

ScottishPower Consolidated Segmental Statement

for the year ended 31 December 2016

Required under Standard Condition 16B of Electricity
Generation Licences and Standard Condition 19A of
Electricity and Gas Supply Licences



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Independent auditor's report to Scottish Power UK plc and its Licensees

We have audited the accompanying statement (the 'Consolidated Segmental Statement' or 'CSS') of Scottish Power UK plc and its Licensees (as listed in footnote ⁽ⁱ⁾) which comprises the Introduction, Consolidated Segmental Statement, Basis of Preparation, Reconciliation of CSS Revenue and EBIT to the Annual Report and Accounts of Scottish Power UK plc, Questionnaire on Business Functions and Appendices A and B, in accordance with the terms of our engagement letter dated 27 April 2015. The CSS has been prepared by the directors of Scottish Power UK plc and its Licensees based on the requirements of Standard Condition 16B of the Electricity Generation Licence and Standard Condition 19A of the Gas and Electricity Supply Licences and the associated guidelines issued by Ofgem (together, the 'Licences') and the basis of preparation on pages 5 to 9.

Directors' responsibility for the CSS

Directors are responsible for the preparation of the CSS in accordance with the Licences and the basis of preparation on pages 5 to 9 and for such internal control as directors determine is necessary to enable the preparation of the CSS that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the CSS based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the CSS is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the CSS. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the CSS, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the CSS in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our audit also includes evaluating the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the CSS.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

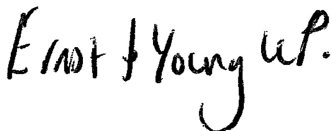
In our opinion, the CSS of Scottish Power UK plc and its Licensees for the year ended 31 December 2016 is prepared, in all material respects, in accordance with;

- (i) the requirements of Standard Condition 16B of the Electricity Generation Licence and Standard Condition 19A of the Gas and Electricity Supply Licences and the associated guidelines issued by Ofgem in December 2015; and
- (ii) the basis of preparation on pages 5 to 9.

Basis of accounting and restriction on distribution and use

Without modifying our opinion, we draw attention to pages 5 to 9 of the CSS which describes the basis of preparation. The CSS is prepared to assist Scottish Power UK plc and its Licensees to meet the requirements of the Regulator Ofgem rather than in accordance with a generally accepted accounting framework. The CSS should therefore be read in conjunction with both the Licences and the basis of preparation on pages 5 to 9. This basis of preparation is not the same as segmental reporting under IFRS. As a result, the CSS may not be suitable for another purpose.

This report, including our conclusions, has been prepared solely for the directors of Scottish Power UK plc and its Licensees as a body in accordance with the agreement between us, to assist the Directors in reporting on the CSS to the Regulator Ofgem. We permit this report to be displayed on the ScottishPower website ⁽ⁱⁱ⁾ http://www.scottishpower.com/pages/company_reporting.aspx to enable the directors to show that they have addressed the governance responsibilities by obtaining an independent assurance report in connection with the CSS. To the fullest extent permitted by law we do not accept responsibility to anyone other than the directors as a body and Scottish Power UK plc and its Licensees for our work or this report except where terms are expressly agreed between us in writing.



Ernst & Young LLP
27 April 2017
Glasgow

(i) ScottishPower Energy Retail Limited, ScottishPower Generation Limited, ScottishPower (DCL) Limited, ScottishPower (SCPL) Limited, Scottish Power Renewables UK Limited Morecambe Wind Limited, Celtpower Limited, East Anglia One Limited and East Anglia Three Limited.

(ii) The maintenance and integrity of the Scottish Power website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the CSS since it was initially presented on the website.

Introduction

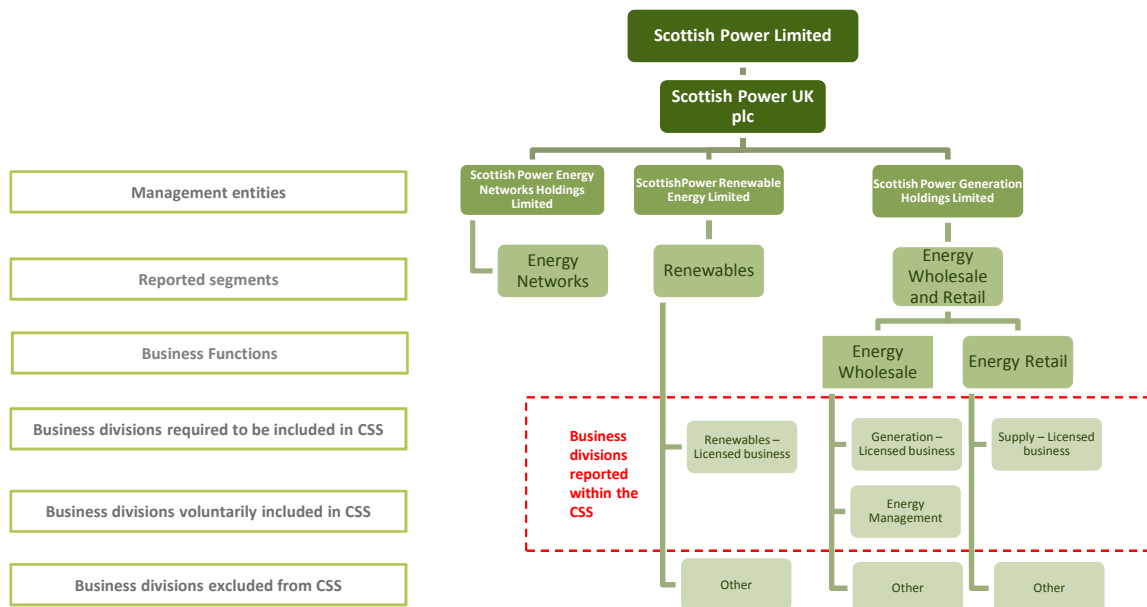
This CSS and associated regulatory information is presented in accordance with Standard Licence Condition 16B of the Electricity Generation Licence and Standard Condition 19A of the Electricity and Gas Supply Licences (“the Conditions”).

