,132.0
NON-CURRENT LIABILITIES			
Deferred income	11	**132.8**	123.5
Provisions		**25.4**	-
Other provisions	12	25.4	-
Bank borrowings and other financial liabilities		**1,197.0**	972.0
Loans and other borrowings	13	1,197.0	972.0
Lease liabilities	4	**11.4**	-
Trade and other payables	14	**0.6**	0.3
Deferred tax liabilities	15	**194.7**	167.5
NON-CURRENT LIABILITIES		**1,561.9**	1,263.3
CURRENT LIABILITIES			
Provisions	12	**-**	-
Bank borrowings and other financial liabilities		**175.3**	380.8
Loans and other borrowings	13	175.3	379.6
Derivative financial instruments	8	-	1.2
Lease liabilities	4	**0.8**	-
Trade and other payables	14	**136.1**	177.5
Current tax liabilities		**25.2**	18.2
CURRENT LIABILITIES		**337.4**	576.5
TOTAL LIABILITIES		**1,899.3**	1,839.8
TOTAL EQUITY AND LIABILITIES		**3,080.1**	2,971.8

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

Frank Mitchell
Director

The accompanying Notes 1 to 28 are an integral part of the balance sheet at 31 March 2020.

SP TRANSMISSION PLC
INCOME STATEMENT
for the year ended 31 March 2020

	Notes	2020 £m	2019 £m
Revenue	16	407.4	379.7
GROSS MARGIN		**407.4**	379.7
NET OPERATING EXPENSES		**(61.6)**	(38.7)
Net personnel expenses		**(5.8)**	(6.1)
Staff costs	17	(27.6)	(26.3)
Capitalised staff costs	17	21.8	20.2
Net external expenses		**(55.8)**	(32.6)
External services		(58.7)	(35.7)
Other operating income		2.9	3.1
Taxes other than income tax	18	**(36.1)**	(35.4)
GROSS OPERATING PROFIT		**309.7**	305.6
Depreciation and amortisation charge, allowances and provisions	19	(84.5)	(80.1)
OPERATING PROFIT		**225.2**	225.5
Gains on disposal of non-current assets		0.6	-
Finance income	20	0.1	0.1
Finance costs	21	(36.0)	(33.4)
PROFIT BEFORE TAX		**189.9**	192.2
Income tax	22	(56.8)	(35.3)
NET PROFIT FOR THE YEAR		**133.1**	156.9

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

All results relate to continuing operations.

The accompanying Notes 1 to 28 are an integral part of the income statement for the year ended 31 March 2020.

SP TRANSMISSION PLC
STATEMENT OF COMPREEHENSIVE INCOME
for the year ended 31 March 2020

	Note	2020 £m	2019 £m
NET PROFIT FOR THE YEAR		**133.1**	156.9
OTHER COMPREHENSIVE INCOME			
Items that may be subsequently reclassified to the income statement:			
Cash flow hedges:			
Change in the value of cash flow hedges	10	0.9	1.7
Tax relating to cash flow hedges	10	(0.2)	(0.3)
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**0.7**	1.4
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**133.8**	158.3

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

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

	Share capital £m	Hedge reserve £m	Retained earnings £m	Total equity £m
At 1 April 2018	385.0	(2.1)	682.3	1,065.2
Total comprehensive income for the year	-	1.4	156.9	158.3
Dividends	-	-	(91.5)	(91.5)
At 1 April 2019	385.0	(0.7)	747.7	1,132.0
Total comprehensive income for the year	-	0.7	133.1	133.8
Dividends	-	-	(85.0)	(85.0)
At 31 March 2020	**385.0**	**-**	**795.8**	**1,180.8**

The accompanying notes 1 to 28 are an integral part of the statement of comprehensive income and the statement of changes in equity for the year ended 31 March 2020.

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

	2020	2019
	£m	£m
Cash flows from operating activities		
Profit before tax	189.9	192.2
Adjustments for:		
Depreciation	84.5	80.1
Change in provisions	-	(0.7)
Transfer of assets from customers	(3.4)	(3.4)
Finance income and costs	35.9	33.3
Write-off of non-current assets	(0.6)	-
Changes in working capital:		
Change in trade and other receivables	1.1	(2.8)
Change in inventories	-	(0.3)
Change in trade payables	8.0	(3.3)
Provisions paid	-	(0.2)
Assets received from customers	12.7	20.9
Income taxes paid	(22.8)	(17.4)
Net cash flows from operating activities (i)	**305.3**	298.4
Cash flows from investing activities		
Investments in property, plant and equipment	(212.6)	(266.3)
Proceeds from disposal of property, plant and equipment	0.6	-
Net cash flows from investing activities (ii)	**(212.0)**	(266.3)
Cash flows from financing activities		
Net (decrease)/increase in amounts due to/from Iberdrola group companies - current loans payable	(326.0)	88.4
Cash inflows from borrowings	346.6	-
Dividends paid to company's equity holder	(85.0)	(91.5)
Interest paid	(33.9)	(35.4)
Payments of lease liabilities	(0.8)	-
Net cash flows from financing activities (iii)	**(99.1)**	(38.5)
Net decrease in cash and cash equivalents (i)+(ii)+(iii)	(5.8)	(6.4)
Cash and cash equivalents at beginning of year	18.0	24.4
Cash and cash equivalents at end of year	**12.2**	18.0

Cash and cash equivalents at end of year comprises:

Cash	**12.2**	18.0
Cash flow statement cash and cash equivalents	**12.2**	18.0

The accompanying Notes 1 to 28 are an integral part of the cash flow statement for the year ended 31 March 2020.

1 BASIS OF PREPARATION

A COMPANY INFORMATION

SP Transmission plc ("the company"), registered company number SC189126, is a private company limited by shares, incorporated in Scotland and its registered address is 320 St. Vincent Street, Glasgow, Scotland, G2 5AD.

