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

Registered No. SC190287

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

CONTENTS

SCOTTISHPOWER ENERGY RETAIL LIMITED
STRATEGIC REPORT

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

STRATEGIC OUTLOOK

Introduction

The principal activity of ScottishPower Energy Retail Limited ("the company"), registered company number SC190287, is the supply of electricity and gas to domestic and business customers throughout Great Britain, including customer registration, billing and handling enquiries in respect of these services. The company is also responsible for the associated metering activity including the smart meter installation programme, and managing the Energy Services activities of the Scottish Power Limited group ("ScottishPower"). The company is part of ScottishPower's Energy Retail business ("Energy Retail"). During 2019, an average of 4.8 million gas and electricity customers were supplied by Energy Retail. As at 31 December 2019, Energy Retail supplied 4.7 million gas and electricity customers.

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 United Kingdom ("UK") holding company of ScottishPower, of which the company is a member.

In the following sections, references to Energy Retail apply fully to the company.

Operating review

The level of competition in the UK market has continued to increase, with new entrant suppliers now accounting for 31% of the domestic market share, up from around 20% in 2017. Whilst the introduction of a price cap was expected to lead to reduced switching rates, this has not been the case, with yet another record year of switching levels. As at the end of December 2019, domestic switching was up 9% year-to-date versus the same period in 2018 (source: Energy UK). The aggressive pricing strategies used by new entrants, together with the implementation of the price cap, has had a negative year on year impact on both the company's domestic market share and the company's financial results.

The Office of Gas and Electricity Markets ("Ofgem") implemented the price cap on default tariffs required by the Domestic Gas and Electricity (Tariff Cap) Act 2018 on 1 January 2019 which limits the rates charged for the supply of gas and electricity to domestic customers on default tariffs until the end of 2020. This is extendable on an annual basis until 2023, with the first assessment of whether an extension will be implemented due to be made in the second half of 2020. The initial cap period (1 January to 31 March 2019) was set at £1,137 for dual fuel customers with typical consumption paying by Direct Debit ("DD"), and £1,222 for those paying by standard credit ("SC"). Centrica won a Judicial Review challenging Ofgem's methodology for the allowance under the cap for this period in November 2019, with Ofgem noting it would consider its next steps in relation to the judgement.

Two further cap periods impacting on 2019 results commenced on 1 April and 1 October 2019 with the respective caps at £1,254 for those paying by DD and £1,344 for those paying by SC in April, and £1,179 for those paying by DD and £1,265 for those paying by SC in October. During February 2020, the price cap covering the period 1 April 2020 to 30 September 2020 was announced with a cap of £1,162 for those paying by DD, and £1,247 for those paying by SC. Ofgem continues to consult on its approach to setting the smart allowance under the cap for future periods as, due to the uncertainty of the smart rollout costs and benefits, it delayed updating its approach to this part of the cap to allow for further analysis and consultation. The price cap is likely to continue to have a negative impact on the company's income in 2020 although it will have less impact on the company than on other major suppliers who have been less successful in presenting their standard variable tariff ("SVT") customers with attractive alternative products.

While the new entrant market share has increased, Energy Retail is now seeing a decline in the number of active domestic suppliers, with several small to medium suppliers either choosing to cease trading or, due to liquidity challenges, being forced to exit and then being swept up into the regulatory Supplier of Last Resort ("SoLR") process. The company was named as SoLR for Extra Energy's 220,000 customers in November 2018, and will continue to assess future SoLR opportunities.

Energy Retail remains committed to the rollout of smart meters across its domestic and small and medium-sized enterprises ("SME") customer base. Energy Retail strongly supports the aims and objectives of the smart meter programme and believes that this investment in its infrastructure is critical to realising the smart energy future that Energy Retail aspires to deliver for its customers, for the business and to enable the UK to meet its legally binding target of 'net zero' emissions by 2050.

Energy Retail has made significant efforts and investments to support its smart meter rollout thus far and demonstrable progress has been made, having installed approximately 1.6 million smart meters across Great Britain as at the end of Q1 2020. SP Smart Meter Assets Limited ("SPSMAL"), a fellow ScottishPower company, purchases the smart meters on behalf of the company. Energy Retail has an established network of installers across Great Britain, who provide a strong platform to further increase the deployment capability for the remainder of the rollout.

STRATEGIC OUTLOOK ***continued***

Following the various COVID-19 restrictions announced by the UK and devolved governments on 23 March 2020, and in line with that guidance, Energy Retail stopped all non-essential meter installations and all smart meter campaigning with immediate effect. The smart meter rollout will recommence at the point at which it is safe to do so, for both customers and for the installer workforce. The UK Government have yet to respond to the recent consultation on the post 2020 smart installations. Energy Retail will continue to work with the UK and devolved governments to reach an appropriate policy for post 2020 which takes into account any COVID-19 impact, in order to enable a safe and successful conclusion to the smart metering implementation programme.

The Energy Services activities conducted by the company continue to grow with a wider range of products and services across Home Services and an emerging electrical vehicle ("EV") proposition. Energy Services offers more variation in product scope and multiple price points for new and existing customers to choose from. Within Home Services, this is across boiler care, appliance care and now new plumbing, drains and electrical insurance products. Smart thermostats are also provided to give customers greater control over their energy usage. The expanded customer choice has positioned Home Services solutions well in the UK market which, together with improved service delivery from Energy Retail's strategic partners such as Domestic and General and AXA, has led to a 42% increase in Homes Services customers during 2019.

In 2018, Energy Retail announced its focus on the UK's switch to cleaner, greener transport, and launched the first end–to-end package for EV owners through a partnership with major car retailer, Arnold Clark, allowing buyers to purchase or lease an EV of their choice, book a home charging point installation and sign up to an exclusive 100% renewable energy tariff as part of the same package. In 2019, Energy Retail has continued to develop its proposition for home charging and has increased the offering to now include both business and public charging. While these propositions are still in their infancy and volumes are low, this strategic move into the EV market is essential to support the growing demand and use of EVs particularly as businesses and employers across the UK increasingly look to encourage and support the move to a net zero environment and so achieve a better future, quicker.

2019 performance

The tables below provide key financial and non-financial information relating to the company's performance during the year.

	Revenue*		Operating (loss)/profit*		Capital investment**	
	2019	2018	**2019**	2018	**2019**	2018
Financial key performance indicators	**£m**	£m	**£m**	£m	**£m**	£m
ScottishPower Energy Retail Limited	**3,875.6**	3,883.6	**(80.8)**	141.4	**113.5**	85.2

*Revenue and operating (loss)/profit are presented on page 20.
**Capital investment for 2019 is presented within Notes 3 and 4 on page 31.

Revenue decreased by £8.0 million to £3,875.6 million in 2019. This decrease was primarily driven by lower domestic demand (due to weather and lower customer numbers) partially offset by higher domestic prices for both price cap and competitive product customers.

Operating profit decreased by £222.2 million to an operating loss of £80.8 million in 2019. This decrease was primarily caused by lower retail gross margins reflecting lower revenues and year-on-year increases in energy, network and government obligations (capacity market) charges. Operating cost increases included £9.0 million due to the profile incurred to deliver government obligations as well as a £22.0 million increase in reorganisation costs year-on-year. Depreciation also increased in 2019, reflecting the continued investment in smart meter infrastructure and supporting IT system requirements and in customer contracts investment.

Capital investment increased by £28.3 million to £113.5 million reflecting an increase in customer contract costs as customer switching levels remain high.

Non-financial key performance indicators	Notes	**2019**	2018
Volume supplied (GWh)*		**43,907**	47,781
Customer service performance	(a)	**6th**	4th
Smart meters installed (cumulative) (thousands)		**1,486**	1,170
Customers (thousands)	(b)		
- Electricity		**2,856**	2,951
- Gas		**1,904**	1,956
		4,760	4,907

*Gigawatt hours ("GWh")

(a) Based on the Citizens Advice Domestic Energy Suppliers' Customer Service Report. Rankings reflect Energy Retail's position relative to other 'Big Six' Energy Companies.

(b) Customer numbers are based on the average number of Meter Point Administration Numbers for electricity customers and Meter Point Reference Numbers for gas customers during the year to 31 December.

Outlook for 2020 and beyond

Energy Retail expects further market consolidation over the coming months and years, based on a combination of regulatory and competitive pressures, and this will present opportunities for well-placed suppliers to grow. Increased opportunity exists with the forecast growth of EVs and subsequent increased electricity demand. This demand will place a greater onus on smart metering technology and behavioural incentives, such as 'time of use' tariff offerings, which will play an important role. With the price cap and intense competitive pressures in place, cost efficiency will remain a key consideration for suppliers to support profitability and growth objectives. Environmental considerations are also likely to form a greater part of consumer purchasing criteria, and suppliers will need to meet or exceed customer expectations. Energy Retail is well-placed to meet this demand following ScottishPower's move to 100% green electricity generation at the start of 2019 – a key differentiator in this regard.