The CSS and supporting information has been prepared by the directors of Scottish Power UK plc (“SPUK”) in accordance with the Conditions stated above and the associated guidelines issued by Ofgem. The CSS has been derived from and reconciled to the Annual Report and Accounts of SPUK for the year ended 31 December 2016, which have been prepared in accordance with International Accounting Standards, International Financial Reporting Standards and International Financial Reporting Interpretations Committee Interpretations (collectively referred to as IFRS) as adopted by the European Union.

ScottishPower Operational and Management Reporting Structure

The diagram below outlines the operational and management reporting structure of ScottishPower. ScottishPower is defined as Scottish Power Limited (“SPL”) and its subsidiaries. SPL is the United Kingdom (“UK”) parent company of both the Great Britain (“GB”) and Ireland operations of Iberdrola, S.A. (“Iberdrola”) and since 2014 the European offshore wind activities of Iberdrola. The intermediate UK parent company, SPUK, acts principally as the immediate holding company for the ScottishPower operations. For the purpose of the CSS, “the group” is defined as SPUK and its subsidiaries.

In accordance with the disclosure requirements of IFRS, the Annual Report and Accounts of SPUK (“SPUK Accounts”) reports the financial results of the reported segments outlined below. The SPUK Accounts also disclose the financial results of the business functions and divisions on a voluntary basis in order to increase transparency and demonstrate the alignment of the reported segments, business functions and business divisions in the SPUK Accounts with those reported in the CSS for the year ended 31 December 2016.



During 2016 the group’s reported segments, business functions and business divisions were as follows:

Reported Segment	Business Function	Business Division	Business Division Description
Energy Networks	Energy Networks	Energy Networks	The transmission and distribution business within the group.
Renewables	Renewables	Renewables – Licensed business	The Great Britain licensed activity of the Renewables reported segment, which develops and operates renewable generation plant, other than hydro-electric generation plant.
		Other	The non-licensed activity of the Renewables reported segment, which includes generation activity outside Great Britain and the impact of the amortisation of the fair value attributed to the Renewables reported segment when purchased by Iberdrola during 2007.
Energy Wholesale and Retail	Energy Wholesale	Generation – Licensed business	The licensed activity of the Energy Wholesale business function, which owns and operates coal ¹ , gas and hydro-electric generation plant.
		Energy Management	The non-licensed activities of the Energy Wholesale business function, responsible for wholesale market sales and purchases for the Generation and Supply licensed business divisions, which is further defined on page 5.
		Other	The other non-licensed activity of the Energy Wholesale business function, which includes the group’s waste water treatment facility.
	Energy Retail	Supply – Licensed business	The licensed activity of the Energy Retail business function responsible for the supply of electricity and gas to domestic and non-domestic customers.
		Other	The non-licensed activity of the Energy Retail business function includes the group’s Energy Services activities and non-licensed metering activities.

1. Coal Generation within the group ceased on 24 March 2016 following the closure of Longannet Power Station.

Introduction *continued*

ScottishPower Operational and Management Reporting Structure *continued*

SPUK is the intermediate holding company of all Licensees within ScottishPower. The individual supply and generation licences are held in legal entities reported within the Annual Report and Accounts of SPUK for the year ended 31 December 2016. The individual supply and generation licences held within SPUK are as follows:

<u>Licensee</u>	<u>Licence</u>	<u>Business Division</u>	<u>Ownership</u>
ScottishPower Energy Retail Limited	Supply	Supply – Licensed business	100%
ScottishPower Generation Limited	Generation	Generation – Licensed business	100%
ScottishPower (DCL) Limited ²	Generation	Generation – Licensed business	100%
ScottishPower (SCPL) Limited ²	Generation	Generation – Licensed business	100%
ScottishPower Renewables UK Limited	Generation	Renewables – Licensed business	100%
Morecambe Wind Limited	Generation	Renewables – Licensed business	50%
Celtpower Limited	Generation	Renewables – Licensed business	50%
East Anglia One Limited ³	Generation	Renewables – Licensed business	100%
East Anglia Three Limited ³	Generation	Renewables – Licensed business	100%

The segmental results of the reported segments of SPUK for the year ended 31 December 2016 and those of the business divisions defined above are disclosed in the Annual Report and Accounts for SPUK for the year ended 31 December 2016 and can be found at http://www.scottishpower.com/pages/company_reporting.aspx.

For information purposes the segmental results for 2016 reported within the Annual Report and Accounts of SPUK for the year ended 31 December 2016 have been included within Appendix B of this document.

2. On 1 March 2016 the assets and liabilities of ScottishPower (DCL) Limited (“DCL”) and ScottishPower (SCPL) Limited (“SCPL”) were transferred to ScottishPower Generation Limited. Subsequent to this, on 22 November 2016 both DCL and SCPL requested revocation of their Licences. The Licences for each of these entities were revoked on 25 April 2017.

3. East Anglia One Limited and East Anglia Three Limited are licensees however neither company generated electricity in the year to 31 December 2016.