B BASIS OF PREPARATION OF THE ACCOUNTS

The Accounts have been prepared in accordance with Standard Condition B1 of the company's Regulatory Licence and International Accounting Standards ("IAS"), IFRSs and International Financial Reporting Interpretations Committee ("IFRIC") Interpretations (collectively referred to as IFRS), as adopted by the EU as at the date of approval of these Accounts and which are mandatory for the financial year ended 31 March 2020. The company's accounting reference date is 31 December to match that of its ultimate parent undertaking, Iberdrola, S.A.. Standard Condition B1 of the Electricity Transmission Licence requires the directors to prepare Regulatory Accounts, for each regulatory year, with the same content and format as the most recent statutory accounts of the company. The references made to the financial year within these Regulatory Accounts refer to the year from 1 April 2019 to 31 March 2020. Consequently, the Corporate Report and Regulatory Accounts for the year ended 31 March 2020 are separate from the Annual Report and Accounts of the company which have been prepared for the year ended 31 December 2019. The Accounts are prepared in accordance with the Accounting Policies set out in Note 2. Monetary amounts are presented in pounds Sterling and are rounded to the nearest hundred thousand unless otherwise indicated. The Accounts are prepared on the historical cost basis.

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

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

C ACCOUNTING STANDARDS

C1 IMPACT OF NEW IFRS

In preparing these Accounts, the company has applied all relevant International Accounting Standards ("IAS"), International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") collectively referred to as IFRS that have been adopted by the EU as of the date of approval of these Accounts and that are mandatory for the financial year ended 31 March 2020.

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

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

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

The following new standards and amendments to standards have been issued by the International Accounting Standards Board ("IASB") but have an effective date after the date of these financial statements or have not been endorsed by the EU, thus have not been implemented by the company:

Standard	Notes	IASB effective date (for periods commencing on or after)	Effective date for and planned date of application by the company
• Amendments to References to the Conceptual Framework in IFRS Standards	(c)	1 January 2020	1 April 2020
• Amendments to IFRS 3 'Business Combinations'	(c)	1 January 2020	1 April 2020

1 BASIS OF PREPARATION *continued*
C ACCOUNTING STANDARDS *continued*
C1 IMPACT OF NEW IFRS *continued*

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

(c) The future application of this pronouncement is not expected to have a material impact on the company's accounting policies, financial position or performance.
(d) This pronouncement has not yet been endorsed by the EU.
(e) The endorsement process of this interim standard has not been launched as the EU has decided to wait for the final standard to be issued.
(f) The IASB set the effective date of this pronouncement as for periods commencing on or after 1 January 2016. However, in December 2015, the IASB postponed the effective date indefinitely pending the outcome of its research project on the equity method of accounting. The EU endorsement process for this pronouncement has been postponed, awaiting a revised exposure draft from the IASB. The effective date will be amended in due course.

C1.1 EFFECT OF INITIAL APPLICATION OF IFRS 16

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

Previously the company determined at contract inception whether an arrangement was, or contained, a lease under IFRIC 4. Under IFRS 16, the company assesses whether a contract is, or contains, a lease based on the definition of a lease, as explained in Note 2C1. On transition to IFRS 16, the company reassessed all of its existing contracts to determine whether each contract is, or contains, a lease applying the requirements of IFRS 16.

Lessee

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

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

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

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.

1 BASIS OF PREPARATION *continued*

C ACCOUNTING STANDARDS *continued*

C1 IMPACT OF NEW IFRS *continued*

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

On transition to IFRS 16, the company recognised £8.8 million of right-of-use assets and £8.8 million of lease liabilities. When measuring lease liabilities, the company discounted lease payments using its incremental borrowing rate at 1 April 2019. The discount rates used to calculate the below pertaining to Sterling was in the range of 1.35% to 3.23%.

	£m
Operating lease commitment at 31 March 2019 (discounted using interest rate at lease commencement) (as disclosed in Note 4(c))	2.1
Operating lease commitment at 31 March 2019 (discounted using incremental borrowing rate at 1 April 2019)	0.7
Lease agreements newly in scope at 1 April 2019	8.1
Lease liabilities recognised at 1 April 2019	**8.8**

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 where the choice of specific policy to be followed could materially affect the reported amounts of revenues, expenses, assets and liabilities of the company, should it later be determined that a different choice would be more appropriate. At 31 March 2020, the company had no items which have significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities in the next financial year.

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

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

A REVENUE

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

B PROPERTY, PLANT AND EQUIPMENT

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

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

B PROPERTY, PLANT AND EQUIPMENT *continued*

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

	Years
Transmission facilities	40
Other facilities and other items of property, plant and equipment	5 - 50

C 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 2C2 if they are different from those under IFRS 16 and the impact of the change in policy disclosed in Note 1C1.1.

C1 POLICY APPLICABLE FROM 1 APRIL 2019

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

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

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

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

C1.1 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.

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

C LEASED ASSETS *continued*

C1 POLICY APPLICABLE FROM 1 APRIL 2019 *continued*

C1.1 LESSEE *continued*

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.

C1.2 LESSOR

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

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

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

C2 POLICY APPLICABLE BEFORE 1 APRIL 2019

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

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

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

The accounting policies applicable by the company as a lessor in the comparative period were in line with the lessor policy for leases entered into from 1 April 2019 as noted in Note 2C2. However, when the company was an intermediate lessor, sub-leases were classified with reference to the underlying asset.

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

D IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

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

E FINANCIAL INSTRUMENTS

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

E1 FINANCIAL ASSETS

E1.1 RECOGNITION AND INITIAL MEASUREMENT

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

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

E FINANCIAL INSTRUMENTS *continued*

E1 FINANCIAL ASSETS *continued*

E1.2 CLASSIFICATION AND SUBSEQUENT MEASUREMENT

(a) Classification

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

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

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment is referred to as the 'SPPI' test.

(b) Subsequent measurement and gains and losses

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

(i) Derecognition

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

(c) Impairment of financial assets

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

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

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

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

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

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

All of the company's cash has low credit risk at both the beginning and end of the reporting period.

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

E FINANCIAL INSTRUMENTS *continued*

E1 FINANCIAL ASSETS *continued*

E1.2 CLASSIFICATION AND SUBSEQUENT MEASUREMENT *continued*

(c) Impairment of financial assets *continued*

The company considers these assets to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The company considers this to be BBB- or higher per rating agency Standard & Poor's.

(i) Measurement of ECLs

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

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

(ii) Credit-impaired financial assets

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

(iii) Write-offs

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

E2 FINANCIAL LIABILITIES

E2.1 RECOGNITION AND INITIAL MEASUREMENT

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

E2.2 CLASSIFICATION AND SUBSEQUENT MEASUREMENT

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

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

(a) Derecognition

The company derecognises a financial liability when the obligation under 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.

