SP TRANSMISSION PLC
CORPORATE REPORT AND REGULATORY ACCOUNTS
for the year ended 31 March 2019

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, 2018/19 performance and strategic outlook including principal risks and uncertainties.

STRATEGIC OUTLOOK

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

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

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

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

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

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

The second round of RIIO (Revenue = Incentives + Innovation + Outputs) price controls (RIIO-2) will begin in 2021/22 for the transmission business. In July 2018, Ofgem published its RIIO-2 Framework decision which included high level decisions on particular elements of the price control framework. The impact of RIIO-2 on the company is discussed in greater detail on page 8. Alongside this framework document, Ofgem also published a report by Cambridge Economic Policy Associates, a consulting firm, setting out its initial cost of capital ranges, which will not be finalised until Ofgem's final transmission price determination in 2020. In December 2018, Ofgem published its RIIO-2 sector specific consultation which includes further price control developments, such as the cost of capital and incentives. Companies are due to submit their final business plans to Ofgem in late 2019.

STRATEGIC OUTLOOK *continued*

The company remains on track to complete an ambitious eight year RIIO-T1 programme of network renewal, which has two years remaining. At 31 March 2019, the company is almost 75% through its overhead line replacement programme of approximately 800 km, which is over 200 km ahead of plan. Other major deliverables include the connection of an additional 1,449 megawatts ("MW") of directly connected generation, completion of two significant overhead line routes utilising innovative composite-core 'High Temperature Low Sag' technology and completion of a cumulative 66% of non-load outputs, ahead of the RIIO-T1 plan of 60% for the first six years.

The key strategies for the company until the end of the current transmission price review period and beyond are to:

- ensure public safety and the safety of employees;
- deliver improved customer service through more efficient processes, systems and higher first-time resolution;
- deliver value for money to customers through improved security of supply and network performance;
- maximise the financial benefit to be obtained from the available incentives to deliver returns at, or in excess of, allowed regulated returns;
- achieve investor objectives on sustainable returns on investment; and
- facilitate the UK's transition to a low carbon economy by connecting renewable generation and increasing transmission capacity.

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 will be made available for initiatives focussed on delivering low carbon transport and heating. The Fund aims to further Scotland's ambitious green energy plans and at the same time create economic growth opportunities for local communities. Funds have already been committed to a number of projects as part of Round 1 of project applications (further information is given in the 'Projects' section). Assessment of Round 2 project applications is underway.

For Energy Networks, 2019/20 is the 'Year of Innovation'. The primary objective of this initiative is to promote a culture of innovation throughout the business by increasing awareness and understanding of what innovation means for the business. The company is proactively communicating internally and externally the ways we are leading on innovation as a business by providing inventive solutions to problems, not only for the company, but for the wider industry.

During 2018/19, Energy Networks also won a number of awards:

- At the Young Professionals Green Energy Awards 2018, three Energy Networks employees won awards for Innovation, Achievement and a Special Commendation award.
- The company received the BSI Kite Mark Certification for Customer Service after completing a seven day audit. Energy Networks is the first utility in the world to have achieved this new standard.
- The LV (Low Voltage) Engine project won the annual WSP Project Award for Scotland and North England in the Sustainability category. LV Engine is a Network Innovation Competition ("NIC") project funded by Ofgem which will build and test a number of smart transformers for use within secondary substations.
- An Energy Networks apprentice was awarded the Rising Star award at the National Skills Academy for Power's annual award ceremony held in September 2018.
- Energy Networks received three awards at the Utility Week Stars Award 2018 event. The Energy Networks employees received the awards in the categories of Rising Star, Guiding Star and Hero Team.
- Energy Networks has won two major awards at the 2019 Network Awards for 'Network of the Year' and 'The Smart Cities Award' at the prestigious industry awards.
- The company was benchmarked first in the UK by Institute of Customer Service versus an equivalent seventh place last year.

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

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

STRATEGIC OUTLOOK *continued*

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

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

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

Announcements in the past few years by the UK Government on funding programmes have led to some renewables developers scaling back future activity. Some developers have requested acceleration in connection dates, while other projects have been deferred or cancelled. These developments have been analysed carefully, resulting in updated projections of volumes and expenditure for the Energy Networks business. The external environment will continue to be monitored and the impact of any changes in trends will be considered in future forecasts. Investments in interconnectors moving energy across the UK, for which Scottish export capability was previously the main driver, have become important to ensure security of supply in Scotland through import capability, in light of large thermal plant closures on both sides of the Anglo-Scottish border.

Energy Networks is continuing to develop and train staff for a 'smarter' future in line with its 'grow our own' strategy and replenish its ageing workforce from the communities served so that the investment made in recruitment and training continues to deliver in the long-term. The challenge of replacing an ageing workforce in Energy Networks and across the UK Power Sector in the coming years is significant. Energy Networks will continue to work closely with schools and Further and Higher Education institutions to ensure that it can attract high calibre individuals into exciting development and career opportunities. During the regulatory year 2018/19 Energy Networks recruited 28 Graduates, 9 Power Engineering Apprentices, 28 Apprentices, 23 Adult Craft Trainees, 16 Trainee Operational Engineers and in addition, internal recruits have been enrolled on the Trainee Engineer and Technical Craftsperson programmes to increase the engineering and technical capabilities of the frontline teams.

The impact of Brexit on Energy Networks, and so the company, is considered on pages 10 to 11 of the Strategic Report.

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 2019 £m	Year ended 31 March 2018* £m
Revenue	(a)	**379.7**	347.3
Operating profit	(a)	**225.5**	216.0
Profit before tax	(a)	**192.2**	184.8
Net assets	(b)	**1,132.0**	1,065.2
Net capital investment	(c)	**161.0**	234.7
Cash inflow from operating activities	(d)	**298.4**	201.7
Purchase of tangible fixed assets (cash flow)	(d)	**(266.3)**	(245.2)
Net debt	(e)	**(1,333.6)**	(1,238.8)

* Revenue restated (refer to Note 1B1.1).

OPERATIONAL PERFORMANCE *continued*

(a) Revenue, operating profit and profit before tax are presented in the income statement on page 28.
(b) Net assets are presented in the balance sheet on page 27.
(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 30.
(e) Net debt is further analysed on page 9.

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 continued to focus on cost control with efficiency improvements allowing increased operating activity to be managed within the existing cost base.

The company's operating profit was £225.5 million, an increase of £9.5 million compared to the prior year, and profit before tax was £192.2 million, an increase of £7.4 million compared to the prior year.

Revenue increased by £32.4 million primarily as a result of higher income earned under the RIIO-T1 price control.

Net personnel expenses increased by £5.0 million compared to the prior year. This increase is mainly the result of the transfer of 345 employees to the company from Power Systems on 1 January 2018. With effect from that date a proportion of the costs of both direct and indirect staff were capitalised within property, plant and equipment in the course of construction.

External services have increased by £2.3 million primarily as a result of increased charges for networks and corporate shared services.

Other operating income decreased primarily as a result of lower activity rechargeable to customers.

Taxes other than income tax have increased by £1.0 million primarily as a result of increased rates.

Depreciation and amortisation charge, allowances and provisions has increased by £13.0 million mainly as a result of the increased cost base for depreciation.

Net finance costs increased by £2.1 million primarily as a result of lower capitalised interest charge following completion of major projects.

The **income tax expense** increased primarily as a result of increased taxable profits.

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 £161.0 million (2018 £234.7 million) consisting of fixed asset additions of £181.9 million (2018 £254.5 million) less capital contributions received of £20.9 million (2018 £19.8 million). The scale of investment is consistent with the eight-year price review period allowed capital expenditure programme.

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

Operational assets	**Year ended 31 March 2019**	Year ended 31 March 2018
Franchise area (km^2)	**22,950**	22,950
System maximum demand (MW)	**3,318**	3,337
Length of overhead lines (circuit km)	**3,740**	3,734
Length of underground cables (circuit km)	**603**	573

OPERATIONAL PERFORMANCE *continued*

Operational performance	Notes	**Year ended 31 March 2019**	Year ended 31 March 2018
Annual system availability	(a)	**95.31%**	96.29%
Winter peak system availability	(b)	**97.55%**	97.88%
Annual reliability of supply	(c)	**99.99%**	99.99%
Annual number of loss of supply incidents	(d)	**17**	14
1. Incentivised incidents		**9**	2
2. Non incentivised incidents		**8**	12

(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 unplanned (faults) outages.
(b) Winter peak system availability is the average system availability over the three months of December, January and February. Winter peak system availability decreased this year due to an increase in planned (construction) outages.
(c) Annual reliability of supply is provided by the system operator, National Grid Electricity System Operator Limited.
(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 a number of 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 2018/19 continues to deliver an ambitious investment plan which will increase capacity from Scotland to England from 3.3 Gigawatts ("GW") to close to 7.0 GW before 2021. There are a number of key projects in this area and their progress is described below.

In February 2012, National Grid and the company announced the award of a £1 billion contract to build the first ever sub-sea electricity link between Scotland and England/Wales. The link is the longest high capacity High Voltage Direct Current ("HVDC") cable in the world and will increase the capacity of electricity flowing between Scotland and England/Wales by more than 2 GW. During the year, the Hunterston HVDC convertor station was fully commissioned and the link entered operational service. The project is expected to be fully taken over by the company by Summer 2019.

In December 2009, the Scottish Government granted Section 37 ("S37") consent for the Beauly-Denny 400 Kilovolt ("kV") overhead line, subject to appropriate visual mitigation measures. Following extensive liaison with Stirling Council and the local community in relation to the visual mitigation measures, the company was finally provided with a formal notice of consent for the Beauly-Denny project in December 2011. Since then a major construction programme has been undertaken with a new 400kV overhead line from Beauly terminating at Denny being completed. The dismantling of redundant 132kV overhead lines along with all remaining works, including the Stirling Visual Impact Mitigation scheme, remain on course for completion in Summer 2019.

During 2018/19 the company completed the final elements of the East-West Upgrade and Series Compensation (which enables more power to be transmitted through existing overhead lines at a fraction of the cost and time expenditure of a new overhead line). Both projects will further strengthen the power links between the West and East of Scotland and significantly increase the transport of electricity from Scotland to England with an increase in capacity of 1.1 GW.

The closure of Longannet Power Station in March 2016, along with wider changes to the generation background in the UK, has necessitated the development of further voltage control schemes. Another two shunt reactors entered service during 2018/19 bringing the total number to five. Two further shunt reactors are expected to come into service during 2019/20.

