SCOTTISHPOWER ENERGY MANAGEMENT LIMITED
ANNUAL REPORT AND ACCOUNTS
for the year ended 31 December 2019

Registered No. SC215843

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SCOTTISHPOWER ENERGY MANAGEMENT LIMITED
STRATEGIC REPORT

The directors present an overview of ScottishPower Energy Management Limited's business structure, 2019 performance and strategic outlook including principal risks and uncertainties.

STRATEGIC OUTLOOK
The principal activities of ScottishPower Energy Management Limited ("the company"), registered company number SC215843, are the wholesale purchase and sale of electricity and gas, the optimisation of gas storage facilities and the sale of electricity from wind Power Purchase Agreements ("PPAs") to wholesale market participants in the United Kingdom ("UK"). The company will continue with this activity for the foreseeable future. The Accounts are prepared on a going concern basis, refer to Note 26 for further details.

The ultimate parent of the company is Iberdrola, S.A. ("Iberdrola") which is listed on the Madrid stock exchange and the immediate parent of the company is Scottish Power Retail Holdings Limited ("SPRH"). Scottish Power Limited ("SPL") is the UK holding company of the Scottish Power Limited group ("ScottishPower" or "the group"), of which the company is a member.

The company is subject to the requirements of the European Market Infrastructure Regulation, as a Non-Financial Counterparty. This is a European Union ("EU") regulation on Over-The-Counter ("OTC") derivatives, central counterparties and Trade Repositories. The regulation requires counterparties, who have entered into derivative contracts, to externally report these to an authorised Trade Repository, and to implement risk management standards for all bilateral OTC derivatives.

The company is part of ScottishPower's Energy Wholesale business function ("Energy Wholesale"). The Energy Wholesale business focuses on managing the ScottishPower's exposure to the UK wholesale electricity and gas markets for ScottishPower's Energy Retail and Renewables businesses.

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

	Revenue*		Operating loss*		Capital investment**	
	2019	2018	**2019**	2018	**2019**	2018
Financial key performance indicators	**£m**	£m	**£m**	£m	**£m**	£m
ScottishPower Energy Management Limited	**3,960.3**	4,837.3	**(24.1)**	(11.3)	**2.1**	1.5

* Revenue and operating loss presented on page 13.
** Capital investment for 2019 as presented in Notes 3 and 4 on page 25.

Revenue decreased by £877.0 million to £3,960.3 million in 2019. This was primarily due to the end of the company's Secure and Promote obligation in January 2019 and sales to ScottishPower's generation business following its sale on 31 December 2018.

Operating loss increased by £12.8 million to £24.1 million in 2019. This primarily reflected a decrease in gross margin due to the close out of outstanding generation trades and losses in the optimisation of gas storage positions and a reduction in other operating income following the sale of ScottishPower's generation business in 2018. These movements were offset by a decrease in staff costs due to a reorganisation and restructuring in 2018.

For 2020 and beyond, Energy Wholesale will continue to optimise the value of its gas storage facility and contribute towards the management of new, flexible renewable assets being commissioned and the delivery of greener energy within the ScottishPower group.

FINANCIAL INSTRUMENTS
The company's derivatives comprise commodity derivatives and forward foreign exchange contracts. The company uses commodity forward (fixed price/ fixed volume) contracts to hedge its exposure to commodity price risk (the variability in cash flows associated with changes in the market price of electricity, natural gas and carbon allowances). Refer to Note 6 for further information.

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

PRINCIPAL RISKS AND UNCERTAINTIES
The delivery of ScottishPower's strategy requires the group, and therefore the company, 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 governance structure and risk management are provided in the most recent Annual Report and Accounts of SPL.

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

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

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

ENERGY WHOLESALE	
RISK	**RESPONSE**
Inability to efficiently hedge the exposure to power prices due to the complexity of the price cap pricing mechanism.	Continuous assessment of the wholesale energy markets and constant monitoring of the impact of market movements across seasons.

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

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

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

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

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

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

SCOTTISHPOWER - CORONAVIRUS (COVID-19) RISKS	
RISK	**RESPONSE**
The impact of the pandemic increases the risk of the group not being able to meets its operational obligations to maintain the continuity of electricity supply and obligations as a renewable generator and enery supplier.	Business continuity plans enacted with "Gold Command"; making strategic decisions and determining priorities across the group. This is underpinned by "Silver Groups" specific to each business division at an operational level to ensure continuity of decisions and communications. This ensures consistency in prioritising key issues, and timely and efficient escalation of matters to the appropriate level of management. This will make sure key issues are prioritised to facilitate a focus on those issues which might impact the continuity of supply and the other obligations of the group.
Impacts arising from the pandemic following market reactions to the events. These impacts could include movements in the value of Sterling and other financial instruments. The pandemic is likely to have longer term economic impacts on the group and on the political and regulatory environments in which the group operates.	In addition to monitoring ongoing developments related to the pandemic, a treasury risk management policy is in place to hedge financial risks which are the most prevalent in the short-term. Any longer term impact on the UK economy, and its impact on the group and specific business units, will be managed in line with developments. Risks arising from the pandemic are being monitored and managed across ScottishPower with oversight from the ScottishPower Management Committee.

Whilst acknowledging the risks faced by ScottishPower, and the company, COVID-19 is not deemed to impact on the conclusion that the company will continue as a going concern. In respect of the impact on these Accounts, the Financial Reporting Council ("FRC") confirmed that COVID-19 is a non-adjusting post balance sheet event and any potential impacts on accounts, balances or assumptions are disclosed within Note 27 on page 34.