Central to delivering these emerging market demands, will be the continued digitisation of customer propositions and internal processes. Utilising an in-house, customer-centric digital development capability, Energy Retail is well-placed to respond to these demands. While Energy Retail continues to focus on providing a digital experience that benefits its customers, it will be harnessing the latest technologies and innovations in areas such as Artificial Intelligence and Machine learning to further expand its retail digital offering throughout 2020 and beyond.

Energy Retail's Smart Energy Services business will continue to grow and expand in 2020, not only through customer growth from a broader product range of services that customers want and need, but also through focussing on the customer journeys and service experience. Energy Retail's long term strategic partners are fully committed to offering the best service possible and will continue to work closely with the business to understand customers' needs and challenges and ultimately improve customers' experience.

Growth will also continue in the developing EV marketplace and Energy Retail will continue to build partnerships with manufacturers, installers and technology providers in order to expand the accessibility of the EV charging throughout the UK. Energy Retail has developed a range of EV products, services and tariffs to help customers charge at home, at work and in public locations that offer a cost-effective, smart solution to cater for their EV charging needs. This will expand further in 2020 with key partnerships with Energy Retail's core city regions of Glasgow and Liverpool, and the wider business network across the UK. Energy Retail is determined to continue evolving and building new products and services to meet the needs of customers and drive a cleaner electric future.

In support of the move to a better future quicker, Energy Retail has the decarbonisation of heat in its sights and will look towards small pilot schemes in the next couple of years to test and explore future heating technology options and how these may accelerate the decarbonisation of the heating market in future decades.

Financial instruments

Treasury services are provided by SPL. ScottishPower has a risk policy within treasury and financing which is designed to ensure that the company's exposure to variability of cash flows and asset values due to fluctuations in market interest rates and exchange rates 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

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

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

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

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

Emergence and spread of Coronavirus (COVID-19)

On 11 March 2020, the World Health Organization declared the outbreak of Coronavirus COVID-19 a pandemic, due to its rapid spread throughout the world, having affected more than 110 countries at that time. Most global governments are taking restrictive measures to contain the spread of the virus, including: isolation, quarantine, restricting the free movement of people, closure of public and private premises (except those of basic necessity and health), closure of borders and a significant reduction in air, sea, rail and land transport. The principal activity of the Energy Retail business, and therefore the company, is providing essential services to the UK (specifically the supply of energy); the Energy Retail business and the company will continue to supply its customers and in particular will focus on supporting those considered vulnerable.

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. The Act (and similar acts enacted 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.

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, the Energy Retail business, and therefore the company, are set out on the following page.

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

SCOTTISHPOWER - CORONAVIRUS (COVID-19) RISKS	
RISK	**RESPONSE**
The impact of the pandemic increases the risk of the company not being able to meet its operational obligations to maintain the continuity of electricity supply, and obligations as an energy supplier.	Business continuity plans enacted with “Gold Command”; making strategic decisions and determining priorities across ScottishPower. This is underpinned by “Silver Groups” specific to each business division at an operational level to ensure continuity of decisions and communications. This ensures consistency in prioritising key issues, and timely and efficient escalation of matters to the appropriate level of management. This will make sure key issues are prioritised to facilitate a focus on those issues which might impact the continuity of supply and the other obligations of the company.
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 ScottishPower, and therefore the company, and on the political and regulatory environments in which ScottishPower operates.	In addition to monitoring ongoing developments related to the pandemic, a treasury risk management policy is in place to hedge financial risks which are the most prevalent in the short-term. Any longer term impact on the UK economy, and its impact on ScottishPower and specific business units, will be managed in line with developments. Risks arising from the pandemic are being monitored and managed across ScottishPower, and therefore the company, with oversight from the ScottishPower Management Committee.
The UK Government response to minimising the impact of the pandemic on the population, has restricted the flow of physical goods and equipment in addition to restricting the mobility of labour. This is likely to result in a degree of supply chain interruption due to a lack of appropriate labour levels and delays to the receipt of products and equipment. This may affect the Energy Retail business, and therefore the company, in that the maintenance of meters, installation of smart meters and continuity of service from its contractors may be impacted.	Supply chain monitoring groups have been established across all business divisions to identify early shortages and gaps in the supply chain in terms of products, equipment and labour. This has been supplemented by emergency procurement procedures to expedite orders for replacements, utilising the framework agreements ScottishPower already has in place. Notification has been provided to sub-contractors highlighting their importance in the provision of essential services such that appropriate levels of labour are maintained within the UK and devolved Governments’ social distancing guidelines.
In Energy Retail, business customer demand is expected to reduce significantly, with this reduction being partially offset by an increase in domestic customer demand during the lockdown period. This will reduce revenue in Energy Retail, and therefore the company.	Analysis undertaken to assess the impact of changes in demand profile for Energy Retail and therefore the company.
For Energy Retail, and therefore the company, the deterioration in the UK economy increases the risk of business customer and counterparty defaults, and the risk of overdue debts for the domestic and business customer base.	In Energy Retail, proactive communication with the customer base has taken place to reassure vulnerable customers and remind the wider customer base of the payment flexibility available. This along with other customer interaction, both business and domestic, is aimed at mitigating overdue debt increases. Analysis of large high risk customers continues in an attempt to proactively target those areas where increased debt is likely to have more of an impact.

Whilst acknowledging the risks faced by ScottishPower, and so the Energy Retail business and the company, COVID-19 is not deemed to impact the conclusion that the company will continue as a going concern. In respect of the impact on these Accounts, the Financial Reporting Council (“FRC”) confirmed that COVID-19 is a non-adjusting post balance sheet event and any potential impacts on accounts, balances or assumptions are disclosed within Note 27 on page 40.

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

UK decision to leave the EU (Brexit)

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

The principal risks and uncertainties of the Energy Retail 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:

RETAIL	
RISK	**RESPONSE**
Price cap values are not set at an accurate rate to reflect the real cost of servicing the customer preventing a reasonable profit margin.	Continued focus on encouraging competition and promoting the use of fixed-price products; ongoing support to the government and regulatory bodies to demonstrate the need for accurate price cap calculations. Lower proportion of customers on default tariffs reduces the impact in comparison to other major suppliers.
Reputational risk from poor customer service performance.	Continued investment in the simplification and enhancement of the processes Energy Retail's customers use together with continual training of customer facing staff. Ongoing actions to remove the need for customers to contact Energy Retail with greater flexibility for customers to make contact through a variety of channels.
The potential for non-compliance with the UK Government's mandate to complete the rollout of smart metering to customers in accordance with prescribed timescales.	Dedicated project team focused on ensuring adequate business processes and systems are developed. The team is responsible for ensuring the roll out capability is secured to enable deployment of meters. Energy Retail is an active participant in industry bodies responsible for developing smart metering.
Impact of competition on Energy Retail's market share and profitability.	Constantly managing the operating cost base to ensure that profitability is protected and focusing on growth through organic and other acquisition opportunities.
Deterioration in the level of overdue debt impacting on the level of debt write-off required.	There are measures in place across the Energy Retail business to manage the key drivers of overdue debt, assess and implement remedial and preventative action, and to establish key metrics to monitor progress in reducing debt levels.

ENGAGING WITH STAKEHOLDERS

References to "ScottishPower" apply fully to the Energy Retail 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 Retail business, and so the company, engages with stakeholders, and how these activities influence the company's operations, are set out on the following page.

ENGAGING WITH STAKEHOLDERS ***continued***

Key stakeholders

ScottishPower and the company has four key stakeholder categories:

Behind these stakeholders are millions of people, and thousands of institutions, organisations and groups. All of them, with their decisions and opinions, which influence ScottishPower, the Energy Retail business, and so the company, 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 and the company. 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.

EMPLOYEES AND ENERGY CUSTOMERS

Employees

ScottishPower employs approximately 5,600 employees, working across a range of roles. The employees make a real difference in determining how successfully ScottishPower operates. The creativity, innovation and individuality of ScottishPower's employees enables ScottishPower to build on its future capability to operate effectively in a competitive market and 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.