E3 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

(a) Derivative financial instruments

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

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

E FINANCIAL INSTRUMENTS *continued*

E3 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING *continued*

(a) Derivative financial instruments *continued*

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

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

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

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

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

(b) Cash flow hedges

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

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

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

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

(c) Valuation of financial instruments

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, the details of which are described in Note 8.

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

F INVENTORIES

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

G RETIREMENT BENEFITS

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

H TAXATION

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

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

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

I CASH AND CASH EQUIVALENTS

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

3 PROPERTY, PLANT AND EQUIPMENT

(a) Movements in property, plant and equipment

Year ended 31 March 2019	Transmission facilities £m	Other items of property, plant and equipment in use (Note (i)) £m	Plant in progress (Note (ii)) £m	Total £m
Cost:				
At 1 April 2018	3,012.6	104.0	323.8	3,440.4
Additions (Note (iii))	-	-	181.9	181.9
Transfers from in progress to plant in use	120.6	0.3	(120.9)	-
At 31 March 2019	3,133.2	104.3	384.8	3,622.3
Depreciation:				
At 1 April 2018	540.9	53.6	-	594.5
Depreciation for the year	77.4	2.7	-	80.1
At 31 March 2019	618.3	56.3	-	674.6
Net book value:				
At 31 March 2019	2,514.9	48.0	384.8	2,947.7
At 1 April 2018	2,471.7	50.4	323.8	2,845.9
The net book value of property plant and equipment at 31 March 2019 is analysed as follows:				
Property, plant and equipment in use	2,514.9	48.0	-	2,562.9
Property, plant and equipment in the course of construction	-	-	384.8	384.8
	2,514.9	48.0	384.8	2,947.7

Year ended 31 March 2020	Transmission facilities £m	Other items of property, plant and equipment in use (Note (i)) £m	Plant in progress (Note (ii)) £m	Total £m
Cost:				
At 1 April 2019	3,133.2	104.3	384.8	3,622.3
Additions (Note (iii))	25.3	0.9	161.9	188.1
Transfers from in progress to plant in use	162.4	-	(162.4)	-
Disposals	(0.4)	(0.1)	-	(0.5)
At 31 March 2020	**3,320.5**	**105.1**	**384.3**	**3,809.9**
Depreciation:				
At 1 April 2019	618.3	56.3	-	674.6
Depreciation for the year	81.3	2.8	-	84.1
Disposals	(0.4)	(0.1)	-	(0.5)
At 31 March 2020	**699.2**	**59.0**	**-**	**758.2**
Net book value:				
At 31 March 2020	**2,621.3**	**46.1**	**384.3**	**3,051.7**
At 1 April 2019	2,514.9	48.0	384.8	2,947.7
The net book value of property plant and equipment at 31 March 2020 is analysed as follows:				
Property, plant and equipment in use	2,621.3	46.1	-	2,667.4
Property, plant and equipment in the course of construction	-	-	384.3	384.3
	2,621.3	**46.1**	**384.3**	**3,051.7**

(i) The category Other items of property, plant and equipment in use principally comprises land and communications equipment.

(ii) The category Plant in progress principally comprises transmission facilities in the course of construction.

(iii) During the year ended 31 March 2020, additions of £1.6 million (2019 £1.2 million) were purchased from other Iberdrola group companies and £30.0 million (2019 £75.8 million) from a joint venture, NGET/SPT Upgrades Limited (“NGET”) as noted within Note 26.

(iv) Interest on the funding attributable to major capital projects was capitalised during the year ended 31 March 2020 at a rate of 2.8% (2019 2.8%).

(v) The cost of fully depreciated property, plant and equipment still in use at 31 March 2020 was £89.4 million (2019 £87.9 million).

(vi) Included within the cost of property, plant and equipment at 31 March 2020 are assets in use not subject to depreciation, being land of £23.2 million (2019 £23.2 million).

(vii) Included in Transmission facilities are assets with a carrying value of £1.6 million which the company leases to third parties via operating leases.

3 PROPERTY, PLANT AND EQUIPMENT *continued*

(b) Capital commitments

	2020						
	2021	**2022**	**2023**	**2024**	**2025**	**2026 and thereafter**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Contracted but not provided	102.8	45.0	15.6	2.7	0.2	0.2	**166.5**

	2019						
	2020	2021	2022	2023	2024	2025 and thereafter	Total
	£m	£m	£m	£m	£m	£m	£m
Contracted but not provided	144.3	44.3	2.1	-	-	-	190.7

(c) Research and development expenditure

The amount of research and development expenditure recognised as an expense during the year was £0.2 million (2019 £0.7 million).

4 LEASING

(a) Lessee

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

(i) Nature of leases

Land

The company holds agreements to lease land and for the assignment of rights to use land, primarily relating to operational assets, with typical lease terms running up to 40 years.

Extension options

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

Vehicles

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

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.

Certain plant leases are considered short-term and the company has elected not to recognise right-of-use assets and lease liabilities for these leases.

(ii) Right-of-use assets

		Land	Vehicles	Total
	Note	£m	£m	£m
On transition to IFRS 16 at 1 April 2019		8.2	0.6	8.8
Additions		2.8	0.8	3.6
Depreciation charge for the year		(0.4)	(0.4)	(0.8)
Adjustments for changes in liabilities	(a)	-	0.1	0.1
At 31 March 2020		10.6	1.1	**11.7**

(a) Adjustments for changes in liabilities are movements in the right-of-use asset resulting from remeasurement of the associated lease liability to reflect changes to the lease payments due to any reassessment or lease modifications.

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

4 LEASING *continued*

(a) Lessee *continued*

(iii) Lease liabilities

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

	2020 £m
Less than one year	1.2
One to five years	3.3
More than five years	14.9
Total undiscounted lease liabilities at 31 March	**19.4**
Finance cost	(7.2)
Total discounted lease liabilities	**12.2**
Analysis of total lease liabilities	
Non-current	11.4
Current	0.8
Total	**12.2**

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

(iv) Amounts recognised in income statement

	2020 £m
Interest on lease liabilities	(0.4)
Expenses relating to short-term leases*	(0.8)

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

(v) Amounts recognised in the cash flow statement

	2020 £m
Total cash outflow for leases	**(1.6)**

Included in this amount is £0.8 million relating to payments of lease liabilities.