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, based on the company's best view of contracted generation schemes, has been reduced as a result of market uncertainty around government subsidy changes and delays to consents for onshore and offshore development projects. It is currently anticipated that the company could connect between 1.6 GW and 2.0 GW by 2020/21 which is expected to fall below the original RIIO-T1 plan.

PROJECTS *continued*

Strategic reinforcement and generation connections continued

Against this backdrop, however, the company has worked closely with its customers to develop and deliver a significant number of connections in the regulatory year:

- Two new wind farms, Kype Muir and Middlemuir, were connected to the transmission network, near Coalburn, delivering 139 Megawatts ("MW") of new generation capacity. This, along with capacity already delivered since the start of RIIO-T1, brings the total to 1,500 MW or 60% of the target for the price control period.
- Activity continues to focus on development and construction works on new wind farm capacity in South-West Scotland. After another successful year, further phases of the work are scheduled for completion over a coordinated timeframe which currently reaches to 2022.
- Across the company's geographical area, development continues for more than 50 future schemes with a potential capacity exceeding 5 GW; in a year which has seen the highest number of connection applications (around 150) since the start of RIIO-T1.
- The new connections have been accompanied by a range of reinforcement projects to strengthen the network and facilitate future connections. The reinforcements have added nearly 300 Mega Volt Amperes ("MVA") of additional capacity in the regulatory year. The RIIO-T1 target was exceeded in 2017/18 and the company remains on course to deliver around 3.5 Giga Watt Amperes ("GVA") by the end of the price control. A significant contribution to this forecast will be made through the reinforcement of the Kilmarnock South 400/275 kV substation (around 1,000 MVA). Site works are progressing well with the installation of both 400 kV and 275 kV Gas Insulated Switchgear – including the energisation of the 400 kV substation.

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 culminating in our best result in 2018/19 with a mean score of 8.5.

Demand Connections

Whilst the vast majority of current customer-driven investment on the company's network relates to generation connections there are a small number of schemes associated with new demand connections. Development work continues to support Network Rail's future electrification proposals.

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:

- A number of schemes to increase capacity at Grid Supply Points ("GSPs") (the main supply to the distribution network) are in advanced development or construction stages.
- The reinforcement of Galashiels and Kaimes GSPs were substantively completed in 2018/19.
- A number of modernisation projects were undertaken to address substation assets that were at or approaching the end of their life. These include:
  - The replacement of transformers/reactors at Erskine, Johnstone and Wishaw during 2018/19.
  - Major engineering works associated with the replacement of worn-out switchgear and transformers continued at 132 kV (Chapelcross) and 275 kV substations (Currie, Kaimes, Strathaven and Wishaw).
- In accordance with the company's asset strategy, asset replacement and refurbishment work was undertaken to improve the asset health of a number of 400 kV, 275 kV and 132 kV overhead line routes. This included:
  - Continuation of work on two 275 kV routes – Kaimes to Cockenzie and Dalmally to Windyhill. These routes are being modernised as part of a wider programme that ensures outage availability is coordinated in an optimal manner with other projects, with full project completion expected during 2019.
  - Commencement of works on V-route (which runs between Galashiels, Hawick and Harker) 132 kV overhead line, which is scheduled for completion by the end of RIIO-T1.

The aforementioned major refurbishment works are supported by a programme of minor works to maintain the reliability and performance on other overhead lines until they are due for major works in the future. This approach ensures that the network assets are modernised in an efficient manner without compromising long-term customer service.

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[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 the company does. All respondents are asked to rate their overall satisfaction out of 10.

PROJECTS *continued*

Network Innovation

The company has embedded innovation within its RIIO-T1 projects. These range from the HVDC sub-sea cable where a research project is underway to develop HVDC cable condition monitoring technology, to a novel deployment of series compensation in a complex network environment. The company continues to explore further opportunities to better utilise the existing network, for example to increase power capacity using composite core conductor, or smaller substation footprints and wider adoption of digital technology.

The company, supported by other transmission licensees and academics, was successful in securing funding from Ofgem for the Visualisation of Real Time System Dynamics project ("VISOR") under the NIC mechanism in late 2013. The trial project commenced in 2014 and was commissioned during 2016/17 with full completion in December 2017. The Wide Area Monitoring ("WAM") system proposed for the development and trial of VISOR will provide a new insight to the capability and dynamic performance of the transmission system in both planning and operational timescales.

The 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 company continues to work with other transmission licensees to integrate the VISOR technology into 'business as usual' to maximise the innovation benefits. The WAM system will also provide transmission network owners with a risk-mitigating measure in a period of uncertainty to help safeguard the network against high impact low probability events that may result in partial or widespread system failure.

The NIC FITNESS (Future Intelligent Transmission Network Substation) project demonstrates a reduced outage and low risk approach to future substation monitoring, protection, automation, and control by enabling faster deployment, greater availability, improved safety and greater controllability with a reduced footprint and lower cost than conventional design. The solutions enabled by FITNESS facilitate reduced network costs and constraints, significantly benefitting customers. The first bay under this trial was successfully commissioned in July 2018. Since July 2018 the company has organised workshops and site visits at Wishaw for stakeholders. The company has so far hosted Ofgem, Scottish and Southern Energy Networks, Elia (Belgium), Vattenfall (Sweden) and independent consultants, demonstrating the application of RIIO NIC innovation funding in practical implementations and our commitment to drive innovation to business as usual.

Through engagement with stakeholders the company has created a positive outlook for retaining innovation stimulus in future price controls to enable transformational innovation projects such as FITNESS which has received considerable international recognition establishing the company as a global leader in innovation. The company has further mobilised collaboration among utilities to drive international standards and suppliers for better standardisation of digital substations and driving the market to deliver to meet network owners' needs. It has also led to the digital substations initiative internally to prepare the company for the roll-out of digital substations in RIIO-T2.

The company, in collaboration with National Grid ESO, is also deploying hybrid synchronous compensators (H-SC) for the first time on the Great Britain transmission system. The H-SC will provide essential grid services such as inertia, short circuit level and reactive power largely depleted due to the closure of thermal generation plants on the network. This project will ensure system stability and security is maintained with increasing levels of renewable generation and will enhance capacity for power flow on the network. Project Phoenix is currently in its construction phase at the Neilston 275kV substation and has already generated valuable knowledge through its research and development work with the University of Strathclyde and the Technical University of Denmark. The company is also engaging with National Grid ESO and an independent market consultant to enable commercial mechanisms to backfill grid services in future.

In September 2015, the company was successful in securing funding under the Innovation Rollout Mechanism ("IRM") from Ofgem. The IRM helps realise proven innovations that will provide long-term value for money to consumers before the next price control period. The funding supports a new type of conductor on parts of the company's 400/275kV network to increase capacity; the alternative is to completely rebuild sections of network. Whilst the associated projects were completed on time, in Autumn 2016, it was proposed to extend the current trial to 132 kV to fully utilise available funding to facilitate wider application of this technology.

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

PROJECTS *continued*

Green Economy Fund

As noted previously, the company is working with the Scottish Government and Ofgem to fund low-carbon initiatives which support local economic growth. The Green Economy Fund ("The Fund") focuses on the communities in which the company operates – central and southern Scotland – and will run until the end of RIIO-T1. 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.

During 2018/19, in the first round of applications, 13 of Scotland's most innovative low-carbon transport and heating projects, from electric buses to water-powered underground heat pumps, were awarded funding from the company's £20 million Green Economy Fund.

Almost £6 million has been awarded after the first round of funding applications – including 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.

RIIO-T2

In the RIIO-T2 period, 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 generation closes and more renewable generation connects to the system. At the same time, demand patterns are expected to change as a result of the increase in electrification of transport and heat. This will start to change the trend of reducing demand that we have 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 has also been identified that there is a need to invest in the network at the correct time to ensure that there is no risk of stranded assets or barriers created for customers.

All of these changes create a large amount of uncertainty which the company's load related plan for RIIO-T2 has looked to accommodate. This uncertainty is another key theme identified for RIIO-T2. In constructing the company's load related plan, it is critical to identify the future system requirements and also the funding mechanisms that are required to allow plans to flex to meet emerging requirements, with minimal intervention from the regulator, whilst still being suitably funded.

A number of emerging themes have been identified that have been factored into load related investment plans, including: a whole-system approach to demonstrate coordination with stakeholders and other parties in the energy supply chain; ensuring the ongoing operability of the network as the generation landscape changes to be prepared for black start or other high impact events on the system; and the risks of major load related projects being open to competitive delivery.

In the area of modernisation, RIIO-T1 has been characterised by large volumes of asset replacement and rebuilds; a strategy which will further evolve for RIIO-T2 and beyond. Overhead line investment includes an extensive programme of conductor replacement, in addition to a refurbishment programme, which is the most significant since the construction of the 275kV and 400kV networks in the 1960s and 1970s respectively. In substations, there is a multi-price control programme to replace all bulk-oil and air-blast circuit breakers and a targeted programme of transformer replacements while cable investment is relatively modest following the major gas-compression replacement programme of Transmission Price Control Review 4.

There have been two strands of development that have influenced the approach for RIIO-T2. The industry has moved towards a 'health x consequence = risk' approach to determining and optimising investment. This began with the Electricity Distribution common methodology and is being implemented through the transmission Network Output Measures ("NOMS") methodology for which the company uses the Condition Based Risk Management ("CBRM") tool to manage the data. This relies on modelling of condition using observed data to estimate remaining asset lives and combines this information with the consequences of asset failure to provide a measure of asset risk which is consistent across asset categories. This relies on condition data to populate the model to provide a view of risk which is as accurate as possible and can be used to support better investment decisions.

The operations and maintenance plan has been created by a reappraisal of all maintenance, inspection and faults activities, incorporating the new asset types, such as HVDC and series compensation, and reflecting the changing asset population. The maintenance policy is currently under review reflecting operational experience and best practice.

LIQUIDITY AND CASH MANAGEMENT

Cash and net debt

Net cash flows from operating activities increased by £96.7 million to £298.4 million for the year, as detailed on page 30. As detailed in the table below, net debt increased by £94.8 million to £1,333.6 million. The movement comprises an increase of £48.6 million in group loans payable, a decrease of £6.4 million in cash and a decrease of £39.8 million in group loans receivable.

