SP SMART METER ASSETS LIMITED
ANNUAL REPORT AND ACCOUNTS
for the year ended 31 December 2020

Registered No. SC554085

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SP SMART METER ASSETS LIMITED
STRATEGIC REPORT

The directors present their Strategic Report on SP Smart Meter Assets Limited (“the Company”) for the year ended 31 December 2020. This includes an overview of the Company’s structure, strategic outlook including 2020 performance, and principal risks and uncertainties.

STRATEGIC OUTLOOK
Introduction
The principal activity of the Company, registered company number SC554085, is the provision of smart meter assets. This activity will continue for the foreseeable future.

The ultimate parent of the Company is Iberdrola, S.A. ("Iberdrola") which is listed on the Madrid stock exchange. The immediate parent of the Company is Scottish Power Retail Holdings Limited (“SPRH”). Scottish Power Limited (“SPL”) is the United Kingdom (“UK”) holding company of the ScottishPower Group (“ScottishPower”) of which the Company is a member.

The Company is part of ScottishPower’s Energy Retail business (“Energy Retail”).

UK energy suppliers have been mandated by the UK Government to offer a smart meter to all domestic and small and medium-sized enterprise (“SME”) business customers in one of the biggest UK-wide infrastructure programmes ever undertaken. The Company finances the purchase and installation of smart meter assets under an agreement with ScottishPower Energy Retail Limited (“SPERL”), a fellow ScottishPower subsidiary, and will continue to support SPERL’s smart meter rollout obligations. The Company charges for meter provision on a periodic basis; to SPERL as the installing supplier and all other suppliers following a customer’s decision to switch supplier.

Operating review
Energy Retail remains committed to the rollout of smart meters across their domestic and SME customer base. It 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 it aspires to deliver for its customers, and to enable the UK to meet its legally binding target of ‘net zero’ emissions by 2050.

The Company continues to focus on managing and tracking the portfolio of smart meters installed through the UK supplier electricity and gas network and ensuring that the returns from the significant investment made are maximised.

COVID-19
In March 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic, due to its rapid spread throughout the world. In common with many governments, the UK and devolved Governments put in place restrictive measures to contain the spread of the virus. These have been in place to various extents since March 2020 and are expected to endure in some form during 2021 and perhaps 2022. The specific risks presented by COVID-19 are considered as part of the ‘Principal risks and uncertainties’ section of the Strategic Report. Whilst acknowledging the risks faced by the Company, COVID-19 is not deemed to impact the conclusions that the Company will continue as a going concern.

Brexit
Though the UK left the European Union (“EU”) on 31 January 2020, all EU laws continued to apply until 31 December 2020. Following intensive negotiation, a UK/EU Trade and Cooperation Agreement was concluded on 24 December 2020 and ratified by the Council of the European Union on 28 April 2021. The conclusion of the Trade and Cooperation Agreement greatly reduced many of the risks Brexit posed for ScottishPower, and so the Company.

A cross-business operational working-group enabled ScottishPower, and so the Company, to monitor Brexit risks at all stages, and has ensured that they are now fully integrated into the assessment of risks to the business. Further details of the remaining Brexit risks faced by the Company are provided in the ‘Principal risks and uncertainties’ section of the Strategic Report. ScottishPower, and so the Company, shall continue to monitor the consequences of Brexit, and will take mitigating action as appropriate.

2020 Performance

	Revenue*		Operating profit*		Capital investment**	
	2020	2019	**2020**	2019	**2020**	2019
Financial key performance indicators	**£m**	£m	**£m**	£m	**£m**	£m
SP SMART METER ASSETS LIMITED	**59.6**	48.4	**22.5**	18.9	**47.2**	74.6

* Revenue and operating profit as presented on page 13.
** Capital investment for 2020 is presented in Notes 3 and 4 on pages 21 and 22.

STRATEGIC OUTLOOK *continued*

Despite the impact of COVID-19 on installations, revenue increased by £11.2 million reflecting the increased number of installed meters in the portfolio.

Operating profit increased by £3.6 million reflecting the increase in revenue, partially offset by higher operating costs (including warehousing costs and lower broken meter income) and an increase in depreciation given the increased capital base.

Capital expenditure decreased by £27.4 million in the year, mainly due to the COVID-19 pandemic, which significantly reduced the opportunity to access customer premises to install meters. This reduced the Company's requirement to fund the purchase and installation of meters in comparison to the previous year.

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 are included in the most recent Annual Report and Accounts of SPL.