Consolidated Segmental Statement for the year ended 31 December 2016



		GENERATION			SUPPLY					ENERGY MANAGEMENT
		Electricity ScottishPower Generation	ScottishPower Renewables	Aggregate Generation	Electricity Domestic	Non-domestic	Gas Domestic	Non-domestic	Aggregate Supply	ScottishPower Energy Management
Total revenue	£m	719.1	339.7	1,058.8	1,618.5	953.0	1,093.9	12.2	3,677.6	2,868.8
Revenue from sales of electricity and gas	£m	719.1	339.7	1,058.8	1,618.5	953.0	1,093.9	12.2	3,677.6	2,868.8
Other revenue	£m	-	-	-	-	-	-	-	-	-
Total operating costs	£m	(710.6)	(129.3)	(839.9)	(1,541.4)	(964.3)	(980.9)	(10.8)	(3,497.4)	(2,854.4)
Direct fuel costs	£m	(304.1)	-	(304.1)	(591.0)	(446.0)	(456.0)	(5.0)	(1,498.0)	(2,844.7)
Transportation costs	£m	(54.1)	(36.1)	(90.2)	(470.1)	(264.7)	(310.8)	(2.4)	(1,048.0)	-
Environmental and social obligation costs	£m	(111.9)	-	(111.9)	(262.5)	(202.7)	(22.5)	-	(487.7)	-
Other direct costs	£m	(175.1)	(43.4)	(218.5)	(19.4)	(11.5)	(18.4)	(0.6)	(49.9)	-
Indirect costs	£m	(65.4)	(49.8)	(115.2)	(198.4)	(39.4)	(173.2)	(2.8)	(413.8)	(9.7)
EBITDA	£m	8.5	210.4	218.9	77.1	(11.3)	113.0	1.4	180.2	14.4
DA	£m	(55.4)	(87.6)	(143.0)	(28.4)	(1.2)	(20.7)	(0.1)	(50.4)	(1.4)
EBIT	£m	(46.9)	122.8	75.9	48.7	(12.5)	92.3	1.3	129.8	13.0
Volume	TWh	10.1	2.9	13.0	11.9	9.1	N/A	N/A	N/A	N/A
	Mtherms	N/A	N/A	N/A	N/A	N/A	1,079.1	11.9	N/A	N/A
WACO F/E/G (calculated)	£/MWh	41.2	N/A	N/A	49.7	49.0	N/A	N/A	N/A	N/A
	p/th	N/A	N/A	N/A	N/A	N/A	42.3	42.0	N/A	N/A
Customer Numbers	000s	N/A	N/A	N/A	3,029	189	2,132	11	5,361	N/A
					Supply EBIT margin	3.0%	-1.3%	8.4%	10.7%	3.5%

Glossary of Terms

EBITDA	EBITDA represents earnings before interest, tax, depreciation and amortisation. It is calculated by subtracting total operating costs from total revenue. As per paragraph 1.6 of the Ofgem guidelines this excludes exceptional items (refer to definition below).
DA	Depreciation and amortisation.
EBIT	EBIT represents earnings before interest and tax and is calculated by subtracting depreciation and amortisation from EBITDA. As per paragraph 1.6 of the Ofgem guidelines this excludes exceptional items (refer to definition below).
Volume	Volume for Aggregate Generation is the volume of electricity produced, that can actually be sold on the wholesale market, i.e. after losses up to the point where electricity is received under the Balancing and Settlement Code, but before subsequent losses. For ScottishPower Generation's pumped storage station, the production volume included is net of volumes purchased for pumping. Volume for Supply is supplier volumes at the meter point, i.e. net of losses.
WACOF/E/G	For ScottishPower Generation, the WACOF represents the weighted average input cost of coal, gas and emissions, shown as £/MWh. This is calculated by adding the cost of the Carbon Price Floor tax and the EU Emissions Trading System (EU ETS) totalling £111.8 million (refer to Appendix A) to direct fuel costs before dividing by volume. For Supply, the WACOE/G represents the weighted average cost of procuring electricity and gas on the wholesale market, shown as £/MWh (electricity) and p/therm (gas), and comprises the costs of wholesale gas and electricity, transmission and distribution losses, the energy component of Reconciliation by Difference ("RBD") costs and the costs associated with balancing and shaping. This is calculated by dividing direct fuel costs by volume.
Customer numbers	Customer numbers are based on the average monthly number of Meter Point Administration Numbers for electricity customers and Meter Point Reference Numbers for gas customers during the year to 31 December 2016.
Supply EBIT margin	EBIT profit margin for Supply expressed as a percentage, calculated by dividing EBIT by total revenue and multiplying by 100.
Exceptional items	As per Ofgem's guidelines, exceptional items are defined as revenues, costs and profits that do not reflect a company's normal year of operations (e.g. profit or loss on disposal, restructuring costs and impairment charges). Certain remeasurements (e.g. mark to market) are also classed as exceptional items per Ofgem's guidelines. Further details on exceptional items can be found on page 9.

Basis of Preparation

The CSS presents a segmental analysis of ScottishPower's Aggregate Generation and Aggregate Supply licensed activities within GB and provides information relating to the revenues, costs and profits of these activities in order to enhance the transparency within the energy market for both consumers and other stakeholders.

These statements have been prepared by the directors of Scottish Power UK plc ("SPUK") and its Licensees in accordance with Standard Condition 16B of the Electricity Generation Licence and Standard Condition 19A of the Electricity and Gas Supply Licences and the associated guidelines issued by Ofgem and the basis of preparation contained herein.

The financial data provided has been taken from the Relevant Licensees' and Affiliates' (as defined in the Conditions) financial information for the year ended 31 December 2016, included within the Annual Report and Accounts of SPUK for the year ended 31 December 2016, which has been prepared under IFRS.