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

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

ENGAGING WITH STAKEHOLDERS
References to "ScottishPower" apply fully to the Energy Wholesale business, and so the company.

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

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

Key stakeholders
ScottishPower and the company have four key stakeholder categories:

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

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

ENGAGING WITH STAKEHOLDERS *continued*

EMPLOYEES AND CUSTOMERS

Employees

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

Further details of how ScottishPower, and so the company, engages with its employees are provided in the most recent Annual Report and Accounts of SPL.

Energy Customers

The company performs all trading with external markets for electricity and gas on behalf of ScottishPower's Energy Retail business and the sale of electricity from PPA's with wholesale market participants in the UK on behalf of the Renewables business. The success of the company depends on its ability to understand the needs of customers and engagement is key to successfully meeting customers' needs.

GOVERNMENT AND REGULATORS

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

SUPPLIERS AND CONTRACTORS

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

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

COMMUNITY AND ENVIRONMENT

The community

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

Further details of how ScottishPower engages with the community are provided in the most recent Annual Report and Accounts of SPL.

ENGAGING WITH STAKEHOLDERS *continued*

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

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

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

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

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

ScottishPower's achievements in successfully influencing employee engagement and behaviour change were recognised in winning EDIE's Sustainability Leaders Award in February 2019.

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

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

SECTION 172 STATEMENT

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

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

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

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

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

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

- **Customers:** details of how the Energy Wholesale business engages with customers are explained in the 'Customers' sub-section of the Strategic Report, on page 5.
- **Employees**: details of how the Energy Wholesale business engages with its employees are set out in the 'Employees' sub-section of the Strategic Report, on page 5.
- **Communities and the environment:** details of how the Energy Wholesale business engages with communities are set out in the 'Communities and their environment' sub-section of the Strategic Report, on page 6.
- **Suppliers:** details of how the Energy Wholesale business engages with its suppliers are set out in the 'Suppliers and contractors' sub-section of the Strategic Report, on page 5.
- **Government and regulators**: details of how the Energy Wholesale business engages with governments and regulators are set out in the 'Government and regulators' sub-section of the Strategic Report, on page 5.

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

The directors, both individually and together as a board, consider that the decisions taken during the year ended 31 December 2019 in discharging the function of the board of the company (the "Board"), were in conformance with their duty under section 172 of the Companies Act 2006.

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

ON BEHALF OF THE BOARD

Douglas Ness
Director
15 June 2020

SCOTTISHPOWER ENERGY MANAGEMENT LIMITED
DIRECTORS' REPORT

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

INFORMATION CONTAINED WITHIN THE STRATEGIC REPORT
The directors have chosen to disclose information on the following, required by the Companies Act 2006 to be included in the Directors' Report, within the Strategic Report, found on pages 1 to 7:

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

RESULTS AND DIVIDENDS
The net loss for the year amounted to £20.9 million (2018 net loss of £9.2 million). No dividend was paid during the year (2018 £20.0 million).

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

Julián Calvo Moya	
Heather Chalmers White	(resigned 31 January 2019)
Douglas Andrew Ness	(appointed 30 May 2019)
Carlos Pombo Jiménez	
Neil Stainton	

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

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS
The directors are responsible for preparing the Annual Reports and Accounts in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (Generally Accepted Accounting Practice), including Financial Reporting Standard 101, 'Reduced Disclosure Framework' ("FRS 101").

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

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

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS *continued*

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

Disclosure of information to auditor

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

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

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

AUDITOR

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

ON BEHALF OF THE BOARD

Douglas Ness
Director
15 June 2020

INDEPENDENT AUDITOR’S REPORT
TO THE MEMBERS OF SCOTTISHPOWER ENERGY MANAGEMENT LIMITED

Opinion

We have audited the financial statements of ScottishPower Energy Management Limited (“the company”) for the year ended 31 December 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 financial statements:

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

Basis for opinion

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

Going concern

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

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors’ conclusions, we considered the inherent risks to the company’s business model, 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.

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

Strategic report and directors’ report

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

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

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

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF SCOTTISHPOWER ENERGY MANAGEMENT LIMITED *continued*

Matters on which we are required to report by exception
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

We have nothing to report in these respects.

Directors' responsibilities
As explained more fully in their statement set out on pages 8 and 9, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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

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

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

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

SCOTTISHPOWER ENERGY MANAGEMENT LIMITED
BALANCE SHEET
at 31 December 2019

	Notes	2019 £m	2018 £m
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	3	**8.1**	7.6
Property, plant and equipment	4	**17.2**	17.7
Property, plant and equipment in use		17.1	17.7
Property, plant and equipment in the course of construction		0.1	-
Right-of-use assets	5	**0.7**	-
Financial assets		**5.5**	31.2
Derivative financial instruments	6	5.5	31.2
Trade and other receivables	7	**81.3**	55.9
Deferred tax asset	8	**36.2**	-
NON-CURRENT ASSETS		**149.0**	112.4
CURRENT ASSETS			
Inventories	9	**8.8**	16.2
Trade and other receivables	7	**432.1**	517.6
Current tax asset		**4.7**	1.3
Financial assets		**254.2**	146.2
Derivative financial instruments	6	254.2	146.2
CURRENT ASSETS		**699.8**	681.3
TOTAL ASSETS		**848.8**	793.7
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the parent		**(78.2)**	182.9
Share capital	10, 11	50.0	50.0
Hedge reserve	11	(181.0)	59.2
Retained earnings	11	52.8	73.7
TOTAL EQUITY		**(78.2)**	182.9
NON-CURRENT LIABILITIES			
Provisions		**1.2**	1.2
Other provisions	12	1.2	1.2
Bank borrowings and other financial liabilities		**19.7**	3.6
Derivative financial instruments	6	19.7	3.6
Lease liabilities	5	**0.7**	-
Trade and other payables	13	**81.4**	56.0
Deferred tax liabilities	8	**-**	17.1
NON-CURRENT LIABILITIES		**103.0**	77.9
CURRENT LIABILITIES			
Provisions	12	**-**	1.0
Bank borrowings and other financial liabilities		**587.5**	208.1
Loans and other borrowings	14	140.5	108.7
Derivative financial instruments	6	447.0	99.4
Trade and other payables	13	**236.5**	323.8
CURRENT LIABILITIES		**824.0**	532.9
TOTAL LIABILITIES		**927.0**	610.8
TOTAL EQUITY AND LIABILITIES		**848.8**	793.7