PRINCIPAL RISKS AND UNCERTAINTIES

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

The principal risks and uncertainties of ScottishPower relevant to the Company and those specific to the Company, that may impact current and future operational and financial performance and the management of those risks are described below:

FINANCIAL RISK	
RISK	**RESPONSE**
Impacts arising from COVID-19 and Brexit following market reactions to events. These could include increased volatility on the value of Sterling and foreign currencies and in the longer term, there could be positive or negative changes in the UK economy.	In addition to monitoring ongoing developments related to COVID-19 and Brexit, ScottishPower, and so the Company, has specific procedures in place to manage key market risks. Further details of the Treasury risk management policy is included in the most recent Annual Report and Accounts of SPL.

BUSINESS RISK	
RISK	**RESPONSE**
Impairment of smart meters	Pursuing meter rental agreements with energy suppliers, monitoring energy suppliers' licence obligations and regular financial review of the performance of the Company.

PRINCIPAL RISKS AND UNCERTAINTIES *continued*

OPERATIONAL RISKS	
RISK	**RESPONSE**
The impact of COVID-19 increases the risk of ScottishPower, and so the Company, not being able to meet its obligations. Key areas of risk include supply chain disruption which is impacted also by the Brexit deal.	Business continuity plans enacted with 'Gold Command'; making strategic decisions and determining priorities across ScottishPower, and so the Company. 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 focusing on those issues which might impact the obligations of ScottishPower, and so the Company. Supply chain monitoring groups were 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 and utilising the framework agreements ScottishPower, and so the Company, already has in place. Notification has been provided to subcontractors 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.
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, and so the Company, 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.
A breach in cyber security and unwanted infiltration of ScottishPower's IT infrastructure by internal and external parties impacting key infrastructure, networks or core systems.	Implementation of a cyber-risk policy which provides the framework for mitigation. Proactive approach to identifying where ScottishPower, and so the Company, is vulnerable and addressing these points through technical solutions. Educating Energy Retail employees and contractors as to how behaviour can reduce this risk. Embedding cyber security in all projects where appropriate.

REGULATORY AND POLITICAL RISKS	
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.

ENGAGING WITH STAKEHOLDERS

References to "ScottishPower" apply fully to the Energy Retail business, and therefore to the Company.

The importance of engaging with stakeholders

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

Meaningful engagement with 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 ScottishPower, Energy Retail, and so the Company, engages with its stakeholders, and how these activities influence the Company's operations, are set out below.

Key stakeholders

ScottishPower, and therefore Energy Retail and the Company, has four key stakeholder categories: customers; government and regulators; suppliers and contractors; and community and environment.

Behind these stakeholders are millions of people, and thousands of institutions, organisations and groups. All of them, with their decisions and opinions, influence ScottishPower, Energy Retail, and so the Company, and they 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 the Company and ScottishPower. All shareholder management activities are carried out on ScottishPower's behalf by its ultimate parent company, Iberdrola, which is listed on the Madrid Stock exchange. Iberdrola is committed to dialogue, proximity and actions in favour of shareholders. Iberdrola was 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/corporategovernance-system/corporate-policies/shareholder-engagement-policy.

CUSTOMERS

The Company's main customer is SPERL, a fellow ScottishPower subsidiary, as well as external energy suppliers. The success of the Company depends on continuous engagement to understand and provide for the needs of its customers. The Company's larger customers are account-managed involving regular direct contact to ensure the services provided are in line with contractual agreements.

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. 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 the UK and Scottish Governments' net zero decarbonisation targets. ScottishPower has continued to engage extensively with governments, local authorities and other stakeholders on decarbonisation, publishing in June 2020 a report 'Unlocking Net Zero' setting out a ten point plan to deliver jobs and investment for a green recovery.

SUPPLIERS AND CONTRACTORS

As part of ScottishPower's mission for a better future, quicker, ScottishPower is always looking for new suppliers and contractors, and for ways to improve its working relationships with existing suppliers and contractors. ScottishPower has a broad and diverse supply chain with over 3,000 suppliers, and during 2020, awarded contracts with a cumulative value of around £1.8 billion. Suppliers have a key role to play in the delivery of ScottishPower projects and services that ScottishPower is undertaking to provide a low-carbon future for the UK. ScottishPower aims to develop and maintain strong relationships across the supply base with a focus on health and safety, quality and cost. ScottishPower expects suppliers to operate to a high standard including working in an ethical and sustainable manner, and has a range of policies that all suppliers must adhere to including ScottishPower's Code of Ethics.

ENGAGING WITH STAKEHOLDERS *continued*

Engaging proactively with the 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.