For clarity, the following should be noted:

Aggregate Generation

- The financial results have been included for all GB activities which require a generation licence. ScottishPower Renewables includes all revenues and costs in relation to the group's renewable energy generation assets with the exception of the hydro assets which are included within ScottishPower Generation.
- ScottishPower Renewables holds an equity investment in an 80% subsidiary, Coldham Windfarm Limited. This company generates electricity, however, it is exempt from holding a generation licence as it is classed as a 'Small Generator'. Therefore the financial results of this company have been excluded from the CSS. ScottishPower's share of EBIT for this company for 2016 is £1.0 million.
- ScottishPower Renewables owns operational wind farms located in Northern Ireland and the Republic of Ireland. However, the financial results of these wind farms have been excluded from the CSS because they do not constitute licensed activities within GB. The EBIT of these wind farms for 2016 is £2.9 million.

Aggregate Supply

- The financial results have been included for all GB activities which require a supply licence.
- The domestic supply segments represent the revenues and associated costs in supplying gas and electricity to premises in GB which are supplied on a domestic tariff and whose meter is not registered as non-domestic in central industry systems. The non-domestic supply segments represent the revenue and associated costs in supplying gas and electricity to premises in GB which are not in the domestic supply segments.
- The financial results relating to Energy Services and non-licensed metering activities have been excluded from Aggregate Supply as this does not constitute a licensed activity.

Energy Management

- Energy Management is a non-licensed business division. However, information has been provided on a voluntary basis in order to enhance transparency within the CSS.
- Energy Management performs all trading with external markets for electricity, gas, coal and emissions allowances on behalf of ScottishPower Generation and Aggregate Supply. All trading for ScottishPower Generation and Aggregate Supply is undertaken to hedge or meet their physical requirements and is ring-fenced in separate trading books for each business division. In addition, Energy Management undertakes limited proprietary trading, gas storage activities and fulfils the mandatory 'Secure and Promote' obligations. These are held separate from ScottishPower Generation and Aggregate Supply. The profits of Energy Management are the result of all proprietary activities undertaken by Energy Management on its own behalf, all gas storage activities, the pricing of the long term gas contracts as described on pages 6 and 7, and the residual costs of running the Energy Management operations after a proportion of indirect costs as described on page 9 have been recharged to ScottishPower Generation and Aggregate Supply.

Pricing for electricity and gas

The pricing relationship between Energy Management, ScottishPower Generation and Aggregate Supply is that of market prices and contract specific prices under long term gas contracts as described on pages 6 and 7. No transfer pricing is therefore required between Energy Management, ScottishPower Generation and Aggregate Supply as all prices are reflective of actual prices transacted.

Internal transactions are undertaken by Energy Management between the divisions, with the majority of these internal transactions being sales of electricity from ScottishPower Generation to Aggregate Supply. Where there is a corresponding equal and opposite position in ScottishPower Generation and Aggregate Supply then an automated internal transaction takes place overnight and is priced at the prior day's closing market price for the relevant period. This allows internal demand and supply to be met, at market prices for the relevant period, before trading in the market. All other internal transactions are priced at the prevailing market price for the relevant period at the point the transaction is made.

All external transactions with the market for each division are at the price transacted with the market. The market prices at the time of procurement may differ from the price prevailing at the time of supply.

Within the group internal agreements are in place for all transfers between group companies and are subject to bi-annual review to ensure that they are appropriate and up to date. In addition there are measures in place to notify Ofgem should there be any material changes to the transfer pricing methodology.

Basis of Preparation *continued*

Revenues

ScottishPower Generation

'Revenue from sales of electricity and gas' comprises the sales value of electricity and other related services supplied to external customers and Iberdrola group companies during the year and excludes Value Added Tax. Revenue from the sale of electricity is the value of units supplied during the year. Units are based on energy volumes that can actually be sold on the wholesale market and are recorded on industry-wide trading and settlement systems. All revenue is earned wholly within GB.

Pricing

ScottishPower Generation revenue comprises six key components, which are priced as follows:

- the sale of energy, both to the market and to other Iberdrola group companies as described on page 5;
- the sale of energy generated by ScottishPower Renewables, both to the market and other Iberdrola group companies, which has been purchased via Aggregate Supply as described on page 7;
- revenue in respect of balancing activities, ancillary services and constraint management, each of which are allocated in full directly to ScottishPower Generation and are priced at the agreed contract price;
- sales of energy, heat and steam from Combined Heat and Power ("CHP") plant to external customers, which are at the agreed contract price;
- sales of Renewable Obligation Certificates ("ROCs") made from ScottishPower Generation to Aggregate Supply. ROCs are priced at the buy-out price plus the associated recycle payment; and
- revenue received by embedded generating sites from Aggregate Supply, which is at the published rate for the relevant periods.

ScottishPower Renewables

'Revenue from sales of electricity and gas' comprises the sales value of electricity, ROCs and other related services supplied to Aggregate Supply and external customers during the year and excludes Value Added Tax. Revenue from the sale of electricity is the value of units supplied during the year. Units are based on energy volumes that can be sold on the wholesale market and are recorded on industry-wide trading and settlement systems. The majority of these revenues arise from transactions with ScottishPower companies.

Pricing

The majority of Renewables revenues arise from internal transactions with Aggregate Supply. These transactions are charged under Renewable Power Purchase Agreements, which are annually indexed to open market-based prices.

Revenues in respect of balancing activities, ancillary services and constraint management, each of which are allocated in full directly to ScottishPower Renewables and are priced at the agreed contract price.