(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 up to two years. The lessor retains no significant rights in relation to the underlying assets.

Lease income recognised by the company during the year ended 31 March 2020 was £0.2 million. No income relating to variable lease payments that do not depend on an index or rate have been recognised.

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

	2020 £m
Less than one year	**0.2**
One to two years	**0.2**
Total undiscounted lease payments	**0.4**

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

4 LEASING *continued*

(c) Operating lease disclosures under IAS 17

(i) Operating lease payments	2019 £m
Minimum lease payments under operating leases recognised as an expense in the year	0.4

The company leases land and equipment as a lessee under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights.

(ii) Operating lease commitments	2019 £m
The future minimum discounted lease payments under non-cancellable operating leases were as follows:	
Within one year	0.3
Between one and five years	0.7
More than five years	1.1
	2.1

The company leases land and equipment as a lessee under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights.

(iii) Operating lease receivables	2019 £m
The future minimum discounted lease payments receivable under non-cancellable operating leases were as follows:	
Within one year	0.2
Between one and five years	0.1
	0.3

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

5 INVESTMENT IN JOINT VENTURE

	Shares in joint venture £
At 1 April 2018, 1 April 2019 and 31 March 2020	**50**

Joint venture	**Principal activities**	**Registered office and country of incorporation (Note (a))**	**Equity interest in ordinary shares 2020**	2019
NGET/SPT Upgrades Limited	Construction and operation of offshore HVDC West Coast transmission link	England & Wales	**50%**	50%

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

6 INVENTORIES

	Note	**2020 £m**	2019 £m
Other inventories	(a)	**0.3**	0.3

(a) Inventories with a value of £0.2 million (2019 £0.1 million) were recognised as an expense during the year.

7 TRADE AND OTHER RECEIVABLES

	Note	2020 £m	2019 £m
Current receivables:			
Receivables due from Iberdrola group companies - trade		**0.3**	0.1
Receivables due from jointly controlled entity - trade		**0.1**	3.8
Trade receivables and accrued income	(a)	**3.7**	1.4
Prepayments		**0.1**	-
		4.2	5.3

(a) Information about the company's exposure to credit and market risks, and impairment losses for trade receivables and other are included in Note 8.

8 FINANCIAL INSTRUMENTS

(a) Carrying value of financial instruments

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

	Classification	Notes	2020 Carrying amount £m	2020 Fair value £m	2019 Carrying amount £m	2019 Fair value £m
Financial assets						
Derivative financial instruments	Fair value hedging instrument	(i)	**-**	**-**	0.5	0.5
Receivables	Amortised cost	(ii)	**4.1**	**4.1**	5.3	5.3
Cash	Amortised cost	(iii)	**12.2**	**12.2**	18.0	18.0
Financial liabilities						
Derivative financial instruments	Fair value hedging instrument	(i)	**-**	**-**	(1.2)	(1.2)
Loans and other borrowings	Amortised cost	(iv)	**(1,372.3)**	**(1,363.6)**	(1,351.6)	(1,469.6)
Payables	Amortised cost	(ii)	**(97.4)**	**(97.4)**	(136.8)	(136.8)

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

(i) Further details on derivative financial instruments are disclosed within Note 8(b).

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

(iii) As a general rule, cash deposited with banks earns interest at rates similar to market rates on daily deposits. Cash as at 31 March 2020 includes deposits with banks of £12.2 million (2019 £18.0 million) in respect of ring-fenced funds received from third parties for use on specific innovation projects and are not available to finance the company's day-to-day operations.

(iv) The carrying value of Loans and other borrowings are accounted for at amortised cost. The carrying value of short-term debt is a reasonable approximation of fair value. The fair value of long-term debt is calculated using a discounted cash flow.

(b) Measurement of financial instruments

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

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

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

8 FINANCIAL INSTRUMENTS *continued*

(c) Analysis of derivative financial instruments – carrying value

	2020				2019			
	Assets		**Liabilities**		Assets		Liabilities	
	Current £m	**Non-current £m**	**Current £m**	**Non-current £m**	Current £m	Non-current £m	Current £m	Non-current £m
Hedging derivatives								
Cash flow hedge								
- Foreign exchange rate	-	-	-	-	0.5	-	(1.2)	-

(d) Financial risk management

The company's principal financial liabilities comprise loans and borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the company's operations. The company has trade and other receivables and cash that arise directly from its operations.

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

A Credit risk; and

B Treasury risk (comprising both liquidity and market risk).

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

A. CREDIT RISK

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

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

A1 CREDIT RISK MANAGEMENT

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

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

- Credit risk in respect of customers is mitigated by contracting with multiple counterparties and limiting exposure to individual counterparties to clearly defined limits based upon the risk of counterparty default.
- Credit risk from balances with banks and financial institutions is managed by the ScottishPower's treasury department in accordance with Iberdrola's cash investment procedure. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty by Corporate Risk Management.

At 31 March 2020 and 2019, the company evaluated the concentration of risk with respect to financial assets as low, with no material concentration of credit risk in the company arising from one particular counterparty.

Expected credit loss assessment

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

A2 TRADE RECEIVABLES

The company uses the simplified model approach to measure ECLs for trade receivables. The provision rates represent a lifetime ECL and are based on the Iberdrola group's historical loss experience and default rates. The impairment losses on the gross carrying value of trade receivables at 31 March 2020 and 2019 was less than £0.1 million at both dates.

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

8 FINANCIAL INSTRUMENTS *continued*
(d) Financial risk management *continued*
A. CREDIT RISK *continued*
A3 CASH £12.2 million (2019 £18.0 million)

The company held cash of £12.2 million (2019 £18.0 million) at 31 March 2020. The cash and short-term deposits are held with banks and financial institution counterparties, which are rated BBB- to AAA, based on Standard & Poor's ratings. Impairment on cash and short-term deposits has been measured on a three month expected loss basis and reflects the short maturities of the exposures. The company considers that its cash and short-term deposits have low credit risk based on the external credit ratings of the counterparties. The loss allowance in the year to 31 March 2020 is £nil.