Employment regulation

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

Training

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

Employee feedback and consultation

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

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

ENGAGING WITH STAKEHOLDERS *continued*

Inclusion and diversity

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

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

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

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

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

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

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

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

- Inclusive recruitment principles such as balanced shortlisting and gender-balanced interviewing are now incorporated into all ScottishPower external recruitment campaigns.
- Implementation of gender de-coding (i.e. highlighting masculine and feminine language for all ScottishPower external job adverts).
- STEM engagement – throughout 2019 the team have delivered the message to over 22,000 school age girls and boys; ScottishPower works with a range of partners and events to communicate early careers programmes to school children and their families.
- ScottishPower became a founding partner of the Energy Leaders' Coalition which comprises eight of the leading Chief Executive Officers from the UK's energy sector who are making a public declaration to improve gender diversity in their groups and in the sector as a whole.
- ScottishPower is a corporate partner of the Women's Engineering Society to help with the important work that they do in supporting women engineers and encouraging girls to see engineering as a career option.
- ScottishPower receive continuing accreditation from Tommy's Healthy Pregnancy Charity.

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

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

In 2019 ScottishPower welcomed its second cohort of the inspirational Breaking Barriers programme. The programme aims to support aspirations for young people with learning disabilities and provide equal opportunities to access university courses.

ENGAGING WITH STAKEHOLDERS *continued*

Between January and June 2019, 15 learners aged 18 to 24 studied for a Certificate in Applied Business Skills at the University of Strathclyde Business School. As part of this experience, seven of those learners gained valuable skills and work experience as part of an eight-week placement with ScottishPower, two of whom have gone on to secure paid employment within ScottishPower. To date, 40 ScottishPower employees have been involved in supporting the Breaking Barriers programme and planning has commenced for the 2020 programme.

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

Rewards and benefits

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

Health and Safety

The company has a clear strategy to continue to improve health and safety performance using ScottishPower health and safety standards. A more extensive description of how ScottishPower, and therefore the company, addresses health and safety requirements can be found in the most recent Annual Report and Accounts of SPL.

Employee health and wellbeing

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

Employee volunteering

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

Modern Slavery Statement

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

Energy customers

As a group, ScottishPower provides energy and related services to millions of domestic and business customers. The group's success depends on its ability to understand the needs of customers and engagement is key to success in meeting customer needs in this rapidly changing environment. ScottishPower seeks feedback in several ways including forums, market research and product testing as well as via complaints channels and surveys. More specifically, the company engages with its customers in many different ways to ensure these business relationships are fostered in a manner which benefits and promotes the success of the company.

ENGAGING WITH STAKEHOLDERS *continued*

Understanding Energy Retail's customers extends to the ability to identify the needs of customers, in particular vulnerable customers. The company's commitment to providing customers with a quality of service remains resolute. In 2019 the company brought into ScottishPower the Extra Energy customers awarded as part of the SoLR process. To limit the interruption to the customer, the SoLR process requires a supplier to operate at pace; the company's experience and ability allowed the company to create digital read and communication processes within 48 hours to assist in the communication and gathering of essential data between the new customers and Energy Retail.

The company is continuing to focus on improving customer service through the ongoing development and enhancement of digital channels, as well as a retained focus on providing a good customer experience through the traditional telephone service channels. Prospective customers now benefit from an enhanced online process to review product and tariff offers and compare across a range of power, gas and energy service product needs. This new digital journey makes the process of joining Energy Retail simple and quick. Existing customers also benefit from the new digital online webchat and mobile chat options to support with product, tariff and account enquiries.

Through ongoing expansion of the range of digital services across 2019 Energy Retail has seen continued adoption of digital tools as the channel of choice amongst their customer base. With over 451,000 digital interactions per week, this growth has been supported primarily through increased app adoption and the utilisation of more accessible, easier to use services such as web and in-app chat. In line with the rollout of smart meters and EVs, several new services have been developed such as online Smart Prepayment Top Up functionality and an EV charge-point finder application which have opened up new avenues for engagement with customers. This has been supported by improvements to existing services such as the online Warm Home Discount ("WHD") scheme application helping to extend digital into both new areas and previously harder to reach customer segments.

The customer is at the heart of the company's Energy Services operations with a range of products that will protect customers at a time of need, for example when their boiler fails or their washing machine breaks down. With Energy Retail's strategic partners, it is imperative that the company continually focusses on the service delivered to all customers, but particularly those who may be vulnerable. The company identifies the customer circumstance and provides the service tailored to that customer's needs. Measuring the company's performance and learning from customers' feedback is essential to delivering the right level of service. We continue to improve our service and have an ongoing compliance review in relation to customer service with Ofgem who have the responsibility to ensure that service standards reach the quality defined in the energy licence.

Energy Retail is committed to ensuring that EV charging solutions make it easy for customers to transition to EVs and are backed by 100% green energy. As Energy Retail expands the availability of ScottishPower EV charge points, they will also look towards new technology and the installation of rapid chargers that will charge or top-up a customer's EV in the time it takes to grab a coffee or snack, improving customer convenience.

For Energy Retail's most vulnerable customers, specific help is offered:

- The ScottishPower Hardship Fund continues to be a focus to support Energy Retail's vulnerable customer base and has provided over £38.1 million in debt relief to customers with financial difficulties since its launch in 2015. Energy Retail is fully committed to the Hardship Fund as a cornerstone of their policy in alleviating the debt of their most vulnerable customers. An additional prepayment voucher fund to help customers who have self-disconnected and who contact food banks and Citizens Advice bureau has also provided £100,000 of support.
- Energy Retail has also helped to refer around 14,000 customers in 2019 to get help with ongoing household budget and debt issues from its free debt advice charity partner, National Debtline.
- Energy Retail has a wide range of categories of vulnerability for customer-facing staff to use to ensure that it understands customer circumstances, both temporary and longer term. This ensures that Energy Retail can offer appropriate support to customers on an ongoing basis, or through shorter periods of uncertainty.

As an energy company who wishes to remain in contact with its customers, Energy Retail is one of the very few who continue to offer a community liaison service where their service experts will visit customers throughout Great Britain to help resolve any service-related query.

The delivery of energy efficiency measures continues to be an important responsibility of the Energy Retail business and 2019 was the sixth year of delivery of the UK Government's Energy Company Obligation ("ECO"). The ECO scheme focuses on reducing heating costs for the most vulnerable customers, and also aims to improve the energy efficiency of properties. Energy Retail continues to make strong progress towards meeting this. Legislation which defines the 'ECO 3' scheme came into effect in December 2018 and covers the period from that date until 31 March 2022. Changes to the scheme now require the participation of some smaller suppliers who have previously been exempt.

ENGAGING WITH STAKEHOLDERS *continued*

Energy Retail also supports vulnerable customers with their energy bills through the WHD. Now in its ninth year, the WHD is the UK Government's main policy for tackling fuel poverty. The scheme is delivered by energy suppliers to qualifying customers by providing rebates on electricity accounts to help when bills may be higher over the winter period. During scheme year 8, which ran from 1 April 2018 to 31 March 2019, the company spent £29.3 million providing assistance to 209,027 customers by providing a rebate of £140 on their electricity account. In addition, over £4 million of funding was awarded to third party organisations to deliver industry initiative projects to provide a range of assistance to domestic customers. Measures included fuel debt assistance, benefit entitlement checks and energy advice.

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 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 ScottishPower is undertaking to deliver a low carbon future for the UK. ScottishPower aims to develop and maintain strong relationships across the supply base with a focus on Health and Safety, quality and cost. ScottishPower expects suppliers to operate to a high standard including working in an ethical and sustainable manner and has a range of policies that all suppliers must adhere to including ScottishPower's Code of Ethics.

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

COMMUNITY AND ENVIRONMENT

The community

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

Investing in the community

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

As part of the Iberdrola Group, ScottishPower use the London Benchmarking Group ("LBG") Framework to evaluate their community investment activity. This framework is used by leading businesses around the world and provides a comprehensive and consistent set of measures for companies to determine their contributions to the community.

During 2019, ScottishPower voluntarily contributed £17.3 million (2018 £12.8 million) in community support activity, through cash, time, in kind support and management costs associated with running community programmes. The £17.3 million (2018 £12.8 million) incorporated £11.7 million (2018 £6.9 million) categorised as community investment, £5.2 million (2018 £5.4 million) categorised as commercial initiatives, £0.3 million (2018 £nil) categorised as charitable gifts and £0.1 million (2018 £0.5 million) in management costs.

ENGAGING WITH STAKEHOLDERS *continued*

ScottishPower Foundation

The ScottishPower Foundation ("the Foundation") was established in 2013 to reinforce ScottishPower's commitment to charitable work throughout the UK. It is a registered Scottish charity (SC043862) and a company limited by guarantee (SC445116).

There are five main categories of funding:

- the advancement of education;
- the advancement of environmental protection;
- the advancement of the arts, heritage, culture or science;
- the prevention or relief of poverty and the relief of those in need by reason of disability or other disadvantage; and
- the advancement of citizenship and community development.