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

Douglas Ness
Director

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

SCOTTISHPOWER ENERGY MANAGEMENT LIMITED
INCOME STATEMENT
for the year ended 31 December 2019

	Notes	2019 £m	2018 £m
Revenue	15	3,960.3	4,837.3
Procurements		(3,970.6)	(4,835.2)
GROSS MARGIN		**(10.3)**	2.1
NET OPERATING EXPENSES		**(10.3)**	(8.5)
Staff costs	16	(5.3)	(14.7)
Net external expenses		**(5.0)**	6.2
External services		(22.5)	(24.8)
Other operating income		17.5	31.0
Taxes other than income tax	17	**(0.9)**	(0.5)
GROSS OPERATING LOSS		**(21.5)**	(6.9)
Impairment losses on trade and other receivables		(0.3)	0.1
Depreciation and amortisation charge, allowances and provisions	18	(2.3)	(4.5)
OPERATING LOSS		**(24.1)**	(11.3)
Finance income	19	0.3	1.1
Finance costs	20	(3.0)	(1.3)
LOSS BEFORE TAX		**(26.8)**	(11.5)
Income tax	21	5.9	2.3
NET LOSS FOR THE YEAR		**(20.9)**	(9.2)

Net loss for the current and prior year are wholly attributable to the equity holder of ScottishPower Energy Management Limited.

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 December 2019.

SCOTTISHPOWER ENERGY MANAGEMENT LIMITED
STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2019

	Note	2019 £m	2018 £m
NET LOSS FOR THE YEAR		**(20.9)**	(9.2)
OTHER COMPREHENSIVE INCOME			
Items that may be subsequently reclassified to the income statement:			
Cash flow hedges:			
Change in the value of cash flow hedges	11	**(292.5)**	12.8
Tax relating to cash flow hedges	11	**52.3**	(2.4)
		(240.2)	10.4
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(261.1)**	1.2

Total comprehensive income for both years is wholly attributable to the equity holder of ScottishPower Energy Management Limited.

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2019

	Ordinary share capital £m	Hedge reserve £m	Retained earnings £m	Total £m
At 1 January 2018	50.0	48.8	102.9	201.7
Total comprehensive income for the year	-	10.4	(9.2)	1.2
Dividends	-	-	(20.0)	(20.0)
At 1 January 2019	50.0	59.2	73.7	182.9
Total comprehensive income for the year	-	(240.2)	(20.9)	(261.1)
At 31 December 2019	**50.0**	**(181.0)**	**52.8**	**(78.2)**

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 December 2019.

SCOTTISHPOWER ENERGY MANAGEMENT LIMITED
CASH FLOW STATEMENT
for the year ended 31 December 2019

	2019	2018
	£m	£m
Cash flows from operating activities		
Loss before tax	**(26.8)**	(11.5)
Adjustments for:		
Depreciation, amortisation and impairment	**2.1**	4.4
Change in provisions	**(0.3)**	1.1
Finance income and costs	**2.7**	0.2
Write-off of non-current assets	**0.1**	0.1
Net fair value losses on operating derivatives	**(11.1)**	(6.6)
Changes in working capital:		
Change in trade and other receivables	**60.2**	37.7
Change in inventories	**7.4**	6.0
Change in trade payables	**(64.9)**	(51.3)
Provisions paid	**(0.7)**	(0.2)
Income taxes received	**1.5**	2.1
Net cash flows from operating activities (i)	**(29.8)**	(18.0)
Cash flows from investing activities		
Interest received	**0.1**	0.1
Net transfers from Iberdrola group companies	**-**	(24.3)
Investments in intangible assets	**(1.7)**	(1.5)
Net cash flows from investing activities (ii)	**(1.6)**	(25.7)
Cash flows from financing activities		
Increase in amounts due to Iberdrola group companies - current loans payable	**31.8**	64.1
Dividends paid to company's equity holder	**-**	(20.0)
Interest paid	**(0.3)**	(0.4)
Payments of lease liabilities	**(0.1)**	-
Net cash flows from financing activities (iii)	**31.4**	43.7
Net increase in cash and cash equivalents (i)+(ii)+(iii)	**-**	-
Cash and cash equivalents at beginning of year	**-**	-
Cash and cash equivalents at end of year	**-**	-

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

1 BASIS OF PREPARATION

A COMPANY INFORMATION

ScottishPower Energy Management Limited ("the company"), registered company number SC215843, is a private company limited by shares, incorporated in Scotland and its registered address is 320 St. Vincent Street, Glasgow, Scotland, G2 5AD.