Analysis of net debt	Notes	2019 £m	2018 £m
Cash	(a)	**18.0**	24.4
Group loans receivable	(b)	**-**	39.8
Group loans payable	(c)	**(1,351.6)**	(1,303.0)
Net debt		**(1,333.6)**	(1,238.8)

(a) As detailed on the balance sheet, refer to page 27.
(b) As detailed in Note 6 on page 45.
(c) As detailed in Note 11 on pages 51 and 52.

Capital and debt structure

The company is funded by a combination of debt and equity in accordance with the directors' objectives of establishing an appropriately funded business consistent with the requirements of the Utilities Act 2000 and the objectives of the Iberdrola group. All of the equity is held by the company's immediate parent undertaking, SPENH. Treasury services are provided by SPL. Further details of the treasury policy for ScottishPower and how it manages them is included in Note 7.

Liquidity and maintenance of investment grade credit rating

The directors confirm that the company remains a going concern on the basis of its future cash flow forecasts and that it has sufficient working capital for present requirements. It is anticipated that the company will continue to have a level of liquidity at least sufficient to maintain an investment grade credit rating. The directors consider that, should it be necessary, sufficient funding will be made available to the company to continue operations and to meet liabilities as they fall due. Further details of the going concern considerations made by the directors of the company are set out in Note 27.

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 externally assessed and certificated to the latest international standards, notably the Occupational Health and Safety Advisory Services Standard 18001 ("OHSAS 18001").

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 continues to put the "health" into health and safety, with 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 Energy Networks Association, to ensure that good practice is shared and innovation is promoted.

HEALTH AND SAFETY *continued*

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

	Notes	Actual Year ended 31 March 2019	Target Year ended 31 March 2019
Total recordable incident rate	(a), (b)	0.18	NTS
Lost time accidents	(c)	3	7
Occupational health monitoring	(d)	93%	90%
Audit and inspection programme completion	(e)	100%	100%

(a) Total recordable incident rate ("TRIR") is the summation of any incidents, be they lost time, medical treatment or leading to some work restriction per 100,000 hours worked.
(b) No Target Set ("NTS") - however the business set a target of 0.35 TRIR for employees for 2019.
(c) This is the number of accidents involving Energy Networks employees on the job resulting in the loss of at least a day's work.
(d) Occupational health monitoring is a measure of how Energy Networks meets its planned forecasts for those staff assessed as at risk.
(e) 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 corporate memory Safety Stand downs being 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.

UK DECISION TO LEAVE THE EU (BREXIT)

The UK was originally scheduled to leave the European Union ("EU") on 29 March 2019. Following intensive negotiations on the subjects of a separation payment, mutual recognition of citizens' rights and avoiding a hard border between Northern Ireland and the Republic of Ireland, two key documents were approved by the EU Council on 25 November 2018: the EU Withdrawal Agreement (a legally binding document setting out the terms of the UK's exit from the EU, including citizens' rights and the Irish 'backstop'); and the Political Declaration (setting out the basis for a future negotiation of the future UK-EU relationship after Brexit, including UK-EU trade and security). As at the date of signing these accounts this deal has not been approved by the UK Parliament; cross party discussions are taking place to reach a consensus on a revised deal to be presented to the UK Parliament for approval. The EU and the UK have now agreed a delay to Brexit until 31 October 2019 at the latest.

If the EU Withdrawal Agreement is not approved by the UK Parliament within the EU timelines the risk of a 'no-deal' Brexit exists. This would probably mean that the trade relationship between the UK and EU would revert to World Trade Organisation ("WTO") rules. The UK Government has published a series of technical papers covering some of the key areas of concern in the event of 'no-deal' scenario. Essentially these papers seek to minimise the impacts as much as possible, including by limiting the scale of the changes to existing arrangements. Nevertheless, WTO rules would mean that trade between the UK and EU which is currently frictionless, would become cross-border trade subject to customs checks and tariffs. In the event of a 'no-deal' scenario some economic disruption is expected in the UK and thus ScottishPower is preparing to mitigate any negative impacts arising from this outcome. A cross-functional operational working group has been co-ordinating ScottishPower's preparations to mitigate the impact of a 'no-deal' Brexit. Some of the key ScottishPower risks considered relevant to the company are explained in the table on the following page.

UK DECISION TO LEAVE THE EU (BREXIT) *continued*

BREXIT RISKS	
RISK	**RESPONSE**
Impacts arising from the UK decision to leave the EU or market reactions to events during the negotiation. These impacts could include movements in the value of Sterling and other financial instruments. In the longer term there could be positive or negative changes in the UK economy and in the political and regulatory environment in which the group and company operates.	In addition to monitoring ongoing developments related to Brexit the treasury risk management policy is in place to hedge financial risks which are the most prevalent in the short term. Any longer term impact on the UK economy and its impact on ScottishPower and the company will be managed in line with developments. A ScottishPower wide regulatory group is monitoring any potential risks arising from a regulatory perspective and is engaging with governments and regulators to minimise any disruption.
Supply chain disruption – import delays of key equipment and components for major programmes causing project delays.	Assessment of key equipment and components undertaken and additional orders placed in order to increase stock levels. Additional storage requirements also assessed and actions taken to ensure there is sufficient storage.
Foreign exchange rate exposure and additional tariffs if WTO rules apply.	Exchange rate hedged on existing orders and contracts. Legal review of all critical contracts to determine potential exposure to additional tariffs.
Contractual risk for existing non-trading contracts including the risk of contract re-openers, clauses such as force majeure/material adverse change clauses and jurisdiction.	Legal review of all critical contracts to determine potential exposure and mitigation specific to each contract.
Free movement of labour – potential restrictions on EU nationals working in the UK or international assignees from elsewhere in the Iberdrola group, not currently in the UK but wishing to enter the UK.	Recent announcements by the UK Government confirmed EU nationals in the UK will be part of an EU settlement scheme. Workplace audit underway to assess impact and support staff affected through the process.
Data Protection – impact of General Data Protection Regulation ("GDPR") rules and status of UK post Brexit could impact transfer of data between group companies and suppliers in the normal course of business.	All intercompany contracts reviewed to update contractual clauses. High risk suppliers identified and where appropriate discussions commenced to amend contractual terms.

Even in the event of an agreement being concluded, Brexit may have both risks and opportunities for ScottishPower and therefore the company. Until the terms of exit and the nature of the future relationship are clear, it is not possible to be definitive about these.

Many of the risks described above relating to a 'no-deal' scenario arise from so-called 'horizontal' issues where there could be issues affecting businesses in many sectors of the economy. UK official forecasts are for a negative impact on the UK economy as a whole; in the event of a 'no-deal' scenario it might be sharply negative, at least for the short/medium term.

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

PRINCIPAL RISKS AND UNCERTAINTIES

ScottishPower's strategy, which is adopted by the company, is to conduct business in a manner benefiting customers through balancing cost and risk while delivering shareholder value and protecting ScottishPower's performance and reputation by prudently managing the risks inherent in the business. To maintain this strategic direction ScottishPower develops and implements risk management policies and procedures, and promotes a robust control environment at all levels of the organisation. Further details of ScottishPower's risk management practices can be found in Note 7.

The principal risks and uncertainties of ScottishPower, (other than those specific to Brexit already discussed) and so those of the company, that may impact current and future performance and management of these risks are described below:

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

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

ENERGY NETWORKS	
RISK	**RESPONSE**
Potential reduction in base regulatory revenues as a result of RIIO-2 price control process, which Ofgem has commenced.	Steering group and dedicated teams in place to produce robust business plan submission; extensive proactive engagement with Ofgem and other stakeholders.
Inability to recruit or retain an appropriately skilled workforce.	A Strategic Workforce Planning and Implementation plan that incorporates: a) retirement profiles with demographics; b) a one year ahead strategic recruitment plan; and c) a ten year strategic recruitment plan. Identification of business critical roles and succession planning.
Security of supply due to potential asset failures alongside reduced generation capacity.	Risk based asset investment programme in place, business continuity and emergency planning well established including Black Start. Strategic spares policy in place.

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

ENERGY NETWORKS *continued*	
RISK	**RESPONSE**
Failure to deliver the transmission outputs agreed with Ofgem in the price control.	Mitigating actions include formulating detailed investment, resource, outage and contingency plans supported by an extensive procurement strategy. Good communication and co-ordination of activities across the business is integral to success, complemented by a comprehensive monitoring regime that provides early warning of potential issues.
Failure to protect customer service performance.	Well-established customer service processes to respond to power loss, including storm readiness. Priority Service Register to protect vulnerable customers in the event of power loss. Implementation of a single emergency number to route customer queries.
Failure to respond to customers' changing requirements and to deploy new technologies through low carbon transition, for example electric vehicles, distributed generation, storage and heat pumps.	Mitigating actions include owning a clear DSO vision and influencing developments at industry forums, undertaking scenario modelling of the impact of low carbon technologies, considering technical and commercial innovation projects and engaging with key stakeholders.

ON BEHALF OF THE BOARD

Frank Mitchell
Director
17 July 2019

SP TRANSMISSION PLC
DIRECTORS' REPORT

The directors present their report and audited Regulatory Accounts for the year ended 31 March 2019. References to 'ScottishPower' below apply fully to 'the company'.

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 13:

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

RESULTS AND DIVIDEND
The profit for the year amounted to £156.9 million (2018 £150.9 million). A dividend of £91.5 million was paid during the year (2018 £75.8 million).

ENVIRONMENTAL MANAGEMENT AND REGULATION
Throughout its operations, ScottishPower strives to meet, or exceed, relevant legislative and regulatory environmental requirements and codes of practice. A more extensive description of how ScottishPower addresses environmental requirements can be found in the most recent Annual Report and Accounts of SPL.

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

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

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

Training
ScottishPower has a continuing commitment to training and personal development for its employees with 3,061 (2018 2,900) training events in the year. Much of the training is focused on health and safety and technical training ensuring field staff are safe and competent. In addition, ScottishPower recruits over 100 craft and engineering trainees annually who undertake a formal, structured training programme leading towards a recognised apprenticeship or formal engineering qualification. Team leaders and managers also participate in core management skills training and there are management development programmes and modules aimed at increasing our leadership capability.

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

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

EMPLOYEES *continued*

Inclusion and diversity

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

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

As part of its commitment to closing the gender pay gap the ScottishPower Senior Leadership Team have set two aspirational targets to break down the barriers for women:
- Increase the number of women in ScottishPower's senior leadership population to exceed 30% (currently 21%).
- Increase the number of women in ScottishPower's middle management population to exceed 40% (currently 29%).