Decisions to award funding are made independently of ScottishPower by an experienced Board of Trustees who have a special interest in the above areas.

During the year ended 31 December 2019, the Foundation awarded funding of £1.25 million to 25 registered charities to support their work throughout the UK. Projects included 'Primary Panathlon', run by the Panathlon Foundation, giving young disabled children the opportunity to experience competitive sport. A number of competitions were held in iconic and inspirational venues including Stoke Mandeville Stadium, which is also known as the home of the Paralympics. The Foundation also supported the 'MockCOP' run by Size of Wales, which empowers young people from across Wales to use their voices to tackle climate change.

The funding pot included £30,000 which was awarded to the winners and runners up at the annual ScottishPower Foundation Awards ceremony, held in September 2019. There are four award categories, including the Charity Champion Award which gives special recognition to individuals working in the charitable sector for their personal dedication. A further 21 awards of funding were approved by trustees in November 2019 to be delivered throughout the UK during 2020.

The environment

Environment

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

ENGAGING WITH STAKEHOLDERS *continued*

Furthermore, 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 ScottishPower's ambitions in environmental leadership and tackling climate change.

INNOVATION

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

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

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

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

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

With the desire of the UK and ScottishPower to reduce the country's carbon footprint, ScottishPower is working to support this aim. One of the new areas of focus has been the introduction of domestic, business and community EV charging points. 2019 also saw the introduction of a supporting 100% EV Green tariff. The open innovation and collaboration model was utilised in partnerships such as with Arnold Clark, as well as the minority equity investment in EV charge point equipment manufacturer Wallbox (through Iberdrola's investment vehicle, Perseo). Research in the use of data analytics has delivered progress in several areas including customer service journeys, extracting value from smart meter datasets for customers, and forecasting techniques in energy trading and aggregation capabilities.

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 Retail 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.

SECTION 172 STATEMENT *continued*

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

The directors strongly believe that effective and meaningful engagement with stakeholders and employees is key to promoting the success of the company. Details of key stakeholders and how the Energy Retail business, and so the company, engages with them are as follows:

- **Customers:** details of how the Energy Retail business engages with its customers are explained in the 'Energy customers' sub-section of the Strategic Report, on page 9.
- **Employees**: details of how the Energy Retail business engages with its employees are set out in the 'Employees' sub-section of the Strategic Report, on page 7.
- **Communities and the environment:** details of how the Energy Retail business engages with communities are set out in the 'Community and environment' sub-section of the Strategic Report, on page 11.
- **Suppliers:** details of how the Energy Retail business engages with its suppliers are set out in the 'Suppliers and contractors' sub-section of the Strategic Report, on page 11.
- **Government and regulators**: details of how the Energy Retail business engages with governments and regulators are set out in the 'Government and regulators' sub-section of the Strategic Report, on page 11.

In addition, a statement in relation to the company's interaction with its shareholders is described in the introduction to the 'Engaging with stakeholders' sub-section of the Strategic Report on page 6.

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.

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

ON BEHALF OF THE BOARD

Valerie S

Valerie Sim
Director
1 July 2020

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 14.

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

RESULTS AND DIVIDEND

The net loss for the year amounted to £62.1 million (2018 net profit of £116.5 million). No dividend was paid during the year (2018 £80.0 million).

DIRECTORS

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

Neil Clitheroe (resigned 30 June 2019)
Colin McNeill (resigned 1 November 2019)
Valerie Sim

Andrew Ward was appointed as a director on 12 February 2020.

DIRECTORS' INDEMNITY

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

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

The directors are responsible for preparing the Annual Reports and Accounts, including a Strategic Report and Directors' Report, in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (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.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information relating to the company 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.

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

Disclosure of information to auditor

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

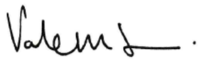
- so far as he or she is aware, there is no relevant audit information of which the company's auditor is unaware; and
- he or she has taken all the steps that he ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's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

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

AUDITOR

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

ON BEHALF OF THE BOARD



Valerie Sim
Director
1 July 2020

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF SCOTTISHPOWER ENERGY RETAIL LIMITED

Opinion

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

In our opinion the financial statements:

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

Basis for opinion

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

Going concern

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

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

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

Strategic report and directors' report

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

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

Directors' responsibilities
As explained more fully in their statement set out on pages 15 and 16, 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

1 July 2020

SCOTTISHPOWER ENERGY RETAIL LIMITED
BALANCE SHEET
at 31 December 2019

	Notes	2019 £m	2018 £m
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	3	**204.8**	186.9
Property, plant and equipment		**151.5**	138.5
Property, plant and equipment in use	4	151.5	138.3
Property, plant and equipment in the course of construction	4	-	0.2
Right-of-use assets	5	**0.4**	-
Trade and other receivables	6	**81.2**	55.8
NON-CURRENT ASSETS		**437.9**	381.2
CURRENT ASSETS			
Inventories	7	**240.9**	223.8
Trade and other receivables	6	**769.2**	854.6
Current tax asset		**4.4**	-
Cash		**5.8**	3.2
CURRENT ASSETS		**1,020.3**	1,081.6
TOTAL ASSETS		**1,458.2**	1,462.8
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the parent		**117.7**	179.8
Share capital	8, 9	55.4	55.4
Retained earnings	9	62.3	124.4
TOTAL EQUITY		**117.7**	179.8
NON-CURRENT LIABILITIES			
Deferred income	10	**-**	0.1
Provisions	11	**3.5**	5.0
Lease liabilities	5	**0.2**	-
Trade and other payables	12	**1.1**	1.8
Deferred tax liabilities	13	**8.7**	12.3
NON-CURRENT LIABILITIES		**13.5**	19.2
CURRENT LIABILITIES			
Provisions	11	**315.1**	317.9
Bank borrowings and other financial liabilities		**100.5**	-
Loans and other borrowings	14	100.5	-
Lease liabilities	5	**0.2**	-
Trade and other payables	12	**911.2**	909.3
Current tax liabilities		**-**	36.6
CURRENT LIABILITIES		**1,327.0**	1,263.8
TOTAL LIABILITIES		**1,340.5**	1,283.0
TOTAL EQUITY AND LIABILITIES		**1,458.2**	1,462.8

Approved by the Board and signed on its behalf on 1 July 2020.

Valerie Sim
Director

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

SCOTTISHPOWER ENERGY RETAIL LIMITED
INCOME STATEMENT AND STATEMENT OF OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2019

	Notes	**2019 £m**	2018 £m
Revenue	15	3,875.6	3,883.6
Procurements		(3,300.3)	(3,166.8)
GROSS MARGIN		**575.3**	716.8
NET OPERATING EXPENSES		**(423.0)**	(385.9)
Net personnel expenses		**(95.8)**	(74.9)
Staff costs	16	(96.5)	(76.2)
Capitalised staff costs	16	0.7	1.3
Net external expenses		**(327.2)**	(311.0)
External services		(346.1)	(329.4)
Other operating income		18.9	18.4
Taxes other than income tax	17	**(81.7)**	(72.8)
GROSS OPERATING PROFIT		**70.6**	258.1
Impairment losses on trade and other receivables		(68.5)	(61.8)
Depreciation and amortisation charge, allowances and provisions	18	(82.9)	(54.9)
OPERATING (LOSS)/PROFIT		**(80.8)**	141.4
Finance income	19	3.4	3.7
Finance costs	20	(0.1)	(0.1)
(LOSS)/PROFIT BEFORE TAX		**(77.5)**	145.0
Income tax	21	15.4	(28.5)
NET (LOSS)/PROFIT FOR THE YEAR		**(62.1)**	116.5

Net loss for the current year and net profit for the prior year is wholly attributable to the equity holder of ScottishPower Energy Retail Limited.

Net loss for the current year and net profit for the prior year comprises total comprehensive income.

All results relate to continuing operations.

The accompanying Notes 1 to 27 are an integral part of the income statement and statement of other comprehensive income for the year ended 31 December 2019.