Engagement with the supply chain has been vital during the COVID-19 pandemic and allowed the impact to be assessed not only on the supply of goods, services and progress on works, but also how the pandemic was affecting suppliers. ScottishPower asked for suppliers to highlight significant risks they were facing and how this would affect its supplies, and this put them in a position to take any remedial action as required. In order to support suppliers, ScottishPower collated information on sources of government assistance and relevant contacts, which was shared within its organisation to ensure this information could reach as many suppliers as possible.

COMMUNITY AND ENVIRONMENT

Being a trusted, respected and integrated part of the community is something ScottishPower continually aims for. This is realised through operating with integrity, transparency, and working closely within the community to build relationships. ScottishPower aims to ensure it conducts its activities responsibly and makes a positive contribution to society.

ScottishPower is committed to decarbonisation and minimising 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.

Further details as to how ScottishPower, and so the Company, engages with communities and manages its impact on the environment are provided in the most recent Annual Report and Accounts of SPL.

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.

Modern Slavery Statement

The term 'modern slavery' covers both slavery and human trafficking. ScottishPower is committed to human and labour rights and to eliminating modern slavery that could in any way be connected to its business. In accordance with the Modern Slavery Act 2015, ScottishPower has produced its own Modern Slavery Statement, which has been approved by the SPL board of directors. This statement is published on the ScottishPower website at:
https://www.scottishpower.com/pages/scottishpowers_modern_slavery_statement.aspx.

SECTION 172 STATEMENT

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

The Companies (Miscellaneous) Reporting Regulations 2018 requires the directors of SP Smart Meter Assets Limited to give a statement which describes how the directors have had regard to the matters set out in section 172(1) of the Companies Act 2006 when discharging their duty under that section.

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

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

The delivery of the strategy of Energy Retail, (headed by SPRH), of which the Company is a member, requires Energy Retail to conduct business in a manner benefitting customers through balancing cost and risk while delivering shareholder value and protecting the performance and reputation of Energy Retail 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 is key to promoting the success of the Company. Details of the Company's key stakeholders, and how the Company engages with them are as follows:

- **Customers:** details of how the Company engages with its customers are explained in the 'Customers' sub-section of the Strategic Report, on page 4.
- **Communities and the environment:** details of how ScottishPower, and so the Company, engages with communities and considers the environment are set out in the 'Community and environment' sub-section of the Strategic Report, on page 5.
- **Suppliers and contractors:** details of how ScottishPower, and so the Company, engages with its suppliers are set out in the 'Suppliers and contractors' sub-section of the Strategic Report, on pages 4 and 5.
- **Government and regulators**: details of how ScottishPower, and so the Company, engages with governments and regulators are set out in the 'Government and regulators' sub-section of the Strategic Report, on page 4.

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

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

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

ON BEHALF OF THE BOARD

Nicola M. Connelly

Nicola Connelly
Director
29 July 2021

SP SMART METER ASSETS LIMITED
DIRECTORS' REPORT

The directors present their report and audited Accounts for the year to 31 December 2020.

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 6:

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

STREAMLINED ENERGY AND CARBON REPORTING

The Company is exempt under section 20A of The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 from the requirements to present disclosures concerning greenhouse gas emissions, energy consumption and energy efficiency action as such disclosures relating to the SPL Group, of which the Company is a part, are presented in the most recent Annual Report and Accounts of SPL.

RESULTS AND DIVIDEND

The net profit for the year amounted to £15.7 million (2019 £13.3 million). A dividend of £21.6 million was paid during the year (2019 £10.0 million).

DIRECTORS

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

Graeme Brown
Nicola Connelly

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

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

The directors are responsible for preparing the Annual Report and Accounts in accordance with applicable law and regulations.

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable 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 or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

AUDITOR

KPMG LLP was re-appointed as the auditor of the Company for the year ending 31 December 2021.

ON BEHALF OF THE BOARD

Nicola M. Connelly

Nicola Connelly
Director
29 July 2021

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF SP SMART METER ASSETS LIMITED

OPINION

We have audited the financial statements of SP Smart Meter Assets Limited ("the company") for the year ended 31 December 2020 which comprise the Balance Sheet, Income Statement and Statement of Comprehensive Income, Statement of Changes in Equity, Cash Flow Statement, and related notes, including the accounting policies in Note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of its profit 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").

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.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the going concern period.

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 above conclusions are not a guarantee that the company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors and internal audit and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets/ recent revisions to guidance/ our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because revenue consists entirely of routine, non-complex transactions which do not require significant judgements.

Fraud and breaches of laws and regulations – ability to detect *continued*
We did not identify any additional fraud risks.