B BASIS OF PREPARATION OF THE ACCOUNTS

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

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

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

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

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

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

C ACCOUNTING STANDARDS

C1. IMPACT OF NEW IFRS

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

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

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

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

1 BASIS OF PREPARATION *continued*

C ACCOUNTING STANDARDS *continued*

C1. IMPACT OF NEW IFRS *continued*

C1.1 EFFECT OF INITIAL APPLICATION OF IFRS 16

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

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

Lessee

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

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

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

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

On transition to IFRS 16, the company recognised £0.8 million of right-of-use assets and £0.7 million of lease liabilities. The difference relates to accrued lease payments recognised immediately before implementation. When measuring lease liabilities, the company discounted lease payments using its incremental borrowing rate at 1 January 2019. The discount rates used to calculate the below pertaining to Sterling was in the range of 2.62% to 4.59%.

	£m
Operating lease commitment at 31 December 2018 (discounted using interest rate at lease commencement) (as disclosed in Note 5(b))	0.8
Operating lease commitment at 31 December 2018 (discounted using the incremental borrowing rate at 1 January 2019)	0.7
Lease liabilities recognised at 1 January 2019	**0.7**

2 JUDGEMENTS, ESTIMATION UNCERTAINITIES 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 December 2019, there are no items which have significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities in the next financial year.

2 JUDGEMENTS, ESTIMATION UNCERTAINITIES AND ACCOUNTING POLICIES *continued*

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

A REVENUE

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

(i) Supply of wholesale electricity and gas

The company's performance obligations are the supply of wholesale gas and/or electricity to customers. These performance obligations are both satisfied over time as the customer simultaneously receives and consume the benefits of the company's performance as it supplies wholesale gas and electricity. The customers benefit from the company's service as the service is provided and therefore cost (an input method) is used to measure progress towards complete satisfaction of the performance obligation. This is appropriate as all costs are recharged to the customers. Revenue is therefore recognised as the costs are incurred at the contracted rate.

(ii) Supply of Renewable Obligation Certificates ("ROCs")

The supply of ROCs is a performance obligation satisfied at a point in time. Revenue is recognised at the point the customer obtains control of the ROC, which is when legal title has passed to the customer, at the unit rate specified in the contract.

(iii) Other revenue

Other revenues are recognised based on the consideration specified in a contract with a customer, to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur in the future. The company recognises revenue either at a specific point in time or over a period of time based on when the control is transferred to the customer based on the performance obligations in the contract.

B PROCUREMENTS

Procurements comprises the value of units of wholesale energy purchased from the external market on behalf of Iberdrola group companies during the year and excludes Value Added Tax. The company also purchases wholesale energy during certain market windows in which the company is required to stand ready to buy under industry regulations.

The company's Secure and Promote obligation ended in January 2019 following the sale of ScottishPower's generation business.

C INTANGIBLE ASSETS

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

Licences are stated at cost and are depreciated on a straight-line basis over the estimated useful life of 28 years.

2 JUDGEMENTS, ESTIMATION UNCERTAINITIES AND ACCOUNTING POLICIES *continued*

D 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 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 as set out below:

	Years
Gas storage facilities	35
Other items of property, plant and equipment	5

E IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

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

F LEASED ASSETS

The company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately at Note 2F2 if they are different from those under IFRS 16 and the impact of the change in policy disclosed in Note 1C1.1.

F1. POLICY APPLICABLE FROM 1 JANUARY 2019

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

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

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

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

F1.1 LESSEE

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

2 JUDGEMENTS, ESTIMATION UNCERTAINITIES AND ACCOUNTING POLICIES *continued*

F LEASED ASSETS *continued*

F1. POLICY APPLICABLE FROM 1 JANUARY 2019 *continued*

F1.1 LESSEE *continued*

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

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

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

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

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

F2. POLICY APPLICABLE BEFORE 1 JANUARY 2019

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

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

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

G 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.

G1 ACCOUNTING POLICIES UNDER IFRS 9

G1.1 FINANCIAL ASSETS

(a) Recognition and initial measurement

Financial assets excluding derivative financial assets are classified, at initial recognition, as subsequently measured at amortised cost.

Trade receivables without a significant financing component and for which the company has applied the simplified ECL model are measured at the transaction price determined under IFRS 15 'Revenue from Contracts with Customers' (refer to Note 15).

2 JUDGEMENTS, ESTIMATION UNCERTAINITIES AND ACCOUNTING POLICIES *continued*

G FINANCIAL INSTRUMENTS *continued*

G1 ACCOUNTING POLICIES UNDER IFRS 9 *continued*

G1.1 FINANCIAL ASSETS *continued*

(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.

(ii) Subsequent measurement and gains and losses

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

The company's financial assets measured at amortised cost include trade receivables and trade receivables due from Iberdrola group companies.

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

The company has adopted the simplified Expected Credit Loss ("ECL") model for its trade receivables measured at amortised cost.

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

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

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

2 JUDGEMENTS, ESTIMATION UNCERTAINITIES AND ACCOUNTING POLICIES *continued*

G FINANCIAL INSTRUMENTS *continued*

G1 ACCOUNTING POLICIES UNDER IFRS 9 *continued*

G1.1 FINANCIAL ASSETS *continued*

(b) Classification and subsequent measurement *continued*

(iii) Impairment of financial assets continued

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. 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.

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.

G1.2 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 excluding derivative financial instruments are classified as measured at amortised cost.

Financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in the income statement. The reference to foreign exchange gains can be removed if the company does not have derivatives. 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.

(c) Derecognition

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

G1.3 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

(a) Derivative financial instruments

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

2 JUDGEMENTS, ESTIMATION UNCERTAINITIES AND ACCOUNTING POLICIES *continued*

G FINANCIAL INSTRUMENTS *continued*

G1 ACCOUNTING POLICIES UNDER IFRS 9 *continued*

G1.3 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING *continued*

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

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

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 within Procurements for hedges of underlying operations.