SCOTTISHPOWER ENERGY RETAIL LIMITED
STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2019

	Share capital £m	Retained earnings £m	Total equity £m
At 1 January 2018	55.4	87.9	143.3
Total comprehensive income for the year	-	116.5	116.5
Dividends	-	(80.0)	(80.0)
At 1 January 2019	55.4	124.4	179.8
Total comprehensive income for the year	-	(62.1)	(62.1)
At 31 December 2019	**55.4**	**62.3**	**117.7**

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

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

	2019 £m	2018 £m
Cash flows from operating activities		
(Loss)/profit before tax	**(77.5)**	145.0
Adjustments for:		
Depreciation and amortisation	**82.8**	54.2
Change in provisions	**489.5**	433.5
Capital grants	**(0.1)**	
Finance income and costs	**(3.3)**	(3.6)
Net losses on disposal of non-current assets	**-**	0.7
Changes in working capital:		
Change in trade and other receivables	**(119.3)**	1.6
Change in inventories	**(445.4)**	(425.4)
Change in trade payables	**22.4**	(57.5)
Provisions paid	**(85.3)**	(2.2)
Income taxes (paid)/received	**(29.2)**	2.0
Net cash flows from operating activities (i)	**(165.4)**	148.3
Cash flows from investing activities		
Interest received	**3.6**	3.9
Investments in intangible assets	**(86.6)**	(72.3)
Investments in property, plant and equipment	**(28.3)**	(17.5)
Decrease in amounts due from Iberdrola group companies - current loans receivable	**179.0**	18.3
Net cash flows from investing activities (ii)	**67.7**	(67.6)
Cash flows from financing activities		
Increase in amounts due to Iberdrola group companies - current loans payable	**100.5**	-
Dividends paid to company's equity holder	**-**	(80.0)
Interest paid	**-**	(0.1)
Payments of lease liabilities	**(0.2)**	-
Net cash flows from financing activities (iii)	**100.3**	(80.1)
Net increase in cash and cash equivalents (i)+(ii)+(iii)	**2.6**	0.6
Cash and cash equivalents at beginning of year	**3.2**	2.6
Cash and cash equivalents at end of year	**5.8**	3.2

Cash and cash equivalents at end of year comprises:

	2019 £m	2018 £m
Cash	**5.8**	3.2
Cash flow statement cash and cash equivalents	**5.8**	3.2

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 INFOMATION

ScottishPower Energy Retail Limited ("the company"), registered company number SC190287, 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 assets and liabilities 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 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 standards and amendments for the first time:

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

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

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 the 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 2F1. 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 certain 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 £0.7 million of right-of-use assets and £0.7 million of lease liabilities. When measuring lease liabilities, the company discounted lease payments using its incremental borrowing rate at 1 January 2019. The discount rates used to calculate the below pertaining to Sterling was in the range of 2.46% to 3.33%.

	£m
Operating lease commitment at 31 December 2018	-
Lease agreements re-assessed at 1 January 2019	0.7
Lease liabilities recognised at 1 January 2019	**0.7**

D ENERGY COMPANIES OBLIGATION

The Energy Companies Obligation ("ECO") was established on 4 December 2012 by The Electricity and Gas (Energy Company Obligation) Order 2012 ("the Order"). It imposes a legal obligation on larger energy suppliers to deliver energy efficiency measures to domestic energy users.

Once a supplier has been considered eligible for the ECO obligation, based on their domestic customer numbers, the amount of the obligation is established based on the amount of energy supplied to such domestic customers. The overall obligation period is multi-annual and the obligation period is broken down into different phases. For each phase, Ofgem determines the amount of each supplier's obligation based on the domestic energy supplied by each energy supplier as a proportion of the total domestic energy supplied by all suppliers during the relevant notification period.

On 3 December 2018, the UK Government approved the 'ECO 3' obligation which runs from December 2018 until 31 March 2022. ECO 3 focuses on low income and vulnerable households, helping to meet the UK Government's fuel poverty commitments.

The company considers that the appropriate accounting treatment is prescribed by IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' ("IAS 37"), as this obligation complies with the three features to be considered for a provision (present obligation, probable out-flow of resources and a reliable estimate can be made).

1 BASIS OF PREPARATION *continued*

D ENERGY COMPANIES OBLIGATION *continued*

In accordance with a legal opinion obtained by the company, it is considered that an obligation arises for each phase of the overall obligation period. For this reason, it is appropriate to consider this obligation as an additional cost of supply to domestic customers, as this activity constitutes the obligating event, as defined under IAS 37.

The FRC staff paper 'Accounting for the Energy Company Obligation', dated 27 September 2013, indicates that the expenditure should be recognised as the assigned measures are being implemented, regardless of the rate at which energy is supplied to the domestic customers. The external auditor has determined that this is the only accounting treatment which is acceptable.

Based on the FRC staff paper and the opinion of the external auditor, the company has recorded the expense in its financial statements as the measures were actually implemented during the year. This accounting treatment involves recording £14.3 million (2018 £16.6 million) in addition to the amount that would have resulted from following a recognition rate of the obligation consistent with the rate of energy supplied to domestic customers during the accounting period.

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES

In determining and applying accounting policies, judgement is often required in respect of items which have a significant effect on the reported amounts of assets, liabilities, income and expenses recognised in the financial statements, other than those involving estimates; the company has no such judgements. At 31 December 2019, assumptions made about the future and other major sources of estimation uncertainty which have significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities in the next financial year are detailed below:

- Accrued 'unbilled' revenue – Note 15(b); and
- Impairment losses on trade receivables – Note 2H1.2(c).

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

A REVENUE
B PROCUREMENTS
C INTANGIBLE ASSETS (COMPUTER SOFTWARE)
D INTANGIBLE ASSETS (CONTRACT COSTS)
E PROPERTY, PLANT AND EQUIPMENT
F LEASED ASSETS
G IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS
H FINANCIAL INSTRUMENTS
I RENEWABLES OBLIGATION CERTIFICATES
J RETIREMENT BENEFITS
K TAXATION
L CASH AND CASH EQUIVALENTS

A REVENUE

Information about the company's accounting policies and estimates in relation to contracts with customers is provided in Note 15. This excludes the accounting policy for Contract costs which is provided at Note 2D below.

B PROCUREMENTS

Procurements principally comprises the cost of electricity and gas purchases during the year in relation to energy supply and related direct costs and services.

C INTANGIBLE ASSETS (COMPUTER SOFTWARE)

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

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

D INTANGIBLE ASSETS (CONTRACT COSTS)

The company capitalises the incremental costs of obtaining certain customer contracts, principally sales commissions, if they are expected to be recovered. These are recorded as a separate asset class within Intangible assets and amortised on a systematic basis according to the average expected life of contracts with customer that are associated with such costs. The amortisation period is between two and four years.

The company has elected to apply the amortisation period to a portfolio of contracts with similar characteristics as the company expects that the effect on the financial statements is not materially different from applying it to the individual contracts.

E PROPERTY, PLANT AND EQUIPMENT

The company's 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 once commissioned. Property, plant and equipment includes capitalised employee costs, interest and other directly attributable costs. Reviews of the estimated remaining lives and residual values of property, plant and equipment are undertaken annually. Residual values are assessed based on prices prevailing at each balance sheet date.

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

	Years
Meters and measuring devices	10
Other facilities	15
Other items of property, plant and equipment	4 - 50

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.

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.

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

F LEASED ASSETS *continued*

F1 POLICY APPLICABLE FROM 1 JANUARY 2019 *continued*

F1.1 LESSEE *continued*

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:

a. fulfilment of the arrangement was dependent on the use of a specific asset(s); and
b. 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.

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

G 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.

H 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.

H1 FINANCIAL ASSETS

H1.1 RECOGNITION AND INITIAL MEASUREMENT

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost. Trade receivables are initially recognised when they originate. All other financial assets are initially recognised when the company becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price determined under IFRS 15 'Revenue from Contracts with Customers' ("IFRS 15").

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

H FINANCIAL INSTRUMENTS *continued*

H1 FINANCIAL ASSETS *continued*

H1.2 CLASSIFICATION AND SUBSEQUENT MEASUREMENT

(a) Classification

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

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

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

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

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

(b) Subsequent measurement and gains and losses

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

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

(i) Derecognition

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

(c) Impairment of financial assets

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

The company has segmented its trade receivables between those relating to energy supply customer debt and other trade receivables. 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.

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

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

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

H FINANCIAL INSTRUMENTS *continued*

H1 FINANCIAL ASSETS *continued*

H1.2 CLASSIFICATION AND SUBSEQUENT MEASUREMENT *continued*

(c) Impairment of financial assets *continued*

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

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

All of the company's other financial assets have low credit risk at both the beginning and end of the reporting period. The company considers these assets to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The company considers this to be BBB- or higher per rating agency Standard & Poor's.

For energy supply debt, the company does not assume that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. Debts for gas and electricity customers on secure payment plans (e.g. Direct Debit), can have debts in excess of 30 days which would not be considered overdue. Direct Debit payments are based on an annual cycle therefore customers can be in either a debt or credit position at certain points in the year.