Aggregate Supply

'Revenue from sales of electricity and gas' comprises the sales value of energy supplied to customers during the year, and excludes Value Added Tax. Revenue from the sale of electricity and gas is the value of units supplied during the year and includes an estimate of the value of units supplied to customers between the date of their last meter reading and the year end, based on external data supplied by the electricity and gas market settlement processes. Revenue for domestic supply is stated after deducting dual fuel discounts where applicable. The discount is allocated equally between electricity and gas. All revenue is earned wholly within GB and revenue for domestic supply is stated after deducting the impact of the Government mandated discount given to customers under the Warm Home Discount programme. This deduction is charged specifically to each fuel.

Energy Management

'Revenue from sales of electricity and gas' comprises the sales value of energy supplied to (a) ScottishPower Generation and Aggregate Supply and (b) the external market during the year, and excludes Value Added Tax. In addition, Energy Management performs limited proprietary trading, gas storage activities and fulfils the mandatory 'Secure and Promote' obligations.

Direct fuel costs

ScottishPower Generation

'Direct fuel costs' comprise the delivered input cost of coal and gas consumed in the production of electricity.

Pricing

The pricing for electricity and gas is outlined on page 5.

A proportion of gas procured for ScottishPower Generation is delivered from a long term gas contract, which is priced at the contract price with the counterparty, plus a premium (retained by Energy Management) to reflect the price paid by Iberdrola in acquiring the right to the contract as part of the acquisition of ScottishPower, and the impact of hedging of contract price indexation.

Basis of Preparation *continued*

Direct fuel costs *continued*

ScottishPower Generation *continued*

Pricing continued

During the year, coal was required only by ScottishPower Generation. It is procured for ScottishPower Generation by Energy Management, and is charged to ScottishPower Generation when consumed. The price charged is the weighted average cost of the coal stock which reflects the actual cost incurred. This therefore comprises physical coal purchases, the impact of coal swaps procured to hedge the price of coal deliveries, foreign exchange ("FX") hedging, and all transportation costs to bring the coal to the station.

Aggregate Supply

'Direct fuel costs' comprise the cost of wholesale electricity and gas procured for Aggregate Supply (including volume losses), the energy component of Reconciliation by Difference (RBD) costs and imbalance costs. Direct fuel costs secured on any given day, for any delivery period, are allocated to the domestic and non-domestic supply segments, in proportion to their requirements for that delivery period.

Pricing

The pricing for electricity and gas is outlined on page 5.

In the case of gas, there are volumes purchased through long term contracts. These volumes are used by Aggregate Supply gas customers, and are at the contract price with the counterparty, plus a premium (retained by Energy Management) to reflect the price paid by Iberdrola in acquiring the right to the contracts as part of the acquisition of ScottishPower, and the impact of hedging of contract price indexation.

Aggregate Supply purchases electricity, together with the associated ROCs under internal and external Renewable Power Purchase Agreements. The electricity element is sold to ScottishPower Generation at the price paid, resulting in a neutral financial impact for Aggregate Supply.

Balancing costs and the energy element of RBD costs are incurred by Energy Management and recharged to Aggregate Supply at the actual cost incurred. All other costs are directly allocated to Aggregate Supply as incurred by ScottishPower.

Energy Management

'Direct fuel costs' comprise the value of energy purchased for ScottishPower Generation and Aggregate Supply from the external market and trading in respect of limited proprietary, gas storage activities and fulfilling mandatory 'Secure and Promote' obligations.

Transportation costs

Aggregate Generation

'Transportation costs' comprise balancing charges from National Grid ("BSUOS"), gas transportation charges, electricity transmission and distribution network charges.

Aggregate Supply

'Transportation costs' comprise BSUOS costs (recharged from Energy Management at the actual cost incurred), gas transportation charges, electricity transmission and distribution network charges and the transport element of RBD costs. These costs are allocated to the segment to which they relate based on volume, consumption band or settlement profile class as appropriate.

Basis of Preparation *continued*

Environmental and social obligation costs

ScottishPower Generation

'Environmental and social obligation costs' comprise the costs associated with the Carbon Price Floor tax, the EU Emissions Trading System (EU ETS)⁴ and the CRC Energy Efficiency scheme.

Aggregate Supply

'Environmental and social obligation costs' comprise the costs associated with the following and are allocated across the supply segments as described in the table below.

Environmental and Social Obligation Costs	Allocation Methodology
Renewable Obligations	Allocated to the domestic and non-domestic electricity supply segments based on settlement volumes; this obligation only applies to the electricity supply segment.
Feed-in Tariffs	Allocated to the domestic and non-domestic electricity supply segments based on settlement volumes; this obligation only applies to the electricity supply segment.
Contracts for Difference under EMR	Allocated to the domestic and non-domestic electricity supply segments based on settlement volumes; this obligation only applies to the electricity supply segment.
Capacity Market under EMR	Allocated to the domestic and non-domestic electricity supply segments based on settlement volumes; this obligation only applies to the electricity supply segment.
Energy Company Obligation (ECO)	Allocated to the domestic electricity and gas supply segments based on their GB market share of (non-exempt) domestic volumes (TWh) for electricity and gas; this obligation only applies to domestic customers.
Administering the Warm Home Discount (WHD)	Allocated to the domestic electricity and gas supply segments based on customer numbers; this obligation only applies to domestic customers.
Levy Exemption ⁵	Allocated to the non-domestic electricity supply segment.
Assistance for Areas with High Electricity Distribution Costs (AAHEDC)	Allocated to the domestic and non-domestic electricity supply segments based on settlement volumes.
Carbon Reduction Commitment (CRC) Energy Efficiency Scheme	Allocated to the domestic and non-domestic electricity and gas segments based on customer numbers.