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 derivatives 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.

(d) Offsetting of financial assets and financial liabilities

The company offsets a financial asset and a financial liability and reports the net amount only when the company has a legally enforceable right to set off the amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2 JUDGEMENTS, ESTIMATION UNCERTAINITIES AND ACCOUNTING POLICIES *continued*

H INVENTORIES (EXCLUDING EMISSIONS ALLOWANCES)

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

I EMISSIONS ALLOWANCES

Energy Wholesale participates in the EU Emissions Trading Scheme. The company purchases emissions allowances and then transfers them to other companies within the Energy Wholesale business. As there are no specific rules under IFRS dealing with the treatment of emissions allowances, the company, in alignment with group accounting policy, classifies purchased emissions allowances as inventories as they are consumed in the production process within the Energy Wholesale business. Such allowances are recognised at their acquisition cost.

J FOREIGN CURRENCIES

Transactions in foreign currencies are translated at the spot rate at the date of the transaction. At the year end, monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date, with exchange gains and losses recognised in the income statement.

K TAXATION

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

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

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.

L RETIREMENT BENEFITS

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

3 INTANGIBLE ASSETS

Year ended 31 December 2019	Computer software (Note (a)) £m	Licences £m	Total £m
Cost:			
At 1 January 2019	11.1	9.5	20.6
Additions	2.0	-	2.0
Disposals	(0.8)	-	(0.8)
At 31 December 2019	**12.3**	**9.5**	**21.8**
Amortisation:			
At 1 January 2019	9.1	3.9	13.0
Amortisation for the year	1.1	0.3	1.4
Disposals	(0.7)	-	(0.7)
At 31 December 2019	**9.5**	**4.2**	**13.7**
Net book value:			
At 31 December 2019	**2.8**	**5.3**	**8.1**
At 1 January 2019	2.0	5.6	7.6

(a) The cost of fully amortised computer software still in use at 31 December 2019 was £6.2 million (2018 £6.9 million).

4 PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment

Year ended 31 December 2019	Gas storage facilities £m	Other items of property, plant and equipment in use (Note (a)) £m	Plant in progress £m	Total £m
Cost:				
At 1 January 2019	35.5	1.0	-	36.5
Additions	-	-	0.1	0.1
At 31 December 2019	**35.5**	**1.0**	**0.1**	**36.6**
Depreciation:				
At 1 January 2019	18.8	-	-	18.8
Depreciation for the year	0.6	-	-	0.6
At 31 December 2019	**19.4**	**-**	**-**	**19.4**
Net book value:				
At 31 December 2019	**16.1**	**1.0**	**0.1**	**17.2**
At 1 January 2019	16.7	1.0	-	17.7
The net book value of property plant and equipment at 31 December 2019 is analysed as follows:				
Property, plant and equipment in use	16.1	1.0	-	17.1
Property, plant and equipment in the course of construction	-	-	0.1	0.1
	16.1	**1.0**	**0.1**	**17.2**

(a) The category 'Other items of property, plant and equipment in use' principally comprises computer equipment and land.
(b) Included within the cost of property, plant and equipment at 31 December 2019 are assets in use not subject to depreciation, being land and cushion gas, of £7.0 million (2018 £7.0 million).

5 LEASING

(a) Lessee

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

(i) Nature of Leases

Land

The company holds agreements to lease land, primarily for operational assets with typical lease terms running up to 35 years. Certain agreements can be terminated with appropriate notice, generally up to twelve months.

Certain leases contain extension options exercisable by the company at the end of the non-cancellable contract period or an agreed point before that date; the terms can be extended by up to 25 years. Where practicable, the company seeks to include extension options in leases to provide operational flexibility. The extension options held are exercisable only by the company and not by the lessors. At lease commencement, the company will assess whether it is reasonably certain to exercise the extension options and reassesses this if there is a significant event or change in circumstances within its control.

Other information

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

(ii) Right-of-use assets

	Land £m
On transition to IFRS 16 at 1 January 2019	0.8
Depreciation charge for the year	(0.1)
At 31 December 2019	**0.7**

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

(iii) Lease liabilities

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

	2019 £m
Less than one year	0.1
One to five years	0.3
More than five years	0.6
Total undiscounted lease liabilities at 31 December	**1.0**
Finance cost	(0.3)
Total discounted lease liabilities	**0.7**

Analysis of total lease liabilities	**2019 £m**
Non-current	**0.7**

During 2019 interest on lease liabilities of less than £0.1 million was charged to the income statement.

Details of ScottishPower's, and so the company's, management strategy for liquidity risks inherent in the company's lease liability can be found in the most recent Annual Report and Accounts of SPL.

(iv) Amounts recognised in the cash flow statement

	2019 £m
Total cash outflow for leases	**(0.1)**

This amount relates to payments of lease liabilities.

5 LEASING *continued*

(b) Operating lease disclosures under IAS 17

Operating lease commitments	2018 £m
The future minimum discounted lease payments under non-cancellable operating leases were as follows:	
Within one year	0.1
Between one and five years	0.2
More than five years	0.5
	0.8

The company leases various pieces of land under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

6 FINANCIAL INSTRUMENTS

The company holds certain financial instruments which are measured in the balance sheet at fair value as detailed below.

	Derivative financial instruments £m
At 1 January 2019	74.4
Recorded in income statement	11.1
Recorded in cash flow hedge reserve	(292.5)
At 31 December 2019	**(207.0)**

The £292.5 million recorded in the cash flow hedge reserve during 2019 is principally driven by changes in the market price of commodities.