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

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

(i) Measurement of ECLs

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

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

(ii) Credit-impaired financial assets

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

(iii) Write-offs

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

H2 FINANCIAL LIABILITIES

H2.1 RECOGNITION AND INITIAL MEASUREMENT

The company's financial liabilities include trade and other payables. All financial liabilities are recognised initially at fair value and net of directly attributable transaction costs.

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

H FINANCIAL INSTRUMENTS *continued*

H2 FINANCIAL LIABILITIES *continued*

H2.2 CLASSIFICATION AND SUBSEQUENT MEASUREMENT

The company's financial liabilities are subsequently measured at amortised cost using the effective interest method.

(a) Derecognition

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

I RENEWABLES OBLIGATION CERTIFICATES

The company participates in the Renewables Obligation scheme administered by Ofgem. As there are no specific rules under FRS 101 dealing with the treatment of Renewables Obligation Certificates ("ROCs"), the company, in alignment with Iberdrola group accounting policy, classifies purchased ROCs as inventories as they are consumed in the production process. Such certificates are recognised at their acquisition cost and are charged to the income statement as the obligations arise. Internally generated ROCs are awarded by Ofgem and are recognised at their relevant buyout price and estimated recycle price at the balance sheet date.

The company recognises liabilities in respect of its obligations to deliver ROCs at the value at which the ROCs were initially recorded on the balance sheet. Any estimated shortfall in the liability is calculated based on the relevant buyout price and estimated recycle price at the balance sheet date.

J RETIREMENT BENEFITS

ScottishPower operates two defined benefit schemes and one defined contribution retirement benefit scheme in the UK. ScottishPower Energy Retail 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 year.

K TAXATION

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

Deferred tax is the tax expected to be payable or recoverable on the difference between the carrying amounts of assets and liabilities in the balance sheet and the corresponding tax bases used in the computation of taxable profits (temporary differences), and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences, unused tax losses or credits can be utilised.

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

L CASH AND CASH EQUIVALENTS

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

3 INTANGIBLE ASSETS

Year ended 31 December 2019	Note	Computer software £m	Contract Costs £m	Total £m
Cost:				
At 1 January 2019		276.8	133.4	410.2
Additions	(a)	13.9	72.7	86.6
Disposals		-	(37.4)	(37.4)
At 31 December 2019		**290.7**	**168.7**	**459.4**
Amortisation:				
At 1 January 2019		167.7	55.6	223.3
Amortisation for the year		29.3	39.4	68.7
Disposals		-	(37.4)	(37.4)
At 31 December 2019		**197.0**	**57.6**	**254.6**
Net book value:				
At 31 December 2019		**93.7**	**111.1**	**204.8**
At 1 January 2019		109.1	77.8	186.9

(a) Included within additions is £0.1 million (2018 £0.8 million) from internal development.
(b) Included in the net book value of computer software at 31 December 2019 is £25.1 million (2018 £36.2 million) relating to the customer relationship management system which has three years of remaining amortisation and £42.3 million (2018 £50.5 million) relating to system upgrades for smart metering which has three years of remaining amortisation.
(c) The cost of intangible assets under development at 31 December 2019 was £nil (2018 £54.3 million).
(d) The cost of fully amortised intangible assets still in use at 31 December 2019 was £1.9 million (2018 £15.8 million).

4 PROPERTY, PLANT AND EQUIPMENT
(a) Movements in property, plant and equipment

Year ended 31 December 2019	Meters and measuring devices £m	Other facilities (Note (i)) £m	Other items of property, plant and equipment in use (Note (ii)) £m	Other facilities in progress (Note (i)) £m	Total £m
Cost:					
At 1 January 2019	15.3	145.0	24.9	0.2	185.4
Additions	0.5	26.1	0.3	-	26.9
Transfers from in progress to plant in use	-	-	0.2	(0.2)	-
Disposals	-	-	(0.8)	-	(0.8)
At 31 December 2019	**15.8**	**171.1**	**24.6**	**-**	**211.5**
Depreciation:					
At 1 January 2019	9.6	23.4	13.9	-	46.9
Depreciation for the year	1.6	11.3	1.0	-	13.9
Disposals	-	-	(0.8)	-	(0.8)
At 31 December 2019	**11.2**	**34.7**	**14.1**	**-**	**60.0**
Net book value:					
At 31 December 2019	**4.6**	**136.4**	**10.5**	**-**	**151.5**
At 1 January 2019	5.7	121.6	11.0	0.2	138.5
The net book value of property plant and equipment at 31 December 2019 is analysed as follows:					
Property, plant and equipment in use	**4.6**	**136.4**	**10.5**	**-**	**151.5**

(i) ‘Other facilities’ and ‘Other facilities in progress’ comprise smart meter infrastructure assets.
(ii) The category ‘Other items of property, plant and equipment in use’ principally comprises land, buildings and IT equipment.
(iii) The cost of fully depreciated property, plant and equipment still in use at 31 December 2019 was £4.2 million (2018 £6.0 million).
(iv) Included within the cost of property, plant and equipment are assets in use not subject to depreciation, being land, of £0.2 million (2018 £0.2 million).

(b) Capital commitments
The company had £1.2 million of capital commitments contracted for but not provided at 31 December 2019 (2018 £0.8 million) that were due within one year.

5 LEASES

(a) Lessee

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

(i) Nature of leases

Buildings

The company leases buildings primarily for office space. The leases have terms of between 17 and 19 years. Certain leases have options to extend the term by up to one year at the end of the term. Some leases have options to terminate subject to a notice period typically of up to one year.

Vehicles

The company lease vehicles with lease terms of between three and four years, primarily being pool vehicles to mobilise its operational staff. Certain agreements can be terminated without notice.

Extension options

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

Other information

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

(ii) Right-of-use assets

	Note	Buildings £m	Vehicles £m	Total £m
On transition to IFRS 16 at 1 January 2019		0.7	-	0.7
Additions		-	0.4	0.4
Depreciation charge for the year		(0.1)	(0.1)	(0.2)
Adjustments for changes in liabilities	(a)	(0.5)	-	(0.5)
At 31 December 2019		**0.1**	**0.3**	**0.4**

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

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

(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	0.2
One to five years	0.2
Total discounted lease liabilities	**0.4**
Analysis of total lease liabilities	
Non-current	0.2
Current	0.2
Total	**0.4**

5 LEASES *continued*
(a) Lessee *continued*
(iv) Amounts recognised in the cash flow statement

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

This amount relates to payments of lease liabilities.

(b) Operating lease disclosures under IAS 17

	2018
	£m
Minimum lease payments under operating leases recognised as an expense in the year	0.2

The company leases various property, plant and equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

6 TRADE AND OTHER RECEIVABLES

		2019	2018
	Notes	**£m**	£m
Current receivables:			
Receivables due from Iberdrola group companies - trade	(a)	**51.3**	16.5
Receivables due from Iberdrola group companies - loans	(b)	**-**	178.9
Receivables due from Iberdrola group companies - interest		**2.6**	3.3
Receivables due from Iberdrola group companies - prepayment		**-**	16.6
Trade receivables and accrued income	(a)	**714.2**	638.5
Prepayments		**1.1**	0.8
	(c), (d)	**769.2**	854.6
Non-current receivables:			
Receivables due from Iberdrola group companies - other	(e)	**81.2**	55.8
	(c), (d)	**81.2**	55.8

(a) The company utilises forms of collateral, externally and internally with ScottishPower companies, to manage its credit exposure in respect of the provision of network services. All collateral posted is settled in cash. At 31 December 2019, the company posted cash collateral of £24.3 million (2018 £21.7 million) and posted letters of credit of £24.6 million (2018 £16.2 million).

(b) Interest on the on-demand loans due from Iberdrola group companies was payable at 1% above the Bank of England base rate.

(c) Included within the gross carrying amount of trade receivables, £746.8 million (2018 £579.7 million) relates to billed receivables due from energy supply customers. The loss allowance in relation to these billed receivables is £126.7 million (2018 £114.1 million). In relation to these billed receivables, the actual level of receivables collected may differ from the estimated levels of recovery, which could impact operating profit positively or negatively. At 31 December 2019, the loss allowance for these billed receivables of £126.7 million (2018 £114.1 million) was supported by a projection based on a 36 month cash collection performance. Based on the weighted average loss rates, a 5% increase in the overall expected loss rate would result in an increase to the loss allowance of £37.3 million (2018 £29.0 million). A 5% decrease would result in a decrease to the loss allowance of £37.3 million (2018 £29.0 million).

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

		2019	2018
	Note	**£m**	£m
Receivables	(i)	**737.1**	631.0

(i) £68.4 million (2018 £64.9 million) of impairment losses were recognised during the year on receivables arising from the company's contracts with customers.