We performed procedures including identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management and those posted to unusual accounts.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations
We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit

The potential effect of these laws and regulations on the financial statements varies considerably.

The Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Whilst the Company is subject to many other laws and regulations, we did not identify any others where the consequences of non-compliance alone could have a material effect on amounts or disclosures in the financial statements.

Context of the ability of the audit to detect fraud or breaches of law or regulation
Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

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.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.

Directors' responsibilities

As explained more fully in their statement set out on pages 7 and 8, 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.

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

30 July 2021

SP SMART METER ASSETS LIMITED
BALANCE SHEET
at 31 December 2020

	Notes	2020 £m	2019 £m
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	3	**0.3**	0.3
Property, plant and equipment		**239.3**	227.4
Property, plant and equipment in use	4	226.4	213.9
Property, plant and equipment in the course of construction	4	12.9	13.5
NON-CURRENT ASSETS		**239.6**	227.7
CURRENT ASSETS			
Trade and other receivables	5	**12.8**	13.8
CURRENT ASSETS		**12.8**	13.8
TOTAL ASSETS		**252.4**	241.5
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the parent		**13.9**	19.8
Share capital	6, 7	-	-
Retained earnings	7	13.9	19.8
TOTAL EQUITY		**13.9**	19.8
NON-CURRENT LIABILITIES			
Deferred tax liabilities	8	**9.1**	7.0
NON-CURRENT LIABILITIES		**9.1**	7.0
CURRENT LIABILITIES			
Loans and other borrowings	9	**213.5**	164.2
Trade and other payables	10	**13.3**	49.6
Current tax liabilities		**2.6**	0.9
CURRENT LIABILITIES		**229.4**	214.7
TOTAL LIABILITIES		**238.5**	221.7
TOTAL EQUITY AND LIABILITIES		**252.4**	241.5

Approved by the Board and signed on its behalf on 29 July 2021.

Nicola N. Connelly

Nicola Connelly
Director

The accompanying Notes 1 to 18 are an integral part of the balance sheet at 31 December 2020.

SP SMART METER ASSETS LIMITED
INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2020

	Notes	2020 £m	2019 £m
Revenue		59.6	48.4
GROSS MARGIN		**59.6**	48.4
NET OPERATING EXPENSES		**(1.6)**	0.2
Net external expenses		**(1.6)**	0.2
External services		(2.7)	(1.4)
Other operating income		1.1	1.6
GROSS OPERATING PROFIT		**58.0**	48.6
Impairment losses on trade and other receivables		(0.2)	(0.3)
Depreciation and amortisation charge, allowances and provisions	11	(35.3)	(29.4)
OPERATING PROFIT		**22.5**	18.9
Finance costs	12	(2.1)	(2.7)
PROFIT BEFORE TAX		**20.4**	16.2
Income tax	13	(4.7)	(2.9)
NET PROFIT FOR THE YEAR		**15.7**	13.3

Net profit for both years is wholly attributable to the equity holder of SP Smart Meter Assets Limited.

Net profit for both years comprises total comprehensive income.

All results relate to continuing operations.

The accompanying Notes 1 to 18 are an integral part of the income statement and statement of other comprehensive income for the year ended 31 December 2020.

SP SMART METER ASSETS LIMITED
STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2020

	Ordinary share capital £m	Retained earnings £m	Total £m
At 1 January 2019	-	16.5	16.5
Total comprehensive income for the year	-	13.3	13.3
Dividends	-	(10.0)	(10.0)
At 1 January 2020	-	19.8	19.8
Total comprehensive income for the year	-	15.7	15.7
Dividends	-	(21.6)	(21.6)
At 31 December 2020	**-**	**13.9**	**13.9**

The accompanying Notes 1 to 18 are an integral part of the statement of changes in equity for the year ended 31 December 2020.

SP SMART METER ASSETS LIMITED
CASH FLOW STATEMENT
for the year ended 31 December 2020

	2020	2019
	£m	£m
Cash flows from operating activities		
Profit before tax	**20.4**	16.2
Adjustments for:		
Depreciation and amortisation	**26.8**	23.3
Finance costs	**2.1**	2.7
Losses on write-off non-current assets	**8.5**	6.1
Changes in working capital:		
Change in trade and other receivables	**0.5**	(8.8)
Change in trade and other payables	**(31.0)**	18.7
Income taxes (paid)/received	**(0.9)**	0.7
Net cash flows from operating activities (i)	**26.4**	58.9
Cash flows from investing activities		
Investments in intangible assets	**(0.1)**	(0.2)
Investments in property, plant and equipment	**(51.3)**	(69.4)
Net cash flows from investing activities (ii)	**(51.4)**	(69.6)
Cash flows from financing activities		
Increase in amounts due to Iberdrola Group companies - current loans payable	**49.3**	22.8
Dividends paid to the Company's equity holder	**(21.6)**	(10.0)
Interest paid	**(2.7)**	(2.1)
Net cash flows from financing activities (iii)	**25.0**	10.7
Net cash and cash equivalents (i)+(ii)+(iii)	**-**	-
Cash and cash equivalents at beginning of year	**-**	-
Cash and cash equivalents at end of year	**-**	-

The accompanying Notes 1 to 18 are an integral part of the cash flow statement for the year ended 31 December 2020.