Derivative Financial Instruments

The company's derivatives comprise commodity derivatives and forward foreign exchange contracts. The company uses commodity forward (fixed price/ fixed volume) contracts to hedge its exposure to commodity price risk (the variability in cash flows associated with changes in the market price of electricity, natural gas and carbon allowances). Forward foreign exchange contracts are used to hedge foreign currency risk associated with holding Euro collateral. The Euro collateral is required due to spot power trading.

The critical terms of the commodity derivatives must align with the hedged items to qualify for hedge accounting. For such items the company designates the entire value of the commodity forward in the hedge relationship. When cash flow hedge accounting is applied, the company defers in equity the fair value changes of open derivative positions until the period in which the forecast transactions occur. Some commodity forward contracts and the foreign currency forwards do not satisfy the strict requirements for hedge accounting and are accounted for as trading derivatives. Changes in the fair value of any commodity derivative instrument that does not qualify for hedge accounting is recognised immediately in the income statement and is included in gross margin. Changes in the fair value of the foreign currency forwards is recognised in the income statement within finance income and cost.

The tables below and overleaf illustrate the timing of the notional amount of the hedging instrument and the average forward price of the hedging instrument.

	Notional amount of hedging instrument (maturity profile) £m				
As at 31 December 2019	**1 year**	**2 years**	**3 years**	**4 years**	**Total**
Commodity forwards	2,427.9	443.8	33.5	3.9	**2,909.1**
Forward foreign exchange contracts	1.0	-	-	-	**1.0**
	2,428.9	443.8	33.5	3.9	**2,910.1**

The future cash flows on derivative instruments (including commodity derivatives) may be different from the amounts in the table as interest rates and exchange rates or the relevant conditions underlying the calculation change.

6 FINANCIAL INSTRUMENTS *continued*

Derivative Financial Instruments *continued*

	Average forward price (£)				
As at 31 December 2019	**1 year**	**2 years**	**3 years**	**4 years**	**5 years**
Commodity forwards	**36.6**	**43.8**	**45.5**	**45.2**	**53.4**

	Average forward price (exchange rate GBP : EUR)
As at 31 December 2019	**1 year**
Forward foreign exchange contracts	**1.17**

7 TRADE AND OTHER RECEIVABLES

	Note	2019 £m	2018 £m
Current receivables:			
Receivables due from Iberdrola group companies - trade	(a)	**271.1**	357.2
Trade receivables and accrued income	(a)	**147.6**	150.2
Prepayments		**0.3**	0.2
Other tax receivables		**13.1**	10.0
		432.1	517.6
Non-current receivables:			
Receivables due from Iberdrola group companies - other	(a)	**81.3**	55.9
		81.3	55.9

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

	Note	2019 £m	2018 £m
Receivables	(i)	**328.3**	409.8

(i) £0.3 million (2018 £0.1 million credit) of impairment losses were recognised during the year on receivables and contract assets arising from the company's contracts with customers.

Trading terms are governed by Industry Standard agreements which typically provide for interest to be charged where payments are not made on the specified settlement date.

8 DEFERRED TAX

Deferred tax (assets)/liabilities are provided in the Accounts is as follows:

	Notes	Property, plant and equipment £m	Derivative financial instruments £m	Other temporary differences £m	Total £m
At 1 January 2018		1.6	13.4	(0.2)	14.8
Charge to the income statement		(0.7)	(0.1)	(0.2)	(1.0)
Recorded in the statement of comprehensive income		-	2.4	-	2.4
Transfers to Iberdrola group companies	(a)	(1.4)	-	-	(1.4)
Transfers from Iberdrola group companies	(b)	2.3	-	-	2.3
At 1 January 2019		1.8	15.7	(0.4)	17.1
Charge to the income statement		(0.8)	(0.4)	0.2	(1.0)
Recorded in the statement of comprehensive income		-	(52.3)	-	(52.3)
At 31 December 2019		**1.0**	**(37.0)**	**(0.2)**	**(36.2)**

(a) On 1 July 2018 the company transferred a deferred tax liability of £1.4 million to ScottishPower Generation Limited, a then fellow Iberdrola group company.

(b) On 30 November 2018 the company acquired a deferred tax liability of £2.3 million following the transfer of assets and liabilities from ScottishPower Generation Limited.

(c) Legislation was previously enacted to reduce the UK rate of Corporation Tax to 17% on 1 April 2020. Accordingly deferred tax balances have been measured at the 17% rate, this being the tax rate enacted at the balance sheet date and the rate of temporary differences are expected to reverse. After 31 December 2019, further legislation has been substantively enacted on 17 March 2020 under The Provisional Collection of Taxes Act 1968 that maintains the 19% UK Corporation Tax Rate. The 19% rate will apply from 1 April 2020. This rate change would increase the 31 December 2019 deferred tax asset by £3.1 million.

9 INVENTORIES

	Note	2019 £m	2018 £m
Fuel stocks	(a)	**8.8**	15.4
Emissions allowances		**-**	0.8
		8.8	16.2

(a) Inventories with a value of £15.7 million (2018 £11.3 million) were recognised as an expense during the year.

10 SHARE CAPITAL

	2019 £m	2018 £m
Allotted, called up and fully paid shares:		
50,000,000 ordinary shares of £1 each (2018 50,000,000)	**50.0**	50.0

(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.