A4 RECONCILIATION OF OPENING TO CLOSING LOSS ALLOWANCE

The closing loss allowances for all financial assets measured at amortised cost, as at 31 March 2020 is less than £0.1 million (2019 less than £0.1 million).

B. TREASURY RISK

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

B1 TREASURY LIQUIDITY RISK MANAGEMENT

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

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

					2020			
Cash outflows	Note	**2021 £m**	**2022 £m**	**2023 £m**	**2024 £m**	**2025 £m**	**2026 and thereafter £m**	**Total £m**
Loans and other borrowings		209.7	163.4	148.9	157.3	90.7	844.9	**1,614.9**
Payables	(a)	88.8	0.3	0.3	-	-	-	**89.4**
		298.5	163.7	149.2	157.3	90.7	844.9	**1,704.3**

					2,019.0			
Cash outflows	Note	2020 £m	2021 £m	2022 £m	2023 £m	2024 £m	2025 and thereafter £m	Total £m
Derivative financial instruments		32.9	-	-	-	-	-	32.9
Loans and other borrowings		411.4	150.5	159.0	144.0	152.4	521.0	1,538.3
Payables	(a)	130.3	0.1	0.1	0.1	-	-	130.6
		574.6	150.6	159.1	144.1	152.4	521.0	1,701.8

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

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

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

8 FINANCIAL INSTRUMENTS *continued*
(d) Financial risk management *continued*
B. TREASURY RISK *continued*
B2 TREASURY MARKET RISK MANAGEMENT
Market risk is the risk of loss that results from changes in market rates (interest rates and foreign currency). Within the Treasury function ScottishPower utilises a number of financial instruments to manage interest rate and foreign currency exposures.

B2.1 INTEREST RATE RISK
In order to adequately manage and limit this risk, the Iberdrola group annually determines the desired structure of the debt between fixed and floating interest rate, taking into account the indexing of income either interest rate or price index. ScottishPower Treasury then take actions over the course of the year to work towards these desired Iberdrola group ratios. Actions to be carried out over the course of a year may include obtaining new sources of financing (at a fixed, floating or indexed rate) and/or utilising interest rate derivatives. The table below shows the debt structure of the company after taking hedging derivatives into account.

	2020	2019
	£m	£m
Fixed rate	**748.7**	446.0
Variable rate	**623.6**	905.6
	1,372.3	1,351.6

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

The variable rate debt consists of £570.0 million (2019 £660.0 million) LIBOR debt and a £53.6 million (2019 £245.6 million) loan linked to Base.

B2.2 SENSITIVITY ANALYSIS ON INTEREST RATE CHANGES
The table below illustrates the impact on the annual interest rate charge considering various rate changes. The analysis assumes all other factors remain constant.

Debt category	**Interest rate**	**Change in rate**	**Impact on interest rate charges in 2020 £m**	Impact on interest rate charges in 2019 £m
LIBOR debt	LIBOR	+ 0.25%	**1.4**	1.7
		+ 0.50%	**2.9**	3.3
		- 0.25%	**(1.4)**	(1.7)
		- 0.50%	**(2.9)**	(3.3)
Short-term variable rate debt	Base	+ 0.25%	**0.1**	0.6
		+ 0.50%	**0.3**	1.2
		- 0.25%	**(0.1)**	(0.6)
		- 0.50%	**(0.3)**	(1.2)

B2.3 FOREIGN CURRENCY RISK
The company is exposed to transactional foreign currency risk to the extent that there is a mismatch between the currencies in which purchases are denominated. These transactions are primarily denominated in Euro. ScottishPower board policy stipulates that there should be no significant exposure to foreign currency balances and therefore Treasury will hedge all foreign exchange payments/contracts which have a (cumulative) value greater than a sterling equivalent of a quarter of a million pounds.

(i) Hedging of foreign currency risk
The company enters into foreign currency forwards in relation to asset purchases. For such items the company designates the entire value of the foreign currency forward in the hedge relationship. The notional amount of hedging instruments at 31 March 2020 is £nil (2019 £48.8 million at an average exchange rate of 1.14 Euros to GBP).

8 FINANCIAL INSTRUMENTS *continued*
(c) Financial risk management *continued*
B. TREASURY RISK *continued*
B2 TREASURY MARKET RISK MANAGEMENT *continued*
B2.3 FOREIGN CURRENCY RISK *continued*
(ii) Foreign exchange rate cash flow hedges *continued*

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

For an analysis of the split of the carrying value of foreign exchange contracts please refer to Note 8(c). The amounts relating to foreign exchange rate derivatives designated as cash flow hedges during the year are detailed in the table below.

	Notes	**2020 Hedging derivatives £m**	2019 Hedging derivatives £m
Notional amount		-	48.8
Carrying amount - asset	(a)	-	0.5
Carrying amount - liability	(a)	-	(1.2)
Changes in the value of the hedging instrument recognised in Other comprehensive income	(b)	-	0.1
Amount reclassified from cash flow hedge reserve to balance sheet	(c)	**(1.2)**	2.0

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

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

	Change in fair value used for calculating hedge ineffectiveness		**Cash flow hedge reserve balance**	
Line item in the Accounts in which the hedged item is/will be included	**2020 £m**	2019 £m	**2020 £m**	2019 £m
Property, plant and equipment in the course of construction	-	(0.1)	-	(0.9)

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

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

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

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

9 SHARE CAPITAL

	2020	2019
	£m	£m
Allotted, called up and fully paid shares:		
385,000,000 ordinary shares of £1 each (2019 385,000,000)	**385.0**	385.0

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

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

	Share capital £m	Hedge reserve (Note (a)) £m	Retained earnings (Note (b)) £m	Total £m
At 1 April 2018	385.0	(2.1)	682.3	1,065.2
Profit for the year attributable to equity holder of SP Transmission plc	-	-	156.9	156.9
Changes in the value of cash flow hedges	-	1.7	-	1.7
Tax relating to cash flow hedges	-	(0.3)	-	(0.3)
Dividends	-	-	(91.5)	(91.5)
At 1 April 2019	385.0	(0.7)	747.7	1,132.0
Profit for the year attributable to equity holder of SP Transmission plc	-	-	133.1	133.1
Changes in the value of cash flow hedges	-	0.9	-	0.9
Tax relating to cash flow hedges	-	(0.2)	-	(0.2)
Dividends	-	-	(85.0)	(85.0)
At 31 March 2020	**385.0**	**-**	**795.8**	**1,180.8**