1 BASIS OF PREPARATION

A COMPANY INFORMATION

SP Smart Meter Assets Limited, registered company number SC554085, is a private company limited by shares, incorporated in Scotland and its registered office is 320 St. Vincent Street, Glasgow, G2 5AD.

B BASIS OF PREPARATION

B1 BASIS OF PREPARATION OF THE ACCOUNTS

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

The Accounts 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 Accounting Standards ("IAS") in conformity with the requirements of the Companies Act 2006 (refer to Note 1C1) including newly effective International Financial Reporting Standards ("IFRS") for the year ended 31 December 2020 (refer to Note 1C2), but has made amendments where necessary in order to comply with the Companies Act 2006 and has set out below where FRS 101 disclosure exemptions have been taken.

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’.

B2 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 6.

The Company’s balance sheet presents net current liabilities of £216.6 million as at 31 December 2020. The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The Company is part of the ScottishPower Group which is a significant component of Iberdrola, one of the world’s largest integrated utilities. The Company participates in a UK treasury function operated by the Company’s intermediate parent company, Scottish Power Limited. The UK treasury function works closely with Iberdrola to manage the Company’s funding requirements through the global treasury function. Scottish Power UK plc (“SPUK”), an immediate subsidiary of Scottish Power Limited, has indicated its intention to provide the Company with the funding it requires, through the UK treasury function and utilising its committed facilities with Scottish Power Limited, for the period from the date of these financial statements to at least 31 December 2022. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Throughout the year, and up to the date of signing, the economic environment has been affected by the global COVID-19 pandemic, however, due to the nature of the Company’s core activities, the direct effects on cash flows are expected to be limited.

1 BASIS OF PREPARATION *continued*

B BASIS OF PREPARATION *continued*

B2 GOING CONCERN *continued*

For the purposes of the directors' assessment of the Company's going concern position, and to satisfy them of the Company's ability to pay its liabilities as they fall due, the directors have prepared a company cash flow forecast for the period to 31 December 2022 which indicates that, after taking account of severe but plausible downsides including the impact of the COVID-19 pandemic, the Company's existing resources and facilities and the support noted above from SPUK 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 the period to 31 December 2022 and therefore have prepared the financial statements on a going concern basis.

B3 CHANGE IN ACCOUNTING ESTIMATE

During 2020, the Company increased the useful life of its second generation smart meters from ten to fifteen years to reflect a technical assessment undertaken and to align with Iberdrola Group policy. This change in estimate has been applied prospectively. The impact of this change has been to reduce the depreciation charge of the Company for the current year by £1.2 million. It is impracticable to estimate the effect of this change on future periods.

C ACCOUNTING STANDARDS

C1 IMPACT OF BREXIT

After the end of the Brexit transition period (31 December 2020) the UK ceased to be subject to EU law. Under the European Union (Withdrawal) Act 2018, all existing IFRSs adopted by the EU at that time have been 'frozen' into UK law thus were considered as in force in the UK at the end of the transition period. Adoptions, interpretations and amendments of IFRS adopted by the EU after the end of the transition period will no longer apply in the UK. For subsequent financial years, companies must use UK-adopted IFRS. At the end of the transition period, those standards will be identical to the EU-adopted IFRS in force on that date, but subsequently the UK has established its own endorsement process to adopt UK-adopted IFRS, interpretations and amendments of IFRS. For the year ended 31 December 2020, UK companies therefore have the option to use any standards which have been adopted for use within the UK in addition to the frozen EU-adopted IFRS.

In previous years, the Accounts have been prepared in accordance with FRS 101 applying the recognition, measurement and disclosure requirements of IFRS as adopted by the EU at the date of approval of the Accounts and which were mandatory for each financial year. In line with the above, the Accounts for the year ended 31 December 2020 have been prepared in accordance with FRS 101 applying the 'frozen' IFRS as adopted by the EU in accordance with the International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019. The Accounts for financial year beginning 1 January 2021, will be prepared in accordance with FRS 101 applying the recognition, measurement and disclosure requirements of IFRS as adopted by the UK.