11 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDER OF SCOTTISHPOWER ENERGY MANAGEMENT LIMITED

	Share capital £m	Hedge reserve (Note (a)) £m	Retained earnings (Note (b)) £m	Total £m
At 1 January 2018	50.0	48.8	102.9	201.7
Loss for the year attributable to equity holder of ScottishPower Energy Management Limited	-	-	(9.2)	(9.2)
Changes in the value of cash flow hedges	-	12.8	-	12.8
Tax relating to cash flow hedges	-	(2.4)	-	(2.4)
Dividends	-	-	(20.0)	(20.0)
At 1 January 2019	50.0	59.2	73.7	182.9
Loss for the year attributable to equity holder of ScottishPower Energy Management Limited	-	-	(20.9)	(20.9)
Changes in the value of cash flow hedges	-	(292.5)	-	(292.5)
Tax relating to cash flow hedges	-	52.3	-	52.3
At 31 December 2019	**50.0**	**(181.0)**	**52.8**	**(78.2)**

(a) The hedge reserve represents the balance of gains and losses on cash flow hedges (net of taxation) not yet transferred to the income statement 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.

12 PROVISIONS

Year ended 31 December 2018	Notes	At 1 January 2018 £m	New provisions £m	Transfers from Iberdrola group companies £m	Utilised during year £m	At 31 December 2018 £m
Reorganisation and restructuring	(a)	0.1	1.1	-	(0.2)	1.0
Decommissioning and environmental	(b)	-	-	1.2	-	1.2
		0.1	1.1	1.2	(0.2)	2.2

12 PROVISIONS *continued*

Year ended 31 December 2019	Notes	At 1 January 2019 £m	Utilised during year £m	Released during year £m	**At 31 December 2019 £m**
Reorganisation and restructuring	(a)	1.0	(0.7)	(0.3)	**-**
Decommissioning and environmental	(b)	1.2	-	-	**1.2**
		2.2	(0.7)	(0.3)	**1.2**

Analysis of total provisions	**2019 £m**	2018 £m
Non-current	**1.2**	1.2
Current	**-**	1.0
	1.2	2.2

(a) The provision for reorganisation and restructuring in 2018 was fully utilised or released during 2019.
(b) The decommissioning and environmental provision of £1.2 million was transferred to the company from ScottishPower Generation Limited, a then fellow Iberdrola group company, on 30 November 2018 and is expected to be utilised by 2035.

13 TRADE AND OTHER PAYABLES

	Note	**2019 £m**	2018 £m
Current trade and other payables:			
Payables due to Iberdrola group companies - trade		**14.5**	9.5
Payables due to Iberdrola group companies - interest		**2.6**	0.2
Trade payables	(a)	**217.8**	312.7
Other taxes and social security		**0.1**	0.2
Capital payables and accruals		**0.6**	0.2
Other payables		**0.9**	1.0
		236.5	323.8
Non-current other payables:			
Payables due to Iberdrola group companies - trade		**81.4**	55.9
Other payables		**-**	0.1
		81.4	56.0

(a) Trade payables include amounts due on commodity activities.

14 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 Iberdrola group companies	Base + 1%	On demand	**140.5**	108.7

*Base - Bank of England Base Rate

15 REVENUE
Disaggregation of revenue

	2019 £m	2018 £m
Commodity derivative income	**2,131.4**	2,847.9
Supply of wholesale electricity	**830.0**	910.0
Supply of wholesale gas	**820.3**	995.2
Supply of ROCs	**178.6**	84.2
Charged to the income statement	**3,960.3**	4,837.3

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

16 EMPLOYEE INFORMATION

(a) Staff costs

	Note	**2019** £m	2018 £m
Wages and salaries		**4.4**	5.6
Social security costs		**0.5**	0.6
Pension and other costs	(i)	**0.4**	8.5
Total staff costs		**5.3**	14.7

(i) Pension and other costs includes a credit of £1.8 million (2018 cost of £6.8 million) in relation to pension-related restructuring costs.

(b) Employee numbers

The average numbers of employees employed by the company, including UK based directors, were:

	Average 2019	Average 2018
Administrative staff	**53**	64
Operations	**23**	20
Total	**76**	84

(c) Retirement benefits

The company's contributions payable in the year were £1.3 million (2018 £1.6 million). The company contributes to ScottishPower's defined benefit and defined contribution schemes in the UK and the contributions payable in the year reflect the contributions payable in respect of active participants in the group schemes who are employed by the company. Full details of these schemes are provided in the most recent Annual Report and Accounts of SPL. As at 31 December 2019, the deficit in the ScottishPower group's defined benefit schemes in the UK amounted to £651.7 million (2018 £512.7 million). The employer contribution rate for these schemes in the year ended 31 December 2019 was 47.9% to 51.0%.

17 TAXES OTHER THAN INCOME TAX

	2019 £m	2018 £m
Property taxes	**0.9**	0.5

18 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS

	2019 £m	2018 £m
Property, plant and equipment depreciation charge	**0.6**	0.4
Intangible asset amortisation	**1.4**	0.8
Right-of-use assets depreciation charge	**0.1**	-
Charges and provisions, allowances and impairment of assets	**0.2**	3.3
	2.3	4.5

19 FINANCE INCOME

	2019 £m	2018 £m
Interest on bank and other deposits	**0.1**	0.1
Foreign exchange gains	**0.1**	0.4
Fair value and other gains on financing derivatives	**0.1**	0.6
	0.3	1.1

20 FINANCE COSTS

	2019	2018
	£m	£m
Interest on amounts due to Iberdrola group companies	**2.7**	0.2
Foreign exchange losses	**0.2**	0.4
Fair value and other losses on financing derivatives	**0.1**	0.7
	3.0	1.3