(a) The hedge reserve represents the balance of gains and losses on cash flow hedges (net of taxation) not yet transferred to income or the carrying amount of a non-financial asset.
(b) Retained earnings comprise the cumulative balance of profits and losses recognised in the financial statements as adjusted for transactions with shareholders, principally dividends.
(c) The changes in the hedge reserve arising from valuation adjustments to hedging derivatives is set out below:

Cash flow hedges	Foreign exchange rate hedges £m	Tax effect £m	Total £m
At 1 April 2018	(2.6)	0.5	(2.1)
Effective cash flow hedges recognised	(0.3)	0.1	(0.2)
Removed from equity and recognised in carrying amount of hedged items	2.0	(0.4)	1.6
At 1 April 2019	(0.9)	0.2	(0.7)
Effective cash flow hedges recognised	(0.3)	-	(0.3)
Removed from equity and recognised in carrying amount of hedged items	1.2	(0.2)	1.0
At 31 March 2020	-	-	-

(d) All amounts included in the hedge reserve as at 31 March 2019 were due to mature within one year.

11 DEFERRED INCOME

Year ended 31 March 2019	At 1 April 2018 £m	Receivable during year £m	Released to income statement £m	At 31 March 2019 £m
Transfer of assets from customers	106.0	20.9	(3.4)	123.5

Year ended 31 March 2020	At 1 April 2019 £m	Receivable during year £m	Released to income statement £m	**At 31 March 2020 £m**
Transfer of assets from customers	123.5	12.7	(3.4)	**132.8**

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

12 PROVISIONS

Year ended 31 March 2019	Notes	At 1 April 2018 £m	New provisions £m	Utilised during year £m	Released during year £m	At 31 March 2019 £m
Onerous contracts	(a)	0.7	-	-	(0.7)	-
Overtime and commission	(b)	0.2	0.1	(0.2)	(0.1)	-
		0.9	0.1	(0.2)	(0.8)	-

Year ended 31 March 2020	Note	At 1 April 2019 £m	New provisions £m	**At 31 March 2020 £m**
Decommissioning and environmental	(c)	-	25.4	**25.4**

Analysis of total provisions	**2020 £m**	2019 £m
Non-current	**25.4**	-

(a) The provision for onerous contracts related to unavoidable project costs which were dependant on the project outcome. This provision was released in 2018/19.

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

(c) The provision for decommissioning costs is the discounted future estimated costs of decommissioning the West Coast HVDC Link. The decommissioning is expected to occur between 2040 and 2041. Had the estimated value of the costs at the balance sheet date been 10.0% higher or lower, this would have resulted in the decommissioning provision being £2.5 million higher and lower respectively. Had the discount rate been 0.25% higher or lower, this would have resulted in the decommissioning provision being £2.3 million higher and lower respectively.

13 LOANS AND OTHER BORROWINGS

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

Instrument	Notes	Interest rate*	Maturity	**2020 £m**	2019 £m
Loans with Iberdrola group companies - SPUK		Base + 1%	On demand	**53.6**	245.6
Loans with Iberdrola group companies - SPUK	(i), (ii)	3.416%	21 December 2022	**104.0**	104.0
Loans with Iberdrola group companies - SPUK	(i), (iii)	3.570%	20 December 2023	**88.0**	132.0
Loans with Iberdrola group companies - SPUK	(i), (iv)	2.821%	31 March 2025	**210.0**	210.0
Loans with Iberdrola group companies - SPUK	(i), (v)	LIBOR + 0.78%	20 December 2027	**-**	450.0
Loans with Iberdrola group companies - Iberdrola Financiacion	(v)	LIBOR + 0.78%	20 December 2027	**360.0**	-
Loans with Iberdrola group companies - SPUK	(i)	LIBOR + 3.365%	28 January 2029	**210.0**	210.0
£350 million euro-sterling bond	(vi), (vii)	2.000%	13 November 2031	**346.7**	-
				1,372.3	1,351.6

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

Analysis of total loans and other borrowings	**2020 £m**	2019 £m
Non-current	**1,197.0**	972.0
Current	**175.3**	379.6
	1,372.3	1,351.6

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

(ii) The intercompany loan with SPUK that is due to mature in December 2022 is repayable in equal instalments on a biennial basis. The repayment of £52.0 million that is due in 2021 is classified as current in the 2020 analysis above.

(iii) The intercompany loan with SPUK that is due to mature in December 2023 is repayable in equal instalments on a biennial basis. The repayment of £44.0 million that was due in 2020 has been classified as current in the 2019 analysis above.

(iv) The intercompany loan with SPUK that is due to mature in March 2025 is repayable in equal instalments on a biennial basis. The repayment of £70.0 million that is due in 2021 is classified as current in the 2020 analysis above.

(v) The intercompany loan with SPUK that was repayable in December 2027, was repayable in equal instalments on a biennial basis. The repayment of £90.0 million that was due in 2020 was classified as current in the 2019 analysis above. This loan was repaid during the year and replaced with by a loan from Iberdrola Financiacion which is repayable in equal instalments on a biennial basis, commencing 2022.

13 LOANS AND OTHER BORROWINGS *continued*

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

(vi) The £350 million euro-sterling bond will be redeemed at its principal amount on 13 November 2031 unless previously redeemed or purchased and cancelled. The bond can be redeemed at any time by ScottishPower at a higher redemption price (as determined by a financial advisor appointed by ScottishPower and Fiscal Agent) giving 30 to 60 days' notice. The bond is shown net of finance costs, with £(0.3) million being classified as current in the analysis above. This external debt contains loan covenants. A future breach of covenants may require the company to repay the loan earlier than indicated in the above table. Under the agreement, the covenants are monitored on a regular basis by the ScottishPower Treasury department and regularly reported to management to ensure compliance with the agreements.

(vii) This bond contains a "Loss of licence" covenant that will require repayment of the outstanding amount should the company lose its Transmission licence.

(b) Borrowing facilities

The company has no undrawn committed borrowing facilities at 31 March 2020 (2019 £nil).