The changes in the way that IFRS are described as a result of the UK's exit from the EU, including the move to UK-adopted IFRS for accounting periods starting on or after 1 January 2021, do not represent a change in the basis of preparation which would necessitate a prior year restatement.

C2 IMPACT OF NEW IFRS

As noted above, these Accounts have been prepared in accordance with FRS 101. In preparing these Accounts, the Company has applied all relevant IASs, IFRSs and International Financial Reporting Interpretations Committee interpretations ("IFRICs") (collectively referred to as "IFRS") that have been adopted by the EU/UK as of the date of approval of these Accounts and that are mandatory for the financial year ended 31 December 2020.

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

Standard	Note
• Amendments to References to the Conceptual Framework in IFRS Standards	(a)
• Amendments to IFRS 3 'Business Combinations: Definition of a Business'	(a)
• Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors': 'Definition of Material'	(a)
• Amendments to IFRS 9 'Financial Instruments'; IAS 39 'Financial Instruments: Recognition and Measurement'; and IFRS 7 'Financial Instruments: Disclosures': 'Interest Rate Benchmark Reform'	(a)

(a) The application of these amendments has not had a material impact on the Company's accounting policies, financial position or performance.

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 2020, there are no assumptions made about the future or other major sources of estimation uncertainty which have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities in the next financial year.

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

A REVENUE
B INTANGIBLE ASSETS (COMPUTER SOFTWARE)
C PROPERTY, PLANT AND EQUIPMENT
D IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS
E FINANCIAL INSTRUMENTS
F TAXATION

A REVENUE

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

Smart meter provision is a performance obligation satisfied over time as the customer benefits from the service as it is provided. The customer benefits from the Company's service evenly throughout the year and therefore time is used to measure progress towards complete satisfaction of the performance obligation. Revenue is recognised on a straight-line basis throughout the year based on the agreed contractual rate.

B INTANGIBLE ASSETS (COMPUTER SOFTWARE)

The costs of acquired computer software are capitalised on the basis of the costs incurred to acquire and bring to use the specific software, and are amortised on a straight-line basis over their operational lives. Costs directly attributable to 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. Amortisation of computer software is over periods of up to four years.

C PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost (including directly attributable costs) and depreciated on a straight-line basis over the estimated operational lives of the assets once commissioned. Reviews of the estimated remaining lives and residual values of property, plant and equipment are undertaken annually.

The depreciation period used by the Company is as set out below.

	Years
Meters and measuring devices	10 - 15

D 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 (the greater of its value-in-use and its fair value less costs to sell) is estimated in order to determine the extent of the impairment loss (if any). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

D IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS *continued*

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. 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. Any impairment is recognised in the income statement in the period in which it is identified. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been recognised, net of depreciation or amortisation, if no impairment loss had been recognised.

E FINANCIAL INSTRUMENTS

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

E1 FINANCIAL ASSETS

E1.1 RECOGNITION AND INTITIAL MEASUREMENT

Financial assets are classified as measured at amortised cost both at initial recognition and subsequently.

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

Trade receivables that do not contain a significant financing component, and for which the Company has applied the simplified expected credit loss ("ECL") model (refer to Note E1.2(c)), are measured at the transaction price determined under IFRS 15 ' Revenue from Contracts with Customers'.

E1.2 CLASSIFICATION AND SUBSEQUENT MEASUREMENT

(a) Classification

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing them, 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. Such reclassifications are expected to be infrequent; no other reclassifications are permitted.

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

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

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

(b) Subsequent measurement and gains and losses

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

(i) Derecognition

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

(c) Impairment of financial assets

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

In applying the simplified model, loss allowances for trade receivables are measured at an amount equal to lifetime ECLs. 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.

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

E FINANCIAL INSTRUMENTS *continued*

E1 FINANCIAL ASSETS *continued*

E1.2 CLASSIFICATION AND SUBSEQUENT MEASUREMENT *continued*

(c) Impairment of financial assets *continued*

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

- internal or external information indicates that the Company is unlikely to receive the outstanding contractual amount 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 resulting from all possible default events over the expected life of a financial instrument. Twelve-month ECLs are the ECLs resulting 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 Company in accordance with the contract and those 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'. This is the case when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

(iii) Write-offs

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

E2 FINANCIAL LIABILITIES

E2.1 RECOGNITION AND INITIAL MEASUREMENT

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

E2.2 CLASSIFICATION AND SUBSEQUENT MEASUREMENT

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

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

(a) Derecognition

The Company derecognises a financial liability when the obligation under that liability is discharged, 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 is derecognised and a new liability recognised. The difference in their respective carrying amounts is recognised in the income statement.