Other direct costs

ScottishPower Generation

'Other direct costs' comprise costs in relation to renewable output purchased directly from Aggregate Supply (who had purchased electricity from Renewables), operational and maintenance costs, imbalance costs in relation to the aggregate generation portfolio and Elexon market participation costs.

ScottishPower Renewables

'Other direct costs' comprise operational and maintenance costs.

Aggregate Supply

'Other direct costs' include brokers' costs and intermediaries' sales commissions when the costs have given rise directly to revenue i.e. producing a sale and costs associated with the wider SMART metering programme.

4. ScottishPower Generation was allocated 14,178 tonnes of free emissions allowances in relation to a small CHP plant in 2016, compared to 14,443 tonnes in 2015.

5. Levy Exemption reflects costs incurred by Aggregate Supply under the HMRC transitional arrangements in respect of the Climate Change Levy, which expire on 31 March 2018.

Basis of Preparation *continued*

Indirect costs

Aggregate Generation

'Indirect costs' are head office costs, staff costs, rates and the costs of centralised services⁶ provided by Iberdrola group companies. For ScottishPower Generation this also includes operating costs recharged from Energy Management.

Aggregate Supply

'Indirect costs' are the costs of billing, metering, customer service, bad debt and debt collection, support services, sales and marketing, staff costs, the costs of centralised services⁶ provided by Iberdrola group companies and operating costs recharged from Energy Management. Where it is not possible to allocate these costs directly to a particular customer segment (domestic/non-domestic) or fuel category (gas/electricity), they are allocated using a costing model based on customer numbers, transactional volumes and employee activity.

Energy Management

'Indirect costs' are head office costs, staff costs and the costs of centralised services⁶ provided by Iberdrola group companies. A proportion of these costs is recharged to ScottishPower Generation and Aggregate Supply based on employee activity and trading volumes.

Depreciation and amortisation

For Aggregate Supply, depreciation and amortisation costs are allocated to the segments based on customer numbers.

Exceptional items

In line with Ofgem's guidelines, mark to market adjustments, restructuring costs and impairment charges that have been disclosed in the Annual Report and Accounts of SPUK have been excluded from the CSS. Additional exceptional items such as income from the settlement of contractual disputes have also been excluded in line with Ofgem's guidelines, as the directors believe that these items do not reflect the company's activities relating to its operations in 2016.

Refer to Appendix B on pages 13 to 15 for further information.

Reconciliation to audited Group accounts

A reconciliation of the Revenue and EBIT in the CSS to the Annual Report and Accounts of SPUK has been provided on page 10.

6. Centralised services are HR, IT, finance and legal costs and other head office costs. Where these costs can be identified as being directly attributable to Aggregate Generation, Aggregate Supply or Energy Management those costs are recharged directly to that business division. Non-directly attributable costs are allocated across ScottishPower's business divisions using costing models based on employee numbers, personnel costs, gross margin and fixed assets.

Reconciliation of CSS Revenue and EBIT
to the Annual Report and Accounts of Scottish Power UK plc
for the year ended 31 December 2016



		GENERATION			SUPPLY	ENERGY MANAGEMENT
		ScottishPower Generation	ScottishPower Renewables	Aggregate Generation	Aggregate Supply	ScottishPower Energy Management
Revenue per CSS	£m	719.1	339.7	1,058.8	3,677.6	2,868.8
Revenue per SPUK Annual Report and Accounts (as per regulatory licence requirements)	£m	719.1	339.7	1,058.8	3,677.6	2,868.8
EBIT per CSS	£m	(46.9)	122.8	75.9	129.8	13.0
EBIT per SPUK Annual Report and Accounts (as per regulatory licence requirements)	£m	(46.9)	122.8	75.9	129.8	13.0

See Appendix B and Note 6 of the Annual Report and Accounts of SPUK for further details.

Questionnaire on business functions

The table below outlines where the responsibility for each business function resides:

Business function	Aggregate Generation	Aggregate Supply Business	Energy Management
Operates and maintains generation assets	✓		
Responsible for scheduling decisions	P/L		F
Responsible for interactions with the Balancing Market	P/L		F
Responsible for determining hedging policy ⁷	P/L	P/L	F
Responsible for implementing hedging policy / makes decisions to buy/sell energy ⁷	P/L	P/L	F
Interacts with wider market participants to buy/sell energy ⁷	P/L	P/L	F
Holds unhedged positions (either short or long) ⁷	P/L	P/L	F
Procures fuel for generation	P/L		F
Procures allowances for generation	P/L		F
Holds volume risk on positions sold (either internal or external) ⁷	P/L	P/L	F
Matches own generation with own supply ^{7,8}	P/L	P/L	F
Forecasts total system demand			F
Forecasts wholesale price			F
Forecasts customer demand			F
Determines retail pricing and marketing strategies		✓	
Bears shape risk after initial hedge until market allows full hedge ⁷	P/L	P/L	F
Bears short term risk for variance between demand and forecast		P/L	F

Key: ✓ Function resides and profits/losses are recorded
 F Function resides
 P/L Profits/losses are recorded

7. For each of these business functions, Energy Management undertakes actions for both the ScottishPower Generation and Aggregate Supply segments. The profit/loss consequences of each action accrues to the relevant segment or segments for which the action was performed.
8. ScottishPower Generation is not scheduled to meet retail demand. Internal transactions are performed between ScottishPower Generation and Aggregate Supply where the trading positions offset and this is explained further on page 5.

Appendix A - Analysis of Environmental and Social Obligation Costs for the year ended 31 December 2016



The table below provides an analysis of the environmental and social obligations for both Aggregate Generation and Aggregate Supply for the year ended 31 December 2016.