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

	Liabilities			
	Loans and other borrowings (Current) £m	Loans and other borrowings (Non-current) £m	Interest payable (Current) (Note (i)) £m	Total £m
At 1 April 2018	197.0	1,106.0	6.5	1,309.5
Increase in amounts due to Iberdrola group companies	48.6	-	-	48.6
Interest paid	-	-	(35.4)	(35.4)
Total movements from financing cashflows	48.6	-	(35.4)	13.2
Other movements	134.0	(134.0)	35.1	35.1
Total liability-related movements	134.0	(134.0)	35.1	35.1
At 31 March 2019	379.6	972.0	6.2	1,357.8

	Liabilities				
	Lease liabilities £m	**Loans and other borrowings (Current) £m**	**Loans and other borrowings (Non-current) £m**	**Interest payable (Current) (Note (i)) £m**	**Total £m**
Adjusted balance at 1 April 2019	**8.8***	**379.6**	**972.0**	**6.2**	**1,366.6**
Decrease in amounts due to Iberdrola group companies	-	(326.0)	-	-	(326.0)
Cash inflows from borrowings	-	-	346.6	-	346.6
Payments of lease liabilities	(0.8)	-	-	-	(0.8)
Interest paid	(0.1)	-	-	(33.8)	(33.9)
Total movements from financing cash flows	**(0.9)**	**(326.0)**	**346.6**	**(33.8)**	**(14.1)**
Other movements	4.3	121.7	(121.6)	35.6	40.0
Total liability-related movements	**4.3**	**121.7**	**(121.6)**	**35.6**	**40.0**
At 31 March 2020	**12.2**	**175.3**	**1,197.0**	**8.0**	**1,392.5**

* On transition to IFRS 16, the company recognised £8.8 million of lease liabilities (refer to Note 1C1.1).

(i) External interest payable of £2.7 million (2019 £nil) and internal interest payable of £5.3 million (2019 £6.2 million) are included within Trade and other payables (refer to Note 14).

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

(iii) The cash outflow in the cash flow statement for 'Net (decrease)/increase in amounts due to/from Iberdrola group companies – current loans payable' of £(326.0) million (2019 cash inflow of £88.4 million) comprises a decrease of £326.0 million (2019 increase of £48.6 million) in current loans due to Iberdrola group companies (as noted above) and a movement of £nil (2019 decrease of £39.8 million) in current loans receivable from Iberdrola group companies.

14 TRADE AND OTHER PAYABLES

	Note	**2020** **£m**	2019 £m
Current trade and other payables:			
Payables due to Iberdrola group companies - trade		**10.2**	9.5
Payables due to Iberdrola group companies - interest		**5.3**	6.2
Trade payables		**10.0**	1.8
Other taxes and social security		**15.0**	9.6
Payments received on account	(a)	**24.4**	31.4
Capital payables and accruals		**67.2**	117.7
Other payables		**4.0**	1.3
		136.1	177.5
Non-current other payables:			
Other payables		**0.6**	0.3
		0.6	0.3

(a) Trade and other payables includes £24.4 million (2019 £31.4 million) of IFRS 15 contract liabilities (refer to Note 16 (c)).

15 DEFERRED TAX

Deferred tax provided in the Accounts is as follows:

	Property, plant and equipment £m	Derivative financial instruments £m	Total £m
At 1 April 2018	154.1	(0.5)	153.6
Charge to the income statement	13.6	-	13.6
Recorded in the statement of comprehensive income	-	0.3	0.3
At 1 April 2019	167.7	(0.2)	167.5
Charge to the income statement	27.0	-	27.0
Recorded in the statement of comprehensive income	-	0.2	0.2
At 31 March 2020	**194.7**	**-**	**194.7**

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

16 REVENUE

(a) Disaggregation of revenue

	2020 **£m**	2019 £m
Electricity transmission	**404.0**	376.3
Transfers of assets from customers	**3.4**	3.4
	407.4	379.7

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

(b) Accounting policies

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

16 REVENUE *continued*

(b) Accounting policies *continued*

(i) Electricity transmission

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

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

(ii) Transfers of assets from customers

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

(c) Contract balances

	Notes	**31 March 2020 £m**	31 March 2019 £m	1 April 2018 £m
Contract liabilities	(i), (ii)	**(157.2)**	(154.9)	(149.7)

(i) At 31 March 2020, £132.8 million (2019 £123.5 million) of contract liabilities relates to the transfer of assets from customers which is recorded within Deferred income (refer to Note 11). The remainder is included with Trade and other payables (refer to Note 14).

(ii) The movement in the contract liabilities in the year comprises a net increase in transfers of assets from customers and payments on account of £5.7 million (2019 £8.6 million) less contract liabilities recognised as income in the year of £3.4 million (2019 £3.4 million).

17 EMPLOYEE INFORMATION

(a) Staff costs

	2020 £m	2019 £m
Wages and salaries	20.7	19.5
Social security costs	2.2	2.1
Pension and other costs	4.7	4.7
Total staff costs	**27.6**	26.3
Less: capitalised staff costs	(21.8)	(20.2)
Charged to the income statement	**5.8**	6.1

(i) Employee costs for the years ended 31 March 2020 and 31 March 2019 include those in respect of one director, Scott Mathieson.
The emoluments of the other directors of the company for the years ended 31 March 2020 and 31 March 2019 are included within the employee costs of another ScottishPower group company, as they do not have a contract of service with the company. Details of directors' emoluments are set out in Note 26 (c).

(b) Employee numbers

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

	Average 2020	Average 2019
Administrative staff	**51**	51
Operations	**298**	287
Total	**349**	338

17 EMPLOYEE INFORMATION *continued*

(c) Pensions

The company's contributions payable in the year were £4.2 million (2019 £4.3 million). The company contributes to the ScottishPower group's defined benefit and defined contribution schemes in the UK and the contributions payable in the year reflect the contributions payable in respect of active participants in the group schemes who are employed by the company. Full details of these schemes are provided in the most recent Annual Report and Accounts of SPL. As at 31 December 2019, the deficit in ScottishPower's defined benefit schemes in the UK amounted to £651.7 million (2018 £512.7 million). The employer contribution rate for these schemes in the year ended 31 December 2019 was 45.0% - 48.0%.