F TAXATION

Assets and liabilities for current tax are calculated using the tax rates that have been enacted, or substantively enacted, at the balance sheet date.

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

F TAXATION *continued*

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 expected to be 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 recognised in equity and is shown in the statement of comprehensive income.

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income. For income tax arising on dividends, the related tax is recognised in the income statement, statement of other comprehensive income, or in equity consistently with the transactions that generated the distributable profits.

3 INTANGIBLE ASSETS

Year ended 31 December 2020	Computer software £m
Cost:	
At 1 January 2020	0.5
Additions	0.1
At 31 December 2020	**0.6**
Amortisation:	
At 1 January 2020	0.2
Amortisation for the year	0.1
At 31 December 2020	**0.3**
Net book value:	
At 31 December 2020	**0.3**
At 1 January 2020	0.3

4 PROPERTY, PLANT AND EQUIPMENT

(a) Movements in property, plant and equipment

Year ended 31 December 2020	Meters and measuring devices £m	Meters and measuring devices in progress £m	Total £m
Cost:			
At 1 January 2020	255.9	13.5	269.4
Additions	33.7	13.4	47.1
Transfers from in progress to in use	12.6	(12.6)	-
Disposals	(9.5)	(1.4)	(10.9)
At 31 December 2020	**292.7**	**12.9**	**305.6**
Depreciation:			
At 1 January 2020	42.0	-	42.0
Depreciation for the year	26.7	-	26.7
Disposals	(2.4)	-	(2.4)
At 31 December 2020	**66.3**	**-**	**66.3**
Net book value:			
At 31 December 2020	**226.4**	**12.9**	**239.3**
At 1 January 2020	213.9	13.5	227.4

The net book value of property plant and equipment at 31 December 2020 is analysed as follows:

	£m	£m	£m
Property, plant and equipment in use	226.4	-	226.4
Property, plant and equipment in the course of construction	-	12.9	12.9
	226.4	**12.9**	**239.3**

(a) Included within Other operating income in the income statement for the year ended 31 December 2020 is £1.1 million (2019 £1.6 million) relating to compensation receivable from third parties for items of property, plant and equipment that were impaired, lost or given up.

(b) Capital commitments

	2020		
	2021 £m	**2022 £m**	**Total £m**
Contracted but not provided	18.0	5.1	**23.1**

	2019		
	2020 £m	2021 £m	Total £m
Contracted but not provided	8.1	-	8.1

5 TRADE AND OTHER RECEIVABLES

	Note	**2020 £m**	2019 £m
Current receivables:			
Receivables due from Iberdrola Group companies - trade		**3.8**	5.1
Trade receivables (including accrued income)		**8.0**	5.8
Prepayments		**-**	0.5
Other tax receivables		**1.0**	2.4
	(a)	**12.8**	13.8

(a) Trade and other receivables includes £11.6 million (2019 £10.9 million) of IFRS 15 receivables. Net expected credit losses of £0.2 million (2019 £0.3 million) were recognised during the year on receivables arising from the Company's contracts with customers.

6 SHARE CAPITAL

	2020	2019
	£	£
Allotted, called up and fully paid shares:		
One ordinary share of £1 (2019 one)	**1**	1

The holder of the ordinary share is entitled to dividends as declared from time to time; amounts on the capitalisation of profits and reserves; and notice and attendance at general meetings of the company, with the member entitled to one vote on a show of hands and on a poll one vote for the share held.

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

	Share capital £m	Retained earnings (Note (a)) £m	Total £m
At 1 January 2019	-	16.5	16.5
Profit for the year attributable to equity holder of the Company	-	13.3	13.3
Dividends	-	(10.0)	(10.0)
At 1 January 2020	-	19.8	19.8
Profit for the year attributable to equity holder of the Company	-	15.7	15.7
Dividends	-	(21.6)	(21.6)
At 31 December 2020	**-**	**13.9**	**13.9**

(a) Retained earnings comprise the cumulative balance of profits and losses recognised in the financial statements.

8 DEFERRED TAX

Deferred tax recognised in the Accounts is as follows:

	Property, plant and equipment £m
At 1 January 2019	5.0
Charge to the income statement	2.0
At 1 January 2020	7.0
Charge to the income statement	2.1
At 31 December 2020	**9.1**

(a) Legislation was previously enacted to reduce the UK rate of Corporation Tax to 17% on 1 April 2020. Accordingly deferred tax balances were measured at the 17% rate at 31 December 2019. Further legislation was enacted on 22 July 2020 under the Finance Act 2020 that maintains the 19% UK Corporation Tax rate. The 19% rate applies from 1 April 2020. This rate change increased the deferred tax liability by £0.8 million.