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

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

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

Employee health and wellbeing

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

Employee volunteering

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

MODERN SLAVERY STATEMENT

ScottishPower is committed to human and labour rights and to eliminating modern slavery that could in any way be connected to its business. ScottishPower welcomed the introduction of the Modern Slavery Act 2015. ScottishPower published its most recent Modern Slavery Statement in May 2018 which was approved by the Board of Directors of Scottish Power Limited and signed by Keith Anderson, Chief Executive Officer.

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

COMMUNITY RELATIONSHIPS

Community relationships

Building the trust of communities has been part of ScottishPower's core values for many years. ScottishPower has a significant presence in many communities and aims to conduct its activities responsibly, in a way that is considerate to local communities and makes a positive contribution to society.

Community consultation

ScottishPower engages with communities across its operations, where both new and modernising developments are planned or where ScottishPower is decommissioning redundant or non-operational assets. The key areas where ScottishPower's business interacts with the community include the presence of transmission lines and routine maintenance and upkeep work. ScottishPower takes a proactive approach to providing good and accurate information from pre-planning through to construction.

ScottishPower maintains strong relationships with local communities by working with community groups, elected representatives, interest groups and individuals ensuring that those affected by the 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 the business as a developer, owner and operator with longstanding relationships in many of the communities in which it works.

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

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

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

POLITICAL DONATIONS AND EXPENDITURE

ScottishPower is a politically neutral organisation. It is subject to the Political Parties, Elections and Referendums Act 2000, which defines political "donations" and "expenditure" in wider terms than would be commonly understood by these phrases. During the year, ScottishPower paid a total of £24,500 (2018 £23,020) for the sponsorship of conferences and events – activities that may be regarded as falling within the terms of the Act.

The recipients of these payments were:

- The Conservative Party £7,000 (2018 £7,000)
- The Labour Party £7,000 (2018 £7,000)
- The Scottish National Party £10,500 (2018 £9,020)

The above amounts were for sponsored receptions at the annual conferences of the above parties. These occasions provide an important opportunity for ScottishPower to represent its views on a non-partisan basis to politicians from across the political spectrum and were open to everyone attending the conference, including party members, non-governmental organisations, the media and trade unions. The payments do not indicate support for any particular party.

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

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

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

DISCLOSURE OF INFORMATION TO AUDITOR
Each of the directors in office as at the date of this Corporate Report and Regulatory Accounts confirms that:

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

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

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

ON BEHALF OF THE BOARD

Frank Mitchell
Director
17 July 2019

SP TRANSMISSION PLC
CORPORATE GOVERNANCE STATEMENT

CORPORATE GOVERNANCE

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

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

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

Administrative, management and supervisory bodies

Board and management meetings

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

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

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

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

SPENH Board

The SPENH Board comprised the Chairman Armando Martínez Martínez and six other directors as at 31 March 2019.

The directors of SPENH are shown below.

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

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

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

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

Administrative, management and supervisory bodies *continued*
ScottishPower Board
The ScottishPower Board comprised the Chairman José Ignacio Sánchez Galán and eight other directors as at 31 March 2019. José Ignacio Sánchez Galán is also the Chairman and Chief Executive of Iberdrola.

The directors of Scottish Power Limited are shown below.

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

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

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

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

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

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

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

Professor Sir James McDonald (Chairman)	External independent, attended all meetings
Juan Carlos Rebollo Liceaga	Attended all meetings
Dame Nicola Brewer	External independent, attended four meetings (appointed 11 July 2018)
Iñigo Fernández de Mesa Vargas	External independent, attended one meeting (appointed 12 December 2018)

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

Administrative, management and supervisory bodies *continued*
ScottishPower Audit and Compliance Committee ("SP ACC") *continued*
Matters considered by the SP ACC during 2018
The issues that the SP ACC specifically addressed are detailed in its report which is published at:
www.scottishpower.com/pages/activities_report_of_the_audit_and_compliance_committee.aspx.

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

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

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

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

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

- monitoring the financial reporting process for SPENH;
- monitoring the effectiveness of SPENH's internal control, internal audit, compliance and risk management systems;
- monitoring the regulatory audit of the Corporate Report and Regulatory Accounts of the company; and
- monitoring the work of the external auditor.

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

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

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

* Wendy Barnes was appointed as Chair of the SPENH ACC on 15 November 2018, following the resignation of Suzanne Fox as member and Chair of the SPENH ACC on the same date.

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

Matters considered by the SPENH ACC during 2018/19
The issues that the SPENH ACC specifically addressed are detailed in its report which is published at: https://www.spenergynetworks.co.uk/userfiles/file/2018_Committee_Annual_Activity_Report.pdf.

Administrative, management and supervisory bodies *continued*
SPENH Audit and Compliance Committee ("SPENH ACC") continued
Matters considered by the SPENH ACC during 2018/19 continued
The SPENH ACC also considered various matters which are relevant to the monitoring of the 2018/19 regulatory audit of SP Transmission plc in particular:

- the SPENH ACC reviewed the independence of the external auditor and submitted its conclusions on the same to the SPENH Board;
- the SPENH ACC reviewed the March 2019 financial results and submitted its conclusions on the same to the SPENH Board; and
- as part of the SPENH's supervision of the auditing of the Corporate Report and Regulatory Accounts, the external auditor appeared before the SPENH ACC to present their conclusions on the 2018/19 regulatory audit.

For the year ended 31 March 2019 there were no significant financial statement reporting issues.

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

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

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

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

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

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

External auditor

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

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

Auditor independence

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

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

Iberdrola Appointments and Remuneration Committees

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

The members of the IAC are:

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

The members of the IRC are:

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

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

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

Social, environmental and ethical matters

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

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

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 2019 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 2019 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 10 July 2019 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.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the 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, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

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

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

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

Directors' responsibilities
As explained more fully in their statement set out on page 23, 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.

INDEPENDENT AUDITOR'S REPORT

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

Auditor's responsibilities ***continued***

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).

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
for and on behalf of KPMG LLP
Chartered Accountants
319 St Vincent Street
Glasgow
G2 5AS
22 July 2019

SP TRANSMISSION PLC
BALANCE SHEET
at 31 March 2019

	Notes	2019 £m	2018 £m
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	3	**2,947.7**	2,845.9
Property, plant and equipment in use	3	2,562.9	2,522.1
Property, plant and equipment in the course of construction	3	384.8	323.8
Financial assets		-	-
Investment in joint venture	4	-	-
NON-CURRENT ASSETS		**2,947.7**	2,845.9
CURRENT ASSETS			
Inventories	5	**0.3**	-
Trade and other receivables	6	**5.3**	43.7
Financial assets		**0.5**	0.4
Finance lease receivables	7	-	0.4
Derivative financial instruments	7	0.5	-
Cash	7	**18.0**	24.4
CURRENT ASSETS		**24.1**	68.5
TOTAL ASSETS		**2,971.8**	2,914.4
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the parent		**1,132.0**	1,065.2
Share capital	8, 9	385.0	385.0
Hedge reserve	9	(0.7)	(2.1)
Retained earnings	9	747.7	682.3
TOTAL EQUITY		**1,132.0**	1,065.2
NON-CURRENT LIABILITIES			
Deferred income	10	**123.5**	106.0
Bank borrowings and other financial liabilities		**972.0**	1,106.0
Loans and other borrowings	11	972.0	1,106.0
Trade and other payables	12	**0.3**	0.2
Deferred tax liabilities	13	**167.5**	153.6
NON-CURRENT LIABILITIES		**1,263.3**	1,365.8
CURRENT LIABILITIES			
Provisions	14	-	0.9
Bank borrowings and other financial liabilities		**380.8**	197.6
Loans and other borrowings	11	379.6	197.0
Derivative financial instruments	7	1.2	0.6
Trade and other payables	12	**177.5**	271.0
Current tax liabilities		**18.2**	13.9
CURRENT LIABILITIES		**576.5**	483.4
TOTAL LIABILITIES		**1,839.8**	1,849.2
TOTAL EQUITY AND LIABILITIES		**2,971.8**	2,914.4

Approved by the Board on 17 July 2019 and signed on its behalf by:

Frank Mitchell
Director

The accompanying Notes 1 to 27 are an integral part of the balance sheet at 31 March 2019.

SP TRANSMISSION PLC
INCOME STATEMENT
for the year ended 31 March 2019

	Notes	2019 £m	2018 Restated* £m
Revenue	15	379.7	347.3
GROSS MARGIN		**379.7**	347.3
NET OPERATING EXPENSES		**(38.7)**	(29.8)
Net personnel expenses		**(6.1)**	(1.1)
Staff costs	16	(26.3)	(7.4)
Capitalised staff costs	16	20.2	6.3
Net external expenses		**(32.6)**	(28.7)
External services		(35.7)	(33.4)
Other operating income		3.1	4.7
Taxes other than income tax	17	**(35.4)**	(34.4)
GROSS OPERATING PROFIT		**305.6**	283.1
Depreciation and amortisation charge, allowances and provisions	18	(80.1)	(67.1)
OPERATING PROFIT		**225.5**	216.0
Finance income	19	0.1	-
Finance costs	20	(33.4)	(31.2)
PROFIT BEFORE TAX		**192.2**	184.8
Income tax	21	(35.3)	(33.9)
NET PROFIT FOR THE YEAR		**156.9**	150.9

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

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

All results relate to continuing operations.

The accompanying Notes 1 to 27 are an integral part of the income statement for the year ended 31 March 2019

SP TRANSMISSION PLC
STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 March 2019

	Note	2019 £m	2018 £m
NET PROFIT FOR THE YEAR		**156.9**	150.9
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to the income statement:			
Cash flow hedges:			
Change in the value of cash flow hedges	9	**1.7**	(2.2)
Tax relating to cash flow hedges	9	**(0.3)**	0.4
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**1.4**	(1.8)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**158.3**	149.1

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 2019

	Share capital £m	Hedge reserve £m	Retained earnings £m	Total equity £m
At 1 April 2017	385.0	(0.3)	607.2	991.9
Total comprehensive income for the year	-	(1.8)	150.9	149.1
Dividends	-	-	(75.8)	(75.8)
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 31 March 2019	**385.0**	**(0.7)**	**747.7**	**1,132.0**

The accompanying Notes 1 to 27 are an integral part of the statement of comprehensive income and the statement of changes in equity for the year ended 31 March 2019.