18 TAXES OTHER THAN INCOME TAX

	2020	2019
	£m	£m
Property taxes	**36.1**	35.4

19 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS

	2020	2019
	£m	£m
Property, plant and equipment depreciation charge	**84.1**	80.1
Right-of-use assets depreciation charge	**0.8**	-
	84.9	80.1
Capitalised right-of-use depreciation	**(0.4)**	-
	84.5	80.1

20 FINANCE INCOME

	2020	2019
	£m	£m
Foreign exchange gains	**0.1**	0.1

21 FINANCE COSTS

	2020	2019
	£m	£m
Interest on amounts due to Iberdrola group companies	**32.9**	35.1
Interest on other borrowings	**2.8**	-
Interest on leases	**0.4**	-
Foreign exchange losses	**0.1**	-
	36.2	35.1
Capitalised interest	**(0.2)**	(1.7)
	36.0	33.4

22 INCOME TAX

	2020 £m	2019 £m
Current tax:		
UK Corporation tax	**28.5**	22.1
Adjustments in respect of prior years	**1.3**	(0.4)
Current tax for the year	**29.8**	21.7
Deferred tax:		
Origination and reversal of temporary differences	**8.2**	15.0
Adjustments in respect of prior years	**(0.8)**	0.2
Impact of tax rate change	**19.6**	(1.6)
Deferred tax for the year	**27.0**	13.6
Income tax expense for the year	**56.8**	35.3

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

	2020 £m	2019 £m
Corporation tax at 19% (2019 19%)	**36.1**	36.5
Adjustments in respect of prior years	**0.5**	(0.2)
Impact of tax rate change	**19.6**	(1.6)
Non-deductable expenses and other permanent differences	**0.6**	0.6
Income tax expense for the year	**56.8**	35.3

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

23 DIVIDENDS

	2020 pence per ordinary share	2019 pence per ordinary share	2020 £m	2019 £m
Interim dividend paid	**22.1**	23.8	**85.0**	91.5

24 CONTINGENT LIABILITIES

As part of the exercise to achieve legal separation of SPUK's businesses pursuant to the provision of the Utilities Act 2000, the company and other subsidiary companies of SPUK have provided guarantees to external lenders of SPUK for debt existing in that company at 1 October 2001. The value of debt guaranteed by these companies, which was still outstanding at 31 March 2020 was £1,055.7 million (2019 £1,047.9 million).

25 FINANCIAL COMMITMENTS

Other contractual commitments

	2020						
	2021 £m	**2022 £m**	**2023 £m**	**2024 £m**	**2025 £m**	**2026 and thereafter £m**	**Total £m**
Other contractual commitments	12.3	1.2	1.2	2.3	-	-	**17.0**

	2019						
	2020 £m	2021 £m	2022 £m	2023 £m	2024 £m	2025 and thereafter £m	Total £m
Other contractual commitments	11.9	0.5	0.1	-	-	-	12.5

26 RELATED PARTY TRANSACTIONS

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

	2020				2019			
	UK parent (SPL) £m	Immediate parent (SPENH) £m	Other Iberdrola group companies £m	Jointly controlled entity £m	UK parent (SPL) £m	Immediate parent (SPENH) £m	Other Iberdrola group companies £m	Jointly controlled entity £m
Types of transaction								
Sales and rendering of services	-	-	**0.3**	**0.3**	-	-	0.3	1.2
Purchases and receipt of services	-	-	**(37.6)**	**(0.1)**	-	-	(33.1)	(0.7)
Purchases of property, plant and equipment	-	-	**(1.6)**	**(30.0)**	-	-	(1.2)	(75.8)
Interest costs	-	-	**(32.9)**	-	(2.4)	-	(32.7)	-
Net gains on foreign exchange	-	-	-	-	-	-	-	0.3
Changes in the value of cash flow hedge reserve	**0.9**	-	-	-	1.7	-	-	-
Dividends paid	-	**(85.0)**	-	-	-	(91.5)	-	-
Balances outstanding								
Trade and other receivables	**0.3**	-	-	**0.1**	-	-	0.1	3.8
Derivative financial assets	-	-	-	-	0.5	-	-	-
Loans payable	-	-	**(1,025.6)**	-	-	-	(1,351.6)	-
Trade and other payables	-	-	**(10.2)**	-	-	-	(9.5)	-
Interest payable	-	-	**(5.3)**	-	-	-	(6.2)	-
Derivative financial liabilities	-	-	-	-	(1.2)	-	-	-

(i) During the year ended 31 March 2020, SPUK made pension contributions of £4.2 million on behalf of the company (2019 £4.3 million).
(ii) The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received in relation to the above related party transactions.

(b) Remuneration of key management personnel

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

	2020 £000	2019 £000
Short-term employee benefits	**2,161**	1,874
Post-employment benefits	**286**	248
Share-based payments	**172**	1,019
	2,619	3,141

(c) Directors' remuneration

The total remuneration of the directors that provided qualifying services to the company are shown below. As these directors are remunerated for their work for Energy Networks, it has not been possible to apportion the remuneration specifically in respect of services to this company. Of the six directors (2019 six), two (2019 one) were directly remunerated by the company. The remaining directors were remunerated by other ScottishPower companies.

Executive directors	2020 £000	2019 £000
Aggregate remuneration in respect of qualifying services	**1,333**	1,284
Number of directors who exercised share options	**2**	2
Number of directors who received shares under a long-term incentive scheme	**-**	3
Number of directors accruing retirement benefits under a defined benefit scheme	**2**	2

26 RELATED PARTY TRANSACTIONS *continued*
(c) Directors' remuneration *continued*

Highest paid director	**2020** **£000**	2019 £000
Aggregate remuneration	**736**	714
Accrued pension benefits	**101**	96

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

(d) Ultimate parent company and immediate parent company
The immediate parent company is Scottish Power Energy Networks Holdings Limited ("SPENH"). The registered office of SPENH is 320 St. Vincent Street, Glasgow, Scotland, 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 SPUK.

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

In addition to the parent undertakings disclosed above, the company's other related undertaking is disclosed in Note 5.

27 AUDITOR REMUNERATION

	2020 **£000**	2019 £000
Audit of the company's annual accounts and regulatory accounts	**96**	91
Audit-related assurance services	**35**	-
Total	**131**	91

28 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 18.

Notwithstanding net current liabilities of £320.7 million as at 31 March 2020, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

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

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

28 GOING CONCERN *continued*

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

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