21 INCOME TAX

	2019	2018
	£m	£m
Current tax:		
UK Corporation tax on losses for the year	**(4.7)**	(1.3)
Adjustments in respect of prior years	**(0.2)**	-
Current tax credit for the year	**(4.9)**	(1.3)
Deferred tax:		
Origination and reversal of temporary differences	**(0.3)**	(1.0)
Adjustments in respect of prior years	**(0.6)**	-
Impact of tax rate change	**(0.1)**	-
Deferred tax credit for the year	**(1.0)**	(1.0)
Income tax credit for the year	**(5.9)**	(2.3)

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

	2019	2018
	£m	£m
Corporation tax at 19.0% (2018 19.0%)	**(5.1)**	(2.2)
Adjustments in respect of prior years	**(0.8)**	-
Impact of tax rate change	**(0.1)**	-
Non-deductable expenses and other permanent differences	**0.1**	(0.1)
Income tax credit for the year	**(5.9)**	(2.3)

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

22 DIVIDENDS

	2019	2018	**2019**	2018
	£ per ordinary share	£ per ordinary share	**£m**	£m
Interim dividend paid	**-**	0.40	**-**	20.0

23 FINANCIAL COMMITMENTS

Contractual commitments

ScottishPower manages its energy resource requirements by integrating long-term firm, short-term and spot market purchases with its own generating resources to manage volume and price volatility and maximise value across the energy value chain. As part of its energy resource portfolio the company is committed under long-term purchase contracts summarised in the table below.

	2019						
	2020 £m	**2021 £m**	**2022 £m**	**2023 £m**	**2024 £m**	**2025 and thereafter £m**	**Total £m**
Long-term energy purchase contract commitments	1,651.0	297.2	30.8	3.1	-	-	**1,982.1**
Other contractual commitments	95.6	24.0	19.7	3.5	3.6	11.5	**157.9**

	2018						
	2019 £m	2020 £m	2021 £m	2022 £m	2023 £m	2024 and thereafter £m	Total £m
Long-term energy purchase contract commitments	3,854.8	717.4	111.0	3.4	-	-	4,686.6
Other contractual commitments	163.1	38.6	2.7	2.8	2.9	15.9	226.0

24 RELATED PARTY TRANSACTIONS

(a) Transactions and balances arising in the normal course of business (excluding wholly owned subsidiaries of Iberdrola, S.A.)

	2019
	Jointly controlled entities £m
Types of transaction	
Sales and rendering of services	**0.3**

(i) The balance outlined in the table above is a jointly controlled entity of the ScottishPower group.

(b) Directors' remuneration

The remuneration of the directors of the company is set out below. As all of the directors are remunerated for their work for the SPRH group, it has not been possible to apportion the remuneration specifically in respect of services to this company. Of the five directors (2018 five), two (2018 three) were remunerated directly by the company. The remaining directors were remunerated by other SPRH group companies in both years.

Executive directors	**2019 £000**	2018 £000
Aggregate remuneration in respect of qualifying services	**248**	355
Aggregate compensation for loss of office	**-**	501
Number of directors who exercised share options	**3**	2
Number of directors who received shares under a long-term incentive scheme	**1**	1
Number of directors accruing retirement benefits under a defined benefit scheme	**3**	3

Highest paid director	**2019 £000**	2018 £000
Aggregate remuneration	**145**	241
Accrued pension benefits	**24**	105

(i) The highest paid director received shares under a long-term share incentive scheme during 2018 only.
(ii) The highest paid director exercised share options during both years.

24 RELATED PARTY TRANSACTIONS *continued*

(c) Ultimate parent company and immediate parent company

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

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

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

The company has no other related undertakings in addition to the parent undertakings disclosed above.

25 AUDITOR REMUNERATION

	2019 £000	2018 £000
Audit of the company's annual Accounts	**0.2**	0.2

KPMG LLP were re-appointed auditor of the company during 2019.

26 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 7.

Notwithstanding net current liabilities of £124.2 million as at 31 December 2019, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The company's core activity is to procure energy on behalf of ScottishPower Energy Retail Limited ("SPERL"). This is sold to SPERL at the originally traded price upon delivery of the energy from wholesale market participants. Therefore, under the contractual arrangements which are in place, any market changes in commodity prices will be borne by, and recovered from, SPERL.

The company is ultimately owned by Iberdrola, S.A. (refer to Note 24) and it participates in the Iberdrola group's centralised treasury arrangements and shares banking facilities with its parent companies and fellow subsidiaries.

However, for the purposes of the directors' assessment of the company's going concern position and to satisfy them of the company's ability to pay its liabilities as they fall due, the directors have prepared a company cash flow statement for a period of 18 months from the date of approval of these financial statements assuming no incremental financial support from ScottishPower. The cash flow forecasts indicate that, taking account of reasonably possible downsides including the impact of the COVID-19 pandemic (refer to Note 27), the company will have sufficient funds, to meet its liabilities as they fall due for the period.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 18 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

27 EVENTS AFTER THE BALANCE SHEET DATE

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

27 EVENTS AFTER THE BALANCE SHEET DATE *continued*

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

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

COVID-19 has impacted on global demand for energy which has resulted in a fall in Power (-18%) and Gas (-28%) commodity prices since the balance sheet date which has adversely impacted on derivative asset and liability values. As the company procures energy on behalf of ScottishPower Energy Retail Ltd and sells this energy at the original trade price this fall in commodity prices does not impact on the future profit and loss account or cash flows generated by the company.

As at the date of signing these Accounts, it is the directors' opinion that the principal activities of the company are expected to operate throughout this crisis period without significant disruption and therefore will not have an impact on the company's business operations and non-derivative assets and liabilities.