	ELECTRICITY GENERATION			SUPPLY					
	ScottishPower Generation	ScottishPower Renewables	Aggregate Generation	Electricity		Gas		Aggregate Supply Business	
				Domestic	Non-domestic	Domestic	Non-domestic		
EU Emissions Trading System (EU ETS)	£m	(26.2)	-	(26.2)	-	-	-	-	-
Carbon Price Floor	£m	(85.6)	-	(85.6)	-	-	-	-	-
Renewable Obligations	£m	-	-	-	(175.6)	(137.0)	-	-	(312.6)
Feed-in Tariffs	£m	-	-	-	(56.9)	(45.8)	-	-	(102.7)
Contracts for Difference under EMR	£m	-	-	-	(1.7)	(1.3)	-	-	(3.0)
Capacity Market under EMR	£m	-	-	-	(0.4)	(0.3)	-	-	(0.7)
Energy Company Obligation (ECO)	£m	-	-	-	(24.5)	-	(22.0)	-	(46.5)
Administering the Warm Home Discount (WHD)	£m	-	-	-	(0.6)	-	(0.4)	-	(1.0)
Levy Exemption	£m	-	-	-	-	(16.2)	-	-	(16.2)
Assistance for Areas with High Electricity Distribution Costs	£m	-	-	-	(2.7)	(2.1)	-	-	(4.8)
Carbon Reduction Commitment (CRC) Energy Efficiency Scheme	£m	(0.1)	-	(0.1)	(0.1)	-	(0.1)	-	(0.2)
Environmental and social obligation costs per CSS	£m	(111.9)	-	(111.9)	(262.5)	(202.7)	(22.5)	-	(487.7)
Warm Home Discount* (included as a deduction from Revenue in the CSS)	£m	-	-	-	(14.4)	-	(10.4)	-	(24.8)
Total environmental and social obligations	£m	(111.9)	-	(111.9)	(276.9)	(202.7)	(32.9)	-	(512.5)

* The Warm Home Discount (WHD) provides some households who are living in, or at risk of fuel poverty, a rebate on their fuel bill. It is a Government mandated scheme administered by the Group.

6 BUSINESS SEGMENT REPORTING

(a) Operating segments and business divisions

The group classifies its operating segments based on a combination of factors principally differences in products and services and the regulatory environment in which each business operates. The group is organised into three reportable segments; Energy Networks, Energy Wholesale and Retail and Renewables. The group identifies SPT, SPD and SPM as individual operating segments, but as management deem these operating segments to exhibit similar economic characteristics, they have been aggregated (together with other Energy Networks entities) into a single reported segment, Energy Networks. In line with IFRS 8 'Operating Segments' the group reports its operating segments on this basis and the measure of profit used for the purpose of reporting to the Chief Operating Decision maker ("CODM") is operating profit as per the consolidated income statement. All revenue for the reported segments arise from operations within Great Britain and Ireland.

In accordance with the disclosure requirements of IFRS, the Annual Report and Accounts of the company reports the relevant financial results of the reported segments as described above. In the interest of improved transparency the group has voluntarily disclosed revenue and operating profit for the separate business divisions within the Energy Wholesale and Retail and Renewables reported segments, whilst also providing detail in relation to non-recurring items and certain re-measurements arising from IAS 39, consistent with the Supply and Generation regulatory licence conditions. This information has been calculated, where appropriate, in accordance with Standard Licence Condition 16B of the Electricity Generation Licence and Standard Condition 19A of the Electricity and Gas Supply Licences.

The group's reported segments, business functions and business divisions are as follows:

Reported segment	Business function	Business division	Business division description
Energy Networks		Energy Networks	The transmission and distribution business within the group.
Energy Wholesale and Retail	Energy Wholesale	Generation – Licensed business ¹	The licensed activity of the Energy Wholesale business function, which owns and operates gas and hydro-electric generation plant, and until 24 March 2016 coal generation.
		Energy Management ¹	The non-licensed activities of the Energy Wholesale business function, responsible for wholesale market sales and purchases for the Generation and Supply licensed business divisions.
		Other	The other non-licensed activity of the Energy Wholesale business function which includes the results of the group's waste water treatment facility.
	Energy Retail	Supply – Licensed business ¹	The licensed activity of the Energy Retail business function responsible for the supply of electricity and gas to domestic and non-domestic customers.
		Other	The non-licensed activity of the Energy Retail business function includes the group's Energy Services activities and non-licensed metering activities.
Renewables		Renewables – Licensed business ¹	The Great Britain licensed activity of the Renewables reported segment, which develops and operates renewable generation plant, other than hydro-electric generation plant.
		Other	The non-licensed activity of the Renewables reported segment, which includes generation activity outside Great Britain and the impact of the amortisation of the fair value attributed to the Renewables operating segment when purchased by Iberdrola during 2007.

¹ The Generation – Licensed, Supply – Licensed, Renewables – Licensed and the Energy Management businesses are consistent with those disclosed in the Consolidated Segmental Statements for the Supply and Generation licensed businesses presented in accordance with Standard Licence Condition 16B of the Electricity Generation Licence and Standard Condition 19A of the Electricity and Gas Supply Licences. These statements can be found at www.scottishpower.com/pages/company_reporting.aspx.

Appendix B *continued* – Extract from the Annual Report and Accounts of Scottish Power UK plc for the year ended 31 December 2016



(b) Revenue by reported segment, business function and business division

(i) Revenue by reported segment

The revenue by reported segment for the year ended 31 December 2016 is detailed below:

Reported segment	External revenue £m	Inter-segment revenue £m	Total revenue reported to the CODM £m
Energy Networks	905.4	174.4*	1,079.8
Energy Wholesale and Retail	4,471.1	5.1	4,476.2
Renewables	46.1	300.7	346.8
Elimination of inter-segment revenue			(480.3)
			5,422.5

* Inter-segment revenue relating to Energy Networks is predominantly subject to regulation and is based on published tariffs set by the regulator.