(b) Further legislation was substantively enacted on 24 May 2021 under the Finance Act 2021 that will increase the UK tax rate to 25% from 1 April 2023. This will have a consequential effect on the Company's future tax charge. If this rate change had been substantively enacted at the current balance sheet date the deferred tax liability would have been £2.8 million higher.

9 LOANS AND OTHER BORROWINGS

Instrument	Interest rate*	Maturity	**2020 £m**	2019 £m
Loans with Iberdrola group companies	Base + 1%	On demand	**213.5**	164.2

* Base – Bank of England Base Rate

10 TRADE AND OTHER PAYABLES

	Note	**2020 £m**	2019 £m
Current trade and other payables:			
Payables due to Iberdrola group companies - trade		**-**	0.1
Payables due to Iberdrola group companies - interest		**2.1**	2.7
Payables due to Iberdrola group companies - payments received on account		**-**	34.1
Trade payables		**4.7**	1.5
Capital payables and accruals		**6.5**	11.2
	(a)	**13.3**	49.6

(a) Trade and other payables included £34.1 million of IFRS 15 receivables as at 31 December 2019.

11 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS

	2020	2019
	£m	£m
Property, plant and equipment depreciation charge	**26.7**	23.2
Intangible asset amortisation charge	**0.1**	0.1
Losses on write-off of non-current assets	**8.5**	6.1
	35.3	29.4

12 FINANCE COSTS

	2020	2019
	£m	£m
Interest on amounts due to Iberdrola group companies	**2.1**	2.7

13 INCOME TAX

	2020	2019
	£m	£m
Current tax:		
UK Corporation Tax charge on profits for the year	**2.6**	0.9
Current tax for the year	**2.6**	0.9
Deferred tax:		
Origination and reversal of temporary differences	**1.3**	2.2
Impact of tax rate change	**0.8**	(0.2)
Deferred tax for the year	**2.1**	2.0
Income tax expense for the year	**4.7**	2.9

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

	2020	2019
	£m	£m
Corporation Tax at 19% (2019 19%)	**3.9**	3.1
Impact of tax rate change	**0.8**	(0.2)
Income tax expense for the year	**4.7**	2.9

Legislation was previously enacted to reduce the UK rate of Corporation Tax to 17% on 1 April 2020. Accordingly deferred tax balances were measured at the 17% rate at 31 December 2019. Further legislation was enacted on 22 July 2020 under the Finance Act 2020 that maintains the 19% UK Corporation Tax rate. The 19% rate applies from 1 April 2020. This rate change increased the deferred tax liability by £0.8 million. Refer to Note 8(b) for details of future tax rate changes.

14 DIVIDENDS

	2020	2019	**2020**	2019
	£m per ordinary share	£m per ordinary share	**£m**	£m
Interim dividend paid	**21.6**	10.0	**21.6**	10.0

15 FINANCIAL COMMITMENTS

The Company had £0.1 million (2019 £0.1 million) of contractual commitments expected to be settled within one year in both the current and prior year.

16 EMPLOYEE INFORMATION

The company has no employees. Details of directors' remuneration are set out in Note 17(a).

17 RELATED PARTY TRANSACTIONS

(a) Directors' remuneration

The total remuneration of the directors that provided qualifying services to the Company is shown below. As these directors are remunerated for their work for the ScottishPower Group, it has not been possible to apportion the remuneration specifically in respect of services to the Company. All two (2019 three) of the directors were remunerated by other companies within ScottishPower.

	2020	2019
	£000	£000
Aggregate remuneration in respect of qualifying services	**352**	272
Number of directors who exercised share options	**2**	3
Number of directors who received shares under a long-term incentive scheme	**1**	2
Number of directors accruing retirement benefits under a defined benefit scheme	**1**	2

	2020	2019
Highest paid director	**£000**	£000
Aggregate remuneration	**247**	144

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

(b) Ultimate and immediate parent company

The immediate parent of the Company is SPRH. The registered office of SPRH is 320 St. Vincent Street, Glasgow, G2 5AD. The directors regard Iberdrola, S.A. as the ultimate parent company, which is also the parent company of the largest group in which the results of the Company are consolidated. The parent company of the smallest group in which the results of the Company are consolidated is SPUK.

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

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

18 AUDITOR REMUNERATION

	2020	2019
	£000	£000
Audit of the Company's annual Accounts	**58**	33