(e) The balance as at 31 December 2019 and 31 December 2018 represents receivables due from Iberdrola group companies as part of a contractual renegotiation.

7 INVENTORIES

		2019	2018
	Note	**£m**	£m
ROCs	(a)	**240.9**	223.4
Other inventories		**-**	0.4
		240.9	223.8

(a) Inventories with a value of £412.1 million (2018 £416.2 million) were recognised as an expense in the year.

8 SHARE CAPITAL

	2019	2018
	£m	£m
Allotted, called up and fully paid shares:		
55,407,000 ordinary shares of £1 each (2018 55,407,000)	**55.4**	55.4

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

9 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDER OF SCOTTISHPOWER ENERGY RETAIL LIMITED

	Share capital	Retained earnings (Note (a))	Total
	£m	£m	£m
At 1 January 2018	55.4	87.9	143.3
Profit for the year attributable to equity holder of ScottishPower Energy Retail Limited	-	116.5	116.5
Dividends	-	(80.0)	(80.0)
At 1 January 2019	55.4	124.4	179.8
Loss for the year attributable to equity holder of ScottishPower Energy Retail Limited	-	(62.1)	(62.1)
At 31 December 2019	**55.4**	**62.3**	**117.7**

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

10 DEFERRED INCOME

	Capital grants
	£m
At 1 January 2018 and 1 January 2019	0.1
Released to income statement	(0.1)
At 31 December 2019	**-**

11 PROVISIONS

Year ended 31 December 2018	Notes	At 1 January 2018 £m	New provisions £m	Utilised during year £m	Released during year £m	At 31 December 2018 £m
Reorganisation and restructuring	(a)	1.4	1.5	(1.8)	-	1.1
Renewables obligation	(b)	325.0	431.7	(435.9)	-	320.8
Overtime and commission	(c)	0.9	-	-	-	0.9
Other	(d)	0.2	0.5	(0.4)	(0.2)	0.1
		327.5	433.7	(438.1)	(0.2)	322.9

Year ended 31 December 2019	Notes	At 1 January 2019 £m	New provisions £m	Transfers £m	Utilised during year £m	Released during year £m	**At 31 December 2019 £m**
Reorganisation and restructuring	(a)	1.1	3.4	-	(1.1)	-	**3.4**
Renewables obligation	(b)	320.8	422.4	-	(428.3)	-	**314.9**
Overtime and commission	(c)	0.9	-	-	(0.8)	(0.1)	**-**
Capacity market	(d)	-	63.6	19.8	(83.4)	-	**-**
Other	(e)	0.1	0.4	-	-	(0.2)	**0.3**
		322.9	489.8	19.8	(513.6)	(0.3)	**318.6**

11 PROVISIONS *continued*

Analysis of total provisions	**2019 £m**	2018 £m
Non-current	**3.5**	5.0
Current	**315.1**	317.9
	318.6	322.9

(a) The 2018 provision relates to restructuring programmes launched during 2017 and 2018, which was fully utilised during 2019. The new provision for reorganisation and restructuring in 2019 relates to a restructuring programme launched during 2019. The remaining provision at 31 December 2019 is expected to be fully utilised in 2020.
(b) The provision for renewables obligation principally represents the value of ROCs for 2019 expected to be delivered in 2020 and 2021.
(c) The provision for overtime and commission comprised probable holiday pay entitlements under the Working Time Regulations arising from commission and overtime. The provision was fully utilised or released during 2019.
(d) The provision relates to unpaid UK capacity market payments during the suspension of the 2018/19 UK capacity market. This provision was fully utilised in 2019.
(e) The other category comprises various insurance provisions which are not individually material to warrant separate disclosure.

12 TRADE AND OTHER PAYABLES

	Note	**2019 £m**	2018 £m
Current trade and other payables:			
Payables due to Iberdrola group companies - trade		**521.3**	571.4
Trade payables		**157.7**	151.2
Other taxes and social security		**68.3**	64.8
Payments received on account		**1.8**	1.4
Capital payables and accruals		**44.3**	45.7
Other payables		**117.8**	74.8
	(a)	**911.2**	909.3
Non-current other payables:			
Other payables		**1.1**	1.8
	(a)	**1.1**	1.8

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

	Note	**2019 £m**	2018 £m
Contract liabilities	(i)	**112.5**	68.7

(i) The amount of contract liabilities recognised as income in the year is £47.0 million (2018 £86.3 million).

13 DEFERRED TAX

Deferred tax recognised in the Accounts is as follows:

	Property, plant and equipment £m	Other temporary differences £m	Total £m
At 1 January 2018	9.2	8.5	17.7
Credit to the income statement	(1.6)	(3.8)	(5.4)
At 1 January 2019	7.6	4.7	12.3
Credit to the income statement	(0.6)	(3.0)	(3.6)
At 31 December 2019	**7.0**	**1.7**	**8.7**

Legislation was previously enacted to reduce the rate of UK Corporation Tax to 17% on 1 April 2020. Accordingly, deferred tax balances have been measured at the 17% rate, this being the tax rate enacted at the balance sheet date and the rate temporary differences are expected to reverse. After 31 December 2019, further legislation has been substantively enacted on 17 March 2020 under the Provisional Collection of Taxes Act 1968 that maintains the 19% UK Corporation tax rate. The 19% rate will apply from 1 April 2020. This rate change would increase the 31 December 2019 deferred tax liability by £0.9 million.

14 LOANS AND BORROWINGS

Instrument	Interest rate*	Maturity	**2019 £m**	2018 £m
Loans with Iberdrola group companies	Base + 1%	On demand	**100.5**	-

*Base – Bank of England Base Rate.

15 REVENUE

(a) Disaggregation of revenue

	2019 £m	2018 £m
Supply of electricity	**2,804.2**	2,790.3
Supply of gas	**1,062.8**	1,075.6
Other	**8.6**	17.7
Charged to the income statement	**3,875.6**	3,883.6

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

(b) Accounting policies and estimation uncertainties

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

(i) Supply of electricity and gas

The company's performance obligations are the supply of gas and/or electricity to customers. These performance obligations are both satisfied over time as the customer simultaneously receives and consumes the benefits of the company's performance as it supplies gas and electricity. The company has a right to consideration in an amount that corresponds directly with the value to the customer of the company's performance to date. Revenue is therefore recognised in the amount to which the company has a right to invoice based on the value of units supplied during the year and the tariff agreed with the customer.

The nature of the energy industry in the UK, in which the company operates, is such that revenue recognition is subject to a degree of estimation. Revenue includes an estimate of the units supplied to customers between the date of their last meter reading and the year end. This estimate is based on external data supplied by the electricity and gas market settlement process and internal data relating to energy purchases where settlement data is not yet available. Where volumes are yet to reach final settlement, a provision is made against unbilled revenue recognised in respect of those volumes. The provision is determined by considering the current unbilled position, historical trends and any other known factors. The value assigned to these estimated volumes is based on a weighted average price per unit derived from the billing systems. The estimated value of energy delivered to customers is included within billed revenue (where an estimated reading is included within an issued invoice) and unbilled revenue (where no invoice has been invoiced).

Gross unbilled revenue included within the balance sheet at 31 December 2019 amounts to £582.0 million (2018 £616.4 million). This is before applying customer credit balances of £470.6 million (2018 £434.9 million), and £11.8 million (2018 £10.0 million) provision in respect of ECLs and an £18.0 million (2018 £10.0 million) provision in relation to energy volumes which have still to reach final settlement. This results in a net unbilled position of £81.6 million (1028 £161.5 million) which relates primarily to energy delivered in the final months of the year.

Had actual consumption been 3% higher or lower than the estimate of units supplied (the average variance based on recent historical analysis), this would have resulted in revenue recognised for unbilled amounts being £26.2 million higher or lower respectively. The value assigned to this volume sensitivity is based on a weighted average price per unit derived from the billing systems. Approximately 95% of unbilled revenue relates to the most recent quarter where there is a higher level of estimation uncertainty.

Billed and unbilled revenue is recorded in receivables. Amounts in contract liabilities consist of direct debit customer payments that are in excess of the associated units of energy delivered and final customer credits.

(ii) 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 control is transferred to the customer based on the performance obligations in the contract.

16 EMPLOYEE INFORMATION

(a) Staff costs

	Note	**2019** £m	2018 £m
Wages and salaries		**55.4**	55.9
Social security costs		**5.5**	5.7
Pension and other costs	(i)	**35.6**	14.6
Total staff costs		**96.5**	76.2
Less: capitalised staff costs		**(0.7)**	(1.3)
Charged to the income statement		**95.8**	74.9

(i) 'Pension and other costs' in 2019 includes a charge of £21.8 million (2018 £2.1 million credit) for a restructuring programme.