SP TRANSMISSION PLC
CASH FLOW STATEMENT
for the year ended 31 March 2019

	2019 £m	2018 £m
Cash flows from operating activities		
Profit before tax	**192.2**	184.8
Adjustments for:		
Depreciation	**80.1**	66.8
Change in provisions	**(0.7)**	-
Transfer of assets from customers	**(3.4)**	(2.3)
Finance income and costs	**33.3**	31.2
Write-off of non-current assets	**-**	0.3
Changes in working capital:		
Change in trade and other receivables	**(2.8)**	9.7
Change in inventories	**(0.3)**	-
Change in trade payables	**(3.3)**	(92.8)
Provisions paid	**(0.2)**	-
Assets received from customers	**20.9**	19.8
Income taxes paid	**(17.4)**	(15.8)
Net cash flows from operating activities (i)	**298.4**	201.7
Cash flows from investing activities		
Investments in property, plant and equipment	**(266.3)**	(245.2)
Transfers from Power Systems	**-**	93.6
Net cash flows from investing activities (ii)	**(266.3)**	(151.6)
Cash flows from financing activities		
Net increase/(decrease) in amounts due to Iberdrola group companies - current loans	**88.4**	(375.3)
Increase in amounts due to Iberdrola group companies - non-current loans payable	**-**	450.0
Dividends paid to company's equity holder	**(91.5)**	(75.8)
Interest paid	**(35.4)**	(34.6)
Net cash flows from financing activities (iii)	**(38.5)**	(35.7)
Net increase in cash and cash equivalents (i)+(ii)+(iii)	**(6.4)**	14.4
Cash and cash equivalents at beginning of year	**24.4**	10.0
Cash and cash equivalents at end of year	**18.0**	24.4

Cash and cash equivalents at end of year comprises:

Cash	**18.0**	24.4
Cash flow statement cash and cash equivalents	**18.0**	24.4

The accompanying Notes 1 to 27 are an integral part of the cash flow statement for the year ended 31 March 2019.

1 BASIS OF PREPARATION

A COMPANY INFORMATION

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

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 2019. 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 2018 to 31 March 2019. Consequently the Corporate Report and Regulatory Accounts for the year ended 31 March 2019 are separate from the Annual Report and Accounts of the company which have been prepared for the year ended 31 December 2018. The Accounts are prepared in accordance with the Accounting Policies set out in Note 2. Monetary amounts are presented in pounds Sterling and are rounded to the nearest hundred thousand unless otherwise indicated.

The Accounts contain information about SP Transmission plc as an individual company and do not contain consolidated financial information as an 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. (refer to Note 25(d)).

B1 CHANGES IN PRESENTATION

B1.1 TRANSFERS OF ASSETS FROM CUSTOMERS

The company earns income arising from transfers of assets from customers, as it is common for utilities to receive contributions from customers so that they can be connected to a network or receive ongoing access to a supply of services from them. In line with IFRIC 18 'Transfer of Assets from Customers', this income had previously been presented within Other operating income in the income statement. However, in order to provide better information to the users of the financial statements and classify all customer-derived income consistently under the scope of IFRS 15 'Revenue from Contracts with customers', management have opted to reclassify this stream of income, and as such, income arising from transfers of assets from customers is now presented within Revenue in the income statement. The prior year income statement has been restated accordingly. The effect of this change in presentation has been to decrease the prior year Other operating income and increase Revenue by £2.3 million. This restatement has had no impact on the net profit for the year shown on the income statement nor the net assets position shown on the Balance sheet.

B2 EFFECT OF INITIAL APPLICATION OF IFRS 15 AND IFRS 9

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

B2.1 EFFECT OF INITIAL APPLICATION OF IFRS 15

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

The application of IFRS 15 has not had a significant impact on the company's revenue recognition and therefore there is nothing to disclose in relation to the impact on the opening balances at 1 April 2018 and the balances at and results for the year ended 31 March 2019.

1 BASIS OF PREPARATION *continued*

B BASIS OF PREPARATION OF THE ACCOUNTS *continued*

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

B2.2 EFFECT OF INITIAL APPLICATION OF IFRS 9

IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement' for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

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

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

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

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

Financial assets

The company has classified its financial assets as held at amortised cost. The following table and the accompanying notes explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the company's financial assets at 1 April 2018.

Financial Asset	Original Classification under IAS 39	New Classification under IFRS9	Notes	Original carrying value under IAS 39	New carrying value under IFRS 9
Finance lease receivables	N/A	N/A	(i)	0.4	0.4
Receivables	Loans and Receivables	Amortised cost	(ii), (iii)	41.9	41.9
Cash	Loans and Receivables	Amortised cost	(iii)	24.4	24.4
				66.7	**66.7**

(i) IAS 39 only applied to lease receivables in respect of derecognition and impairment. The carrying amount of finance lease receivables is calculated as set out in Note 2C. IFRS 9 requires the new Expected Credit Loss ("ECL") methodology to be applied to leases within the scope of IAS 17 'Leases'. The identified impairment loss was less than £0.1 million.

(ii) Receivables include trade receivables (including accrued income) and trade receivables due from Iberdrola group companies and jointly controlled entities and loans receivable from Iberdrola group companies. Refer to Notes 6 and 7(a).

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

Refer to Note 7 for details of the company's financial assets in the current year. The classification and measurement requirements of IFRS 9 did not have a significant impact on the company.

1 BASIS OF PREPARATION *continued*

B BASIS OF PREPARATION OF THE ACCOUNTS *continued*

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

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

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

Financial liabilities

The classification of the company's financial liabilities has not undergone any changes with respect to the application of IFRS 9. Consequently the application of IFRS 9 has not had a significant effect on the company's accounting policies related to financial liabilities and derivative financial instruments (for derivatives that are used as hedging instruments (refer to footnote (c) below)). For an explanation of how the company classifies and measures financial liabilities and accounts for related gains and losses under IFRS 9, refer to Note 2E1.2.

(b) Impairment of financial assets

The application of IFRS 9 has changed the company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a new ECL approach. This new impairment model applies to financial assets measured at amortised cost including finance lease receivables. Other financial assets measured at FVTPL are out of scope. Under IFRS 9, credit losses are recognised earlier than under IAS 39 – refer to Note 2E1.1.

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

Brief explanations of each model are set out below:

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

Additional information about how the company measures the allowance for impairment is described in Note 7. The company has adopted the impairment requirements retrospectively, with initial application on 1 April 2018, thus opting not to restate the figures for comparative periods.

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

(c) Hedge accounting

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

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

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

C ACCOUNTING STANDARDS

C1 IMPACT OF NEW IFRS

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

1 **BASIS OF PREPARATION** *continued*

C **ACCOUNTING STANDARDS** *continued*

C1 **IMPACT OF NEW IFRS** *continued*

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

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

(a) The application of these pronouncements has not had a material impact on the company's accounting policies, financial position or performance.
(b) This pronouncement includes amendments to three standards. The amendments to IFRS 1 'First-time Adoption of International Financial Reporting Standards' and IAS 28 'Investments in Associates and Joint Ventures' have been applied by the company effective 1 April 2018. The amendments to IFRS 12 'Disclosure of Interests in Other Entities' were applied by the company effective 1 April 2017.
(c) Refer to Note 1B2.1 for further information.
(d) Refer to Note 1B2.2 for further information.

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

Standard	Notes	IASB effective date (for periods commencing on or after)	Planned date of application by the company
• IFRS 16 'Leases'	(e)	1 April 2019	1 April 2019
• IFRIC 23 'Uncertainty over Income Tax Treatments'	(f)	1 April 2019	1 April 2019
• Amendments to IFRS 9 'Financial Instruments: Prepayment Features with Negative Compensation'	(f)	1 April 2019	1 April 2019
• Amendments to IAS 28 'Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures'	(f)	1 April 2019	1 April 2019
• Annual Improvements to IFRS Standards 2015-2017 Cycle	(f)	1 April 2019	1 April 2019
• Amendments to IAS 19 'Employee Benefits: Plan Amendment, Curtailment or Settlement'	(f)	1 April 2019	1 April 2019
• Amendments to References to the Conceptual Framework in IFRS Standards	(f),(g)	1 April 2020	1 April 2020
• Amendments to IFRS 3 'Business Combinations'	(f),(g)	1 April 2020	1 April 2020
• Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material'	(f),(g)	1 April 2020	1 April 2020
• IFRS 17 'Insurance Contracts'	(f),(g)	1 April 2021	1 April 2021
• IFRS 14 'Regulatory Deferral Accounts'	(f),(g),(h)	1 April 2016	To be decided
• Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures': 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'	(f),(g),(i)	Deferred indefinitely	To be decided

(e) Details of the impact of implementing IFRS 16 'Leases' is described at Note 1C2 below.
(f) The future application of this pronouncement is not expected to have a material impact on the company's accounting policies, financial position or performance.
(g) This pronouncement has not yet been endorsed by the EU.
(h) The endorsement process of this interim standard has not been launched as the EU has decided to wait for the final standard to be issued.
(i) The IASB set the effective date of this pronouncement as for periods commencing on or after 1 January 2016. However, in December 2015, the IASB postponed the effective date indefinitely pending the outcome of its research project on the equity method of accounting. The EU endorsement process for this pronouncement has been postponed, awaiting a revised exposure draft from the IASB. The effective date will be amended in due course.

1 BASIS OF PREPARATION *continued*

C ACCOUNTING STANDARDS *continued*

C2 IMPACT OF FUTURE IMPLEMENTATION OF IFRS 16

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

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

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

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

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

The right-of-use assets will be depreciated and the charge recorded within Depreciation and amortisation charge, allowances and provisions in the income statement; similarly the discount on the liabilities will unwind over the term of the lease and charged to Finance costs in the income statement. The expense in the year relating to minimum lease payments under operating leases will no longer be recognised in the income statement; a charge of £0.4 million was recognised in 2019 (refer to Note 3(b)).