(ii) Additional information – Revenue by business function and business division

The revenue by business function and business division for the year ended 31 December 2016 is detailed below:

Reported segment	Business function	Business division	Total revenue £m	Joint venture share of revenue (Note (iii)) £m	Revenue re-allocations as per regulatory licence requirements (Note (iv)) £m	Total revenue as per regulatory licence requirements £m
Energy Networks			1,079.8	–	–	1,079.8
		Generation – Licensed business	719.1	–	–	719.1
		Energy Management	2,868.8	–	–	2,868.8
		Elimination of intra-function revenue	(990.8)	–	–	(990.8)
	Energy Wholesale		2,597.1	–	–	2,597.1
		Supply – Licensed business	3,702.4	–	(24.8)	3,677.6
		Other	9.6	–	–	9.6
	Energy Retail		3,712.0	–	(24.8)	3,687.2
		Elimination of intra-segment revenue	(1,832.9)	–	–	(1,832.9)
Energy Wholesale and Retail			4,476.2	–	(24.8)	4,451.4
		Renewables – Licensed business	331.8	7.9	–	339.7
		Other	15.0	–	–	15.0
Renewables			346.8	7.9	–	354.7
Elimination of inter-segment revenue			(480.3)	–	–	(480.3)
Total			5,422.5	7.9	(24.8)	5,405.6

(iii) All the joint ventures within the group are consolidated using the equity method. The results of the joint ventures are therefore presented within “Results of companies accounted for using the equity method” on the face of the consolidated income statement and so do not form part of “Total revenue”. As per the licence conditions, and so the associated regulatory reporting, the group is required to proportionally consolidate the results of the joint ventures and so present revenues and costs in the appropriate lines of the income statement.

(iv) As disclosed in Note 26 of the financial statements, in line with group accounting policy “Taxes, other than income tax” includes the costs of the WHD scheme. As per the licence conditions these costs are required to be deducted from “Total revenue”.

(c) Operating profit/(loss) by reported segment, business function and business division

(i) Operating profit/(loss) by reported segment

The operating profit/(loss) by reported segment for the year ended 31 December 2016 is detailed below:

Reported segment	Operating profit/(loss) reported to the CODM £m
Energy Networks	577.2
Energy Wholesale and Retail	151.7
Renewables	103.8
Unallocated	(1.4)
Total	831.3

(ii) Additional information – Operating profit/(loss) by business function and business division

The operating profit/(loss) by business function and business division for the year ended 31 December 2016 is detailed below:

Reported segment	Business function	Business division	Operating profit/(loss) £m	Joint venture share of operating profit/(loss) (Note (iii)) £m	Non-recurring items (Note (iv)) £m	Certain remeasurements (Note (v)) £m	Adjusted operating profit/(loss) as per regulatory licences requirements* £m
Energy Networks			577.2	0.1	5.2	–	582.5
		Generation – Licensed business	(33.2)	–	3.5	(17.2)	(46.9)
		Energy Management	71.9	–	–	(58.9)	13.0
		Other	3.3	(0.1)	–	–	3.2
	Energy Wholesale		42.0	(0.1)	3.5	(76.1)	(30.7)
		Supply – Licensed business	114.3	–	16.8	(1.3)	129.8
		Other	(4.6)	–	3.7	–	(0.9)
	Energy Retail		109.7	–	20.5	(1.3)	128.9
Energy Wholesale and Retail			151.7	(0.1)	24.0	(77.4)	98.2
		Renewables – Licensed business	116.4	0.4	6.0	–	122.8
		Other	(12.6)	1.7	–	–	(10.9)
Renewables			103.8	2.1	6.0	–	111.9
Unallocated			(1.4)	–	(0.7)	–	(2.1)
Total			831.3	2.1	34.5	(77.4)	790.5

* Standard Licence Condition 16B of the Electricity Generation Licence and Standard Condition 19A of the Electricity and Gas Supply Licences.

(iii) Joint venture share of operating profit

All joint ventures within the group are consolidated using the equity method. The results of the joint ventures are therefore presented within "Results of companies accounted for using the equity method" on the face of the consolidated income statement and so do not form part of "Operating profit".

As per the licence conditions, and so the associated regulatory reporting, the group is required to proportionally consolidate the results of the joint ventures and so present revenues and costs in the appropriate lines of the income statement.

(iv) Non-recurring items

In the year ended 31 December 2016 the following non-recurring items were recorded:

Provisions for restructuring and other liabilities: On review of the group's provisions as at 31 December 2016 net restructuring provisions and associated pension costs of £21.9 million were recognised principally in relation to a restructuring programme within the Energy Retail business function.

Impairment and non-current asset write-offs: During the year ended 31 December 2016 the group recognised an impairment charge of £14.6 million comprising of a charge of £6.9 million following a reduction to the residual value of Longannet power station, a charge of £3.1 million for the write off of operational windfarm assets following fire damage and a charge of £4.6 million in relation to the cancellation of certain onshore wind power projects (Refer to Note 9). Non-current asset write-offs of £1.9 million were also recognised.

Non-recurring income: During the year the group recognised £3.9 million of non-recurring income on settlement of various contractual disputes.

(v) Certain remeasurements

Certain remeasurements are the fair value movements on energy contracts arising from the application of IAS 39. These have been disclosed separately to aid the understanding of the underlying performance of the group.