(b) Employee numbers

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

	Average 2019	Average 2018
Administrative staff	**645**	628
Operations	**764**	857
Total	**1,409**	1,485

(c) Retirement benefits

The company's contributions payable in the year were £14.9 million (2018 £15.6 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's defined benefit schemes in the UK amounted to £651.7 million (2018 £512.7 million). The employer contribution rate for these schemes in the year ended 31 December 2019 was 47.9% - 51.0%.

17 TAXES OTHER THAN INCOME TAX

	2019 £m	2018 £m
Other taxes	**81.7**	72.8

(a) Other taxes mainly comprise obligations specific to the energy industry, which in both years principally comprised ECO, WHD and certain smart metering costs.

18 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS

	2019 £m	2018 £m
Property, plant and equipment depreciation charge	**13.9**	12.2
Intangible asset amortisation	**68.7**	42.0
Right-of-use assets depreciation charge	**0.2**	-
Charges and provisions, allowances and impairment of assets	**0.1**	0.7
	82.9	54.9

19 FINANCE INCOME

	2019 £m	2018 £m
Interest on bank and other deposits	**0.1**	-
Interest receivable from Iberdrola group companies	**2.8**	3.5
Foreign exchange gains	**0.5**	0.2
	3.4	3.7

20 FINANCE COSTS

	Note	**2019 £m**	2018 £m
Interest on other borrowings		**-**	0.1
Reversal of impairment on financial investments	(a)	**(0.3)**	(0.1)
Foreign exchange losses		**0.3**	0.1
Other finance costs		**0.1**	-
		0.1	0.1

(a) £0.1 million of this balance relates to an external loan receivable which was deemed to have a low likelihood of recovery, therefore the company had fully provided for the loan. During 2019 the company received a repayment of £0.1 million in relation to this loan (2018 £0.1 million).

21 INCOME TAX

	2019 £m	2018 £m
Current tax:		
UK Corporation tax	**(9.4)**	33.2
Adjustments in respect of prior years	**(2.4)**	0.7
Current tax (credit)/charge for the year	**(11.8)**	33.9
Deferred tax:		
Origination and reversal of temporary differences	**(5.2)**	(5.4)
Adjustments in respect of prior years	**1.7**	0.4
Impact of tax rate change	**(0.1)**	(0.4)
Deferred tax credit for the year	**(3.6)**	(5.4)
Income tax (credit)/expense for the year	**(15.4)**	28.5

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

	2019 £m	2018 £m
Corporation Tax at 19% (2018 19%)	**(14.7)**	27.6
Adjustments in respect of prior years	**(0.7)**	1.1
Impact of tax rate change	**(0.1)**	(0.4)
Non-deductible expenses and other permanent differences	**0.1**	0.2
Income tax (credit)/expense for the year	**(15.4)**	28.5

Legislation was previously enacted to reduce the rate of UK Corporation Tax to 17% on 1 April 2020. Accordingly, deferred tax balances have been measured at the 17% rate, this being the tax rate enacted at the balance sheet date and the rate temporary differences are expected to reverse. After 31 December 2019, further legislation has been substantively enacted on 17 March 2020 under the Provisional Collection of Taxes Act 1968 that maintains the 19% UK Corporation tax rate. The 19% rate will apply from 1 April 2020. The rate changes would increase the 31 December deferred tax liability by £0.9 million.

22 DIVIDENDS

	2019 £ per ordinary share	2018 £ per ordinary share	**2019 £m**	2018 £m
Interim dividend paid	**-**	1.44	**-**	80.0

23 FINANCIAL COMMITMENTS

	2019						
	2020 £m	**2021 £m**	**2022 £m**	**2023 £m**	**2024 £m**	**2025 and thereafter £m**	**Total £m**
Other contractual commitments	7.3	1.5	1.5	0.6	-	-	**10.9**

	2018						
	2019 £m	2020 £m	2021 £m	2022 £m	2023 £m	2024 and thereafter £m	Total £m
Other contractual commitments	7.7	2.9	2.8	1.7	0.8	-	15.9

24 RELATED PARTY TRANSACTIONS

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

	2019	2018
	Other Iberdrola group companies £m	Other Iberdrola group companies £m
Types of transaction		
Sales and rendering of services	**0.2**	0.1
Purchases and receipt of services	**(9.8)**	(3.3)
Balances outstanding		
Trade and other receivables	**0.1**	-
Trade and other payables	**(5.9)**	(1.0)

(i) The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

(b) Directors' remuneration

The remuneration of the directors that provided qualifying services to the company is shown below. As these 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. All three (2018 three) of the directors who served during the year were remunerated directly by the company.

Executive directors	**2019 £m**	2018 £m
Aggregate remuneration in respect of qualifying services	**713**	1,210
Aggregate compensation for loss of office	**918**	-
Number of directors who exercised share options	**2**	3
Number of directors who received shares under a long-term incentive scheme	**2**	2
Number of directors accruing retirement benefits under a defined benefit scheme	**2**	2

Highest paid director	**2019 £m**	2018 £m
Aggregate remuneration	**350**	683
Aggregate compensation for loss of office	**298**	-
Accrued pension benefits	**-**	99

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

(c) Ultimate parent company

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

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

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 Scottish Power UK plc may be obtained from its registered office, 320 St. Vincent Street, Glasgow, Scotland, G2 5AD.

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

25 AUDITOR REMUNERATION

	2019	2018
	£m	£m
Audit of the company's annual Accounts	**0.2**	0.1

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 14.

The company has recorded a loss after tax in the current financial year and the company's balance sheet shows that it has net current liabilities of £306.7 million as at 31 December 2019. Notwithstanding this, as at 31 December 2019, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The company is a significant component of ScottishPower which in turn is part of Iberdrola, one of the world's largest integrated utilities. The company participates in a UK treasury function operated by the company's intermediate parent company SPL. The UK treasury function works closely with Iberdrola to manage the company's funding requirements which are reviewed and adjusted on a regular basis using funding provided via Iberdrola, through the global treasury function. SPL has indicated its intention to provide the company with the funding it requires, including not seeking repayment of the amounts currently due to SPL ("financial support"), for a period of at least twelve months from the date of these financial statements, which at 31 December 2019 amounted to £100.5 million.

SPL will provide this financial support through the UK treasury function utilising its committed facilities with Iberdrola group treasury. The directors of SPL have completed an assessment of their ability to provide this financial support across ScottishPower and are satisfied that this can be provided utilising its committed facilities with Iberdrola group treasury.

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

Since the year end, the economic environment has been affected by the global COVID-19 pandemic. However, due to the nature of the company's core activities, the direct effects on cash flows as a result of COVID-19 are expected to be limited.

For the purposes of the directors' assessment of the company's going concern position and to satisfy them of the company's ability to pay its liabilities as they fall due, the directors have prepared a company cash flow statement for a period of 18 months from the date of approval of these financial statements. The cash flow forecasts indicate that, after taking account of severe but plausible downsides including the impact of the COVID-19 pandemic, the company's existing resources and the financial support noted above from SPL are sufficient to enable it to trade and pay its liabilities as they fall due for the forecast period.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 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. The principal activity of the Energy Retail business, and therefore the company, is providing essential services to the UK (specifically the supply of energy); the Energy Retail business and the company will continue to supply its customers and in particular will focus on supporting those considered vulnerable.

27 EVENTS AFTER THE BALANCE SHEET DATE *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 to mitigate the economic and social impacts of this crisis.

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. The Principal Risks and Uncertainties associated with COVID-19 are detailed on pages 4 and 5 of the Strategic Report.

It is difficult to estimate the present and future impacts resulting from this crisis. However, at the date of signing these Accounts, the effects that the current crisis could have on the company in 2020 are considered to be as follows:

- Energy Retail, and so the company, is already seeing a reduction in volumes of energy supplied to business customers, however this is expected to be partially offset by an increase in volumes supplied to domestic customers as many work from home.
- It is expected that the level of energy debt will increase during the period of lockdown and social distancing measures, with an increased risk of debt recoverability in relation to both domestic and industrial customers. Energy Retail continues to monitor the debt position and where appropriate will offer extended payment terms or payment breaks. The crisis has also necessitated a temporary suspension of the smart meter roll out during the period of the lockdown and only emergency jobs are being completed.

Notwithstanding the above, 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. However, there may be a temporary financial impact until normal performance levels are resumed. It is the directors' opinion that once the UK returns to normal, expected performance levels will resume quickly and therefore the impact of COVID-19 will not have a long term material impact on the company's business operations, assets and liabilities.