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

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

As at 1 April 2019, IFRS 16 will give rise to an increase in current and non-current liabilities totalling an estimated £0.7 million as noted below for the different types of underlying assets:

Estimated total lease liability as at 1 April 2019	**£m**
Vehicles	0.6
Land	0.1
Total	**0.7**

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

1 BASIS OF PREPARATION *continued*

C ACCOUNTING STANDARDS *continued*

C2 IMPACT OF FUTURE IMPLEMENTATION OF IFRS 16 *continued*

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

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

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES

In determining and applying accounting policies, judgement is often required in respect of items where the choice of specific policy to be followed could materially affect the reported amounts of revenues, expenses, assets and liabilities of the company, should it later be determined that a different choice would be more appropriate. The company has no such policies. At 31 March 2019, 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
E FINANCIAL INSTRUMENTS
F INVENTORIES
G RETIREMENT BENEFITS
H TAXATION
I CASH AND CASH EQUIVALENTS

A REVENUE

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

B PROPERTY, PLANT AND EQUIPMENT

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

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

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

C LEASED ASSETS

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

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

C LEASED ASSETS *continued*

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

Finance lease receivables are initially recognised at the lower of the fair value of the leased asset and the present value of future payments. Finance income is subsequently recognised over the useful life of the leased asset using the effective interest method.

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

D IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

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

E FINANCIAL INSTRUMENTS

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

E1 ACCOUNTING POLICIES UNDER IFRS 9

E1.1 FINANCIAL ASSETS

(a) Recognition and initial measurement

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

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

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. Trade receivables without a significant financing component and for which the company has applied the simplified ECL model are measured at the transaction price determined under IFRS 15 (refer to Note 15).

(b) Classification and subsequent measurement

(i) Classification

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

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

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

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

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

(ii) Subsequent measurement and gains and losses

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

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*
E FINANCIAL INSTRUMENTS *continued*
E1 ACCOUNTING POLICIES UNDER IFRS 9 *continued*
E1.1 FINANCIAL ASSETS *continued*
(b) Classification and subsequent measurement *continued*
(ii) Subsequent measurement and gains and losses continued
The company's financial assets measured at amortised cost include trade receivables and receivables due from Iberdrola group companies and jointly controlled entities.

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

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

(iii) Impairment of financial assets
Disclosures relating to impairment of financial assets are provided in Note 7.

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

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

As an exception to the general model, if the credit risk of a financial instrument is low at the reporting date, management can measure impairment using twelve month ECL and so it does not have to assess whether a significant increase in credit risk has occurred. In order for this operational simplification to apply, the financial instrument has to meet the following requirements:
- it has a low risk of default;
- the borrower is considered, in the short-term, to have a strong capacity to meet its obligations; and
- the lender expects, in the longer term, that adverse changes in economic and business conditions might, but will not necessarily, reduce the ability of the borrower to fulfil its obligations.

All of the company's other financial assets have low credit risk at both the beginning and end of the reporting period. The company considers these assets to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The company considers this to be BBB- or higher per rating agency Standard & Poor's.
The company considers a financial asset to be in default when:
- internal or external information indicates that the company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the company; or
- the financial asset is more than 90 days past due.

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

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

E FINANCIAL INSTRUMENTS *continued*

E1 ACCOUNTING POLICIES UNDER IFRS 9 *continued*

E1.1 FINANCIAL ASSETS *continued*

(b) Classification and subsequent measurement *continued*

(iii) Impairment of financial assets continued

Credit-impaired financial assets

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

Write-offs

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

E1.2 FINANCIAL LIABILITIES

(a) Recognition and initial measurement

The company's financial liabilities include trade and other payables, loans and borrowings, and derivative financial instruments.

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

(b) Classification and subsequent measurement

Financial liabilities are classified as measured at FVTPL or amortised cost.

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

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

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

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

E1.3 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

(a) Derivative financial instruments

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

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

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*
E FINANCIAL INSTRUMENTS *continued*
E1 ACCOUNTING POLICIES UNDER IFRS 9 *continued*
E1.3 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING *continued*

(a) Derivative financial instruments *continued*

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

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

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

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

(b) Cash flow hedges

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

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

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

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

(c) Valuation of financial instruments

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, the details of which are described in Note 7.

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

E FINANCIAL INSTRUMENTS *continued*

E2 ACCOUNTING POLICIES UNDER IAS 39

As detailed in Note 1B2.2 on initial application of IFRS 9, the company has elected not to restate comparative information. The accounting policies for the company under IAS 39 have therefore been presented below.

(a) Financial assets categorised as trade and other receivables are recognised and carried at original invoice amount less a provision for impairment of doubtful debts. Allowance for doubtful debts has been estimated by management, taking into account future cash flows, based on past experience and assessment of the current economic environment within which the company operates.
(b) The carrying amount of finance lease receivables is calculated as set out in Note 2C.
(c) Financial liabilities categorised as trade payables are recognised and carried at original invoice amount.
(d) All interest bearing loans and borrowings are initially recognised at fair value, net of directly attributable transaction costs. Interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

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

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

E2.1 RISK CONTROL ENVIRONMENT

Scottish Power's strategy, and therefore that of the company, is to conduct business in a manner benefiting customers through balancing cost and risk while delivering shareholder value and protecting its performance and reputation by prudently managing the risks inherent in the business. To maintain this strategic direction, ScottishPower develops and implements risk management policies and procedures and promotes a rigid control environment at all levels of the organisation. Further details of ScottishPower's strategy and management of risks, and so that of the company, are discussed in detail in Note 7.

E2.2 HEDGE ACCOUNTING

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

E2.3 CASH FLOW HEDGES

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

E2.4 DISCONTINUING HEDGE ACCOUNTING

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

E2.5 VALUATION OF FINANCIAL INSTRUMENTS HELD AT FAIR VALUE

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

F INVENTORIES

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

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.

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

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 2018	Transmission facilities £m	Other items of property, plant and equipment in use (Note (i)) £m	Plant in progress (Note (ii)) £m	Total £m
Cost:				
At 1 April 2017	2,241.4	103.7	847.4	3,192.5
Additions (Note (iii))	-	-	254.5	254.5
Transfers from in progress to plant in use	777.8	0.3	(778.1)	-
Disposals	(6.6)	-	-	(6.6)
At 31 March 2018	3,012.6	104.0	323.8	3,440.4
Depreciation:				
At 1 April 2017	483.2	50.8	-	534.0
Depreciation for the year	64.0	2.8	-	66.8
Disposals	(6.3)	-	-	(6.3)
At 31 March 2018	540.9	53.6	-	594.5
Net book value:				
At 31 March 2018	2,471.7	50.4	323.8	2,845.9
At 1 April 2017	1,758.2	52.9	847.4	2,658.5
The net book value of property plant and equipment at 31 March 2018 is analysed as follows:				
Property, plant and equipment in use	2,471.7	50.4	-	2,522.1
Property, plant and equipment in the course of construction	-	-	323.8	323.8
	2,471.7	50.4	323.8	2,845.9

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**

(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 2019, additions of £1.2 million (2018 £181.4 million) were purchased from the asset management entity Power Systems and other Iberdrola group companies and £75.8 million (2018 £102.3 million) from a joint venture, NGET/SPT Upgrades Limited as noted within Note 25.
(iv) Interest on the funding attributable to major capital projects was capitalised during the year ended 31 March 2019 at a rate of 2.8% (2018 3.1%).
(v) The cost of fully depreciated property, plant and equipment still in use at 31 March 2019 was £87.9 million (2018 £84.8 million).
(vi) Included within the cost of property, plant and equipment at 31 March 2019 are assets in use not subject to depreciation, being land of £23.2 million (2018 £23.2 million).

3 PROPERTY, PLANT AND EQUIPMENT *continued*

(b) Operating lease arrangements

(i) Operating lease payments	2019 £m	2018 £m
Minimum lease payments under operating leases recognised as an expense in the year	0.4	-

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

(ii) Operating lease commitments	2019 £m	2018 £m
Within one year	0.3	-
Between one and five years	0.7	-
More than five years	1.1	-
	2.1	-

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

(iii) Operating lease receivables	2019 £m	2018 £m
The future minimum discounted lease payments receivable under non-cancellable operating leases are as follows:		
Within one year	0.2	0.1
Between one and five years	0.1	0.1
	0.3	0.2

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

(c) Capital commitments

	2019 £m	2018 £m
Contracted but not provided	190.7	315.3

(d) Research and development expenditure

The amount of research and development expenditure recognised as an expense during the year was £0.7 million (2018 £0.6 million).

4 INVESTMENT IN JOINT VENTURE

	Shares in joint venture £
At 1 April 2017, 1 April 2018 and 31 March 2019	50

Joint venture	Principal activities	Registered office and country of incorporation (Note (a))	Equity interest in ordinary shares (Note (b)) 2019	2018
NGET/SPT Upgrades Limited	Development and operation of offshore HVDC West Coast transmission link	England & Wales	50%	50%

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

5 INVENTORIES

	Note	2019 £m	2018 £m
Other inventories	(a)	0.3	-

(a) Inventories with a value of £0.1 million (2018 £nil) were recognised as an expense during the year.

6 TRADE AND OTHER RECEIVABLES

	Notes	2019 £m	2018 £m
Current receivables:			
Receivables due from Iberdrola group companies - trade		0.1	0.5
Receivables due from Iberdrola group companies - loans	(a)	-	39.8
Receivables due from jointly controlled entities - trade		3.8	-
Trade receivables (including accrued income)	(b)	1.4	1.6
Prepayments with jointly controlled entities		-	1.8
		5.3	43.7

(a) The current loan due from SPUK charged interest at the Bank of England Base Rate plus 1% and was repayable on demand.
(b) Information about the company's exposure to credit and market risks, and impairment losses for trade and other receivables are included in Note 7.

7 FINANCIAL INSTRUMENTS

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

(a) Carrying value of financial instruments

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

	Notes	2019 Carrying amount £m	2019 Fair value £m	2019 Classification under IFRS9	2018 Carrying amount £m	2018 Fair value £m	2018 Classification under IAS 39
Financial assets							
Finance lease receivables	(i)	-	-	N/A	0.4	0.4	N/A
Derivative financial instruments	(ii)	0.5	0.5	Fair value hedging instrument	-	-	Fair value hedging instrument
Receivables	(iii)	5.3	5.3	Amortised cost	41.9	41.9	Loans and Receivables
Cash	(iv)	18.0	18.0	Amortised cost	24.4	24.4	Loans and Receivables
Financial liabilities							
Derivative financial instruments	(ii)	(1.2)	(1.2)	Fair value hedging instrument	(0.6)	(0.6)	Fair value hedging instrument
Loans and other borrowings	(v)	(1,351.6)	(1,469.6)	Amortised cost	(1,303.0)	(1,439.7)	Loans and Receivables
Payables	(iii)	(136.8)	(136.8)	Amortised cost	(219.9)	(219.9)	Loans and Receivables

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

(i) The carrying value of lease receivables is calculated as set out in Note 2C. IAS 39 is only applied to lease receivables in respect of derecognition and impairment. IFRS 9, however, requires the new ECL methodology to be applied to leases within the scope of IAS 17.
(ii) Further details on derivative financial instruments are disclosed within Note 7(c).
(iii) 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.
(iv) As a general rule, cash deposited with banks earns interest at rates similar to market rates on daily deposits. Cash as at 31 March 2019 includes deposits with banks of £18.0 million (2018 £24.4 million) in respect of ring-fenced funds received from third parties for use on specific innovation projects and are not available to finance the company's day-to-day operations.
(v) The fair value of loans and borrowings 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.

7 FINANCIAL INSTRUMENTS *continued*

(c) Analysis of derivative financial instruments – carrying value

	2019				2018			
	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)	-	-	-	(0.6)	-

(d) Financial risk management

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

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

i. Credit risk; and
ii. Treasury risk (comprising both liquidity and market risk).

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

(i) Credit risk

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

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

Credit risk management

The company is exposed to both settlement risk (defined as the risk of a counterparty failing to pay for 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 2019 and 2018, 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.

Trade receivables

The company uses the simplified model approach to measure ECLs for trade receivables. The provision rates represent a lifetime ECL and are based on the Iberdrola group's historical loss experience and default rates. The impact of the initial application of IFRS 9 on the gross carrying value at 31 March 2019 of £1.4 million (1 April 2018 £1.6 million) was less than £0.1 million at both dates and therefore there is no impact on the balance sheet.

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

7 FINANCIAL INSTRUMENTS *continued*

(d) Financial risk management *continued*

(i) Credit risk continued

Receivables due from Iberdrola group companies and jointly controlled entities £3.9 million (2018 £40.3 million)

On initial application of IFRS 9, the group recognised an impairment allowance as at 1 April 2018 of less than £0.1 million. The movement in the ECL in the year to 31 March 2019 was also less than £0.1 million.

Cash

The company held cash of £18.0 million (2018 £24.4 million) at 31 March 2019. The cash deposits are held with banks and financial institution counterparties, which are rated BBB- to AAA, based on Standard & Poor's ratings. Impairment on cash deposits has been measured on a three month expected loss basis and reflects the short maturities of the exposures. The company considers that its cash deposits have low credit risk based on the external credit ratings of the counterparties. On initial application of IFRS 9 at 1 April 2018, the company recognised an impairment allowance of less than £0.1 million. The loss allowance in the year to 31 March 2019 is also less than £0.1 million.

Reconciliation of opening to closing loss allowance

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

(ii) Treasury risk

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

Treasury liquidity risk management

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

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

				2019			
Cash outflows	**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*	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**

				2018			
Cash outflows	2019 £m	2020 £m	2021 £m	2022 £m	2023 £m	2024 and thereafter £m	Total £m
Derivative financial instruments	49.7	-	-	-	-	-	49.7
Loans and other borrowings	233.6	167.4	153.1	161.8	146.3	684.0	1,546.2
Payables*	213.2	0.2	-	-	-	-	213.4
	496.5	167.6	153.1	161.8	146.3	684.0	1,809.3

* 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.

7 FINANCIAL INSTRUMENTS *continued*

(d) Financial risk management *continued*

(ii) Treasury risk continued

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.

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.

Interest rate analysis of debt	2019 £m	2018 £m
Fixed rate	**446.0**	643.0
Variable rate	**905.6**	660.0
	1,351.6	1,303.0

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

The variable rate debt consists of £660.0 million (2018 £660.0 million) LIBOR debt and a £245.6 million (2018 £nil) loan linked to Base.

Sensitivity analysis on interest rate changes

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

Debt category	Interest rate	Change in rate	Impact on interest 2019 £m	Impact on interest 2018 £m
LIBOR debt	LIBOR	+0.25%	**1.7**	1.7
		+0.50%	**3.3**	3.3
		-0.25%	**(1.7)**	(1.7)
		-0.50%	**(3.3)**	(3.3)
Short-term variable rate debt	Base	+0.25%	**0.6**	-
		+0.50%	**1.2**	-
		-0.25%	**(0.6)**	-
		-0.50%	**(1.2)**	-

Foreign currency Risk

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

Hedging of foreign currency risk

The company enters into foreign currency forwards in relation to asset purchases. For such items the company designates the entire value of the foreign currency forward in the hedge relationship. The notional amount of hedging instruments at 31 March 2019 is £48.8 million at an average exchange rate of 1.14 Euros to GBP. All instruments are due to mature within one year.

Foreign exchange rate cash flow hedges

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

7 FINANCIAL INSTRUMENTS *continued*

(d) Financial risk management *continued*

Foreign currency risk ***continued***

Foreign exchange rate cash flow hedges *continued*

For an analysis of the split of the carrying value of foreign exchange contracts please refer to Note 7(c). The amounts relating to foreign exchange rate derivatives designated as cash flow hedges during the year are detailed in the table below.

	Notes	2019 Hedging derivatives £m	2018 Hedging derivatives £m
Notional amount		**48.8**	49.7
Carrying amount - asset	(a)	**0.5**	-
Carrying amount - liability	(a)	**(1.2)**	(0.6)
Changes in the value of the hedging instrument recognised in Other comprehensive income	(b)	**0.1**	2.0
Amount reclassified from cash flow hedge reserve to balance sheet	(c)	**2.0**	11.0

(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.

Line item in the financial statements in which the hedged item is/will be	Change in fair value used for calculating hedge ineffectiveness 2019 £m	2018 £m	Cash flow hedge reserve balance 2019 £m	2018 £m
Property, plant and equipment in the course of construction	**(0.1)**	(2.0)	**(0.9)**	(2.1)

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.

8 SHARE CAPITAL

	2019 £m	2018 £m
Allotted, called up and fully paid shares:		
385,000,000 ordinary shares of £1 each (2018 385,000,000)	**385.0**	385.0

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

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

	Share capital £m	Hedge reserve (Note (a)) £m	Retained earnings (Note (b)) £m	Total £m
At 1 April 2017	385.0	(0.3)	607.2	991.9
Profit for the year attributable to equity holder of SP Transmission plc	-	-	150.9	150.9
Changes in the value of cash flow hedges	-	(2.2)	-	(2.2)
Tax relating to cash flow hedges	-	0.4	-	0.4
Dividends	-	-	(75.8)	(75.8)
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 31 March 2019	**385.0**	**(0.7)**	**747.7**	**1,132.0**

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

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

(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 2017	(0.4)	0.1	(0.3)
Effective cash flow hedges recognised	(13.2)	2.5	(10.7)
Removed from equity and recognised in carrying amount of hedged items	11.0	(2.1)	8.9
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 31 March 2019	**(0.9)**	**0.2**	**(0.7)**

(d) All amounts included in the hedge reserve as at 31 March 2019 are due to mature within one year (2018 due within one year).

10 DEFERRED INCOME

Year ended 31 March 2018		At 1 April 2017 £m	Receivable during year £m	Released to income statement £m	At 31 March 2018 £m
Transfer of assets from customers		88.5	19.8	(2.3)	106.0

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

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

11 LOANS AND OTHER BORROWINGS

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

Instrument		Interest rate*	Maturity	2019 £m	2018 £m
Loans with group companies - SPUK		Base + 1%	On demand	**245.6**	-
Loans with group companies - SPL		3.858%	29 January 2019	-	75.0
Loans with group companies - SPUK	(i), (ii)	3.416%	21 December 2022	**104.0**	156.0
Loans with group companies - SPUK	(i), (iii)	3.570%	20 December 2023	**132.0**	132.0
Loans with group companies - SPUK	(i), (iv)	2.821%	31 March 2025	**210.0**	280.0
Loans with group companies - SPUK	(i), (v)	LIBOR + 0.78%	20 December 2027	**450.0**	450.0
Loans with group companies - SPUK	(i)	LIBOR + 3.365%	28 January 2029	**210.0**	210.0
				1,351.6	1,303.0

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

Analysis of total loans and other borrowings	2019 £m	2018 £m
Non-current	**972.0**	1,106.0
Current	**379.6**	197.0
	1,351.6	1,303.0

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

(ii) The intercompany loan with SPUK that is due to mature in December 2022 is repayable in equal instalments on a bi-annual basis. The repayment of £52.0 million that was due in 2019 was classified as current in the 2018 analysis above.

(iii) The intercompany loan with SPUK that is due to mature in December 2023 is repayable in equal instalments on a bi-annual basis. The repayment of £44.0 million that is due in 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 bi-annual basis. The repayment of £70.0 million that was due in 2019 has been classified as current in the 2018 analysis above.

(v) The intercompany loan with SPUK that is repayable in December 2027, is repayable in equal instalments on a bi-annual basis. The repayment of £90.0 million that is due in 2020 is classified as current in the 2019 analysis above.

(b) Borrowing facilities

The company has no undrawn committed borrowing facilities at 31 March 2019 (2018 £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 2017	335.5	853.0	5.8	1,194.3
(Decrease)/increase in amounts due to Iberdrola group companies	(335.5)	450.0	-	114.5
Interest paid	-	-	(34.6)	(34.6)
Total movements from financing cashflows	(335.5)	450.0	(34.6)	79.9
Other movements	197.0	(197.0)	35.3	35.3
Total liability-related movements	197.0	(197.0)	35.3	35.3
At 31 March 2018	197.0	1,106.0	6.5	1,309.5

11 LOANS AND OTHER BORROWINGS

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

	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 cash flows	**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**

(i) Internal interest payable of £6.2 million (2018 £6.5 million) is included within Trade and other payables (refer to Note 12).
(ii) The cash inflow in the cash flow statement for 'Net increase/(decrease)in amounts due to Iberdrola group companies – current loans' of £88.4 million (2018 cash outflow of £375.3 million) comprises an increase of £48.6 million (2018 decrease of £335.5 million) in current loans due to Iberdrola group companies (above) and a decrease of £39.8 million (2018 increase of £39.8 million) in current loans receivable from Iberdrola group companies (included within Trade and other receivables - refer to Note 6).

12 TRADE AND OTHER PAYABLES

	Note	2019 £m	2018 £m
Current trade and other payables:			
Payables due to Iberdrola group companies - trade		**9.5**	7.8
Payables due to Iberdrola group companies - interest		**6.2**	6.5
Trade payables		**46.5**	90.9
Other taxes and social security		**9.6**	7.6
Payments received on account		**31.4**	43.7
Capital payables and accruals		**73.0**	113.0
Other payables		**1.3**	1.5
	(a)	**177.5**	271.0
Non-current other payables:			
Other payables		**0.3**	0.2
		0.3	0.2

(a) Trade and other payables includes £31.4 million of IFRS 15 contract liabilities (refer to Note 15 (c)).
(b) On 1 January 2018, as part of a change in the role of Power Systems, £93.4 million of trade and other payables was transferred to the company from Power Systems and an equivalent amount received as a cash inflow to the on demand group loan account.

13 DEFERRED TAX

Deferred tax provided in the Accounts is as follows:

	Property, plant and equipment £m	Derivative financial instruments £m	Total £m
At 1 April 2017	138.2	(0.1)	138.1
Charge to the income statement	15.9	-	15.9
Recorded in the statement of comprehensive income	-	(0.4)	(0.4)
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 31 March 2019	**167.7**	**(0.2)**	**167.5**

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

14 PROVISIONS

Year ended 31 March 2018	Notes	At 1 April 2017 £m	Transfers £m	At 31 March 2018 £m
Onerous contracts	(a)	0.7	-	0.7
Overtime and commission	(b)	-	0.2	0.2
		0.7	0.2	0.9

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)	-

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

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

15 REVENUE

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

(a) Disaggregation of revenue for the year ended 31 March 2019

	Total £m
Electricity transmission	**376.3**
Transfers of assets from customers	**3.4**
	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.

(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.

15 REVENUE *continued*

(c) Contract balances

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

(i) £123.5 million (1 April 2018 £106.0 million) of contract liabilities relates to the transfer of assets from customers which is recorded within Deferred income (refer to Note 10). The remainder is included with Trade and other payables (refer to Note 12).
(ii) The movement in the contract liabilities in the year comprises an increase in transfers of assets from customers and payments on account of £8.6 million less contract liabilities recognised as income in the year of £3.4 million.

16 EMPLOYEE INFORMATION

(a) Staff costs

	2019 £m	2018 £m
Wages and salaries	**19.5**	5.4
Social security costs	**2.1**	0.6
Pension and other costs	**4.7**	1.4
Total staff costs	**26.3**	7.4
Less: capitalised staff costs	**(20.2)**	(6.3)
Charged to the income statement	**6.1**	1.1

(i) Employee costs for the years ended 31 March 2019 and 31 March 2018 include those in respect of one director, Scott Mathieson. The emoluments of the other directors of the company for the years ended 31 March 2019 and 31 March 2018 are included within the employee costs of another ScottishPower group company, as they do not have a contract of service with the company. Details of directors' emoluments are set out in Note 25 (c).
(ii) On 1 January 2018, 345 employees had their contracts of service transferred from Power Systems to the company.

(b) Employee numbers

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

	Year end 2019	Average 2019	Year end 2018	Average 2018
Administrative staff	**52**	**51**	31	15
Operations	**293**	**287**	313	80
Total	**345**	**338**	344	95

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

	Year end 2019	Average 2019	Year end 2018	Average 2018
Total	**341**	**335**	341	94

(c) Pensions

The company's contributions payable in the year were £4.3 million (2018 £1.3 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 2018, the deficit in ScottishPower's defined benefit schemes in the UK amounted to £512.7 million (2017 £564.8 million). The employer contribution rate for these schemes in the year ended 31 December 2018 was 45.0% - 48.0%.

17 TAXES OTHER THAN INCOME TAX

	2019 £m	2018 £m
Property taxes	**35.4**	34.4

18 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS

	2019 £m	2018 £m
Property, plant and equipment depreciation charge	80.1	66.8
Charges and provisions, allowances and impairment of assets	-	0.3
	80.1	67.1

19 FINANCE INCOME

	2019 £m	2018 £m
Foreign exchange gains	0.1	-

20 FINANCE COSTS

	2019 £m	2018 £m
Interest on amounts due to Iberdrola group companies	35.1	35.3
Capitalised interest	(1.7)	(4.1)
	33.4	31.2

21 INCOME TAX

	2019 £m	2018 £m
Current tax:		
UK Corporation tax	22.1	18.7
Adjustments in respect of prior years	(0.4)	(0.7)
Current tax for the year	21.7	18.0
Deferred tax:		
Origination and reversal of temporary differences	15.0	17.0
Adjustments in respect of prior years	0.2	0.7
Impact of tax rate change	(1.6)	(1.8)
Deferred tax for the year	13.6	15.9
Income tax expense for the year	35.3	33.9

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

	2019 £m	2018 £m
Corporation tax at 19% (2018 19%)	36.5	35.1
Adjustments in respect of prior periods	(0.2)	-
Impact of tax rate change	(1.6)	(1.8)
Non - deductible expenses and other permanent differences	0.6	0.6
Income tax expense for the year	35.3	33.9

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

22 DIVIDENDS

	2019 pence per ordinary share	2018 pence per ordinary share	2019 £m	2018 £m
Interim dividend paid	23.8	19.7	91.5	75.8

23 CONTINGENT LIABILITIES

As part of the exercise to achieve legal separation of the businesses of SPUK pursuant to the provision of the Utilities Act 2000, the company and other subsidiary companies of SPUK have provided guarantees to external lenders of SPUK for debt existing in that company at 1 October 2001. The value of debt guaranteed by these companies, which was still outstanding at 31 March 2019 was £1,047.9 million (2018 £1,037.9 million).

24 FINANCIAL COMMITMENTS

Other contractual commitments

	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

	2018						
	2019 £m	2020 £m	2021 £m	2022 £m	2023 £m	2024 and thereafter £m	Total £m
Other contractual commitments	4.7	0.1	0.1	-	-	-	4.9

25 RELATED PARTY TRANSACTIONS

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

	2019				2018			
	UK parent (SPL) £m	**Immediate parent (SPENH) £m**	**Other Iberdrola group companies £m**	**Jointly controlled entities £m**	UK parent (SPL) £m	Immediate parent (SPENH) £m	Other Iberdrola group companies £m	Jointly controlled entities £m
Types of transaction								
Sales and rendering of services	-	-	0.3	1.2	-	-	-	2.1
Purchases and receipt of services	-	-	(33.1)	(0.7)	-	-	(31.2)	-
Purchases of property, plant and equipment	-	-	(1.2)	(75.8)	-	-	(181.4)	(102.3)
Transfers of trade and other payables (Note (i))	-	-	-	-	-	-	93.4	-
Transfers of provisions (Note (i))	-	-	-	-	-	-	0.2	-
Interest costs	(2.4)	-	(32.7)	-	(2.9)	-	(32.4)	-
Net gains on foreign exchange	-	-	-	0.3	-	-	-	-
Changes in the value of cash flow hedge reserve	1.7	-	-	-	(2.2)	-	-	-
Dividends paid	-	(91.5)	-	-	-	(75.8)	-	-
Balances outstanding								
Loans receivable	-	-	-	-	-	-	39.8	-
Trade and other receivables	-	-	0.1	3.8	0.4	-	0.1	1.8
Derivative financial assets	0.5	-	-	-	-	-	-	-
Loans payable	-	-	(1,351.6)	-	(75.0)	-	(1,228.0)	-
Trade and other payables	-	-	(9.5)	-	(0.2)	-	(7.6)	-
Interest payable	-	-	(6.2)	-	(0.5)	-	(6.0)	-
Derivative financial liabilities	(1.2)	-	-	-	(0.6)	-	-	-

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

(ii) During the year ended 31 March 2019, SPUK made pension contributions of £4.3 million on behalf of the company (2018 £1.3 million).

(iii) The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received in relation to the above related party transactions.

25 RELATED PARTY TRANSACTIONS *continued*

(b) Remuneration of key management personnel

The remuneration of the key management personnel of the company is set out below. As all of the key management personnel are remunerated for their work for Energy Networks, it has not been possible to apportion the remuneration specifically in respect of services to this company. Of the twelve (2018 13) key management personnel, only one (2018 one) was remunerated directly by the company. The remaining key management personnel were remunerated by other ScottishPower group companies in both years.

	2019 £'000	2018 £'000
Short-term employee benefits	1,874	1,843
Post-employment benefits	248	453
Share-based payments	1,019	1,681
	3,141	3,977

(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 (2018 six), only one (2018 one) was directly remunerated by the company. The remaining directors were remunerated by other ScottishPower group companies.

Executive directors	2019 £'000	2018 £'000
Aggregate remuneration in respect of qualifying services	1,284	1,120
Number of directors who exercised share options	2	2
Number of directors who received shares under a long-term incentive scheme	3	3
Number of directors accruing retirement benefits under a defined benefit scheme	2	2

Highest paid director	2019 £'000	2018 £'000
Aggregate remuneration	714	619
Accrued pension benefits	96	96

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

(d) Ultimate and immediate parent company

The immediate parent company is SPENH. The registered office of SPENH is Ochil House, 10 Technology Avenue, Hamilton International Technology Park, Blantyre, G72 0HT.

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

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

In addition to the parent undertakings disclosed above, the company's other related undertaking is disclosed in Note 4.

26 AUDITOR REMUNERATION

	2019 £m	2018 £m
Audit of the company's annual accounts and regulatory accounts	0.1	0.1

27 GOING CONCERN

The company's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report on pages 1 to 13.

The company has recorded a profit after tax in both the current year and previous financial year and the company's balance sheet shows that it has net current liabilities of £552.4 million and net assets of £1,132.0 million at its most recent balance sheet date.

The company is ultimately owned by Iberdrola, S.A. and it participates in the Iberdrola group's centralised treasury arrangements and so shares banking facilities with its parent companies and fellow subsidiaries. As a consequence, the company depends, in part, on the ability of the Iberdrola group to continue as a going concern. The directors have considered the company's funding relationship with Iberdrola to date and have considered available relevant information relating to Iberdrola's ability to continue as a going concern. In addition, the directors have no reason to believe that the Iberdrola group does not have the ability to and will not continue to fund the company, should it become necessary, to enable it to continue in operational existence.

On the basis of these considerations, the directors have a reasonable expectation that the company will be able to continue in operational existence for the foreseeable future. Therefore, they adopt the going concern basis of accounting in preparing the Accounts.